GEARED FOR TAKE-OFF

2022 ANNUAL REPORT

& FINANCIAL STATEMENTS

HF GROUP
Dreams Made Possible

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HF Group PLC Board of Directors

Directors

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

Prof. Olive Mugenda EBS, CBS, MGH	*Chairperson*
Dr. Peter Kahara Munga, EGH, CBS	
Dr. Benson Irungu Wairegi, EBS	
Ms. Constance Wangui Gakonyo, CBS, MGH	
Ms. Felister Kembi	
Mr. Charles Kimani Njoroge	*Appointed 14th January 2022*
Dr. Antony Omerikwa, MBS	*Appointed 18th January 2022*
Ms. Ann Wairimu Kimari	*Appointed 24th June 2022*
Mr. Robert N. Kibaara	*Group Chief Executive Officer*

Company Secretary

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

Independent auditor

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

Registered Office

Plot No. LR 209/905
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 - 00100
Nairobi, Kenya

Legal Adviser

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680–00200
Nairobi, Kenya

Principal Bankers

Central Bank of Kenya
Haile Selassie Avenue
PO Box 60000–00200
Nairobi, Kenya
HFC Limited
Rehani House, Kenyatta Avenue
P.O. Box 30088–00100,
Nairobi, Kenya

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HFC Kenya

www.hfgroup.co.ke

HFC
Dreams Made Possible

HF Group Plc Board of Directors

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH 68 years
CHAIRPERSON
INDEPENDENT & NON EXECUTIVE

Dr. Benson I. Wairegi, EBS 70 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Dr. Peter K. Munga, EGH, CBS 80 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Constance W. Gakonyo, CBS, MGH, 58 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Felister W. Kembi, 66 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Charles Kimani Njuguna, 51 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Anne Kimari, 50 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Dr. Anthony O. Omerikwa, MBS 46 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Robert N. Kibaara, 49 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT & EXECUTIVE

HFC Limited Board of Directors

Dr. Kaushik Manek, EBS
65 years
CHAIRPERSON
INDEPENDENT & NON EXECUTIVE

Dr. Benson I. Wairegi, EBS
70 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Gladys Ogallo,
56 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

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

Shilpa Haria,
62 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Robert N. Kibaara,
49 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT & NON EXECUTIVE

Jane Kilonzo,
55 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Dr. Dorcas Muthoni,
44 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Peter O. Mugeni,
46 years
MANAGING DIRECTOR
NON INDEPENDENT & EXECUTIVE

HF Group Plc Board of Directors (Continued)

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH | Date of Appointment: 21st October 2021
Group Chairperson - Independent and Non Executive

Prof. Mugenda is a seasoned academic researcher and administrator with specialization in Women/Girl's Education, Research Methods & Statistics, Leadership and Governance. She holds a Doctor of Philosophy (Ph.D.), Iowa State University, USA. Master of Business Administration, Eastern and Southern Africa Management Institute, (ESAMI), Arusha, Tanzania. Master of Science (M.Sc.), Iowa State University, USA and Bachelor of Education (First Class Honours), University of Nairobi.

Currently, she is the Chairperson – Kenyatta University Teaching, Referral & Research Hospital; Chancellor, KCA University (November 2019) among others. She was the Vice-Chancellor, Kenyatta University for 10 years – between March 20th, 2006 to March 20th, 2016. During her tenure, the University grew in both stature and financial strength.

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

Robert is a renowned banker, with over 27 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 an MBA Degree from Strathmore University, 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 | Date of Appointment: 1st April 2008
Non Independent & Non Executive Director

Dr. Benson I. Wairegi, EBS, worked for Britam Holdings Plc in various capacities and held the position of Chief Executive Officer and Group Managing Director before retiring in January 2021. He had previously worked with PricewaterhouseCoopers before joining Britam. He has significant insurance, investment and financial services industry experience. Dr Wairegi is currently the Chancellor of Kenyatta University. He is also the Chairman of Endeavor Kenya, a US based 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) and a Fellow of the Kenya Institute of Management.

Dr. Peter K. Munga, EGH, CBS | 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 Limited, Freshco Seeds Limited and Murang'a Water and Sewerage Company (MWASCO). He is the current Chancellor of Pioneer International University. He is also a Director at Britam Holdings Plc.

HF Group Plc Board of Directors (Continued)

Dr. Anthony O. Omerikwa, MBS | Date of Appointment: 18th January 2022

Independent & Non-Executive Director

Dr. Omerikwa, MBS is currently a Consultant with the World Bank and was the immediate former CEO/Managing Trustee of the National Social Security Fund. Prior to this, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement functions.

He holds a Doctoral Degree from the University of Georgia in Human Resource & Organization Development, a Specialist Advanced Degree in Labour, Workforce Development and Education and a Master of Science Degree in Human Resource Development both from Pittsburgh State University, a Bachelor of Arts Degree in Economics from Kenyatta University and a Diploma in Data Processing and Management from Strathmore College. Dr. Omerikwa is an associate member of the Institute of Human Resource Management, Institute of Directors and Kenya Institute of Management.

Felister W. Kembi | Date of Appointment: 26th September 2016

Independent & Non-Executive Director

Ms. Felister W. Kembi joined the board on 26th September 2016. She is a graduate of the University of Nairobi with a Bachelor's 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 Limited, 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.

Constance W. Gakonyo, CPS (K), MCIArb, CBS, MGH | 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. She chairs the Group's 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. Limited (Kenya, Malawi, Mozambique, and Tanzania).

Charles Kimani Njuguna | Date of Appointment: 14th January 2022

Non-Independent & Non-Executive Director

Mr. Njuguna is currently the Group Finance Director, Britam Holdings Plc. He has over 20 years' experience in the Financial Services sector where he has managed transformational and turnaround projects, having worked with ABN Amro Bank, GT Bank, Family Bank, Old Mutual and Faulu Micro-Finance Bank where he was the Managing Director.

He holds an MBA (Finance) from the University of Nairobi, Bsc (Accounting) from United States International University – Africa (USIU) and is a CPA (K) and CPS (K). He is a graduate of Strategic Leadership in Inclusive Finance (Harvard Business School), Advanced Management Program, Strathmore - IESE Business School, University of Navarra (Spain) and Africa Board Fellowship (ACCION – Centre for Financial Inclusion).

Anne W. Kimari | Date of Appointment: 24th June 2022

Independent & Non-Executive Director

Ms. Anne Kimari is a committed and dedicated professional with twenty-five years' experience in, SME Banking, General Management, Accounting, Finance, Strategic Management, Tax, Risk, Audit, Microfinance, as well as having Corporate Governance and Board experience and knowledge. She is the founder and principal consultant of Fine bridge associates limited, providing Finance and Microfinance Consultancy services.

She holds an MBA Finance – United States International University – Africa (USIU), Bachelor of Commerce Finance Option – University of Nairobi. She is a Certified Public Accountant (CPA) and member of ICPAK, Fellow of ACCA. She holds an Executive Certificate in SME Banking – Frankfurt School –Germany and a Microfinance Trainer of Trainers (MFTOT) Certificate from Asian Development Bank (Tokyo, Japan) in collaboration with the World Bank and UNCTAD. She has worked in senior roles in Microfinance and other sector companies.

Senior Management Team

Robert N. Kibaara, 49 years
GROUP CHIEF EXECUTIVE OFFICER

Peter O. Mugeni, 46 years
MANAGING DIRECTOR, HFC

Sammy Kamanthi, 48 years
GROUP CHIEF FINANCE OFFICER

Regina Anyika, 55 years
DIRECTOR LEGAL DIVISION & COMPANY SECRETARY

Joseph Chikove, 40 years
DIRECTOR, TREASURY

Kennedy Gachoki, 48 years
GENERAL MANAGER, RISK

Joseph Ngare, 53 years
GENERAL MANAGER, AUDIT

Senior Management Team

Catherine Olaka, 54 years
DIRECTOR, HUMAN RESOURCES & ADMINISTRATION

David Igweta, 51 years
CHIEF OPERATIONS OFFICER

Patrick Njunge, 43 years
DIRECTOR, RETAIL & BUSINESS BANKING

Joseph Kamau, 38 years
EXECUTIVE DIRECTOR,
HF DEVELOPMENT & INVESTMENT LTD

Tonney A. Mugah, 40 years
DIRECTOR, STRATEGY & BUSINESS PERFORMANCE

Nkatha Gitonga, 44 years
DIRECTOR, MARKETING,
CORPORATE AFFAIRS & CITIZENSHIP

Senior Management Team (Continued)

Robert N. Kibaara
Group Chief Executive Officer

Robert is a renowned banker, with over 27 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 an MBA Degree from Strathmore University, 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.

Peter O. Mugeni
Managing Director, HFC

Peter is a seasoned Banker, with over 16 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 HF Group Plc 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.

Catherine Olaka
Director, Human Resources & Administration

Catherine Olaka has extensive HR experience and has achieved success in designing & implementing scalable HR initiatives with a key focus on business transformation at executive level. She has a wealth of Sub-Saharan Africa work experience having served in various assignments in Tanzania, Rwanda, Chad, Gabon, Ghana, Nigeria, Congo Brazzaville, DRC, Madagascar and RSA, and industry experience within the ICT and Financial services.

Her career highlights include roles as the overall HR leader at Stanbic Bank Uganda, Tigo Tanzania, and Telkom Kenya.

Catherine holds a Bachelor of Arts degree (University of Nairobi), an MBA (Maastricht school of Management), Post-Graduate Diploma in HR and is a licensed Executive Coach and a member of AoEC (Association of Executive Coaches – UK) and ICF (International Coaching Federation).

Regina Anyika
Company Secretary & 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).

Senior Management Team (Continued)

Joseph Chikove
Director, Treasury

Joseph is a seasoned treasury professional, with over 14 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 Plc 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 HF Group Plc in November 2015 to oversee the Enterprise Risk Management Division with functional reporting responsibilities to Board Risk Committee. He joined the Group from Central Bank of Kenya (CBK) where he had served since June 2008, in the Bank Supervision Department. He has vast experience in banking risk management processes including 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).

Joseph Ngare
General Manager, Audit

Joseph joined HF Group Plc on 19th April, 2010 as the Head of Audit. Prior to joining the Company, he 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).

David Igweta
Chief Operations Officer

David is an astute ICT and operations expert with over 24 years of experience in Information Technology and Banking. Before joining HF Group Plc, 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. He 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 Plc.

Patrick Njunge
Director, Retail

Patrick is a seasoned results-driven banker with 13 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.

Senior Management Team (Continued)

Joseph Kamau
Executive Director, HF Development and Investment LTD

Joseph Kamau is a seasoned banker with over 11 years' experience in corporate banking. Before Joining HF Group Plc in April 2019, he was a senior Corporate Banker with NIC Bank. Joseph is responsible for providing leadership for the Group's Property Development and Investment subsidiary. Joseph has a deep understanding of structured finance transactions which is critical in execution and delivery of the projects and investments undertaken by the Group.

He is currently undertaking an MBA, Strategic Management from Strathmore Business School. He holds a Bachelor of Commerce Degree from the University of Nairobi, a CPA-K and is a Certified Investments and Securities Analyst of East Africa.

Tonney Agira
Director, Strategy & Business Performance

Tonney is a seasoned banker, with over 15 years' experience in strategy development & execution, business intelligence and analytics, retail banking and products management. Through his experience, he has been able to achieve business results which have made significant turnaround impacts to the organizations he has worked for, including growth in revenue and profitability; process improvements; development of business scorecards and frameworks that created excellence in market execution.

He has previously held several senior roles including Head of Products, Head of Retail Strategy & Analytics at NIC Bank; Head of Retail Lending, and Manager Business Intelligence & Analytics at National Bank of Kenya; and a Business Analyst among other roles at Barclays Bank of Kenya.

Tonney holds a Bachelor's of Science degree (Biomedical Science & Technology - Pharmacology option) and is currently undertaking his MBA. He is a data and analytics enthusiast and has several certifications in this field including predictive analytics and propensity modeling certifications. He is also a yellow belt holder of the Lean six sigma process re-engineering program.

Sammy Kamanthi
Group Chief Finance Officer

Sammy is a finance professional and a seasoned banker with over 20 years track record in the banking industry. His role includes providing leadership in financial forecasting & budgets, overseeing the preparation of financial reports as well as advisory on long term business and financial planning. Prior to joining HF Group Plc, he held the position of General Manager and Head of Finance for the Kenya operations at Equity Bank. He has also served as the Finance Manager & Head of Financial Reporting at the same institution. Sammy has also held other positions including Accountant at Kenya Airways; Graduate Management Trainee, Senior Bank Officer and Assistant Finance Manager at the Central Bank of Kenya.

Sammy holds a Bachelor of Commerce Degree in Accounting from Kenyatta University, Master's Degree in International Development Studies, Development Economics from National Graduate Institute of Policy Studies – Tokyo, Japan and Master in Business Administration (MBA) – Finance, from Edinburgh Business School (EBS), Heriot -Watt Univ – Edinburgh. He is a Certified Public Accountant CPA (K) and a member of the Institute of Certified Public Accountants (ICPAK).

Nkatha Gitonga
Director, Marketing, Corporate Affairs & Citizenship

Nkatha is a seasoned marketer with 24 years' experience spanning entertainment, advertising & media, aviation, ICT & financial sectors. She is passionate about brands, communication, coaching, culture, sustainability & shared value. Nkatha has led innovative strategic project teams to successfully realize the business objectives of leading organizations in Africa.

She honed her skills at various organisations including Ayton Young & Rubicam (AY&R), Kenya Airways, ScanGroup & AccessKenya (Internet Solutions/Dimension Data). Prior to joining HF Group, she served as the Group Manager, Marketing and Communications for ICEA LION Group across Kenya, Uganda & Tanzania.

Nkatha holds a BA in Political Science & Sociology (Hons) from the University of Nairobi and an MBA in Leadership & Sustainability from the University of Cumbria, U.K. She is a Certified Engagement & Productivity Coach (CEPC) from the International Coach Federation (ICF).

HF Bancassuarance Intermediary Limited Directors

Dr. Benson I. Wairegi, EBS 70 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Constance W. Gakonyo, CBS, MGH, 57 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Robert N. Kibaara, 49 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT & NON EXECUTIVE

Patrick Njunge, 43 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Tonney A. Mugah, 40 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Maureen Stephyne, 37 years
PRINCIPAL OFFICER

Notice of Annual General Meeting

To the Shareholders of **HF GROUP Plc (the Company)**

NOTICE IS HEREBY GIVEN that in accordance with Articles 59 and 61 of the Articles of Association of the Company, the 57th Annual General Meeting of the Company will be held via electronic communication on Friday, 26th May 2023 at 11.00 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 2022, 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 2022.

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. Peter Kahara Munga, who is over seventy years old, retires by rotation in accordance with Article 105 of the Company's Articles of Association, and being eligible, offers himself for re-election.

c) Dr, Benson Wairegi, 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.

d) Ms. Constance Gakonyo, having served the maximum tenure of nine years, retires in compliance with the Company's Corporate Governance Policy and not being eligible does not offer herself for re-election.

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

f) 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 individually to continue to serve as members of the said Committee:-

- Ms. Felister Kembi
- Dr. Anthony Omerikwa Opare
- Ms. Anne Kimari

6. To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2022.

7. To appoint PricewaterhouseCoopers (PwC) Kenya as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.

SPECIAL BUSINESS

8. To consider and if thought fit to pass the following resolution as a Special Resolution:

THAT subject to receipt of requisite regulatory approvals, the Directors be generally authorised to allot new ordinary shares of Kshs.5 each not exceeding five per cent (5%) of the total issued share capital of the Company to the Employee Share Ownership Plan (ESOP) for such consideration and upon such terms and conditions as the Directors may determine.

The authority granted under this resolution shall expire on 26th May 2025, noting that the Directors may notwithstanding the expiry of the authority conferred by this resolution allot ordinary shares of the Company where such allotment is done pursuant to an offer or agreement made before such expiry.

The ESOP was approved at the 40th Annual General Meeting of the Company held on 26th July 2006.

9. 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: 2nd May 2023

Notice of Annual General Meeting (Continued)

NOTES:

1. Shareholders wishing to participate in the meeting should register for the AGM by dialing ***483*886#**on their Safaricom mobile telephone or ***483*886#**on their Airtel & Telkom mobile telephone and follow the various prompts on the registration process. Shareholders will not incur any cost for such registration.

2. 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 shareholders should dial the following helpline number: **(+254) 709 170 000** from 9:00 a.m. to 3:00 p.m. from Monday to Friday. Shareholders outside Kenya should dial the helpline number for assistance during registration.

3. Registration for the AGM opens on **Wednesday, 3rd May 2023** at 9:00 am and will close on **Wednesday, 24th May 2023** at 11.00 a.m. Shareholders will not be able to register after this time.

4. 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 2022.

5. 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.

6. 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 so as to arrive not later than Wednesday, **24th May 2023** at 11.00 a.m.

7. Duly signed proxy forms may also be emailed to info@image.co.ke in PDF format. A proxy form must be signed by the appointor 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.

8. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so 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 30000 – 00100, Nairobi, or to Image Registrars offices at the address above. **(c)** Shareholders who will have registered to participate in the meeting shall be able to ask questions via sms by dialing the USSD code above and selecting the option (Ask Question) on the prompts **(d)** During the AGM, shareholders can send their questions by using the "Questions" tab on their livestream link.

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

   All questions and clarification received by the Company by Wednesday, 24th May 2023 at 11:00 a.m. will be responded to by the directors of the company by 26th May 2023. A full list of all questions received and the answers thereto will be published on the Company's website before the commencement of the General Meeting. Some of the questions will also be answered during the meeting.

9. Registered Shareholders will receive an SMS prompt, with instructions, on their registered mobile phone number alerting them to Propose and Second the resolutions put forward in the notice.

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 48 hours following conclusion of the AGM on the Company's website.

Notisi kuhusu mkutano mkuu wa pamoja wa mwaka

Kwa Wanahisa wa **HF GROUP Plc (Kampuni)**

NOTISI INATOLEWA HAPA KWAMBA, kufungamana na vifungu nambari 59 na 61 vya sheria za kampuni, mkutano wa 57 wa pamoja wa mwaka wa kampuni utafanyika kwa mbinu ya mawasiliano ya kielektroniki Ijumaa Mei 26,2023 kuanzia saa tano asubuhi ili kutekeleza shughuli zifuatazo za kibiashara:

1 Kuwataja mawakala na kuzingatia akida ya mkutano

2 Kusoma Notisi ya kuitishwa kwa Mkutano

3 Kupokea na endapo itapitishwa , kuidhinisha mizania iliyofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2022 pamoja na ripoti kutoka kwa mwenyekiti, wakurugenzi na wakaguzi wa pesa

4 Kutambua kwamba, wakurugenzi hawatoi pendekezo lolote la malipo ya mgao wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2022

5. Kuwachagua wakurugenzi

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

   b) Dkt. Peter Kahara Munga, ambaye ana umri wa miaka 70 anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za kampuni na kwa kuwa hali inamruhusu, amejitokeza ili kuchaguliwa tena.

   c) Dkt, Benson Wairegi,ambaye ana umri wa miaka 70 anastaafu kwa mujibu wa maadili ya utawala wa mashirika ya utoaji dhamana za umma ya mwaka 2015 na kwa kuwa hali inamruhusu, amejitokeza ili kuchaguliwa tena.

   d) Bi.Constance Gakonyo, ambaye amefikisha kilele cha miaka ya utoaji huduma cha miaka 9, anastaafu kwa mujibu wa sera za maadili ya utawala wa kampuni na kwa kuwa hali haimruhusu, hatajitokeza kuchaguliwa tena

   e) Bi . Ann Kimari anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za makampuni na kwa kuwa hali inamruhusu, amejitokeza ili kuchaguliwa tena

   f) Kufungamana na vipengele sehemu ya 769 vya sheria za makampuni ya mwaka 2015 , wakurugenzi wafuatao ambao ni wanachama wa kamati ya kundi kuhusu uhasibu na hatari wachaguliwe kibnafsi ili waendelee kuhudumu kama wanachama wa kamati husika. –

      - Bi. Felister Kembi
      - Dkt. Anthony Omerikwa Opare
      - Bi. Anne Kimari

6. Kuidhinisha ripoti ya marupurupu ya wakurugenzi kama ilivyofafanuliwa kupitia ripoti ya mwaka kwa kipindi cha mwaka uliomalizika Desemba 31, 2022.

7. Kuteua PricewaterhouseCoopers (PWC) kama wakaguzi wa pesa za kampuni kwa mujibu wa sehemu ya 721 ya sheria za kampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu ya wakaguzi wa pesa kufungamana na sehemu ya 724 ya sheria za kampuni zilizotajwa.

SHUGHULI MAALUMU

8. Kuzingatia na endapo itakubalika kupitisha azimio lifuatalo kama azimio la kipekee;

   KWAMBA Kwa kutegemea kupokea idhini za kisheria zinazohitajika, wakurugenzi kwa pamoja waruhusiwe kutenga hisa mpya za kawaida za kshs. 5 kila moja bila kupitisha asilimia 5 (5%) ya jumla ya hisa za mtaji wa kampuni kwa mpango wa umiliki wa hisa kwa wafanyakazi (ESOP) kwa mazingatio kama hayo na kwa kutegemea kanuni na masharti kama hayo ambayo wakurugenzi wataona yanafaa.

   Mamlaka iliyotolewa chini ya azimio hili itakamilika Mei 26, 2025 na kufahamu kuwa wakurugenzi wanaweza bila kuzingatia kukamilika kwa amri iliyotolewa kupitia azimio hili kugawa hisa za kawaida za kampuni mahali ambapo ugawaji huo utatolewa kwa kutegemea utoaji huo au makubaliano yaliyotolewa kabla ya muda kukamilika.

   Mpango wa umiliki wa mtaji wa hisa kwa wafanyakazi (ESOP) uliidhinishwa wakati wa mkutano wa 40 wa pamoja wa mwaka uliofanyika Julai 26, 2006.

9. Kuzingatia shughuli nyingine zozote za kibiashara ambazo notisi yake itakuwa imetolewa.

KWA AMRI YA HALMASHAURI
Regina Anyika
Katibu wa Kampuni
Slp 30088, GPO 00100
NAIROBI
Tarehe : Mei 2, 2023

Notisi kuhusu mkutano mkuu wa pamoja wa mwaka (Inaendelea)

NUKUU:

1. Wanashisa wanaotaka kuhudhuria mkutano wa pamoja wa mwaka wajisajili kushiriki kwa kupiga ***483*886#** kupitia mtandao wao wa simu ya Safaricom au ***483*886#** kwa mtandao wa simu zao za *Airtel na Telk*om na kufuata maagizo kuhusu hatua za usajili. Wanahisa hawatatozwa ada zozote wakati wa usajili huu.

2. Ili kukamilisha hatua za usajili, wanahisa watahitajika kuonyesha nambari ya kitambulisho chao cha uraia/ paspoti zilizotolewa wakati wa ununuzi wa hisa au nambari zao za akaunti ya CDSC. Ili kupata usaidizi, wanahisa wapige simu kupitia nambari ya usadizi **(+254) 709 170 000** kuanzia saa tatu asubuhi hadi saa tisa alasiri siku za Jumatatu hadi Ijumaa. Wanahisa walio nje ya Kenya wapige simu kupitia nambari ya usaidizi wakati wa usajili.

3. Usajili kwa Mkutano mkuu wa pamoja wa mwaka utaanza siku ya **Jumatano Mei 3, 2023 saa tatu asubuhi** na kufungwa **Jumatano Mei 24, 2023 saa tano asubuhi.** Wanahisa hawataruhusiwa kujisajili baada ya muda huu kupita.

4. Kwa mujibu wa kifungu nambari 160 cha sheria za ushirika wa makampuni , hati zifuatazo zinaweza kutazamwa kupitia wavuti wa kampuni www.hfgroup.co.ke **(a)** Nakala ya notisi hii pamoja na fomu ya uwakala; **(b)** ripoti za mwaka ya Kampuni na taarifa za matumizi ya pesa iliyokaguliwa kufikia Desemba 31, 2022.

5. Mwanahisa yeyote aliye na uwezo kuhudhuria na kupiga kura wakati wa mkutano wa pamoja wa mwaka ana uhuru kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mwanachama wa kampuni.

6. Fomu ya uwakala imeambatishwa na ripoti hii ya mwaka. Fomu hii 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 hawajatoa pendekezo la kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya uwakala na kuirejesha kwa Image Registrars Limited au kwa ofisi ya kampuni iliyosajiliwa na kufika kabla au ifikiapo **Jumatano Mei 24, 2023 saa tano asubuhi**.

7. 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 mteuzi ni shirika, nakala inayomteua wakala iwe imepigwa mhuri wa kampuni au kutiwa sahihi na afisa au wakili aliyeidhinishwa shirika kama hilo.

8. Wanahisa wanaotaka kuuliza maswali yoyote au ufafanuzi kuhusiana na mkutano wa pamoja wa mwaka wanaweza kufanya hivyo kwa (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 kurudisha majibu au anwani ya barua pepe kwa ofisi ya kampuni iliyosajiliwa au S.L.P 30000 – 00100, Nairobi, au kwa ofisi za Image Registrars kupitia anwani zilizotajwa hapo juu. (c) wanahisa ambao watakuwa wamejisajili kuhudhuria mkutano wataweza kuuliza maswali kwa kutuma ujumbe mfupi kwa kupiga USSD iliyoko hapo juu na kuchagua mfumo wanaotaka (kuuliza swali) kwenye chaguo (d) wakati wa mkutano wa pamoja wa mwaka, wanahisa wanaweza kutuma maswali yao kwa kutumia kibonyezo '' Questions'' kwenye kiunganishi cha mawasiliano ya moja kwa moja.

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

   Maswali yote na fafanuzi yatakayopokelwa na kampuni Jumatano Mei 24, 2023 kufikia saa tano asbuhi yatajibiwa na wakurugenzi wa kampuni Mei 26, 2023. Orodha kamili ya maswali yaliyopokelewa na kutolewa majibu yatachapishwa kupitia wavuti wa kampuni kabla ya mkutano wa pamoja wa mwaka kuanza. Baadhi ya mswali yatajibiwa wakati wa mkutano.

9. Wanahisa waliosajiliwa watapokea ujumbe mfupi ukiwa na maelezo kuhusu nambari zao za simu zilizosajiliwa kuwaarifu kutoa pendekezo na kuidhinisha maazimio yaliyotolewa kwenye notisi.

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 wa pamoja wa mwaka wanaweza kufuatilia matukio moja kwa moja kupitia kiunganishi ili kupata agenda na kupiga kura (watakaposhauriwa na mwenyekiti) kupitia njia ya USSD.

12. Matokeo kuhusu maazimio yaliyopitishwa yatachapishwa kwenye wavuti wa kampuni ambao ni www.hfgroup.co.ke chini ya muda wa saa 48 baada kukamilika kwa mkutano mkuu wa pamoja wa mwaka kupitia tovuti ya kampuni.




OUR PURPOSE

Enriching Lives

OUR MISSION

Enriching Lives Through
Financial Empowerment

OUR VISION

To be a top ten banking group
by being the most ***dependable*** and
loved financial services provider

OUR VALUES

Stewardship
Teamwork
Innovative
Customer Centric
Integrity

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 non-operating holding company oversees the operations of the Group subsidiaries. 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 property development and investment.
- HF Bancassurance Intermediary Limited - provides bancassurance solutions.
- HF Foundation Limited - The Group's social investment arm.

Our Strategy

KEY THEMES

1	**Reposition**	Achieve a complete shift of perception from a single product house to a **full service niche bank offering superior capabilities for the selected segments**
2	**Scale up the Engines of Growth**	Achieve the desired growth in **Commercial, SME, Institutional, affluent, mass affluent and Diaspora segments** to build a less concentrated, stable lower-cost funding base and **selectively increase exposure in segments with higher risk-return**
3	**Drive Efficiency Through Technology**	Provide **capabilities that will enable** delivery of the **brand promise** to the customer **cost effectively**
4	**Beyond Service Excellence**	Deliver an **omni channel experience** with an **"all under one roof"** product & service suite for our chosen segments
5	**Solidify the Capital Base**	Set up the bank to be able to accommodate accelerated investment and returns in the selected segments by having a **healthy capital base (Tier I & II)**
6	**Culture and Capabilities**	Create a **Performance Culture** with a superior EVP **(Bias for Execution)** by investing in the people capabilities required to ensure sustained performance

Group Overview (Continued)

Group Structure

CHAIRPERSON'S REPORT

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH
Group Chairperson

Chairperson's Statement
For The Year Ended 31 December 2022

Dear Shareholders

It is my distinct pleasure to welcome you to this 57th Annual General Meeting (AGM) of HF Group Plc. This is my second Annual General Meeting as your Chair and it has been a great honor for me to serve in this capacity. As I reflect on the past year, I am impressed by the strides we have made and the resilience of your company.

When I joined in 2021, the Group was loss making but today I am delighted to announce that the Group and all its subsidiaries posted positive results in 2022. We posted a net profit of Kes 265 Million compared to a loss of Kes 667 Million in 2021. This is no mean feat as the Board of Directors, management and staff have all worked tirelessly to ensure that we surmount the headwinds and achieve the key milestones that have led to this positive result. I am encouraged by the fact that the business turnaround strategy has paid off and we are now on a growth trajectory, which we intend to sustain in order to deliver value to you, our shareholders.

Strategy Recalibration

In 2021, the Group embarked on a new strategy dubbed "Magic Six", which has 6 pillars all geared towards scaling up growth and building the right posture for the Group. This strategy is crystallizing and is already delivering business growth, as evidenced by the positive performance achieved during the period. However, we are cognizant of the prevailing global and macro-economic environments – the Ukraine Russia war, the weakening shilling and the prevailing drought amongst other factors. These are already having adverse impact on our economy and hence likely to slow down our projected incremental growth. As such, the Board of Directors saw it fit to mandate the recalibration of the current strategy to ensure that we take bold steps that will result in exponential growth in terms of performance and brand posture in order toachieve the desired business growth. To safeguard business continuity, this recalibration is running parallel to the execution of the current strategy.

Corporate Governance

As your Board of Directors, we are committed to effective oversight and one of the key ingredients for this is capacity building. In 2022, the Board participated in various trainings geared towards equipping Directors to adapt and respond to the changing business landscape. These included Stakeholder Management; Annual Cybersecurity Training; and Strategy Recalibration Stage 1 - Foundations Building. Further the Board was represented in a Board Governance and Leadership Masterclass organized by the Nairobi Securities Exchange (NSE) and facilitated by a distinguished faculty.

The Group' emphasis on governance is evidenced by the "leadership" rating in the Capital Markets Authority (CMA) FY2021 Corporate Governance Assessment.

Chairperson's Statement For The Year Ended 31 December 2022 (Continued)

Strengthening Leadership

The Group is deliberate about strengthening its leadership both at the Board and Senior Management levels. We have a team of exceptional Directors whose collective expertise continues to enrich the Board's oversight role. I am personally committed to building a diversified team of Directors that also embraces gender balance. During the period, we welcomed to the Group Board Ms. Anne Kimari who has over 25 years' experience in SME banking, general management, accounting, finance, strategic management, tax, risk and corporate governance.

Environment, Social & Governance (ESG)

The Group is committed to fostering a sustainable business that delivers not only on profit, but critically, observes and delivers an effective Environmental, Social and Governance (ESG) Agenda. In line with other forward-looking organizations across the globe, we are cognizant of the fact that we must be able to meet our needs today, without compromising the ability of future generations to meet theirs. To this end, the Group will be developing this agenda by anchoring it in our overall HF Group strategy and on our strategic foundations; i.e. our purpose, mission, vision and values. The HF Foundation Revamp Strategy, one of the anchor avenues through which our ESG Agenda will be realized, will also be developed in line with the overall strategy in 2023.

Looking ahead

The current global and macro-economic environment is likely to prevail in the short term. As a Group, we continue to tighten the sails to circumvent head winds and ensure that we are delivering on our commitments. Building Capital adequacy to power business growth is one of the areas that we continue to pay attention to. Over the years, we have received support from our key shareholders and moving forward, we continue to explore other options of raising capital. As a Board, we continue to engage consistently with the management team and provide the requisite steer. We are confident that with the strategy recalibration, the Group will scale to higher heights and reinforce our performance.

The Group has come this far because of the patience and support of you, our esteemed shareholders. I appreciate you for the trust you have bestowed upon your Board. I recognize the dedication and expertise of the Group Board of Directors and the Subsidiary Board of Directors led by Dr. Kaushik Manek – Chairman HFC Board and Dr. Benson Wairegi - chairman HFBI and HFDI Boards. I also wish to acknowledge the leadership of the Group CEO, Mr. Robert Kibaara and the senior management team who have worked tirelessly with the HF Group Team, to make good on the commitment to steer the business to profitability.

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH

Group Chairperson

Mugenda

Date: 31st March 2023

Taarifa Kutoka kwa Mwenye Kiti kwa Kipindi cha Mwaka Uliomalizika Desemba 31 2022

Kwa wanahisa,

Ni furaha kwangu kuwakaribisha kwenye mkutano wa 57 wa pamoja wa mwaka (AGM) wa HF Group. Huu ni mwaka wangu wa pili kama mwenyekiti wenu na imekuwa heshima kubwa kwangu kuhudumu katika wadhifa huu. Huku ninapoangazia siku za nyuma, nimefurahia hatua kubwa tulizofanya na uthabiti wa kampuni yenu.

Nilipojiunga mwaka 2021, kundi lilikuwa likipata hasara lakini leo nina furaha kutangaza kwamba pamoja na washirika tanzu wake lilisajili matokeo mema mwaka 2022. Tuliandikisha faida ya jumla ya Kshs milioni 265 ikilinganishwa na hasara ya Kshs 667. Huu ni ufanisi mkubwa kwa Halmashauri ya wakurugenzi, usimamizi na wafanyakazi ambao wamefanya kazi kwa bidiikuhakikisha kwamba tumekabiliana na mawimbi na kupata ufanisi mkubwa uliopelekea matokeo haya ya kuvutia. Nina furaha kwamba, mkakati wa mabadiliko umezaa matunda na kwa sasa tuko kwenye mkondo wa ukuaji ambao tunatumai kuudumisha ili kuzalisha thamani kwenu na kwa wanahisa.

Mageuzi ya mkakati

Mwaka 2021, Kundi lilirejelea mkakati mpya kwa jina '' Magic Six '' wenye nguzo sita zote zikiwa na nia ya kuinua ukuaji na kuleta sura mpya ya Kundi. Mkakati huu unatoa mwangaza na tayari kuleta ukuaji wa biashara kama inavyodhihirika kupitia matokeo bora yaliyopatikana kipindi cha mwaka. Hata hivyo, tunatambua hali ya sasa ya mazingira ya chumi ndogo ,vita baina ya Ukraine na Russia, kudororora kwa thamani ya shilingi, kiangazi miongoni mwa maswala mengine. Tayari, maswala haya yameathiri hali ya uchumi wetu na huenda yakapelekea kupunguka kwa kasi ya ukuaji wetu kama ilivyokadiriwa. Kwa sababu hiyo, Halmashauri ya wakurugenzi ilionelea vyema kufanyia mageuzi mkakati wetu wa sasa kuhakikisha tumeubadilisha na kuchukua hatua madhubuti ambazo zitapelekea kuwepo kwa matokeo, kuimarika kwa huduma na kupatikana kwa ukuaji unaohitajika licha ya hali iliyoko. Ili kulinda kuendelea kwa biashara, mageuzi haya yanatekelezwa sambamba na mkakati wa sasa.

Ningependa kuwahakikishia kwamba halmashauri inatoa mwongozo kamili wa safari hii na kuhusisha kikamilifu timu ya usimamizi kuona kuwa tumetimiza ahadi yetu kwenu wanahisa wetu.

Usimamizi wa Shirika

Kama Halmashauri ya wakurugenzi, tumejitolea kusimamia sehemu muhimu ambayo ni kuimarisha uwezo. Mnamo 2022, Halmashauri ilishiriki mafunzo mbali mbali yenye lengo la kuimarisha uwezo wa wakurugenzi kufahamu na kukabiliana na mabadiliko ya biashara. Hii ilihusisha usimamizi wa wadau, mafunzo ya kila mwaka kuhusu usalama wa mitandao na ujenzi wa msingi wa mkakati. Zaidi ya hayo, Halmashauri iliwakilishwa kwenye mafunzo ya usimamizi wa halmashauri na uongozi yaliyoandaliwa na Nairobi Securities Exchange (NSE) na kusimamiwa na kitivo maalumu.

Sisitizo la kundi kuhusu utawala limedhihirishwa kupitia ukadiriaji wa '' usimamizi'' wa Capital Markets Authority (CMA) FY2021 kuhusu tathmini ya usimamizi wa mashirika

Taarifa Kutoka kwa Mwenye Kiti kwa Kipindi cha Mwaka Uliomalizika Desemba 31 2022 (Inaendelea)

Kuimarisha Uongozi

Kundi limejitolea kuimarisha uongozi wake katika Halmashauri na viwango vya juu vya usimamizi. Tuna timu ya wakurugenzi wa hali ya juu ambayo tajriba yake ya pamoja imekuwa ikiendelea kusaidia halmashauri na jukumu lake la uangalizi. Binafsi, nimejitolea kujenga timu ya wakurugenzi mbali mbali ambayo inazingatia usawa wa kijinsia. Wakati wa kipindi hiki, tulimkaribisha kwenye halmashauri ya kundi Bi. Anne Kimari ambaye ana tajriba ya zaidi ya miaka 25 katika benki za chumi ndogo, usimamizi wa jumla, uhasibu, fedha, mkakati wa usimamizi , ushuru, hatari na usimamizi wa mashirika.

Uendelevu na ushirika uraia

Kundi limejitolea kujenga biashara thabiti ambayo bali na kuzalisha faida pia inazingitaia mazingira na thamani kwa jamii huku ikitambua watu na haki zao. Kufikia sasa, Kundi limerejelea mkakati wa ESG ambao utaimarisha zaidi uwajibikaji wetu kwenye biashara ili kufanikisha uthabiti na ushirikiano.

Zaidi ya hayo, wakati wa kipindi hiki, tulichukua uamuzi wa mkakati kufufua agenda yetu ya ushirika kwa raia na kuipa uhuru timu ya usimamizi kuzindua zoezi hili. Lengo letu ni kuanzisha upya msingi wa kundi ulio na mbinu thabiti uaoenda sambamba na nia yetu pamoja na mahitaji ibuka na pia nafasi zilizoko kwenye mfumo wetu wa ikolojia.

Mtazamo wa siku za usoni.

Hali ya sasa ya mazingira ya chumi ndogo huenda ikadumu kwa muda mfupi. Kama kundi, tunaendelea kukaza mikondo yetu ili kukabiliana na mawimbi na kuhakikisha kuwa tumefanikisha ahadi zetu. Kuzalisha mtaji toshelevu na kuendesha ukuaji wa biashara ni mojawapo wa maeneo ambayo tutazidi kuyapa kipaumbele. Katika kipindi cha miaka iliyopita, tumekuwa tukipata usaidizi kutoka kwa wanahisa wetu muhimu. Hapo mbele, tutaendelea kutafuta mbinu mpya za kuzalisha mtaji. Kama halmashauri, kila mara, tunazidi kuhusisha kikamilifu timu ya usimamizi na kuipa mwongozo unaofaa. Tuna imani kuwa kufuatia kugeuzwa kwa mkakati, kundi litapania viwango vya juu na kuinua matokeo yetu.

Kundi limetoka mbali kutokana na uvumilivu na mchango wenu wanahisa. Ninawapongeza kutokana na imani ambayo mmedhihirisha kwa Halmashauri. Kundi limefikia upeo huu kutokana na uvumilivu na msaada wenu wanahisa wetu. Nawathamini kutokana na imani ambayo mmehidhirisha kwa Halmashauri. Natambua uwajibikaji na utaalamu kutoka kwa Halmashauri ya wakurugenzi ya Kundi na halmashauri tanzu ya wakurugenzi ikiongozwa na Dkt. Kaushik Manek- mwenyekiti wa Halmashauri ya HFC na Dkt. Benson Wairegi ambaye ni mwenyekti wa HFBI na HFDI. Pia, natambua uongozi wa Mkurugenzi Mkuu Mtendaji Bw. Robert Kibaara na timu ya usimamizi ya ngazi ya juu ambao wamejitoa mhanga kufanya kazi kwa bidii na timu ya HF ili kufanikisha ahadi yao ya kuendesha biashara kupata faida. Pia, ningependa kutambua uongozi wa Mkurugenzi mkuu Bw. Robert Kibaara na timu nzima ya usimamizi ambayo imejitolea kufanya kazi kwa bidii kufanikisha maendeleo ya biashara na kuzalisha faida.

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH

Mwenyekiti

Mugenda

Date: 31st March 2023

GROUP CEO's STATEMENT

Robert N. Kibaara
Group Chief Executive Officer

Group Chief Executive Officer's Statement For The Year Ended 31 December 2022

Dear Shareholders,

It is my sincere pleasure to welcome you to the 57th Annual General Meeting of your company, HF Group Plc, and to give you with an update on your business for the period ending 31 December 2022. This was a significant year for our Group as we got out of the turnaround phase and have now geared for take off into our transformation phase.

Our Group is in its second year of the business strategy dubbed Magic Six which remains focused on business transformation and is anchored on building an execution-oriented culture; leveraging technology to drive efficiency; shoring up capital; delivering excellence in customer experience and scaling up engines of growth.

In 2022, we worked dedicatedly to circumvent the headwinds that the business had faced and adjusted the sails as and when required. Our people, who continue to be our greatest asset, worked relentlessly in execution of our strategy and eventually the ship started to turn in the right direction.

Financial Performance

In 2022, the business performance was consistently positive and all our subsidiaries (HFC, HFDI and HFBI) posted good performance throughout the period. The Group posted a full year net profit of Kes 265 million, from a loss of Kes 667 million in 2021, reflecting a growth of 939 percent. Our performance is highlighted below:

- Interest Income grew by 347 million while Interest Expense increased marginally by 1% equivalent to Kes 15million
- Interest earning assets grew by Kes 3.6 billion while the average yield on these assets improved year on year to 10% from 9.6% in December 2021.
- Deposits grew by Kes 1.5 billion during the period characterized by steep rise in interest rates while foreign exchange income rose by 182%.
- Group expenses dropped by Kes 472 million (14%) year on year highlighting the success of a cost optimization program.

During the period, the property development subsidiary HFDI was able to offset various debts totaling Kes 1.2billion which significantly reduced our financing costs. These repayments are also testament that the new business model we have adopted for the subsidiary is paying off. This new model has transitioned HFDI from the capital-intensive property development business into strategic partnerships for development of affordable housing concepts and end user financing; land owner wealth management solutions including project management and execution to unlock liquidity; Property sales and marketing leveraging our brand and heritage; and property advisory services.

Group CEO Statement For The Year Ended 31 December 2022 (Continued)

Turning the Page: Milestones Achieved

The business also kicked off an internal data warehousing project that is poised not only to enhance our revenue assurance but will also avail predictive and real time analytics which will be leveraged to enhance customer relationships and grow share of wallet.

Resolution of the non-performing loan book predominantly occasioned by the slow down in real estate over the years – has taken shape with proactive debt collection and collaborative mitigation strategies that have seen the NPL ratio reducing. As we continue to resolve the bad bank, we have engaged even more effort on scaling up the full-service bank which has already gained traction and is making a positive contribution to the business performance.

Market knowledge of our full-service proposition is a critical success factor. During the period, we embarked on communication campaigns to educate customers and the general public on our holistic offering. These included customer engagement forums across our branch network and engagement campaigns on multiple radio stations.

Further, we deepened our personal banking offering with the successful launch of our premium banking proposition dubbed "Ultimate Banking" that is tailor – made to meet the emerging needs of the high net worth customer segment. The offering includes express service at the Ultimate Service Centre at Rehani Branch and express service counters in select branches.

We also broadened our footprint in the diaspora segment with the onboarding of over 20 strategic partnerships that are poised to enhance our offering and accessibility to Kenyans in the diaspora, and tap into the huge potential in this market segment.

In 2022, we received the Central Bank's approval to initiate risk-based pricing model for loans, which has opened up credit access for a wider pool of customers especially in the small and medium sized business segments.

Further, this approval allows us to price credit risk and will enable the business grow the asset book, increase yield on earning assets, as well as deposit mobilization muscle.

Repositioning the Brand

Brand repositioning is one of our strategic thrusts as we strive to achieve a complete shift of perception from a single product house to a full-service bank offering superior capabilities for our select segments.

As it is critical to make data driven decisions, at the beginning of 2022, we commissioned a brand audit and perception study which provided us with the true north as far as our brand perception is concerned. Through the survey, we identified the perceived brand strengths and weaknesses and charted a roadmap to address these in order to grow the brand awareness and equity index.

We also embarked on a journey of refreshing our strategic foundations – the brand purpose, vision, mission - to align this to strategy. This journey which included input from both senior management and the Board of Directors, culminated in revamped strategic foundations and will propel the business in the coming years.

Business Recalibration

Given the prevailing macro and operating environment trends, we evaluated our 2022-2026 strategy and concluded that whilst this strategy is solid, there was need to recalibrate this to ensure that emergent issues have been taken into consideration and our strategic thrusts are optimized to catapult the business towards achievement and surpassing of growth ambitions. Whilst this is a Board and senior management led initiative, we have enlisted the support of business strategy consultants as it is also critical to have an outward - in perspective. This process will run into 2023 parallel to the execution of the current strategy, as the output will essentially be augmenting the current strategy and not introduction of a new one.

Group CEO Statement For The Year Ended 31 December 2022 (Continued)

Deepening Customer engagement

The Group has identified Small and Medium Enterprises (SMEs) as a core customer segment and we sought strategic partnerships that would enable us unlock value and deepen relationships with SMEs within the sectors of trade & manufacturing, real estate, healthcare, education and agriculture value-chain. This initiative kicked off with the signing of a collaboration agreement with Strathmore Business School to support the SMEs with training, capacity building and custom-made financing solutions geared towards business growth.

We have also enhanced our SME offering by introducing tailor-made products including a Business Directors' proposition and unsecured business loan product.

People

People are our biggest asset and we firmly believe that we have the right and best people to deliver on our strategic ambitions. Our performance is testament to the persistence and resilience of our people in execution of our business transformation strategy. During the period we focused on capacity building of our sales force in order to deepen our market penetration. We also recruited new Executive Management team members with the onboarding of Nkatha Gitonga in the role of Director, Marketing, Corporate Affairs and Citizenship and Catherine Olaka as Director, Human Resource and Administration.

Learning is a key focus area and we rolled out an in – house SME Academy; a training programme geared towards equipping staff members with the necessary skill sets for optimal engagement and relationship management of the customers in this segment.

Future Outlook

Coming off the backdrop of a positive performance in 2022, we are geared for take-off as we propel the business to new horizons and tap into fresh growth opportunities. However, we are cognizant of the depressed global economy, uncertainties occasioned by the prevailing Ukraine - Russia war and the ripple effect this is anticipated to have on the Kenyan economy and our business. As we recalibrate the Group strategy, we will continue to tighten the sails and drive revenue diversification and consistent execution excellence in order to deliver not only on our ambition but also on our commitments to all stakeholders.

In conclusion, I take this opportunity to recognize our people; the employees, for demonstrating dedication and commitment that has seen the Group through rough tides. I applaud you, for your resilience in the face of adversity. I also want to appreciate the Board of Directors for the steer they continue to provide to me and the senior management team. Finally, I thank you our esteemed shareholders for the trust you have bestowed on me to steer this ship. You have my commitment that we will continue to work diligently to transform this great institution and enrich the lives of all our stakeholders.

Robert N. Kibaara

Mkurugenzi Mkuu Mtendaji wa HF Group

Date: 31st March 2023

Taarifa Kutoka Kwa Afisa Mkuu Mtendaji kwa Kipindi cha Mwaka uliomalizika Desemba 31 2022

Kwa wanahisa,

Ninaona fahari kuu kuwakaribisha kwenye Mkutano Mkuu wa 57 wa Mwaka wa shirika letu la HF Group Plc, pamoja na kuwapa taarifa kuhusu biashara hii kwa kipindi kilichokamilika tarehe 31 Desemba 2022. Huu ulikuwa mwaka muhimu kwa Shirika letu kwani tulihitimisha awamu ya mageuzi na sasa tumeshika safari ya mkondo wetu ya ustawi.

Shirika letu hili liko katika mwaka wake wa pili wa mkakati wa kibiashara unaoitwa Magic Six ambao unamakinikia mabadiliko ya kibiashara mbali na kujibidiisha kujenga desturi ya utekelezaji; kutumia teknolojia kuleta ufanisi; kuzidisha mtaji; kuboresha huduma zake kwa wateja na kuimarisha mihimili ya ustawi.

Mnamo 2022, tulijitahidi sana kukwepa vizingiti vilivyokuwa vimeikabili biashara hii na kurekebisha mwelekeo kila ilipohitajika kufanyika hivyo. Watu wetu ambao wanaendelea kuwa rasilimali yetu kuu, walifanya kazi bila kuchoka kutekeleza mkakati wetu na hatimaye dau letu kushika mwelekeo sahihi.

Matokeo ya Kifedha

Katika mwaka wa 2022, matokeo ya biashara hii yalikuwa ya kuridhisha. Tanzu zetu zote za kampuni hii (HFC, HFDI na HFBI) zilipata matokeo mazuri katika kipindi hicho. Shirika hili lilijivunia faida ya Ksh. 256.7 milioni katika mwaka unaorejelewa, hii ni baada ya kupata hasara ya Ksh. 682.7 milioni mwaka wa 2021, ikiwa sawa na asilimia 939%. Matokeo yetu yameangaziwa hapa chini:

- Riba ya Mapato iliongezeka kwa Kshs.347 milioni huku Riba ya Gharama ikiongezeka kidogo kwa asilimia 1% ambayo ni sawa na Ksh. 15 milioni.
- Nyenzo za kuzaa Riba zilistawi kwa Ksh 3.6 bilioni huku mapato ya jumla ya nyenzo hizi yakiongezeka kwa asilimia 10% katika mwaka uliokamilika Desemba 2022 ikilinganisha na asilimia 9.6% mwaka uliotangulia.
- Akiba zilikua kwa Ksh. 1.5 bilioni kipindi hicho kilichohusishwa na ukuaji wa riba huku mapato yanayotokana na ubadilishanaji wa fedha za kigeni yakiongezeka kwa asilimia 182%.
- Gharama za shirika hili zilipungua kwa Ksh.472 milioni (14%) katika mwaka huo, hii ikiashiria ufanisi mkubwa wa mpango wa matumizi bora ya gharama.

Katika kipindi hicho, kampuni tanzu ya ustawishaji wa mali ya HFDI ilifanikiwa kulipa madeni mbalimbali ya jumla ya Ksh. 1.2 bilioni. Malipo haya yaliyosaidia kupunguza kwa kiasi kikubwa gharama zetu za kifedha. Malipo haya pia ni ushahidi tosha kwamba mtindo mpya wa kibiashara kwa kampuni hiyo tanzu unalipa. Mtindo huu mpya umeimarisha HFDI kutoka kwenye biashara inayojikita katika ukwasi wa mali ya mtaji pekee hadi kwa biashara ya kimkakati.

Ushirikiano wenye makusudi ya ufanikishaji mpango wa makazi nafuu na ufadhili wa wateja; suluhu za usimamizi wa ukwasi unaotokana na umiliki ukiwemo usimamizi wa mradi na mbinu za kuzalisha ukwasi zaidi; Uuzaji wa mali na shughuli za mauzo zinazofaidi kutokana na kampuni yetu asilia; na huduma za ushauri kuhusu mali.

Kuanza safari Mpya: Hatua zilizopigwa

Shirika hili pia lilianzisha mradi wa ndani wa kuhifadhi data ambao unakusudiwa si tu kujenga hakikisho la mapato ila pia kuzindua vifaa vya uchanganuzi wa kitarakimu vyenye uwezo wa kubashiri na kuleta matokeo papo hapo, ambao utaboreshwa kwa dhamira ya kuimarisha uhusiano wa wateja na kukuza posho la hazina yetu.

Maamuzi kuhusu mikopo ambayo wateja hawalipi -mara nyingi hilo likisababishwa na kudorora kwa sekta ya makazi kwa miaka kadhaa sasa – yameanza kuleta ufanisi kutokana na mkakati wa kukusanya madeni katika muda unaofaa na mikakati mingine shirikishi ya kuzuia tatizo hilo, ambayo imewezesha kupungua kwa mikopo isiyolipwa (NPL). Tunapoendelea kusuluhisha tatizo hilo la benki, tumezidisha juhudi za kutekeleza huduma kamilifu ambazo tayari zimepata umaarufu na kutoa mchango chanya katika matokeo ya kibiashara.

Ufahamu wa soko katika pendekezo letu la utoaji wa huduma kamili ni nguzo kuu ya mafanikio. Katika kipindi hicho, tulianza kampeni za mawasiliano ya kuelimisha wateja na umma kwa jumla kuhusu utoaji huu wa huduma za jumla. Kampeni hizo zilijumuisha vikao vya ushirikishaji wateja katika matawi yetu yote, na kampeni za utangamano kupitia vituo vingi vya redio.

Taarifa Kutoka Kwa Afisa Mkuu Mtendaji kwa Kipindi cha Mwaka uliomalizika Desemba 31 2022 (Inaendelea)

Zaidi ya hayo, tuliboresha utoaji huduma za benki kwa watu binafsi kwa kuzindua kwa ufanisi kitengo cha wateja wa hadhi wa benki kinachoitwa "Ultimate Banking" ambazo ni mahsusi kukidhi mahitaji ibuka ya kitengo cha wateja wenye ukwasi mkubwa. Huduma za kitengo hiki zinajumuisha huduma ya haraka katika Kituo cha Ultimate katika Tawi la Rehani na kaunta za huduma za haraka katika matawi yaliyoteuliwa.

Pia, tulipanua kitengo chetu cha nchi za kigeni kwa kuingia ushirikiano 20 wa kimkakati ambao unakusudiwa kuboresha utoaji wetu wa huduma na kuwafikia wakenya walio mataifa ya nje hali itakayotuwezesha kunufaika na uwezo mkubwa wa soko hili.

Mnamo 2022, tulipata idhini ya Benki Kuu kuanzisha mtindo wa viwango vya riba kulingana na hatari kwa mikopo, mtindo ambao umeongeza uwezo wa kundi kubwa la wateja kufikia mikopo hasa katika sekta ya biashara ndogo na kadri (SME). Aidha, idhini hii inaturuhusu kuratibisha upya hatari ya mikopo hivyo basi kuwezesha biashara hii kukuza ukwasi wake, kuongeza faida kwa nyenzo za mapato pamoja na uwezo wa kushawishi wateja kuweka amana/akiba.

Uratibishaji upya wa Shirika

Uratibishaji upya wa shirika hili ni mojawapo ya msukumo wetu wa kimkakati tunapojitahidi kuzua mabadiliko kamili ya kimtazamo ambapo tunaondoka kwenye biashara yenye bidhaa/huduma moja hadi kwa benki inayotoa huduma za jumla inayokuza uwezo zaidi katika sehemu teule.

Kwa kuwa ni muhimu kufanya maamuzi yanayotokana na takwimu, mwanzoni mwa 2022, tuliagiza ukaguzi wa shirika hili na uchunguzi wa mitazamo ambao umetupa dira kamili ya ustawi kulingana na mtazamo kwa shirika letu. Kupitia utafiti huo, kwa mtazamo wa nje, tulitambua uwezo na udhaifu wa shirika na kubuni ramani ya kushughulikia masuala haya ili kukuza umaarufu wa shirika letu na kiwango cha uwekezaji.

Pia tulianza safari ya kuimarisha upya misingi yetu ya kimkakati ,dhamira ya shirika, maono na jukumu ili kuwianisha mambo haya na mkakati wetu. Safari hii iliyojumuisha mchango wa maoni ya wasimamizi wa ngazi ya juu na Bodi ya Wakurugenzi, ilikamilika katika misingi iliyoboreshwa ya kimkakati na itakuza biashara hii miaka ijayo.

Ukarabati upya wa Biashara

Kwa kuzingatia mwelekeo wa jumla na mazingira ya uendeshaji biashara yaliyopo, tulitathmini mkakati wetu wa mwaka 2022-2026 na tukaafiki kuwa ingawa mkakati huu ni thabiti, kuna haja ya kuurekebisha ili kuhakikisha kuwa masuala ibuka yamezingatiwa na misukumo yetu ya kimkakati inaboreshwa ili kuekeleza biashara hii kwenye ufanisi na kuyazidi matarajio yetu ya ukuaji. Ingawa huu ni mpango unaoongozwa na Bodi na wasimamizi wa ngazi ya juu, tumetafuta wataalamu wa ushauri wa mikakati ya biashara kwani ni muhimu pia kupata mtazamo wa nje. Mchakato huu utaendelea hadi mwisho wa mwaka 2023 sambamba na utekelezaji wa mkakati wa sasa, kwani matokeo yake yatakuza ule wa sasa wala si kuanzisha mkakati mpya.

Kupanua Ushirikishaji Wateja

Shirika hili limetambua Biashara Ndogo na za Kadri (SMEs) kama sehemu kuu ya wateja. Kwa hivyo, tulitafuta ushirikiano wa kimkakati ambao utatuwezesha kuibua thamani na kuimarisha uhusiano na SMEs ndani ya sekta za biashara na viwanda, ardhi na makazi, huduma ya afya, elimu, kilimo na biashara. Mpango huu ulianza kwa kutiwa saini kwa makubaliano ya ushirikiano na Chuo cha biashara cha Strathmore ili kusaidia SMEs kwa mafunzo, kujenga uwezo na suluhu mahsusi za ufadhili zinazolenga kuwezesha ukuaji wa biashara.

Pia tumeboresha toleo letu la SME kwa kuanzisha bidhaa/huduma zilizobuniwa mahsusi kwa vitengo maalum likiwemo 'pendekezo la Wakurugenzi wa Biashara' na mikopo ya biashara isiyokuwa na dhamana.

Taarifa Kutoka Kwa Afisa Mkuu Mtendaji kwa Kipindi cha Mwaka uliomalizika Desemba 31 2022 (Inaendelea)

Watu

Watu ndio rasilimali yetu kubwa kwa hivyo tunaamini kwa dhati kwamba tunao wahitimu kazini na wenye maarifa tele ya kutimiza malengo yetu ya kimkakati. Matokeo yetu ni dhihirisho tosha la uthabiti na upevu wa watu wetu katika utekelezaji wa mkakati wetu wa mageuzi ya biashara. Katika kipindi hicho, tulimakinikia kujenga uwezo wetu wa kibiashara ili kupenya zaidi katika soko letu. Pia tuliajiri kikosi kipya cha Maafisa wa Usimamizi huku Nkatha Gitonga akiteuliwa kwa wadhifa wa Mkurugenzi, Masoko, Masuala ya Biashara na Mawasiliano ya Shirika kwa Umma naye Catherine Olaka akiteuliwa kuwa Mkurugenzi, Nguvu-kazi ,Ajira na Usimamizi wa Vitengo.

Mafunzo ni suala kuu la kuzingatiwa na tulizindua Chuo cha mafunzo ya SME cha ndani ambao ni mpango wa mafunzo unaolenga kuwapa wafanyakazi ujuzi unaohitajika kwa madhumuni ya ushirikishaji bora zaidi na usimamizi mzuri wa uhusiano na wateja katika kitengo hiki.

Mtazamo wa siku za usoni

Kutokana na motisha ya matokeo bora ya mwaka 2022, tuko tayari kupiga hatua zaidi huku tukipaliza biashara hii hadi upeo mpya na kunufaika kwa fursa mpya za ukuaji. Hata hivyo, tunatambua hali mbaya ya uchumi wa dunia, taharuki inayosababishwa na vita vya Ukraine na Urusi na athari mbaya ya migogoro hiyo kwa uchumi wa Kenya na biashara yetu. Tunapoendelea kukarabati upya mkakati wa Shirika, tutazidi kuimarisha biashara yetu na kupanua njia za kupata mapato na ubora katika utekelezaji ili kutimiza si tu matarajio yetu, bali pia ahadi zetu kwa wadau wote.

Ninapohitimisha, ninachukua fursa hii kuwatambua watu wetu kwa jumla; wafanyakazi hasa kwa kujitolea na kujitahidi hadi kuwezesha Shirika hili kushinda mawimbi makali. Ninawapongeza kwa ujasiri wenu katika juhudi hizo. Pia, ningependa kuishukuru Bodi ya Wakurugenzi kwa uongozi bora katika ngazi zote. Mwisho, ninawashukuru ninyi wapendwa wenyehisa kwa imani mliyo nayo kwangu ninapoendesha dau hili. Ninawapa hakikisho kwamba, tutaendelea kufanya kazi kwa bidii ili kubadilisha taasisi hii kubwa na kuimarisha maisha ya wadau wetu wote.

Robert N. Kibaara

Mkurugenzi Mkuu Mtendaji wa HF Group

Date: 31st March 2023


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Pictorial of Activities

Ambassador. Diana Kiambutha and our Group CEO Robert Kibaara cut the ribbon during the launch of HFC Premium Banking Service "Ultimate Banking".

Our Group CEO Robert Kibaara makes the keynote presentation on financial access and capacity building for the SME sector during the 10th Annual SME Conference and Expo at Strathmore University.

Our Group's staff spearheaded the Kirichwa Kubwa River conservation initiative, aligned to SDG 15 - Life on Land, which is among 5 SDG's that the Group has adopted.

HFC Director, Retail & Business Banking Patrick Njunge makes a presentation during the Kenya Private Hospitals Association Director's Conference in Mombasa.

Customers enjoy Virtual Reality walk throughs of HFC properties during the Technology and Innovation Summit in December 2022.

HF Group CEO Robert Kibara, Britam Principal Officer Life Assurance Ambrose Dabani and team members from both companies launch HFC Elimu Education Insurance Plan.

Pictorial of Activities (Continued)

River Road Branch Business Manager - Elizabeth Kamweru poses with Customers during our engagement forum.

Our customer provides feedback during an engagement forum.

Our bank Managing Director Peter Mugeni (2nd L) and Kisumu Branch Business Manager Jared Talo ® engage customers during a forum in Kisumu.

Staff members led by our Group CEO celebrate achievement of positive performance following the Q3, 2022 financial results.

Staff members engage customers during a sales activation.

Corporate Governance

HF Group Plc is committed to good corporate governance practices to achieve effective and responsible leadership characterised by ethical values of responsibility, accountability, fairness and transparency. The 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 the meeting 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 Chairlady. 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 taken through a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

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 or potential conflicts of interests that they may have in relation to particular items of business. 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 Group Nomination and Governance committee is responsible for proposing to the Board qualified candidates that meet the criteria to serve as directors and 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 Group 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

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) Group Nomination and Governance Committee

The members of the Nomination and Governance committee are:

- Constance W. Gakonyo, CBS, MGH - Chairperson
- Dr. Peter K. Munga, EGH, CBS
- Gladys Ogallo - co-opted from HFC
- Charles Kimani Njuguna
- Robert N. Kibaara - Group Chief Executive Officer

Majority of the committee members are Non-Executive Directors with the chair being 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) Group Board Audit & Risk Committee (BARC)

The committee has been fully reconstituted with three Independent and Non-Executive members.

The members of the Group Board Audit & Risk Committee (BARC) are:

- Felister W. Kembi - Chairperson
- Dr. Anthony O. Omerikwa, MBS
- . Anne W. Kimari

The Chair of the Committee is an Independent and Non Executive Director, who is also a member of the Institute of Certified Public Accountants of Kenya (ICPSK).

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) Group Board Strategy Committee

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

- Dr. Benson I. Wairegi, EBS - Chairperson
- Dr. Peter K. Munga, EGH, CBS
- Robert N. Kibaara - Group Chief Executive Officer
- Gladys Ogallo - co-opted from HFC
- Dr. Dorcas Muthoni - co-opted from HFC
- Charles Kimani Njuguna
- Dr. Anthony O. Omerikwa

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.

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 2022

Board meetings					Total attendance
Date	7/3/2022	05/05/2022	3/8/2022	4/11/2022	
Prof Olive M. Mugenda	✓	✓	✓	✓	4
Dr. Peter K. Munga	✓	✓	☒	✓	3
Dr. Benson I. Wairegi	✓	✓	✓	✓	4
Constance W. Gakonyo	✓	✓	✓	✓	4
Felister W. Kembi	✓	✓	✓	✓	4
Charles Kimani Njuguna	✓	✓	✓	✓	4
Dr. Anthony O. Omerikwa	✓	✓	✓	☒	3
* Anne W. Kimari	☒	☒	✓	✓	2
Robert N. Kibaara	✓	✓	✓	✓	4

* Appointed 24th June 2022

Corporate Governance (Continued)

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 Liabilities committee (ALCO), Risk Management committee, Management Lending committee, IT and Change Council, Service Council and Innovation Council. 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 Chairperson and supported by the Company Secretary.

In February 2023, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairperson 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 consideration specific regulatory requirements and approved by the Board Audit Committee.

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.

Corporate Governance (Continued)

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 36 to the financial statements.

10. Governance, Legal and Compliance Audit

The Board is responsible for putting in place governance structures and systems that support the practice of good governance in the organization. In this regard, HF Group partnered with the firm of Azali CPS LLP to undertake a governance Audit covering Financial Year 2021. The Governance Auditors conducted an audit in accordance with ICS Governance Audit Standards and Guidelines which conform to global Standards. These standards require that the Consultants plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. Following the Audit, Azali CPS LLP rendered an unqualified opinion confirming that the company has put in place a satisfactory governance framework in compliance with the law.

Additionally, HF Group partnered with the firm of Walker Kontos Advocates to undertake a legal and compliance audit. The legal and compliance auditors were satisfied that the Board has put in place a satisfactory framework to ensure compliance with the laws, regulations and standards.

11. Major shareholders as at 31 December 2022

	Name of Shareholder	No. of shares held	Percentage 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	PERMANENT SECRETARY TREASURY	9,265,135	2.41
6	KERAI, RAMILA HARJI MAVJI & HARJI MAVJI	7,202,000	1.87
7	MUSANGI ANDREW MUKITE	6,400,000	1.66
8	MWANGI PETER KINGORI	6,094,289	1.58
9	BID MANAGEMENT CONSULTANCY LIMITED	5,298,500	1.38
10	KIBUWA ENTERPRISES LIMITED	5,012,575	1.30
11	OTHERS	160,358,963	41.69
	TOTAL	**384,614,168**	**100%**

Corporate Governance (Continued)

12. Distribution of shareholders as at 31 December 2022

Range	No. of Shareholders	No. of shares held	Percentage shareholding
1 - 500	8,270	1,542,869	0.4011
501 - 1,000	4,483	2,996,338	0.7791
1,001 - 5,000	11,334	23,439,320	6.0942
5,001 - 10,000	1,832	12,558,116	3.2651
10,001 - 50,000	1,375	26,818,778	6.9729
50,001 - 100,000	173	12,072,400	3.1388
100,001 - 500,000	111	22,641,687	5.8869
500,001 - 1,000,000	10	7,458,038	1.9391
1,000,001 - 999,999,999,999	29	275,086,622	71.5227
TOTAL	**27,617**	**384,614,168**	**100%**

13. Shareholding by Directors

	Name of Shareholder	No. of shares held	Percentage shareholding
1	Robert Ngugi Kibaara	291,500	0.0757
2	Benson Irungu Wairegi	78,512	0.0204
3	Peter Kahara Munga	0	0.0000
4	Constance Gakonyo	0	0.0000
5	Felister Wangari Kembi	0	0.0000
6	Antony Opare Omerikwa	0	0.0000
7	Charles Kimani Njuguna	0	0.0000
8	Olive Mwihaki Mugenda	0	0.0000
9	Anne Nganga Wairimu	0	0.0000

Our Sustainability Report

Embracing ESG as a Strategic Advantage

As our organization emerges from its turnaround phase and as we gear off for transformation, we are cognizant of the critical role that Environmental, Social and Governance (ESG) will play for organizations across the globe in general and HF Group in particular.

As such, our focus in 2023 will be to embed ESG into our DNA by anchoring it in our overall HF Group strategy and on our strategic foundations; i.e. our purpose, mission, vision and values.

Indeed, our Board, Senior Management Team and ESG Champions are undertaking continuous training in this regard as we align our ESG Agenda to that of the overall HF Group Strategy. Effective April 2023, our ESG Agenda is now owned at Board level under the auspices of the Board Growth, Strategy and Investment (GSI) Committee. To underline our commitment to this critical global agenda, at Executive Management level, this is driven by our recently appointed Director - Marketing, Corporate Affairs & Citizenship, Nkatha Gitonga – a passionate sustainability and shared value enthusiast - and championed by myself.

I am also immensely pleased to advise that our HF Foundation, one of the anchor avenues through which our ESG Agenda will be realized, will be revamped in the course of the year with a strategy aligned not only to that of our ESG Agenda, but also our strategic foundations and ultimately our overall strategy. We look forward to sharing this exciting and invigourating journey with all our stakeholders, in the days ahead.

This report outlines our efforts with regards to sustainability in 2022.

Robert N. Kibaara
Group Chief Executive Officer

Sustainability Report (Continued)

1. Our approach to sustainability

Our Group's approach to sustainability is premised on our commitment to being a responsible corporate citizen and running a sustainable business; critical factors in our continued growth as we create long-term value for all our stakeholders. Our focus is to reduce the negative environmental impact of our operations as well as enhance the social and economic well-being of the communities in which we operate. These will all be delivered under a robust governance structure.

We understand that the Environmental, Social and Governance (ESG) challenges facing our country require a holistic and integrated approach and effective 2023 we have embraced ESG as the model by which we will anchor our sustainability agenda.

In 2022, the United Nations' Sustainable Development Goals (SDGs) acted as our guide on our sustainability journey having identified five SDGs (in 2021) to prioritize across our Group, as highlighted below.

5 GENDER EQUALITY

We are working to ensure that each gender gets an equal opportunity starting with our board, where women directors take up half of the seats. Indeed, effective 2023, the number of female directors in Executive Management will increase from 1 to at least 3. Our employee compliment is currently the 50% mark for male to female.

11 SUSTAINABLE CITIES AND COMMUNITIES

As we exit our previous business model in the properties space where we used to undertake construction ourselves, we now offer advisory and project management services where we will influence our clients to consider green building technology, such as renewable energy.

8 DECENT WORK AND ECONOMIC GROWTH

Our Group's human resource strategy aims at delivering a compelling Employee Value Proposition (EVP) in an incremental and sustainable manner. Indeed, as a financial services provider, we also offer our staff members a variety of financial solutions to spur their personal and professional growth.

13 CLIMATE ACTION

We previously addressed climate risk action from a compliance perspective but effective 2023, will address this as part of our overall ESG agenda.

15 LIFE ON LAND

We support this SDG through our tree-planting activities as a corporate entity and through employee volunteer initiatives.
Our Group also cleans up and rehabilitates the environment around the city and city river beds as part of our corporate citizenship.

Sustainability Report (Continued)

1.1 Our sustainability focus and highlights

OUR 2022 HIGHLIGHTS

1 ENERGY EFFICIENCY

7 AFFORDABLE AND CLEAN ENERGY

25% reduction of power consumption owing to switching to LED lighting & solar installation, saving **KShs 4 Million.**

2 CLIMATE-RELATED RISK MANAGEMENT PLAN

13 CLIMATE ACTION

Our Board approved this in June 2022, with quarterly reports submitted to the Central Bank of Kenya (CBK).

3 WATER CONSUMPTION

6 CLEAN WATER AND SANITATION

10-15% monthly reduction owing to the implementation of reverse osmosis technology

4 COMMUNITY ENGAGEMENT

15 LIFE ON LAND

- Donated **KSh 2.15M** to Corporate Citizenship activities.
- Participated in World Clean Up Day.
- **70 employees** volunteered for the activities.

5 DIVERSITY & INCLUSION

10 REDUCED INEQUALITIES

- **14** customer service team members from our branches trained by our HR team member.
- Near **50/50** gender split for Board and Non-Executive management staff.

6 TAX & ECONOMIC CONTRIBUTION

8 DECENT WORK AND ECONOMIC GROWTH

- **KShs 0.753 Billion** to the government through tax payments.
- **Ksh. 1.33 Billion** paid as staff salaries.

Sustainability Report (Continued)

1.2 Global developments shaping our future

The rise & rise of mobile

THE TREND

According to the Global Findex Databaser, mobile money has become an essential enabler of financial inclusion in SSA—especially for women—as a driver of account ownership and usage through mobile payments, savings, borrowing. In 2021, **55%** of adults in SSA had a bank account, with **33%** having a mobile money account. This penetration of mobile money accounts is the largest share for any region globally and more than three times larger than the **10%** global average. Mobile money account owners are not just using their accounts for person-to-person payments, about **75%** make or recieve a payment that is not person to person.

OUR RESPONSE

Our award-winning HFC Whizz App as well as our WhatsApp banking channel offer a fast, simple and efficient solution for our customers.

Towards financial inclusion

THE TREND

The global banking industry is also shifting towards increased financial inclusion and improving access to banking services for the underserved. The term **"underserved"** typically refers to individuals or communities with limited access to resources and opportunities necessary for full and equal participation in society.

This can include limited access to healthcare, education, financial services, transportation, and other essential services. The underserved, especially in the developing world, need personal and business solutions for their financial security.

OUR RESPONSE

Our micro-credit loans ranging from KSh10,000 to KSh1 million are repayable within a year. It serves micro businesses employing 5 or fewer people and this comprises most Kenyan & African economies.

ESG & Green Financing

THE TREND

A major shift in global banking has been towards green financing – such as solar and wind power and eco-friendly investments, such as electric cars and bikes. Financing green and eco-friendly projects requires long-term commitment because the money invested can take multiple years to deliver return on investment.

OUR RESPONSE

From 2023, via our ESG agenda, we will work towards delivering Green Financing Solutions to our stakeholders through our banking, insurance and property subsidiaries.

Sustainability Report (Continued)

1.3 Engaging our stakeholders & understanding our material issues

HF Group's stakeholder engagement approach

WHO	HF Group's stakeholders are those individuals, groups and organisations that materially affect or could be affected by our business activities, products, services and performance. They provide us with the resources and capital we need to achieve our strategy and purpose. They influence the environment in which we operate our business and confer to us legitimacy and social license to operate. **The figure above illustrates our key stakeholders.**
WHAT	The issues on which we engage our stakeholders are multiple and diverse. We are committed to listening to and constructively engaging with all legitimate stakeholders.
WHY	Proactive engagement provides us with insights that help inform the definition of our material issues and shape our business strategy and operations. This enables us to manage and respond to stakeholder concerns, minimise reputational risk and ultimetly deliver shared value for all our stakeholders.
HOW	• Oversight of our engagement approach is provided by Executive Management who engage regularly with diverse stakeholders on relevant issues.They are responsible for the prioritization, resolving and reporting of material issues. • Emerging issues are discussed at the Executive Committee and Board level. The Board also approves material stakeholder issues and ensures that these are incorporated into annual reporting.

Sustainability Report (Continued)

1.4 Material issues for the Group & our stakeholders

Our material issues are increasingly informed by our critical impact on the economy, society, environment and the governance expectations and concerns of our stakeholders. They also depend on the risks and opportunities facing our business, as identified through our risk management process.

While our material issues evolve, the broad themes are relatively stable.

We undertake an in-depth assessment of our material issues every two years. This process includes engagement with our diverse stakeholders to help us identify relevant priorities. We launched an in-depth review in 2021. In 2022, we made minor updates to these issues based on priorities identified through regular engagement with internal and external stakeholders. We also aligned with enterprise risks and threats determined by internal stakeholders and the assessment of the priority ESG risks we identified.

Our Executive Management Committee and subsequently, our Group Board reviewed and approved these updates.

Table 2: HF Group's material issues and related enterprise risks

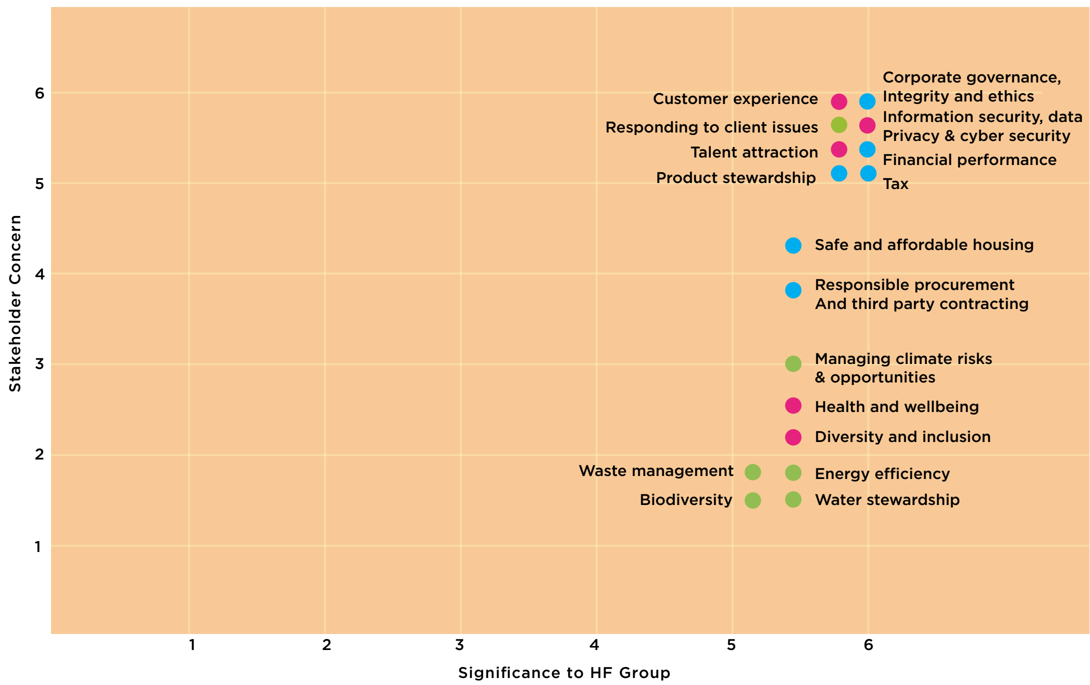
	HF GROUP MATERIAL ISSUES	RELATED ENTERPRISE RISKS
	Environmental	
1.	GHG emissions	· Resourcing for ESG risk management · Back-to-back extreme weather events · Regulatory compliance risks · Reputation risks · Operational risks related to increased costs of emissions reduction and mitigation · Legal and financial liabilities
2.	Biodiversity	· Disruption of ecosystem services · Legal and regulatory risks related to non-compliance with conservation and biodiversity regulations · Reputation risks due to negative impacts on biodiversity
3.	Energy efficiency and renewable energy	· Financial investments in renewable energy that may not be cost-effective or sustainable · Technological risks associated with the deployment and use of new renewable energy technologies · Supply chain risks related to sourcing renewable energy materials
	Social	
4.	Talent attraction, development and retention	· Shortage of skilled workers or the inability to attract top talent · Succession planning risks · Reputational risks if employees feel undervalued or under-compensated
5.	Diversity and inclusion	· Skills scarcity and the talent war concerning technology and data skills · Negative impact on company reputation · Legal and compliance risks related to discrimination or failure to promote diversity · Potential loss of market share due to lack of diversity
6.	Health and well-being	· Employee absenteeism · Lost productivity · Reputational risks related to the spread of disease · Compliance risks associated with health and safety regulations
	Governance	
7.	Economic performance	· Macroeconomic conditions · Market fluctuations · Interest rate risks
8.	Safe and affordable housing	· Compliance with health and safety regulations · Risks related to affordability · Regulatory risks associated with property development and construction
9.	Corporate governance, integrity & ethics	· Fraud, corruption, and unethical behaviour · Regulatory and legal risks related to non-compliance with corporate governance standards · Reputational risks
10.	Responsible procurement and third-party contracting	· Supplier compliance with ethical, social and environmental standards · Risks associated with supplier disruptions or quality issues · Regulatory and legal risks related to non-compliance with procurement regulations

Sustainability Report (Continued)

1.4 Material issues for the Group & our stakeholders (continued)

The matrix below reflects our understanding of the importance of these risks to our stakeholders and business. We group these material topics into **environmental, social** and **governance,** that drive the content, structure and scope of our reporting. They are grouped based on our strategy and our current ability to realize the initiative.

Stakeholder Concern Vs Significance to HF Group



Material Topics

Environment

1. Managing climate risks and opportunities
2. Energy efficiency
3. Biodiversity

Social

4. Talent attraction, development and retention
5. Diversity and inclusion
6. Health and well-being

Governance

7. Financial performance
8. Safe and affordable housing
9. Corporate governance, integrity and ethics
10. Responsible procurement and third-party contracting

Significant ESG impact

Environment

- Energy efficiencies & investments
- Community clean-ups/tree planting
- Climate risk management and disclosures
- Environment policy & green certifications

Social

- Staff performance
- Human rights and compliance
- Diversity and inclusion
- Health and Safety
- Training and development
- Empowering MSMEs
- Safe and affordable housing

Governance

- Financial Performance
- Product pricing and interest rates
- Development of new products e.g digital banking solutions
- Taxes

Sustainability Report (Continued)

2. ENVIRONMENTAL

2.1 Managing climate risks & opportunities

Managing climate risks and opportunities aligns with SDG 13: Climate Action and refers to the proactive approach of identifying and mitigating those risks associated with climate change while capitalising on the opportunities that arise from the transition to a low-carbon economy. This goal aims to take urgent action to combat climate change and its impact.

The indicators for SDG 13 include the amount of investment in sustainable projects, the percentage of the bank's portfolio aligned with the Paris Agreement goals and the extent to which we integrate climate risks and opportunities into our business strategy and risk management frameworks. Other indicators include financing renewable energy projects, the reduction of carbon emissions from the banks' operations and the number of clients receiving climate-related financial advice.

Our Approach

As a financial services provider, we are increasingly aware of the need to address climate risks and opportunities as they can significantly impact our sector's financial stability as well as our industry's long-term profitability.

Some risks associated with climate change include physical threats (such as extreme weather events, rise in sea-levels and droughts) and transition risks (such as regulatory changes, technological advancements and shifts in market demand).

At the same time, the transition to a low-carbon economy presents opportunities for us as a bank to finance sustainable investments and generate new revenue streams. In furtherance of the climate action agenda, some of our actions include reducing our water consumption, improving energy efficiency and investing in renewable energy sources for our own properties, as well as the real estate projects that we offer advisory or project management services for.

Performance in 2022

We have developed a climate-related risk management policy framework to manage and mitigate climate-related risks that could impact our operations, customers, and stakeholders. The guidance is hinged on the four pillars of governance, strategy, risk management and disclosure on the financial risks from climate change. We provide quarterly update reports in this regard to the Board Risk Committee as well as the Central Bank of Kenya.

In 2023, we will commence our journey to develop our green financing strategy.

Sustainability Report (Continued)

2.2 Energy efficiency

Energy efficiency aligns with SDG 7: Affordable and Clean Energy. Energy efficiency speaks to using less to perform the same task or achieve similar output and involves adopting technologies and practices that reduce energy consumption, minimise waste and enhance energy productivity. This goal aims to ensure access to affordable, reliable, sustainable and modern energy for all.

The indicators for SDG 7 include the percentage of energy consumed from renewable sources, the adoption rate of energy-efficient technologies and practices across various sectors and the number of households and businesses that have implemented energy-efficient measures. Other indicators include the amount of financing provided for renewable energy and energy-efficient projects, the reduction in carbon emissions resulting from energy efficiency measures, the adoption rate of energy-efficient building codes and standards and the level of investment in research and development for energy-efficient technologies.

The national electricity grid serves as our primary source of energy. It is primarily powered using hydroelectricity and fossil fuels. Because of the drought in 2022, Kenya used a lot more fossil fuels, which are imported, to power the grid. Consumers suffer as petrol and diesel prices shoot up due to currency fluctuations when the shilling significantly weakens against the dollar. The Russia–Ukraine war also pushed up global energy prices, adversely affecting us.

Energy efficiency is crucial for the any sector as it can help reduce costs and increase operational effectiveness. Banks can also be critical in financing energy-efficient projects and promoting the adoption of associated technologies across various industries.

Our clients servicing mortgages or developing properties also suffer from rising energy prices because they have to spend much more on power, leaving them with less disposable income. Developers' expenses rise as manufacturers pass on energy costs to them, eventually increasing property prices. The result is inflationary pressure throughout the economy, with our stakeholders feeling the knock-on effect of rising energy prices. As a result, it becomes essential for HF to look into ways of ensuring energy efficiency in our operations and adopting measures for the present and the future.

Our approach

We continue to evaluate our corporate performance, compliance with environmental regulations, mitigation of our ecological footprint, commencing our journey towards addressing climate change through appropriate strategies and energy-efficient procedures and sustainable developments.

To show our continued commitment to responsible energy consumption, we have made the following commitments:

i. Implementation of energy-saving fitting systems to reduce the negative environmental impact of inefficient energy consumption in our banking activities and operations;

ii. Automating our processes in furtherance of our paperless policy to foster a reduction in the amount of paper consumed and our contribution to landfills;

iii. Working towards giving preference to suppliers and contractors with environmentally friendly practices; and

iv. Support environmental initiatives, partly through our community programmes and maintenance of select river beds in Nairobi.

Sustainability Report (Continued)

Performance in 2022

In 2022, we took on various approaches, such as upgrading energy-efficient appliances, enhancing building insulation and weatherisation and optimising industrial processes.

Our energy target is to achieve at least a **25%** reduction in energy consumption from non-renewable energy sources, especially in our office operations – including the head office and branches – over the next five years. This target was achieved in 2022 due to our switch to lower energy consumption bulbs such as LED lighting, as well as solar installation which resulted in a saving of **KShs 4 Million.**

We hope to sustain this target by adopting renewable energy sources, acquiring intelligent office equipment like printers which reduce our power consumption and ensuring that our motor vehicle fleet is well maintained and consuming less petrol or diesel.

We are cognizant of the benefits of energy efficiency over and above cost savings. Reduction of energy consumption not only helps mitigate Green House Gas (GHG) emissions but also reduces our dependence on foreign sources strengthening the resilience of our energy systems.

We are committed to reducing our negative impact as we develop and implement our ESG Strategy.

Sustainability Report (Continued)

2.3 Biodiversity

Biodiversity aligns with SDG 15: Life on Land. Biodiversity refers to the variety of life on earth, including species diversity, ecosystems and genetic resources. It plays a critical role in maintaining the planet's ecological balance and providing essential services such as clean air and water, pollination and soil fertility. This goal aims to protect, restore and promote the sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and reverse land degradation and biodiversity loss. The indicators for SDG 15 include the extent of protected areas and their effectiveness in conserving biodiversity, the number of threatened species and their trend over time, the degree of habitat fragmentation and loss as well as the amount of financing provided for conservation and restoration projects. Other indicators include the adoption rate of sustainable land management practices, the extent of illegal wildlife trade and trafficking and the number of businesses implementing biodiversity-friendly undertakings.

Biodiversity is vital to the financial services as it can impact the stability and sustainability of businesses and industries that rely on natural resources.

Banks can play a crucial role in promoting the sustainable use of natural resources and financing projects that protect biodiversity and ecosystems.

Our approach

As we continue to offer project management and advisory services to our real estate clients via our property subsidiary, we will continue to influence the sustainability agenda into the projects we support. Further and increasingly into the future, our Bank will put structures in place to enable us effectively support and finance projects that embrace the pursuit and maintenance of biodiversity.

Performance in 2022

We participated in conservation efforts by planting 300 tree seedlings along the banks of the Kirichwa Kubwa River in Nairobi. A critical section passing through Nairobi's Upper Hill area, was identified for the exercise. The river plays a key drainage role, supporting the natural ecosystem, such as birds and plants. Kirichwa Kubwa suffers heavy pollution upstream as it snakes through some of Nairobi's low-income areas. The river banks are quickly eroding because they have no vegetative cover. The trees will be crucial in preventing soil erosion along the banks of the river.

Tree planting at Kirichwa Kubwa River

Our team members and their families volunteered to clean up a critical section of Kirichwa Kubwa River, passing through Nairobi's Upper Hill Area. The Nairobi County environmental department assessed the area, acknowledged that it was in a state of degradation and commended the Group's efforts in working towards a better environment.

Sustainability Report (Continued)

2.4 Emerging environmental topics

Water stewardship

Water stewardship aligns with SDG 6: Clean Water and Sanitation. Water stewardship refers to the responsible management and protection of water resources, including efficient use, pollution prevention and the conservation of its ecosystems. It involves implementing strategies and practices to ensure water sustainability and availability for present and future generations. This goal aims to ensure the availability and sustainable management of water and sanitation for all.

The indicators for SDG 6 include the proportion of the population with access to safe and affordable drinking water and sanitation as well as the extent of water pollution and its impact on human health and ecosystems. Other indicators include the adoption rate of water-efficient technologies and practices and the financing for water. Banks can be critical in promoting sustainable management practices and financing projects that protect or promote clean water and sanitation resources.

Performance in 2022

At HF Group, we use reverse osmosis technology for our office drinking water supply. This technology involves purifying water through a sieve-like membrane to remove impurities, delivering recyclability and cost-effectiveness. We contracted Fresh and Direct Company to provide water sourced from Nairobi Water – the supplier of piped water in the capital city. The reverse osmosis technology in the dispensers – installed at HF Group's branches - helps reduce the risk of contamination, storage needs and water costs by **10-15% every month.** It means staff and customers at our branches can access quality, affordable drinking water.

Waste management

Waste management aligns with SDG 12: Responsible Consumption and Production. Waste refers to any unusable and discarded materials or substances. Waste can be solid or liquid and categorised as household, industrial, or hazardous. Proper waste management is crucial to protect the environment and public health, conserve resources and reduce pollution. This goal aims to ensure sustainable consumption and production patterns, promoting resource and energy efficiency, sustainable infrastructure and providing access to essential services, green and decent jobs and a better quality of life for all.

The SDG 12 indicators relevant to waste management include the amount generated and recycled, the proportion of hazardous waste treated and disposed of safely, the adoption rate of waste reduction and recycling practices across various sectors and the amount of financing provided for waste management projects. Other indicators include the extent of marine litter and its impact on ecosystems and human health, the adoption rate of sustainable production and consumption patterns and the investment in research and development for sustainable waste management technologies.

Banks can be crucial in promoting sustainable waste management practices and financing projects that reduce its generation and improve treatment and disposal.

Performance in 2022

HF Group joined forces with the Kilimani Foundation and Taka Taka Solutions for World Clean Up Day in 2022. The partnership with these two organisations displayed our efforts in working with the community to promote our sustainability agenda. Kilimani Foundation brings together households and businesses which reside or work in Nairobi's Kilimani area. Taka Taka solutions is a recyclable waste service provider.

Sustainability Report (Continued)

3. SOCIAL

3.1 Talent attraction, development & retention

Talent attraction, development and retention align with SDG 8: Decent Work and Economic Growth, which promotes sustained, inclusive and sustainable economic growth, full and productive employment and decent work. The indicators for SDG 8 concerning talent attraction, development and retention include the unemployment rate, labour productivity and youth employment rate. A lower unemployment rate indicates more people have access to decent work opportunities, while high labour productivity measures the workforce's efficiency. The youth employment rate indicates policies aimed at promoting their employment.

Talent attraction, development and retention refer to attracting, nurturing, and retaining skilled individuals who can provide exceptional services, manage risks, and provide innovative solutions to stakeholders. All this is essential for building a sustainable and competitive business that can thrive in today's complex and dynamic environment.

Developing a skilled workforce that can contribute to economic development while promoting social and environmental responsibility is critical in the financial services sector.

Our Approach

At HF Group, we are anchored on the fact that our people are our most valuable asset. We focus on talent attraction, development and retention to create a positive workplace culture, support employee growth and drive the business forward.

Our Human Resources department takes a proactive approach, gathering staff views and suggestions through surveys to improve working conditions. We provide incentives to improve productivity, morale and to nurture talent. We recognise that different age groups are at various personal and professional development stages and, therefore, have different needs.

As our organization comes out of its turnaround phase and gears for take-off into the transformation phase, we will continue to improve on our Employee Value Proposition (EVP), to ensure we make strides towards being an employer brand of choice.

Our approach entails getting feedback from the various demographics who form our Team, so as to keep abreast of the work experiences and benefits which are most valuable to them. This feedback plays a big part in recruiting and retaining a workforce that delivers value to all our stakeholders.

Performance in 2022

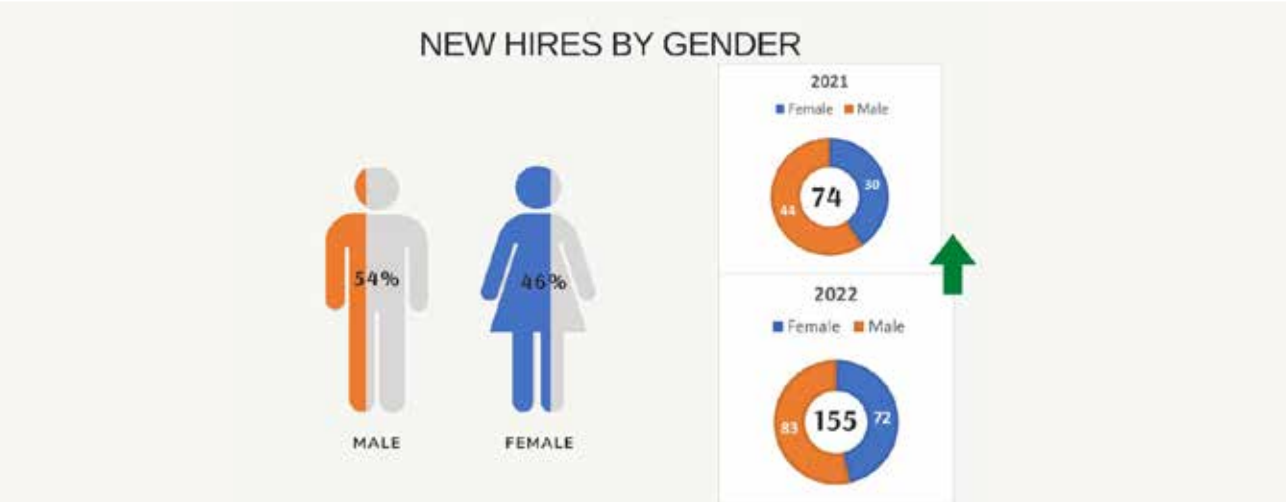
Hires & Retention

HF Group's talent attraction, development and retention performance in 2022 showed promising growth. The company hired **155 employees,** a significant increase from the **74 employees** (30 female and 44 male) in the previous year.

This was due to the improved performance of the business to enable more hires, as well as the additional talent required to fuel the demand for our Full Services Banking offering. Of the total hires, **72 were female**, and **83 were male,** indicating a more balanced and diverse recruitment process.

Sustainability Report (Continued)

New hires by gender 2022 vs 2021



We hired **97 new employees** between 30 and 50 years of age in 2022. **57 of our new employees** in the same period were under 30 years and 1 was above 50 years of age. The increase in young hires in the sales department played a significant role in the company's growth.

New hires by age 2022 vs 2021

On the other hand, **56 male** and **57 female employees** left the company in 2022. This employee attrition rate compares with **20 female** and **65 male employees** in 2021. Overall, we had an increase of **42 employees** in 2022 as **155 joined** while **113 left** – showing continued growth in headcount as the need for our services increases.

The attrition rate is attributed to the entry and aggressive hiring of ICT and software development talent by global technology companies that identified Kenya as a talent hub. The packages offerred by these multinational companies were so attractive that they rendered us uncompetitive as an employer. This activity not only negatively impacted us as HF Group, but multiple companies across the Country as well.

Sustainability Report (Continued)

3.1 Talent attraction, development & retention (Continued)

Benefits

Our contract workers receive benefits such as life insurance, health care, disability coverage, parental leave and stock ownership, except for the retirement provision, which is only available to permanent employees. Permanent employees also receive training opportunities, subsidised loans at a **7% rate, 28 leave days** (compared to the legal 21 days). Depending on their duties, some staff have membership in recreational clubs such as golf clubs.

Both male and female employees were eligible for parental leave in 2022, with **8 female employees** taking maternity leave.

Training & development

We believe in the professional advancement of our people by providing our teams with training and development opportunities. We have established a comprehensive training program that includes in-house and external training opportunities including **our very own SME Academy**.

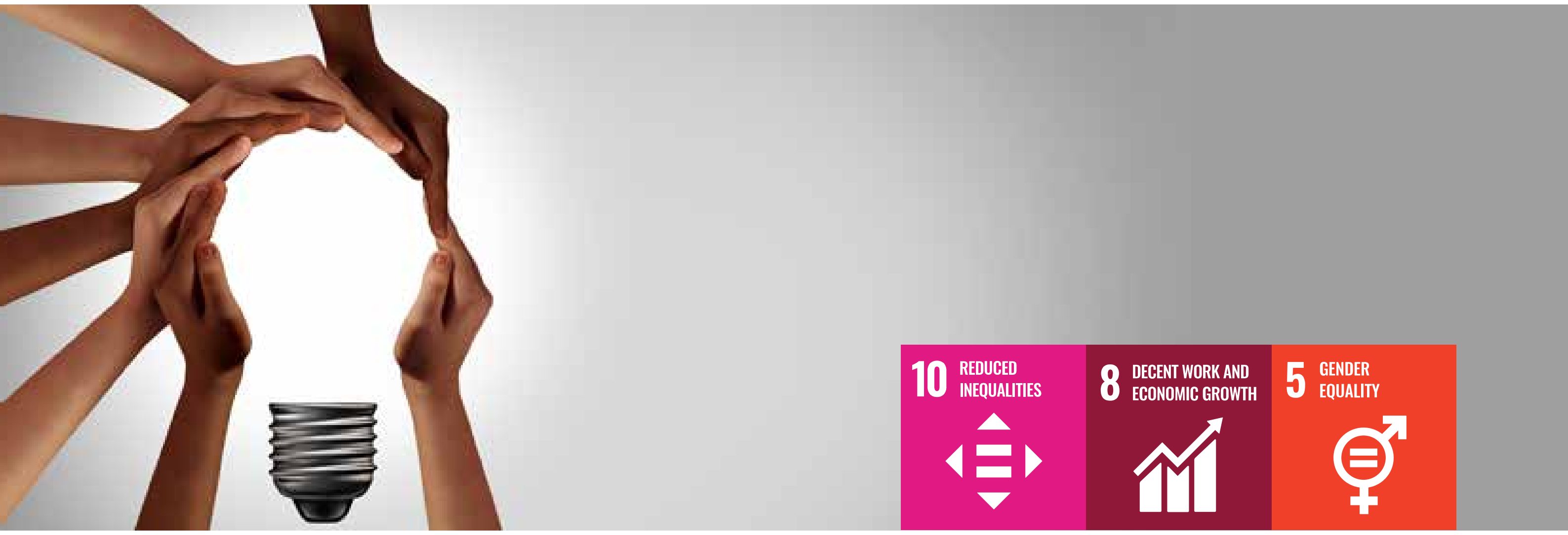
Reward & recognition

We also believe in the power of reward and recognition and undertake frequent award ceremonies for our top performing teams and team members.

On January 14th, 2022, the top-performing branch managers were acknowledged and rewarded for their outstanding performance.

Outstanding branch managers receiving awards and recognition

Sustainability Report (Continued)



3.2 Reduced Inequalities: Diversity & inclusion

Aligning with SDG 10: Reduced Inequalities is crucial for promoting workplace policies and practices that promote social, economic, and political inclusion. Diversity and inclusion are essential for creating a work environment that values and embraces differences. It means creating a culture where everyone feels respected, included, and empowered to bring their authentic selves to work.

To measure progress towards diversity and inclusion goals, indicators for SDG 10 include representation, pay equity and employee engagement. Employee representation measures the percentage of staff from different demographic groups. Equity estimates the pay gap between other demographic groups and employee engagement counts how engaged and committed employees are to the organisation.

In the financial services sector, diversity and inclusion are crucial for creating a workforce that reflects the diverse needs of customers and communities while promoting innovation, creativity and better decision-making.

Our Approach

HF Group is committed to promoting diversity and inclusivity in all business areas. This includes our customer initiatives, employee recruitment, development and supplier selection process. We believe that listening to and getting feedback from our diverse customers is essential as we tailor-make our products and improve our services. We obtain this feedback through various means, such as surveys, face-to-face meetings and ground visits to our clients.

We strive to promote a workplace culture that is inclusive and diverse, taking into account staff across different age groups and backgrounds.

We employ various recruitment methods to reach a broad pool of candidates, including those from marginalised communities, such as the less developed parts of Kenya or those persons living with disability. We also have staff who can communicate in sign language, ensuring that we work towards a more inclusive and effective communications model with our stakeholders.

With regards to our suppliers, we are working towards a more inclusive strategy that promotes the gender and youth agenda.

As we journey on our more inclusive approach, we will move towards a more robust workplace culture, fair and equal engagement of suppliers and tailor-made solutions that deliver value for our stakeholders.

Our Performance in 2022

In 2022, in our bid to promote the diversity and inclusion agenda, we hired **3 employees from marginalised communities from the arid, nothern-frontier counties.** We will continue to consider employees from these communities to join our team in promotion of this SDG.

Further, we marked the **International Day for Persons with Disability (PWD)** on December 3, 2022, by providing sign language training to **14 customer service team members from our branches. Indeed, these team members were trained by one of our HR Team members**. This has enabled us to serve clients living with hearing disabilities and sign language helps our team to engage them better.

The sign language training will extend to other departments, direct sales teams and all branches, as they have direct customer interactions. Regular training with refresher courses will help the internal staff possess this vital communication form.

Sustainability Report (Continued)

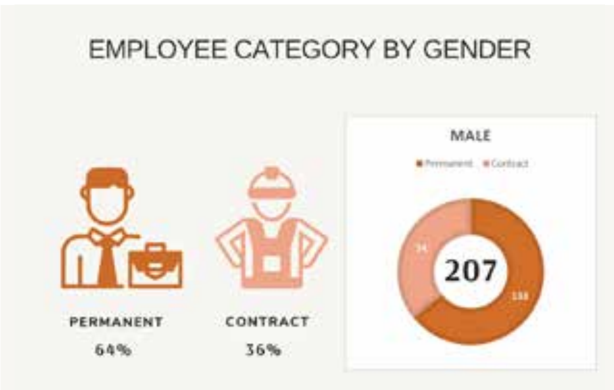
Customer service team members receive training on sign language.

Gender composition

In 2022, HF Group had **499 employees, 244 female and 255 male demonstrating a near equal gender split.**

Permanent / contract workers: Female

Of the **244 female employees, 163 were permanent workers, and 81 were contract workers.**

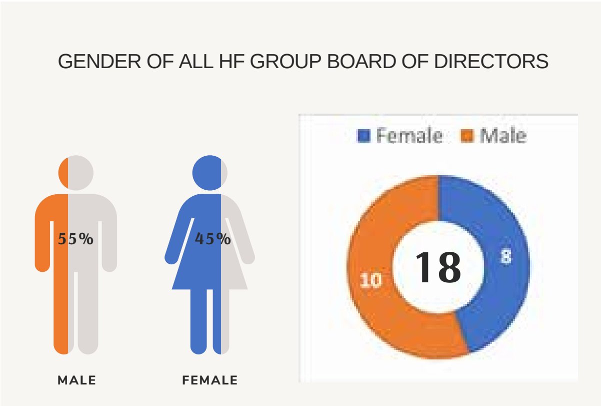


Permanent / contract workers: Male

Regarding the male employees, **133 were permanent workers and 74 were contract workers.**

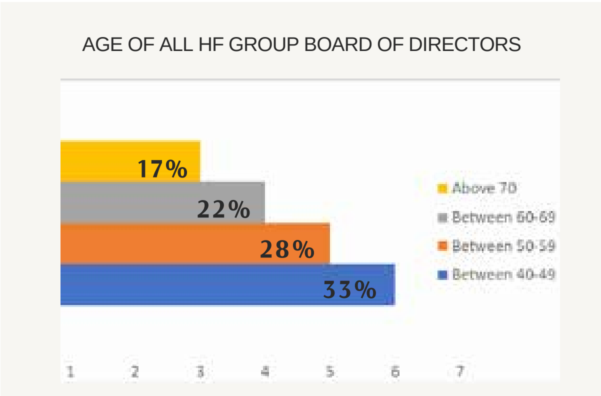
The basic salary and remuneration of female and male employees are equal, with a yearly review conducted across the board. There were no reported cases of discrimination in 2022.

Sustainability Report (Continued)



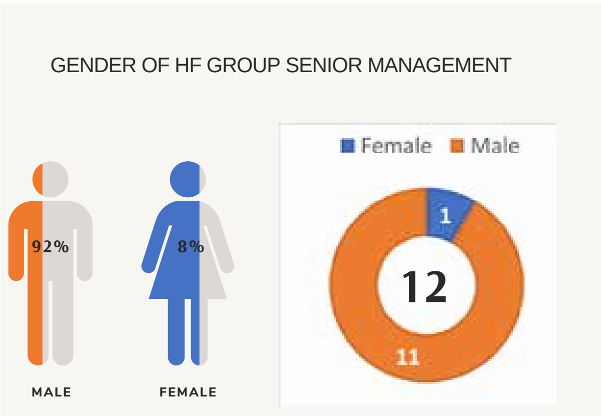
HF Group Board of Directors by gender

In 2022, **8 female and 10 male directors** formed the HF Group directors in totality, **derived from the main HF Group Board, HFC and HFBI.**
As such, we have almost 50% gender parity in our top governance position.



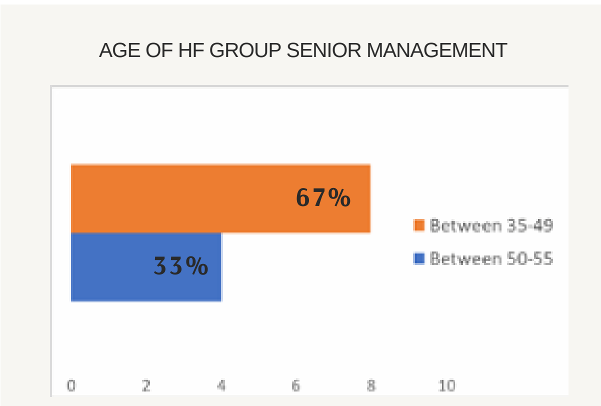
HF Group Board of Directors by age

In 2022, **61%** of our directors who form the HF Group directors in totality, **derived from the main HF Group Board, HFC and HFBI,** were between the ages **of 40 and 59.**



Senior management team by gender

In 2022, **1 female and 11 male employees** were part of the Senior Management Team. **At least 2 more female employees** will join the Senior Management Team in 2023, helping us forge ahead towards gender equality in senior management and governance positions.



Senior management team by age

In 2022, our **Senior Management Team** members were all aged above **35 years**. **8**, **all male**, aged between **35** and **49 years** and **we have 3 male and 1 female above the age of 50.**

Sustainability Report (Continued)

3.3 Health & well-being

SDG 3 aligns with Good Health and Well-being. It refers to one being physically, mentally and socially healthy, living a fulfilling life and contributing positively to society. It seeks to ensure healthy lives and well-being for all ages .

Indicators for SDG 3 include employee health, mental health and workplace culture.

Health and well-being are essential tenets for the finanical services sector to create a productive and engaged workforce, capable of delivering on, the innovative solutions the sector needs to deliver on in order to drive the economy.

Our Approach

As a responsible employer, we are guided by the law under the **Occupational Health and Safety (OHS) and Occupational Health and Safety Administration (OSHA) Act.**

Under our Group's **Employee Value Proposition (EVP)**, we have programs to provide insights and education on good health and wellness. Via internal and external engagements, we offer programmes spanning counselling, nutrition, physical and mental health as well as personal financial planning. We also offer loans and mortgages to our staff but ensure that they only borrow within a limit they can comfortably repay.

Performance in 2022

In 2021, we established an Occupational Health and Safety (OHS) management policy aligned to the Occupational Health and Safety Administration (OSHA) Act. The Occupational Safety and Health Act, No. 15 of 2007 and revised in 2010, provides for workers' safety, health and welfare and all persons lawfully present at the workplace.

As such, we are responsible for ensuring our employees' safety, health and welfare. Our OSHA committee has designated first aiders and fire marshals accountable for executing the approach, based on established risk management practices.

In February 2023, the OSHA committee, first aiders, and fire marshals will undergo training from certified organisations. The training will comprise an examination, and those who pass will receive certifications. Upon completion of the training, the OSHA committee will hold periodic meetings, while the first aiders and marshals will receive annual refresher training.

We are committed to adhering to the OSHA guidelines to guarantee OHS compliance.

Sustainability Report (Continued)

4. GOVERNANCE

4.1 Financial Performance

Economic performance aligns with SDG 8, which promotes sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work.

Indicators for SDG 8 include the GDP growth rate, unemployment rate, labour productivity, and youth employment rate.

Our Approach & Performance:

This annual report and financial statements contain all the information pertaining to our financial performance in 2022 and our contribution to the economy via staff salaries and taxes, over and above getting a view of our assets and liabilities.

Read on to get a glimpse of how our turnaround strategy was realized, moving us out of loss into profitability and how we are now gearing for take off as part of our turnaround strategy.

HF Group FY 2022 Perfomance Highlights

	FY 2021	FY 2022	Growth
Profit/Loss After Tax	-Ksh.683M	Ksh. 266M	939%
Net Interest Income	Ksh. 1.83B	Ksh. 2.16B	18%
Non Funded Income	Ksh. 538M	Ksh. 880M	63%
Interest on Government Securities	Ksh. 664M	Ksh. 938M	41%
Total Operating Income	Ksh. 2.37B	Ksh. 3.04B	28%
Interest Expense	Ksh. 2.10B	Ksh. 2.11B	1%
Operating Expenses	Ksh. 3.32B	Ksh. 2.84B	-14%

Regulated by Central Bank of Kenya

Our HFC Managing Director - Peter Mugeni, HF Group CEO - Robert Kibaara, HF Bancassurance Intermediary (HFBI) Principal Officer - Maureen Stephyne & our Group CFO - Sammy Kamanthi celebrate the release of the 2022 Financial Results, demonstrating the successful turnaround strategy.

Sustainability Report (Continued)

4.2 SDG 11: Sustainable cities & communities

Safe and affordable housing aligns with SDG 11, sustainable cities and communities, which aims to make cities and human settlements inclusive, safe, resilient, and sustainable. Safe and affordable housing means having access to decent housing that is secure, affordable, and meets basic standards of sanitation, privacy and structural integrity. The indicators for SDG 11 related to safe and affordable housing include the percentage of the population living in adequate housing, the rate of households with access to essential services and the proportion of people living in slums or informal settlements.

The financial services sector plays a critical role in promoting safe and affordable housing. Banks provide financing and support for affordable housing projects, create innovative financial products and services that cater to the needs of low-income families and partner with governments and civil society organizations to address the affordability crisis.

Our approach

HF Group has taken significant steps to address the country's safe and affordable housing challenge and opportunity. We recognizes the urgent need for decent housing, especially for low-income earners who struggle to access suitable accommodation. One way HF Group approaches this issue is through partnerships with developers and other stakeholders in the housing sector. By collaborating with builders, the company can support the development of affordable housing units and ensure they meet the required safety standards.

Additionally, HF Group provides financing options for these developments, making purchasing or renting affordable homes easier.

Another approach that HF Group is taking is providing education and resources on property financing. Many people experience challenges in understanding the financial aspects of buying or renting a home, which can be a significant barrier to safe and affordable housing. We are working to provide information and resources to help people understand the property finance process and make informed decisions.

Furthermore, the company is investing in technology to improve access to property financing. Our award-winning mobile banking platform **HFC Whizz** allows customers to access various services, including saving for their homes via our **HFC Nyumba Yangu Account** that additionally offers a **15% off tax incentive**, all from the convenience of their mobile device. our Online property market place accessible via **www.hfmarketplace.hfgroup.co.ke** allows potential buyers to view available properties on the portal. This innovation has made it easier for people to access information and financing options, thereby improving access to safe and affordable housing. The properties listed here include our projects in affordable housing as well as those that have distressed buyers looking to offload their assets to repay their loans.

By partnering with stakeholders in the sector, providing education and resources on related financing and investing in technology, the company is making significant strides towards providing safe and affordable housing for all Kenyans.

Our performance in 2022

In 2022, we launched **Fahari Residences,** Kenya's first cul-de-sac development, in a prime location with easy access to essential amenities such as schools, shopping centres, and major hospitals. At the estate, you can choose one of six modern home designs. Moreover, in August 2022, we also launched **Clay City** in Kasarani, Nairobi, further expanding the number of safe and affordable houses with different pricing options and financing from HFC.

Sustainability Report (Continued)

New property and financing advertisements for our safe and affordable housing solutions: Fahari Residences and Clay City.

4.3 SDG 16: Peace, justice and strong institutions

Corporate governance, integrity and ethics alignt with SDG 16. They refer to the principles and values that guide how companies conduct their business, make decisions and interact with stakeholders. It ensures transparency, accountability, fairness and responsible behaviour in the organization's operations.

Please See Pages 40 - 45 for our Corporate Governance Statement that precedes this Sustainability Report

Sustainability Report (Continued)

4.4 Responsible procurement & third-party contracting

Responsible procurement and third-party contracting align with SDG 12, which aims to ensure sustainable consumption and production patterns. Responsible procurement and third-party contracting refer to sourcing goods and services that align with sustainability principles, human rights and ethical standards. It involves selecting suppliers that adhere to responsible business practices, minimizing negative environmental and social impacts and ensuring fair treatment of workers throughout the supply chain. The indicators for SDG 12 related to responsible procurement and third-party contracting include the percentage of companies that have implemented sustainable procurement policies, the number of suppliers assessed for sustainability criteria and the proportion of supply chain emissions and waste reduction.

Responsible procurement and third-party contracting are essential for managing risks related to supply chain operations, ensuring compliance with legal and regulatory requirements and promoting sustainable business practices for the financial services sector.

The financial services sector can take several actions to promote responsible procurement and third-party contracting, including developing procurement policies and practices that promote sustainability and ethical standards. The industry can also assess suppliers' compliance with sustainability criteria, provide training and awareness programs for employees and suppliers on responsible procurement practices, and engage with stakeholders to promote transparency and accountability in supply chain operations.

Our approach

At HF Group, we understand the importance of responsible procurement and third-party contracting. We recognize that our suppliers and contractors play a critical role in our success and that our joint practices can significantly impact our reputation and sustainability.

We are also cognizant of the fact that a sustainable and responsible supply chain is essential for our long-term success. As we embark on our ESG journey, we will be working to revamp our procurement policy to clearly outline the standards our suppliers and contractors should meet, in order to align with our business ethos. This will include encouraging our suppliers and contractors to adopt sustainable practices and reduce their environmental footprint.

We also recognize that third-party contracting can risk our operations, particularly concerning data protection and cyber security. We will continue to improve on the measures we have put in place to mitigate these risks, including conducting due diligence on third-party contractors and ensuring that they have appropriate data protection and cyber security measures.

Furthermore, we recognize the importance of engaging with suppliers and contractors on diversity, equity and inclusion issues. We will continue to encourage suppliers and contractors to adopt policies and practices promoting diversity and inclusion.

We remain committed to responsible procurement and third-party contracting.

Sustainability Report (Continued)

Performance in 2022

Our policies on the engagement of third-party contract staff adhere to the guidelines set forth by the Kenya Union of Domestic, Hotels, Educational Institutions, Hospitals and Allied Workers **(KUDHEIHA)** Collective Bargaining Agreement (CBA) for the **4 employees** covered under it. The remaining employees have their working conditions and terms of employment determined by the company's human resources manual, which follows the **employment Act and OSHA guidelines.** These policies include a standard working week of 40 hours in the head office and 44 hours in branch networks, with no work on Sundays and public holidays. These practices help minimize the negative impact on our stakeholders and support sustainable business operations.

4.5 Additional disclosures

Tax

Tax is a critical component of our contribution to the economic growth of the country, as well as our good corporate citizenship. As HF Group, we ensure our tax practices align with local and international laws and regulations. We understand the importance of paying taxes and have established policies and procedures to ensure our tax practices are responsible and transparent.

Our dedicated team manages our tax affairs and reviews our tax practices to ensure we act responsibly and transparently. While the Group did not distribute dividends in the reporting year, we made a positive contribution of **KShs 0.753 Billion** to the government through tax payments.

Responding to client issues

We prioritize customer satisfaction and understand that it is a critical pillar of our business as we strive to provide a positive experience for every client interaction. We have established clear procedures for responding to client issues, including a dedicated 24/7 customer service team to handle inquiries and resolve concerns.

We train our team to respond professionally, empathetically, and promptly. We also have a complaints management system to log, track and systematically resolve complaints.

We believe in open and transparent communication with our clients and regularly seek feedback on our services and performance via surveys and in-person engagements. In addition, we have implemented various communication channels for clients to contact us, including walking into our branches, phone, email, social media and online chat. We aim to enable clients to contact us and resolve their issues at their convenience.

We continuously review our response processes to ensure that they are practical and efficient and we are committed to making improvements as we pursue customer experience excellence.

Customer experience exellence

One of our core value is Customer Centricity and as such our customers are at the heart of everything we do, as we strive to deliver a seamless and personalized experience that meets their needs and exceeds their expectations. Our customer-centric approach cuts across all aspects of our business, from product development to customer service. Our goal is to understand the needs and wants of our customers and deliver a tailor-made experience that meets their unique and diverse needs.

In 2022, HF conducted customer engagement and feedback meetings across various regions, including Eldoret, at our head office and branches. These face-to-face interactions helped address issues highlighted by our customers and staff via previous engagements.

We continue to explore new technologies and utilize data-driven insights to deliver more personalized and efficient solutions. In December 2022, HF participated in the **Jamhuri Day Tech and Innovation Forum.** We provided our customers with a digital experience, which was well received. The event focused on account opening and home ownership solutions. Indeed, visitors to our booth were impressed with the brand's digital outlook.


Customers engaging in a digital experience for home and property ownership

Sustainability Report (Continued)

Product stewardship

We understand the critical role that our products and services play in shaping the future of our communities and our country. Last year, our Housing Finance Bancassurance Intermediary, HFBI, partnered with Britam Holdings Plc to introduce a new education policy named **Elimu**. This product allows parents to ensure their desired education quality for their children is realized with our convenient and flexible terms, attractive returns and guaranteed payouts.

HF Group CEO - Robert Kibaara and Britam Principal Officer - Life Assurance - Ambrose Dabani launch Elimu Education Insurance Plan

On July 27th 2022, HF unveiled its premium banking solution, **Ultimate Banking**, which offers a customized and personal banking experience, complete with a range of tailored solutions and services. The bank specifically targeted affluent customers in Kenya and the diaspora with this enhanced offering.

HF Group CEO - Robert Kibaara, HFC Managing Director - Peter Mugeni, Ambassador Diana Kiambutha and Muturi Mutuota during the launch of HFC's Ultimate Banking solution.

In 2022, HF welcomed **9,000 new customers** who took advantage of our latest products and services. About **30,000 customers** utilized our digital banking services, with an average of six transactions per month and a total monthly transaction value of **KShs 200,000**, demonstrating the growing demand for our digital offerings and our ability to meet the evolving needs of our customers.

We are committed to responsible product stewardship, an essential contribution to the long-term success of all our stakeholders.

Information security, data privacy & cybersecurity

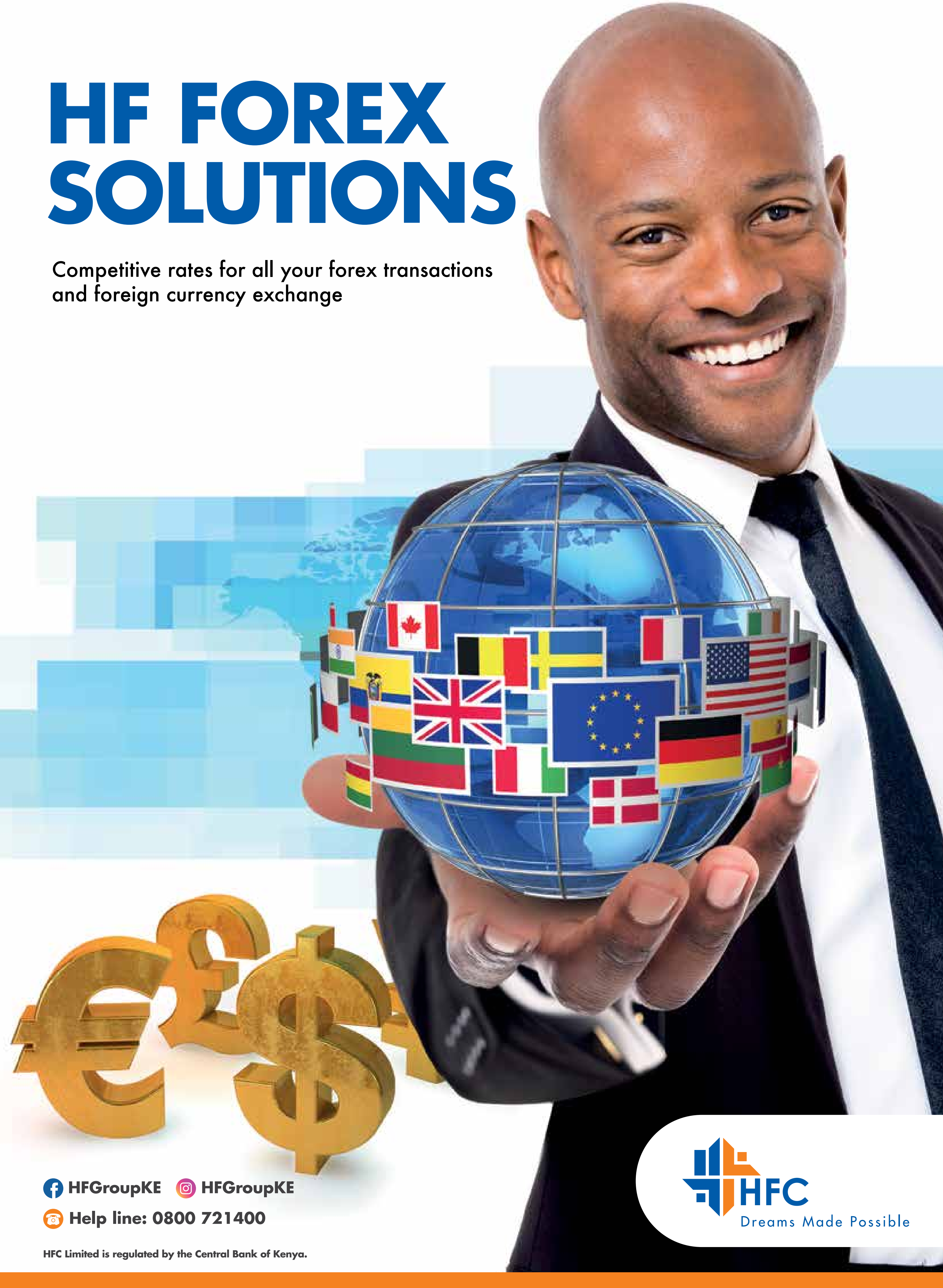
In the digital age, protecting personal and financial data has become a top priority, especially for us in the financial services sector. Ensuring the security of our client's information is a fundamental part of our business and is essential to maintaining trust and confidence in our services.

We have implemented a robust information security framework that aligns with industry standards and best practices, including technical and organizational measures to protect our data's confidentiality, integrity and availability. Our approach to information security covers all areas of our operations, including our IT systems, networks and our physical premises.

Our commitment to data protection and upholding the privacy rights of our clients remains steadfast as we comply with all relevant privacy laws and regulations. We have implemented policies and procedures to ensure that personal data is collected, stored and processed securely and responsibly. Cybersecurity is also a critical aspect of our information security framework, and we are committed to protecting our systems and clients' data from cyber threats. As part of our cybersecurity efforts, we regularly conduct vulnerability assessments and penetration testing and train employees on safe online behaviour. In addition, we will establish a plan of action to handle any potential cybersecurity incidents. By implementing our robust security measures and adhering to best practices, we can maintain our stakeholders trust and confidence as we uphold data protection best practise.

Task Force For Climate-Related Financial Disclosures (TCFD)

We are committed to delivering on our commitments with regards to TCFD and our report to be submitted to the Nairobi Securities Exchange (NSE) and the Central Bank of Kenya (CBK) and can be accessed from our website effective 1st July 2023.


HF FOREX SOLUTIONS
Competitive rates for all your forex transactions and foreign currency exchange
HFGroupKE
HFGroupKE
Help line: 0800 721400
HFC Limited is regulated by the Central Bank of Kenya.
HFC
Dreams Made Possible

Report of the Directors

Principal Activities

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 Limited, HF Bancassurance Intermediary Agency, HF Development and Investment Limited (HFDI), First Permanent East Africa Limited (FPEAL) 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 Bancassurance Intermediary (formerly HF Insurance Agency Limited) – Bancassurance solutions
- HF Foundation Limited - The Group’s social investment arm

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.

Business review

During the year, the Group reported a profit after tax of Shs 265,570,000 (2021: Loss of Shs (667,746,000). Interest income earned during the year was Shs 4,364,293,000 representing a 8.9% Increase from Shs 3,975,185,000 earned in 2021, while the interest expense incurred during the year grew by 0.7% to Shs 2,110,369,000 from Shs 2,095,238,000 in 2021. The net loan book at the end of year was Shs 36,299,175,000 compared to Shs 34,692,625,000 in 2021. The non-performing loans (NPL) reduced by Shs 185,826,000 from Shs 8,672,760,000 in 2021 to Shs 8,486,934,000 in 2022. Customer deposits grew by Shs 2,082,027,000 to Shs 39,796,941,000 as at the end of the year.

Financial results and recommended dividend

The Group Profit for the year of Shs 265,570,000 (2021: Loss of Shs 667,746,000). No interim dividend was paid during the year (2021: Nil). The directors do not recommend payment of a final dividend (2022: Nil).

Principal risks and uncertainties

The Group principal risk and uncertainties together with process that are in place to monitor and mitigate those risks where applicable can be found under Note 4 to the financial statements.

Report of the Directors (Continued)

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:

a) We conduct business in a manner that protects our employees, the communities where we operate and the environment; and

b) 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.

Statement as to disclosure to the group's auditor

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

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

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

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 721 of the Companies Act, 2015.

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

Events after the reporting year

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

By order of the Board

Regina Anyika

Company Secretary

30th March 2023

Report of the Directors (Continued)

Information subject to audit

The directors' remuneration report has been prepared in compliance with the Group's remuneration policy, Capital Markets Authority Code of Corporate Governance Guidelines on Directors' remuneration and the Companies Act, 2015. The remuneration is reviewed regularly to ensure that it is within the existing market rates. This is done to ensure that individual directors are effective and continue to pursue the business strategy. Performance of each director is evaluated annually and communicated appropriately. All directors 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.

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

Directors' remuneration paid during the year was as per the table below.

Non- executive directors

	Year ended 31 December 2022			Year ended 31 December 2021		
	Fees	Sitting allowance	Total	Fees	Sitting allowance	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Dr. Benson Wairegi, EBS	488	2,878	3,366	488	1,778	2,266
Dr. Peter K Munga	488	842	1,330	488	1,323	1,811
Anthony Omerikwa **	464	1,264	1,728	-	-	-
Ann Kimari **	365	562	927	-	-	-
Charles Kimani Njuguna **	470	1,053	1,523	-	-	-
Constance Gakonyo CBS	487	997	1,484	488	1,656	2,144
Adan D. Mohamed *	-	-	-	266	1,098	1,364
Dr. Kaushik Manek EBS *	-	-	-	4,875	-	4,875
Gladys Karuri *	-	-	-	200	434	634
Felister Kembi	487	1,474	1,961	488	1,360	1,848
Prof. Olive Mugenda	4,875	-	4,875	244	758	1,002
	8,124	9,070	17,194	7,537	8,407	15,944

*Retired in 2021
**Appointed in 2022

Executive director

Robert Kibaara	2022 Shs'000	2021 Shs'000
Salary	59,843	40,843
Non-cash benefits	-	-
Gratuity	9,950	9,450
	69,793	50,293

Report of the Directors (Continued)

Information not subject to audit

The basic pay and gratuity of the executive director is as per the 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 is meant to ensure that the package is competitive.

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 Group'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 and sitting allowances	Policy framework
To attract and retain non-executive directors of the highest calibre and having the necessary skills and expertise to exercise independent judgement on issues that promote the Group's objectives.	The director's 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.
	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 industry. Time commitment and responsibility are also taken into account when reviewing fees.
	Travel and expenses for non-executive Directors for Group related assignments are all met by the Group.

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 IFRS.

By order of the Board

Regina Anyika

Company Secretary

30th March 2023

Report of the Directors (Continued)

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

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

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

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

The directors have disclosed in Note 2(a) of the financial statements matters relating to the use of going concern basis of preparation.

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

Approved by the Board of directors on 30th March 2023 and signed on its behalf by:

Prof.Olive Mugenda

Chairman

Robert Kibaara

Director

Benson Wairegi

Director

Regina Anyika

Company Secretary

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

Report on the financial statements

Our opinion

We have audited the accompanying financial statements of HF Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 13 to 117, which comprise the consolidated statement of financial position at 31 December 2022 and the consolidated statement of profit or loss and statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2022, and the Company statement of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2022 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances to customers requires management's judgment in the assumptions that are applied in the models used to calculate ECL.	We evaluated the appropriateness of the methodology applied by management in the estimation of expected credit losses for consistency with IFRS 9. We evaluated the appropriateness of segmentation of the loan portfolio. We validated management's basis for staging of loans and advances.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
The policies for estimating ECL are explained in notes 2 (j) and 4 (a) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments; • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This determines whether a 12-month or lifetime PD is used; • the relevance of the forward-looking information assumption used in the models; and • the reasonableness of the timing and amount of the present value of expected future cash flows on loans and advances to customers, which is the key driver for LGD for stage 3 loans. Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	We tested, on a sample basis, the accuracy of the computation of PDs, and the completeness and accuracy of the underlying historical data applied in the computation. We reviewed the suitability of forward-looking data used in estimating PDs together with the accuracy of its application in the PD computation process. For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios to reflect the impact of COVID-19. We tested, on a sample basis the computation of EAD for both on and off-balance sheet items. We tested, on a sample basis, the reasonableness of the present values of expected future cashflows of loans and advances used in the estimation of LGD. We recomputed, on a sample basis, expected credit losses for loans and advances to customers. We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate. We recomputed, on a sample basis, expected credit losses for loans and advances to customers. We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

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

Other information

The other information comprises Group and Company information, Report of Directors, Directors' renumeration report, Statement of directors' responsibilities which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

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

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

When we read the rest of the other information in the Annual report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HF GROUP PLC (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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's 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.

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the Directors' report on pages 72 to 73 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 74 to 75 has been properly prepared in accordance with the Companies Act, 2015.

CPA Kang'e Saiti, Practicing certificate P/1652

Signing partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP

Certified Public Accountants

Nairobi

31st March 2023

Consolidated statement of profit or loss and other comprehensive income

	Note	2022 Shs'000	2021 Restated Shs'000
Interest income	6	4,364,293	3,975,185
Interest expense	6	(2,110,369)	(2,095,238)
Net interest income		2,253,924	1,879,947
Allowance for expected losses	22	(194,130)	(280,645)
Net interest income after credit impairment losses		2,059,794	1,599,302
Fee and commission income	7	506,894	215,935
Trading income	8	154,859	48,350
Other income	9	293,691	221,748
Net operating income		3,015,238	2,085,335
Employee benefits	11	(1,330,440)	(1,182,536)
Depreciation and amortisation	12	(363,976)	(445,423)
Other operating expenses	10	(1,123,163)	(1,306,844)
Share of loss in joint ventures	21	(6,265)	(15,740)
Investment property fair valuation loss	29	(1,000)	(100,000)
Profit/(loss) before income tax		190,394	(965,208)
Income tax credit	13	75,176	297,462
Profit / (loss) for the year		265,570	(667,746)
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Fair value loss on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)	31	(77,337)	(299)
Deferred income tax		23,201	90
		(54,136)	(209)
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	404,292	-
Deferred income tax		(121,288)	-
		283,004	-
Total comprehensive profit/(loss) loss for the year		494,438	(667,955)
Annualised basic and diluted earnings per share – Shs	14	0.69	(1.78)

Company statement of profit or loss and other comprehensive income

	Note	2022 Shs'000	2021 Shs'000
Other income	9	204,120	131,752
Employee benefits	11	(78,738)	(56,019)
Depreciation and amortisation	12	(210)	(134)
Other operating expenses	10	(75,230)	(109,669)
Profit/ (loss) before income tax		49,942	(34,070)
Income tax credit	13	63	12,573
Profit/ (loss) for the year		50,005	(21,497)
Other comprehensive income		-	-
Total comprehensive income/ (loss) for the year		50,005	(21,497)

Consolidated statement of financial position

	Note	2022 Shs'000	Restated-2021 Shs'000	Restated-2020 Shs'000
Assets				
Cash and balances with banks	16	2,184,939	2,708,074	2,284,217
Placements with other banks	17	12,346	33,311	202,435
Investment in government securities	18	8,540,137	6,550,168	7,105,617
Loans and advances to banks	22	-	-	201,509
Loans and advances to customers	22	36,299,175	34,692,625	36,796,964
Investment in joint ventures	21	1,613,173	1,544,339	1,635,079
Other assets	23	2,317,399	1,074,741	983,390
Investment in property fund	24	380,207	380,207	324,251
Investment property	29	1,849,000	1,698,782	1,659,630
Inventories	25	414,604	462,658	514,422
Property and equipment	19	579,410	1,133,965	1,237,680
Right-of-use asset	35	492,613	456,489	543,174
Intangible assets	20	332,592	519,873	703,254
Current income tax	13	365,267	342,746	344,930
Deferred income tax	26	1,570,538	1,567,993	1,245,605
Total Assets		56,951,400	53,165,971	55,782,157
Liabilities				
Balances from Central Bank	27	499,777	-	-
Deposits from customers	27	39,796,941	37,714,914	39,944,490
Deposits from banks	27	24,317	601,606	1,190,118
Other liabilities	28	3,086,567	1,658,870	1,410,654
Derivative liabilities	37	13,268	28,982	-
Dividends payable	15	246	246	6,361
Borrowings	30	4,317,757	4,298,349	3,628,227
Government of Kenya income notes	32	52,860	52,860	52,860
Lease liabilities	35	434,488	579,403	650,751
		48,226,221	44,935,230	46,883,461
Shareholders' Equity				
Share capital	31	1,923,071	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512	4,343,512
Regulatory Reserve	31	3,696,575	3,413,517	3,653,888
Revaluation reserves	31	1,295,129	1,012,125	1,012,125
Fair value reserves	31	(40,373)	13,763	13,972
Accumulated losses		(2,492,735)	(2,475,247)	(2,047,872)
		8,725,179	8,230,741	8,898,696
Total Liabilities and Shareholders' Equity		56,951,400	53,165,971	55,782,157

The financial statements on pages 82 - 188 were approved for issue by the Board of directors on 30th March 2023 and signed on its behalf by:

Prof.Olive Mugenda
Chairlady

Robert Kibaara
Director

Benson Wairegi
Director

Regina Anyika
Company Secretary

Company statement of financial position

	Note	2022 Shs'000	2021 Shs'000
Assets			
Cash and balances with banks	16	15,387	2,317
Investment in subsidiaries	21	9,857,594	9,767,594
Other assets	23	36,692	10,355
Property and equipment	19	998	402
Current income tax	13	52,016	46,947
Deferred income tax	26	49,840	49,777
Total Assets		10,012,527	9,877,392
Liabilities			
Other liabilities	28	394,058	308,928
Dividends payable	15	246	246
		394,304	309,174
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Retained earnings		3,351,640	3,301,635
		9,618,223	9,568,218
Total Liabilities and Shareholders' Equity		10,012,527	9,877,392

The financial statements on pages 82 - 188 were approved for issue by the Board of directors on 30th March 2023 and signed on its behalf by:

Prof.Olive Mugenda
Chairlady

Robert Kibaara
Director

Benson Wairegi
Director

Regina Anyika
Company Secretary

Consolidated statement of changes in equity

	Notes	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Accumulated losses	Fair value reserves	Total
		Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2021								
At start of year- as previously stated		1,923,071	4,343,512	1,012,125	3,653,888	(2,384,780)	13,972	8,561,788
Effect of change in accounting policy for investment property	38	-	-	-	-	336,908	-	336,908
as restated		1,923,071	4,343,512	1,012,125	3,653,888	(2,047,872)	13,972	8,898,696
Loss for the year (restated)	38	-	-	-	-	(667,746)	-	(667,746)
Other comprehensive loss for the year		-	-	-	-	-	-	-
Transfer from statutory credit risk reserve	31	-	-	-	(240,371)	240,371	-	-
At fair value through other comprehensive income	31	-	-	-	-	-	(209)	(209)
At end of year		1,923,071	4,343,512	1,012,125	3,413,517	(2,475,247)	13,763	8,230,741
Year ended 31 December 2022								
At start of year		1,923,071	4,343,512	1,012,125	3,413,517	(2,475,247)	13,763	8,230,741
Profit for the year		-	-	-	-	265,570	-	265,570
Other comprehensive loss for the year								
Transfer from statutory credit risk reserve		-	-	-	283,058	(283,058)	-	-
At fair value through other comprehensive income	31	-	-	-	-	-	(54,136)	(54,136)
Revaluation surplus on property and equipment		-	-	283,004	-	-	-	283,004
At end of year		1,923,071	4,343,512	1,295,129	3,696,575	(2,492,735)	(40,373)	8,725,179

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2021				
At start of year	1,923,071	4,343,512	3,323,132	9,589,715
Loss and total comprehensive income for the year	-	-	(21,497)	(21,497)
At end of year	1,923,071	4,343,512	3,301,635	9,568,218
Year ended 31 December 2022				
At start of year	1,923,071	4,343,512	3,301,635	9,568,218
Profit and total comprehensive income for the year	-	-	50,005	50,005
At end of year	1,923,071	4,343,512	3,351,640	9,618,223

Consolidated statement of cash flows

	Note	2022 Shs'000	2021 Shs'000
Net cash flows from operating activities	33	(173,240)	(210,846)
INVESTING ACTIVITIES			
Purchase of property and equipment	18	(19,915)	(9,727)
Purchase of investment property	28	-	(171,756)
Investment in Joint venture		(75,099)	19,805
Purchase of intangible assets	20	(52,764)	(47,758)
Proceeds from sale of disposal of investment property	29	106,151	27,883
Net cash flows used in investing activities		(41,527)	(181,553)
FINANCING ACTIVITIES			
Receipts of borrowed funds	30	700,000	1,514,574
Principle repayments of borrowings	30	(680,592)	(844,452)
Dividend paid	15	-	(6,115)
Principal lease payments	35	(141,723)	(142,964)
Net cash flows used in financing activities		(122,315)	521,043
Net decrease/increase in cash and cash equivalents		(337,082)	128,644
Cash and cash equivalents at start of year		1,185,773	1,058,416
Effects of exchange rate differences		-	(1,287)
Cash and cash equivalents at end of year	33	848,691	1,185,773

Company statement of cash flows

	Note	2022 Shs' 000	2021 Shs' 000
Net cash flows (used in) / generated from operating activities	33	103,878	(6,746)
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(807)	(118)
Net cash flows used in investing activities		(807)	(118)
FINANCING ACTIVITIES			
Dividend paid	14	-	(6,115)
Investments in subsidiaries-HFC	21	(90,000)	(4,900)
Net cash flows used in financing activities		(90,000)	(11,015)
Net increase/(decrease) in cash and cash equivalents		13,070	(17,879)
Cash and cash equivalents at start of year		2,317	20,196
Cash and cash equivalents at end of year	16	15,387	2,317

Notes

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 1. The consolidated financial statements comprise of the Company and its subsidiaries (together, the "Group" or "Consolidated" and individually referred to as "Group entities").

The Group is primarily involved in mortgage lending, provision of banking solutions, property development, bancassurance services, and social investment.

2 Significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Going concern assessment

The economy in 2022 saw a gradual recovery evidenced by improved business conditions in the Kenyan private sector. The economic environment has improved due to the successful rollout of vaccinations and phased removal of government restrictions. There still remains some uncertainty due to risks associated with emergence of new Covid -19 strains this far and the knock-on impacts of the pandemic and the Russia/Ukraine conflict such as disruption to supply chains around the world and increases in commodity prices.

Within the Group, we have seen an improvement in performance where the group has recorded a profit before tax of Shs 190,394,000 (2021: loss before income tax of Shs 965,208,000). The capital ratios have also improved. The core capital to total risk weighted assets ratio at 31 December 2022 was 8.30% compared to prior year where the ratio was 8.25% therefore the Banking subsidiary was able to achieve the minimum ratio of 8.00%, which does not include the 2.5% risk buffer that CBK expects institutions to operate above. The total capital to total risk weighted assets was 12.20% compared to prior year when the ratio was 12.10%. The Group however still continues to be in breach of the minimum regulatory capital ratios. We have covered within this section how the Group intends to improve the capital ratios. The liquidity ratio closed at 25.2% as at end of the year 2022 an improvement from last year's position of 22.87%.

The Group's lenders require compliance with regulatory ratios. The Group therefore remains in breach of some of the financial covenants as a result of the regulatory breaches. The covenants breaches have been disclosed under Note 27.

The Group has closed in a negative cashflows from operating activities position of Shs 173,240,000 (2021:Negative operating cash flow of Shs 210,846,000)

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

We have set out below the actions we are taking to address business challenges:

Overall strategy

The Bank and the Group board are working towards the strategy that was formalised towards the end of 31 December 2021. As per the financial results, there has been an improvement in the performance. Management and Board's proposed new strategic interventions that will see the Group grow its performance almost triple fold between the period 2022-2026. Some of the proposed interventions include: - Repositioning the HFC Limited as a full-service niche bank offering superior capabilities for the selected segments, scaling up the engines for Growth, solidifying the capital base and investing in growing the businesses through increased investments. With these investments, the financial performance is expected to triple the size of the bank in the next five years. The bank has laid down the foundational background required to achieve this performance.

Non-performing loans (NPLs)

The Group continues to make significant progress in the recovery of non-performing loans and concerted efforts have been put on the NPL recovery efforts. There is a lot of progress in the resolution of matters under litigation, completion of stalled projects, (and aggressive sale of the completed office space/residential property), negotiated settlements, and realisation of collateral either vide private treaty or auction. The target is to resolve the entire legacy non-performing loans (Shs 10 billion) over a 5-year period.

As at 31 December 2022,the bank has continued to focus on recovery of its NPL book to release the statutory reserve held therefrom. The Group's gross non-performing loans reduced by Shs 185,826,000 from Shs 8,672,000 as at 31 December 2021 to Shs 8,486,934,000 as at 31 December 2022. Consequently, the NPL ratio reduced from 22% as at 31 December 2021 to 21% as at 31 December 2022. The above recoveries are projected to result in unwinding of statutory credit risk reserves and as a result this will reduce the statutory credit risk reserve resulting in a transfer to retained earnings and will eventually improve the core tier 1 capital.

Liquidity ratio

The Banks liquidity ratio closed at 25.2% as at end of the year 2022 an improvement from last year's position of 22.87%. This trend is expected to continue in 2023 and with reduced debt obligations in 2023, there will be substantial upside on the liquidity position. In addition, the Group is currently holding investments in treasury bills and bonds amounting to Shs 8,540,137,000. These investments are actively traded in the Nairobi Securities Exchange and can be liquidated on short notice to cover for liquidity needs.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

Compliance with regulatory capital and other ratios

The Board and management expect the following actions to improve the Group's regulatory compliance position:

- As covered above, NPL recovery will reduce the statutory credit risk reserve resulting in a transfer to retained earnings to improve the core tier 1 and total capital;
- The Group has appointed a transaction advisor to scout for potential investor for both Tier 1 and Tier 2 capital.
- Repositioning the HFC Limited as a full-service niche bank offering superior capabilities for the selected segments.
- Reshaping HFDI business model away from a balance sheet lead business model where investment and development capital is required and which increases the operating leverage thus exposing the company and the Group to probability of not meeting fixed costs

The Group has engaged the regulator (CBK) on the regulatory breaches and the actions management is taking to regularise the position. The Bank has shared a time bound action plan on how and when each breach will be cured. As the Bank continues to achieve progress in resolving non-performing loans (NPLs) and achieving revenue growth, we are confident that the business will turn around.

The Group significant shareholder has confirmed to the Directors that they will continue providing business support to the Group and the Bank for a period of at least 12 months from the date of approval of these financial statements.

Based on the above the directors believe that the going concern assumption is appropriate in the preparation of the financial statements. The Directors expect that the business will continue to generate enough funds internally to finance its operations and any external funding will be invested in further growth of the business.

Changes in accounting policy and disclosures

Change of accounting policy of investment property from cost measurement basis to fair value measurement basis

In the year 2022, the Group changed its accounting policy for investment property from cost to fair value measurement basis. Management's judgement is that fair value measurement provides more reliable and relevant information because it better presents management's intentions for the investment property and is consistent with local industry practice. It also makes the Group's financial statements more comparable with its peers.

This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2021 have been restated. The effect of the change has been disclosed under Note 38.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

New and amended standards adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2022:

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

This amendment did not have a material impact on the Group's financial statements

Property, Plant and Equipment: Proceeds before intended use –Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

New and amended standards adopted by the Group

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

ii)Standards, amendments and interpretations issued but not yet effective (continued)

Annual Improvements to IFRS Standards 2018–2020 (continued)

The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

IFRS 16 Leases – amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments deferred from 1 January 2022 to 1 January 2023 also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments effective 1 January 2023 define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective 1 January 2023 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

ii)Standards, amendments and interpretations issued but not yet effective (continued)

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("Functional Currency"). The financial statements are presented in Kenya Shillings in thousands (Shs '000) which is the Group's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss account within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within 'other operating income or expenses'.

Notes (continued)

2 Significant accounting policies (continued)

(c) Revenue recognition

Net interest income

Interest income and expense are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income and:

- purchased or originated credit impaired (POCI) for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- financial assets that are not POCI that have subsequently become impaired for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of expected credit losses) in subsequent reporting periods.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position are capitalised to the carrying number of financial instruments that are not at fair value through profit or loss, and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Non – interest revenue

i. Net fee and commission revenue

Fee and commission revenue, including transaction fees, account servicing fees, custodial fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

ii. Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, including foreign exchange gains and losses from monetary assets and liabilities.

iii. Other revenue

Other revenue includes rental income, gains and losses from disposal of investment properties and property and equipment and other revenue realised as commissions.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially recognised at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located. After initial recognition, property and equipment is measured at cost less accumulated depreciation.

Notes (continued)

2 Significant accounting policies (continued)

(d) Property and equipment (continued)

(i) Recognition and measurement (continued)

Buildings held at fair value are subsequently shown at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. 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 profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The cost of day to day servicing of property and equipment is recognised in 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. The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year-end and adjusted prospectively, as a change in an estimate, if appropriate.

(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.

(e) Intangible assets

The Group's intangible assets include the value of computer software. Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Notes (continued)

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible assets with finite lives 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. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(f) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

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.

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, the Group has used the CBR 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.

Notes (continued)

2 Significant accounting policies (continued)

(f) Leases (continued)

(i) Group acting as a lessee

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 separately while lease liabilities are presented 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.

(ii) Group acting 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 derecognition 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.

(g) Employee benefits

(i) Employee retirement benefits plan

The Group operates a defined contribution scheme based on a percentage of pensionable earnings 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.

Notes (continued)

2 Significant accounting policies (continued)

(g) Employee benefits (continued)

(i) Employee retirement benefits plan (continued)

The employees and the Group also contribute to the National Social Security Fund. 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.

(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.

(iv) Short-term benefits

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

(h) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes (continued)

2 Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(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 instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Group and Company commits to purchase or sell the asset.

At initial recognition, the Group and Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group and Company classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

(i) the Group and Company's business model for managing the asset; and

(ii) the cash flow characteristics of the asset

Based on these factors, the Group and Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income" using the effective interest rate method.

- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate method

Business model: The business model reflects how the Group and Company manages the assets in order to generate cash flows. That is, whether the Group and Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group and Company in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group and Company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group and Company assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group and Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group and Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group and Company subsequently measures all equity investments at fair value through profit or loss, except where the entity's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group and Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group and Company's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss

(i) Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate. The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date, which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL is set out below. ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Stages

Stage 1

A 12-month ECL is calculated for financial assets which are neither credit impaired on origination nor for which there has been a SICR.

Stage 2

A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed an SICR since origination and are not considered low credit risk.

Stage 3 (Credit impaired assets)

A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired:

- Default (as defined below)
- Significant financial difficulty of borrower and/or modification
- Probability of bankruptcy or financial reorganisation
- Disappearance of an active market due to financial difficulties

The key components of the impairment methodology are described as follows:

Significant increase in credit risk

At each reporting date, the Group and Company assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset.

Low credit risk

Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.

Default

The Group and Company's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- A breach of contract, such as default or delinquency in interest and/or principal payments
- Disappearance of active market due to financial difficulties
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Default (continued)

- Where the Group and Company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group and Company would not otherwise consider

- Exposures which are overdue for more than 90 days are also considered to be in default

Forward-looking information

Forward-looking information is incorporated into the Group and Company's impairment methodology calculations and in the Group and Company's assessment of SICR. The Group and Company includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

Write-off

Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)

Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.

Off-balance sheet exposures (excluding loan commitments)

Recognised as a provision within other liabilities.

Financial assets measured at fair value through OCI

Recognised in the fair value reserve within equity. The carrying amount of the financial asset is recognised in the statement of financial position at fair value.

(iii) Modification of loans

The Group and Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group and Company assesses whether the new terms are substantially different to the original terms. The Group and Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(iii) Modification of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group and Company derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for determining whether a significant increase in credit risk has occurred.

However, the Group and Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group and Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group and Company transfers substantially all the risks and rewards of ownership, or (ii) the Group and Company neither transfers nor retains substantially all the risks and rewards of ownership and the Group and Company has not retained control.

The Group and Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from assets without material delays

Collateral (shares and bonds) furnished by the Group and Company under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group and Company retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group and Company retains a subordinated residual interest.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group and Company recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and Company and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group and Company (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit

or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

(k) Impairment of non-financial assets

Non-financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. 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.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. 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 through profit or loss 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.

(m) Deposits from customers

Deposits from customers are recognised and accounted for on receipt basis as liabilities. Interest expense for interest earning deposits is accrued on the deposits on a daily basis.

(n) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes (continued)

2 Significant accounting policies (continued)

(o) 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 inventories 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.

(p) Contingent liabilities

Significant litigations and claims against the Group and Company, 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.

(q) Fiduciary activities

The Group and Company commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the Group and Company. However, fee income earned and fee expenses incurred by the Group and Company relating to the Group and Company s responsibilities from fiduciary activities are recognised in profit or loss.

(r) Derivative financial assets and liabilities

The Group and Company enters into derivatives (currency forwards and swaps) for trading purposes. At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. The Group and Company may take positions with the expectation of profiting from favourable movement in prices, rates or indices. The Group and Company's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net trading income.

The Group and Company uses the following derivative instruments:

Currency forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market. The Group and Company has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and result in market risk exposure.

Notes (continued)

2 Significant accounting policies (continued)

(s) Earnings per share

Earnings per share is calculated based on the profit or loss 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 year, there were no outstanding shares with dilutive potential.

(t) 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.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. The gain or loss on disposal of investment property is recognised in profit or loss. The fair value of investment property is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

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.

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.

(u) Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group and Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. A provision for restructuring is recognised when the Group and Company has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group and Company recognises any impairment loss on the assets associated with that contract. Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group and Company, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group and Company's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

Notes (continued)

2 Significant accounting policies (continued)

(v) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

In the Company's financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses.

(w) Consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes (continued)

2 Significant accounting policies (continued)

(w) Consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is re-measured at fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Notes (continued)

2 Significant accounting policies (continued)

(w) Consolidation (continued)

(ii) Changes in ownership interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(x) Operating segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Strategy and Investment Committee that makes strategic decisions.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

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 Group's loan book. 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.

Notes (continued)

2 Significant accounting policies (continued)

(y) Operating segments (continued)

- Bancassurance: The bancassurance function is based at the HF Insurance Agency Limited and the business is procuring insurance business and earning commissions thereof.
- First Permanent East Africa Limited: The Company's principal activities were development and selling of residential houses before its operations were transferred to HF Group Plc, the holding company.
- HF Foundation function is to deliver, facilitate and catalyze industry relevant and sustainable practical skills required by the building and construction industry through the creation of an 'Army of One Million Artisans' for Kenya.The initiative is recognized as a Vision 2030 flagship project by the Government of Kenya

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

(z) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. The Group does not have joint operations arrangements.

Joint ventures

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the statement of financial position. The Group's joint venture arrangements have been disclosed under Note 20.

3 Critical accounting estimates and judgements

Use of estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group and Company's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis and are based on experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Use of estimates and judgements (continued)

(a) Measurement of the expected credit loss allowance (continued)

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are considered which include but not limited to future business prospects for the customer, realizable value of securities, the Group and Company's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group and Company reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

Judgements

The following represent critical judgements adopted

- Ascertaining what constitutes significant increase in credit risk
- Segmentation of portfolios;
- Criteria used in determination of which exposures should be individually assessed;
- Definition of default and/or credit impaired;
- Write-off policy;

Estimates

The following approach was adopted to determine estimates

- Selecting and calibrating the PD, LGD and EAD models which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions
- Selecting model inputs including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected losses
- Determining balances to write off

The Group and Company has revised it's estimated expected credit losses, in response to uncertainties, elevated credit risks and weakening global market conditions due to the pandemic. The financial impact of the downturn in the economy on the Group and Company's financial instruments was reassessed with changes made to the Probability of Default (PD) rates and Loss Given Default (LGD). Where applicable, the probability weightings assigned to possible loss scenarios were also revised. In determining what was considered to be appropriate levels for these critical inputs. Some judgement was also applied, based on credit experience with the Group and Company's borrowing clients. Under Note 4 we have set out assumptions used in determining ECL and provides an indication of the sensitivity of the different weightings and changes to PD being applied in different scenarios.

Notes (continued)

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.

(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.

Management of credit risk

The Board of directors has delegated responsibility for the management of credit risk to the Group's management through the Group Chief Executive Officer. Management has delegated this responsibility to head office and branch credit committees. The Group's credit committee, reporting to the Group Chief Executive Officer, is responsible for oversight of the credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to head office and branch credit committees.
- Reviewing and assessing credit risk. The Group Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branch concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties and industries for loans and advances.
- Reviewing compliance with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Group's Credit department on the credit quality of different portfolios and appropriate corrective action is taken.

Regular audits of branches and Group's credit processes are undertaken by internal audit.

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December is their carrying amount as illustrated in the table below:

	Note	2022 Shs' 000	2021 Shs' 000
Credit exposures			
On – balance sheet items			
Balances and deposits due from financial institutions*	16	1,652,834	2,202,775
Investment securities	18	8,540,137	6,550,168
Loans and advances to customers	22	36,299,175	34,692,625
Other assets**	23	1,013,607	531,039
		47,505,752	43,976,607
Off-balance sheet items			
Guarantees		1,353,528	976,588
Letters of credit, acceptances and other credits		581,569	169,046
		1,935,097	1,145,634
		49,440,849	45,122,241

Management of credit risk (continued)

*Balances and deposits due from financial institutions excludes cash at hand as disclosed under Note 16 as this does not pose a credit risk.

The credit risk on balances and deposits due from financial institutions and investment securities is limited as the counterparties are all recognised financial institutions with good reputation.

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments and foreclosed assets have been excluded from other assets balances as they do not bear any credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing and impairment of Shs 36,891,313 (2021: Shs 33,890,195) has been recognised against them at 31 December 2022.

None of the other assets and balances due from related parties are past due or impaired. Management has established a related entity risk management framework including mandatory credit checks with counter parties.

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

	2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Amortised cost	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Individually and collectively impaired				
Grade 3: Substandard	-	-	406,556	406,556
Grade 4: Doubtful	-	-	8,080,378	8,080,378
Grade 5: Loss	-	-	-	-
Gross amount	-	-	-	-
Provision for impairment losses	-	-	8,486,934	8,486,934
Carrying amount	-	-	(3,028,743)	(3,028,743)
Grade 1: Normal	26,009,719	-	-	26,009,719
Grade 2: Watch	-	5,234,201	-	5,234,201
Gross amount	-	-	-	-
Provision for impairment losses	(102,961)	(299,975)	-	(402,936)
Carrying amount	25,906,758	4,934,226	-	30,840,984
Total Carrying amount	25,906,758	4,934,226	5,458,191	36,299,175

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

	2021			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Amortized cost	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Individually and collectively impaired				
Grade 3: Substandard	-	-	355,981	355,981
Grade 4: Doubtful	-	-	8,316,779	8,316,779
Grade 5: Loss	-	-	-	-
Gross amount	-	-	8,672,760	8,672,760
Provision for impairment losses	-	-	(2,943,618)	(2,943,618)
Carrying amount	-	-	5,729,142	5,729,142
Grade 1: Normal	22,086,457	-	-	22,086,457
Grade 2: Watch	-	7,290,049	-	7,290,049
Gross amount	22,086,457	7,290,049	-	29,376,506
Provision for impairment losses	(13,152)	(399,871)	-	(413,023)
Carrying amount	22,073,305	6,890,178	-	28,963,483
Total Carrying amount	22,073,305	6,890,178	5,729,142	34,692,625

Doubtful account includes loans and advances whose days past due is over 180 days. Loss account represents those accounts which are considered uncollectible by the Bank.

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

Management of credit risk (continued)

Management of credit risk (continued)

Grade 1 and grade 2 represent loans and advances that are not impaired. Grade 3, grade 4 and grade 5 refer to loans and advances that have been impaired in line with the Group's credit policy and internal model. These represent the loans and advances that the Group cannot collect according to contractual terms of the loan agreements.

Impaired loans

Impaired loans are loans which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank.

Allowances for impairment

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing
- significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Group writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions are generally based on a product specific past due default history.

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

Management of credit risk (continued)

Management of credit risk (continued)

Collateral on loans and advances

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

Before attaching value to collateral, the business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The principal collateral types held by the Group for loans and advances are Mortgages over residential properties and commercial properties.

Valuation of collateral taken is within agreed parameters. The valuation is performed on origination, periodically in line with the Group policy and in the course of enforcement actions. Collateral for impaired loans is reviewed regularly to ensure that it is still enforceable, and that the impairment allowance remains appropriate given the current valuation.

The Group has considered all relevant factors, including local market conditions and practices, before any collateral is realized. The collateral held by the Group against loans and advances is as below;

	Group	
	2022 Shs' 000	2021 Shs' 000
Property	68,553,529	87,077,067
Cash	948,660	983,125
	69,502,189	88,060,192

The Group monitors concentration of credit risk by sector. An analysis of concentration of credit risk at the reporting date is shown below:

	Group	
	2022 Shs' 000	2021 Shs' 000
Concentration by segment (Gross)		
Mortgage	23,849,826	24,138,451
Projects	8,247,003	8,955,214
Commercial	5,174,815	3,988,518
Unsecured	2,433,879	936,309
IPF	25,341	30,764
Micro	-	10
	39,730,864	38,049,266

Notes (continued)

4 Financial risk management

(a) Credit risk (continued)

Management of credit risk (continued)

Impairment assessment

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
- 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.

The Bank 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 Bank 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 Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement uncertainty and sensitivity analysis of ECL estimates

The ECL calculation is sensitive to changes in probability of default (PD) as explained below.

Probability of Default (PD)

The credit allowance estimate is also sensitive to changes in PD. Worsening PDs by 10bps results in a decrease of Shs 46,250,000 (2021: Shs 65,655,000)

Sensitivity Analysis: Change in PDs assigned

The case below considers alternative PDs to reflect change in ECL

Case: PDs deteriorate by 10% for each credit rating incrementally for scenarios A, B and C respectively.

2022	Base case	Case ('PDs worse by 10%)	Change in ECL allowance. Increase/(Decrease)	
	Shs'000	Shs'000	Shs'000	%
Stage 1	102,960	101,936	(1,034)	(1)
Stage 2	299,975	254,729	(45,216)	(15)
Total	402,935	356,665	(46,250)	-

2021	Base case	Case ('PDs worse by 10%)	Change in ECL allowance. Increase/(Decrease)	
	Shs'000	Shs'000	Shs'000	%
Stage 1	84,571	74,314	(10,256)	(12)
Stage 2	399,871	344,472	(55,399)	(14)
Total	484,442	418,786	(65,655)	-

The focus of the simulations is on ECL allowance requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other. The potential ECL impacts reflect the simulated impact as at 31 December 2022.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Scenario impacts on SICR are considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure and exposure by stage were the same. Stage 3 provisions are not subject to the same level of measurement uncertainty - default is an observed event as at the balance sheet date. Stage 3 provisions therefore have not been considered in this analysis.

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 Bank 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.

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.

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.

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 12 months 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 considered. 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.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

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.

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.

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.

The nominal values of such commitments are listed below: -

	2022 Shs'000	2021 Shs'000
Undrawn overdrafts	41,681	42,562
Letters of credit	581,569	169,046
Guarantees	1,353,528	976,588
	1,976,778	1,188,196
Allowance for impairment losses	(19,984)	(19,984)
	1,956,794	1,168,212

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Contingent liabilities and commitments (continued)

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

Impairment losses for loans and advances

The reconciliation from the opening to the closing balance of the loss allowance for loans and advances has been disclosed under Note 21.

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

	2022 Shs'000	2021 Shs'000
Against impaired accounts	9,661,507	16,973,983
Against accounts not impaired	59,820,682	71,086,209
	69,482,189	88,060,192

(b) Liquidity risk (continued)

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.

Management of liquidity risk

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.

To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs.

In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposits from banks and borrowings due to mature within the next month.

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

The Group stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

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:

	Group	
	2022	2021
At 31 December	25.20%	22.97%
Average for the year	24.11%	20.80%
Maximum for the year	25.76%	22.50%
Minimum for the year	22.04%	16.45%
Minimum statutory requirement	20.00%	20.00%

Notes (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:

Year ended 31 December 2022	Due on demand Shs'000	Due within 3 months Shs'000	Due between 3 and 12 months Shs'000	Due between 1 and 5 years Shs'000	Due after 5 years Shs'000	Total Shs'000
Financial assets						
Balances and deposits due from financial institutions	2,184,939	-	-	-	-	2,184,939
Loans and advances to banks	12,349	-	-	-	-	12,349
Loans and advances	7,102,403	1,481,155	760,566	7,774,476	26,838,139	43,956,739
Investment securities	-	221,857	418,140	2,609,385	6,031,465	9,280,847
Other assets	-	-	2,355,394	-	-	2,355,394
Total financial assets	9,299,691	1,703,012	3,496,104	10,383,861	32,869,604	57,790,268
Financial liabilities						
Deposits from banks	31,513					31,513
Customer deposits	31,379,648	4,534,448	4,029,856	61,741	376,339	40,382,032
Balances from Central Bank	500,000	-	-	-	-	500,000
Borrowings	166,641	309,872	2,924,171	836,549	204,057	4,441,289
Other Liabilities	-	-	3,073,878	-	-	3,073,878
Lease liabilities	-	-		469,523	-	469,523
Total financial liabilities	32,077,802	4,844,320	10,027,905	1,367,813	580,396	48,898,235
Net liquidity gap	(22,778,114)	(3,141,308)	(6,493,805)	9,016,048	32,289,208	8,892,033

Notes (continued)

4 Financial risk management (continued)

Year ended 31 December 2022	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Off balance sheet exposures						
Letters of credit	582,276	-	-	-	-	582,276
Guarantees	289,112	213,224	380,157	481,989	-	1,364,481
Forward derivatives	1,279,381	424,273	124,714	-	-	1,828,368
Unrecognised loan commitments	42,163	-	-	-	-	42,163
Total commitments and guarantees	2,192,932	637,497	504,871	481,989	-	3,817,288
Year ended 31 December 2021						
Financial assets						
Balances and deposits due from financial institutions	2,741,385	-	-	-	-	2,741,385
Loans and advances	7,034,027	612,061	1,100,942	8,659,010	23,759,070	41,165,109
Investment securities	5,212,829	11,279	197,381	462,436	1,286,641	7,170,566
Other assets	-	-	1,115,246	-	-	1,115,246
Total financial assets	14,988,241	623,340	2,413,569	9,121,446	25,045,711	52,192,306

Notes (continued)

4 Financial risk management (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2021	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial liabilities						
Customer deposits	30,794,947	3,943,295	2,320,648	78,161	2,082,689	39,219,739
Bank deposits	654,427	-	-	-	-	654,427
Borrowings	134,809	517,898	4,166,389	354,092	55,709	5,228,898
Total financial liabilities	31,584,183	4,461,193	6,487,037	432,253	2,138,398	45,103,065
Net liquidity gap	(16,595,942)	(3,837,853)	(4,073,468)	8,689,193	22,907,313	7,089,242
Off balance sheet items						
Letters of credit	-	137,011	-	-	-	137,011
Guarantees	-	291,632	35,880	519,566	179,811	1,026,889
Forward derivatives	-	737,350	574,550	1,077,675	-	2,389,575
Unrecognised loan commitments	-	137,497	-	-	-	137,497
Total commitments and guarantees	-	1,303,490	610,430	1,597,241	179,811	3,690,972

*Government income notes do not carry a maturity date hence interest has been calculated up to 5years.

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

The following table sets out the components of the Group's liquidity reserves.

	2022 Shs'000	2021 Shs'000
Liquidity reserves		
Cash at hand	544,451	538,629
Balances with commercial banks	76,894	345,779
Balances with Central Bank of Kenya:	1,563,593	1,823,685
Placements with other banks	12,346	33,311
Government securities	8,540,137	6,550,168
Total liquidity reserves	10,737,421	9,291,572

(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.

Management of market risks

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Group's Treasury is responsible for the development of detailed market risk management policies and for day-to-day implementation of those policies.

Furthermore, it includes the protection and enhancement of the statement of financial position and statement of profit or loss and other comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

All foreign exchange risk within the Group is managed by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk management is vested in the Board Risk Management Committee. The Finance and Treasury departments in collaboration with the Risk Management department are responsible for the development of detailed market risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(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:

31 December 2022	US$ Shs' 000	GBP Shs' 000	Euro Shs' 000	Total Shs' 000
Assets				
Cash and cash equivalents	1,471,415	18,476	11,899	1,501,790
Loans and advances to customers	3,759,220	37,033	317	3,796,570
Other assets	47,891	12,308	426	60,625
Total assets	5,278,526	67,817	12,642	5,358,985
Liabilities				
Customer deposits	1,477,574	10,562	18,590	1,506,726
Borrowed funds	2,242,344	-	-	2,242,344
Other liabilities	1,375,321	100,517	3,997	1,479,835
Total liabilities	5,095,239	111,079	22,587	5,228,905
Net financial position	183,287	(43,261)	(9,945)	130,081
31 December 2021				
Assets				
Cash and cash equivalents	370,174	(7,171)	52,510	415,513
Loans and advances to customers	3,391,035	39,598	99	3,430,732
Other assets	43,744	749	414	44,907
Total assets	3,804,953	33,176	53,023	3,891,152
Liabilities				
Customer deposits	1,132,793	10,233	27,968	1,170,994
Borrowed funds	2,800,749	-	-	2,800,749
Other liabilities	(192,278)	2,031	2,545	(187,702)
Total liabilities	3,741,264	12,264	30,513	3,784,041
Net financial position	63,689	20,912	22,510	107,111

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

The following significant exchange rates applied during the period:

	Average rates	Closing rates	Average rates	Closing rates
	2022	2022	2021	2021
US Dollar	118.34	123.35	109.65	113.15
EUR	124.11	131.59	129.68	128.19
GBP	145.19	148.39	150.68	152.86

(i) Sensitivity analysis on exchange rates

The analysis below calculates the effect of a reasonably possible movement of the foreign currency rates against the Kenya Shilling (all other variables being constant) on the Bank's profit or loss and equity. Changes in foreign currencies will result to the below exposure

	2022			2021		
	Change in currency	Effect on profit before income tax	Effect on equity	Change in currency	Effect on profit before income tax	Effect on equity
		Shs' 000	Shs' 000		Shs' 000	Shs' 000
US$	10%	18,328	12,829	10%	6,369	4,458
GBP	10%	(4,326)	(3,028)	10%	2,251	1,576
EURO	10%	(994)	(696)	10%	2,091	1,464

(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:

		2022	2021
Assets	**Interest rate**	**Shs'000**	**Shs'000**
Loans and advances	8.66%	36,299,175	35,910,642
Government securities	12.29%	8,540,137	6,550,168
Placements with banks	3.75%	12,346	33,311
Total liquidity reserves		44,851,658	42,494,121
Liabilities			
Deposits	4.74%	39,821,258	38,316,520
Balances with CBK	9.97%	499,777	-
Borrowings and income notes	7.74%	4,370,617	4,298,349
Total liquidity reserves		44,691,652	42,614,869
Interest rate sensitivity gap		160,006	(1,338,765)

At 31 December 2022, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax loss for the year would have been Shs 2,365,415 (2021: Shs 2,309,510) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 2,365,415 (2021: Shs 2,309,510) lower arising mainly as a result of lower interest income loans and advances.

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(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.

(e) Capital management

The responsibility of capital management lies with the assets and liabilities management committee which ensures that all strategies conform to the Group's risk appetite and levels of exposure. The committee is also responsible for recommending to the Board of directors, prudent capital management policies and procedures that will enable the Group to achieve its objectives and goals while operating in full compliance with all capital requirements.

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 non-controlling 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.

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year except for core and total capital ratio.The regulatory capital position for HFC Limited, the Group's banking subsidiary, as at 31 December 2022 was as follows:

Tier 1 capital	2022 Shs'000	2021 Shs'000
Ordinary share capital	5,090,000	5,000,000
Share premium	3,513,662	3,513,662
Accumulated Losses	(4,471,842)	(4,367,055)
Deferred income tax asset	(946,759)	(974,939)
Total tier 1 capital	3,185,061	3,171,668
Tier 2 capital		
Subordinated debt	1,050,750	1,000,000
Regulatory reserves	481,502	480,480
Total tier 2 capital	1,532,252	1,480,480
Total regulatory capital	4,717,313	4,652,148
Risk weighted assets	38,520,149	38,441,131

Capital ratios	2022	2021
Total regulatory capital expressed as a percentage of total risk-weighted assets	12.20%	12.10%
CBK minimum requirement	14.50%	14.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets	8.30%	8.25%
CBK minimum requirement	10.50%	10.50%

The Bank was in breach of the regulatory capital ratios as at 31 December 2022, which were communicated to the Central Bank of Kenya (CBK). No penalties or fines were imposed by the CBK. The Group submitted their capital restoration plan and Bank's turnaround strategy to the CBK. The details of the directors' plans for the future have been detailed under Note 2 (a).

Central Bank of Kenya required the Group to maintain a minimum core capital of Shs 1 billion as at 31 December 2022. 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.

Notes (continued)

4 Financial risk management (continued)

(f) Fair Value Measurement

The fair value of financial instruments is included at 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, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and cash equivalents, loans and advances, customer deposits and borrowed funds are evaluated by the Bank based on parameters such as interest rates, specific country factors and individual creditworthiness of the customer. The valuation is performed on a discounted cash flow basis. Based on this evaluation, allowances are taken to account for the expected losses of the receivables.

The following methods and assumptions were used to estimate the fair values. The fair values of the quoted bonds are based on price quotations at the reporting date. The fair values of loans and advances, borrowings and other financial liabilities, are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair values of remaining FVOCI financial assets are derived from quoted market prices in active markets. There have been no transfers between Level 1 and Level 2 during the year ended 31 December 2022 (2021: Nil).

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.	Corporate and other government bonds and loans	Corporate bonds in illiquid markets
Types of financial liabilities:	Actively traded corporate bonds in liquid markets.	Leases whose valuation model references directly or indirectly market observable inputs.	Actively traded corporate bonds in illiquid markets.

The table below shows the classification of instruments held at fair value by the level in the fair value hierarchy as at 31 December 2022:

31 December 2022	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Financial assets				
Investment in government securities	-	4,712,694	-	4,712,694
Investment properties	-	-	1,849,000	1,849,000
	-	4,712,694	1,849,000	6,561,694
Financial liabilities				
Derivative liabilities	-	13,268	-	13,268
31 December 2021				
Financial assets				
Investment in government securities	-	4,724,747	-	4,724,747
	-	4,724,747	-	4,724,747
Financial liabilities				
Derivative liabilities	-	28,982	-	28,982

Notes (continued)

4 Financial risk management (continued)

(f) Fair Value Measurement (continued)

The following summarises the carrying amount of Financial assets and liabilities not held at fair value. Except for amortised cost investment securities, the carrying amount of assets and liabilities held at amortised cost is considered to approximate their fair value where they have short tenor or, for long-term facilities, earn interest at market rate:

31 December 2022	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Cash and cash equivalents	2,184,939	2,184,939	-	-	2,184,939
Placements with banks	12,346	12,346	-	-	12,346
Investment securities Amortised Cost	3,779,143	3,711,937	-	3,711,937	-
Loan advances to customers	36,299,175	36,299,175	-	-	36,299,175
Other Assets	1,064,666	1,064,666			1,064,666
	43,340,269	43,273,063	-	3,711,937	39,561,126
Financial liabilities					
Balances from Central Bank	499,777	499,777	-	-	499,777
Deposits from customers	39,796,941	39,796,941	-	-	39,796,941
Deposits from banks	24,317	24,317	-	-	24,317
Borrowings	4,317,757	4,317,757	-	-	4,317,757
Government of Kenya income notes	52,860	52,860	-	-	52,860
Lease liabilities	434,488	434,488	-	-	434,488
Other Liabilities	1,085,855	1,085,855			1,085,855
	46,211,995	46,211,995	-	3,711,937	46,211,995

31 December 2021	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Cash and cash equivalents	2,708,074	2,708,074	-	-	-
Placements with banks	33,311	33,311	-	-	-
Investment securities Amortised Cost	1,825,422	1,810,123	-	1,810,123	-
Loan advances to customers	34,692,625	34,692,625	-	-	34,692,625
Other Assets	521,542	521,542			521,542
	39,780,974	39,765,675	-,	1,810,123	35,214,167
Financial liabilities					
Balances from Central Bank	-	-	-	-	-
Deposits from customers	37,714,914	37,714,914	-	-	37,714,914
Deposits from banks	601,606	601,606	-	-	601,606
Borrowings	4,298,349	4,298,349	-	-	4,317,757
Government of Kenya income notes	52,860	52,860	-	-	52,860
Lease liabilities	579,403	579,403	-	-	579,403
Other Liabilities	417,786	417,786	-	-	417,786
	43,664,918	43,664,918	-	-	43,684,326

Notes (continued)

4 Financial risk management (continued)

(f) Fair Value Measurement (continued)

31 December 2021	FVTPL	FVOCI	At amortised cost	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets				
Cash and cash equivalents	-	-	2,726,574	2,726,574
Placements with banks	-	-	33,311	33,311
Investment in government securities		4,724,746	1,825,422	6,550,168
Loan advances to customers	-	-	35,910,642	35,910,642
	-	4,724,746	40,495,949	46,220,695
Financial liabilities				
Customer deposits				
Government of Kenya income notes	-	-	38,394,629	38,394,629
Borrowings	-	-	52,860	52,860
	-	-	4,298,349	4,298,349
	28,982	-	-	28,982
	28,982	-	42,745,838	42,774,820

Loans and advances to customers are net of provisions for impairment. A substantial proportion of loans and advances is subject to price adjustments and hence the fair value approximates their carrying amounts.

Notes (continued)

5 Operating segments

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Others		Totals	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Interest income	3,558,559	3,408,434	954,689	685,404	-	-	9,979		585		4,523,812	4,093,838
Interest expense	(1,394,179)	(1,435,283)	(739,901)	(669,159)	-	-	(333)	-	-	-	(2,134,413)	(2,104,442)
Net interest income	2,164,380	1,973,151	214,788	16,245	-	-	9,646	-	585		2,388,814	1,989,396
Non-interest income	359,122	261,063	174,629	97,184	358,617	78,778	72,382	59,582	204,120	131,752	1,168,870	628,360
Reporting segment profit/(loss) before income tax	37,733	(405,239)	59,018	(259,088)	86,769	(379,995)	47,548	42,608	49,325	(34,912)	280,393	(1,036,626)
Deposits balances	35,902,693	35,192,947	3,983,356	3,201,682	-	-	-	-	-	-	39,886,049	38,394,629

Notes (continued)

5 Operating segments (continued)

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Others		Totals	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Other non-cash items												
Impairment losses on mortgage loans	194,130	(345,688)	-	-	-	-	-	-	-	-	194,130	(345,688)
Reportable segment assets	36,909,331	35,931,046	8,629,377	6,947,820	3,605,599	3,229,916	134,300	141,279	-	-	49,278,607	46,250,061
Reportable segment liabilities	35,902,693	35,192,947	8,853,750	7,552,891	3,067,805	3,085,798	80,054	29,556	-	-	47,404,525	45,861,192

Notes (continued)

5 Operating segments (continued)

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

	2022 Shs'000	2021 Shs'000
Net interest income		
Total net interest income for reportable segments	2,388,814	1,989,396
Other interest income adjustments	(134,890)	(109,449)
Consolidated net interest income	2,253,924	1,879,947
Non-interest income		
Total non-interest income for reportable segments	1,168,870	628,360
Other non-interest income	(213,426)	(142,327)
Consolidated non-interest income	955,444	486,033
Profit or loss		
Total profit or loss for reportable segments	280,393	(1,036,626)
Other profit or loss	(89,999)	71,418
Consolidated profit before income tax	190,394	(965,208)
Assets		
Total assets for reportable segments	49,278,607	46,250,261
Other assets	7,717,247	6,960,364
Consolidated total assets	56,995,854	53,210,425
Liabilities		
Total liabilities for reportable segments	47,904,302	45,861,192
Other liabilities	321,922	(925,962)
Consolidated total liabilities	48,226,224	44,935,230

Notes (continued)

6 Interest income and expense

(a) Interest income

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Loans and advances	3,324,955	3,237,688	-	-
Deposit with banks	10,522	21,768		
Loan origination fees	90,893	52,093	-	-
Financial assets at amortised cost	317,335	-	-	-
Financial assets at FVOCI	620,588	663,636	-	-
	4,364,293	3,975,185	-	-

(b) Interest expense

Deposits from customers	1,577,728	168,375	-	-
Deposits from banks	77,343	1,519,600	-	-
Repurchase agreement with CBK	81,961	-		
Borrowings	348,695	335,647	-	-
Lease liabilities	24,642	71,616	-	-
	2,110,369	2,095,238	-	-

7 Fee and commission income

Fees and commissions charged for services provided or received by the Group and Company are recognised as the service is performed.

Service fees and Commission / Transactional banking	189,663	196,146	-	-
Custodial services	21,822	15,267	-	-
House sales commission	295,409	4,522	-	-
	506,894	215,935	-	-

Notes (continued)

8 Net trading income

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Foreign currency exchange gains	168,127	77,332	-	-
Fair value loss on derivatives	(13,268)	(28,982)	-	-
	154,859	48,350	-	-

9 Other income

Rental income	74,983	69,998	-	-
Gain on sale of investment property	-	1,150	-	-
House sales income	53,100	47,783	-	-
Other	89,391	31,888	204,120	131,752
Insurance commission	76,217	70,887	-	-
Gain on disposal of equipment	-	42	-	-
	293,691	221,748	204,120	131,752

10 Other operating expenses

Occupancy expenses	53,957	61,322	-	-
Deposit Protection Fund payment	72,705	76,888	-	-
Cost of sold houses	24,139	45,233	-	-
Marketing expenses	71,725	87,696	10,861	2,985
Information technology expenses	295,058	328,498	-	-
Legal expenses	111,745	123,066	-	-
Office expenses	192,311	169,799	44,318	82,804
General administration expenses	301,523	414,342	20,051	23,880
	1,123,163	1,306,844	75,230	109,669

Notes (continued)

11 Employee benefits

The following items are included in salaries and employee benefits:

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other staff costs	1,211,142	1,053,724	44,884	38,968
Remuneration to executive directors	58,474	50,293	33,520	16,865
NSSF contributions	1,812	1,656	5	4
Contributions to the defined contribution retirement scheme	59,012	76,863	329	182
	1,330,440	1,182,536	78,738	56,019
Average number of employees	520	447	2	2

12 Depreciation and amortisation

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
		Restated		
Depreciation of property and equipment (Note 19)	41,948	113,599	210	134
Depreciation of investment property (Note 29)	-	14,000	-	-
Amortisation of intangible assets (Note 20)	240,045	231,139	-	-
Amortisation of right-of-use asset (Note 35)	78,786	86,685	-	-
	363,976	445,423	210	134

13 Income tax- Restated

(a) Income tax credit

Current income tax at 30% (2021: 30%)	25,582	24,906	-	-
Prior year under provision of current tax	(126)	(70)	-	-
Deferred tax movement (Note 26)	(75,571)	(321,423)	(63)	(11,627)
Prior year deferred tax under provision (Note 26)	(25,061)	(875)	-	(946)
	(75,176)	(297,462)	(63)	(12,573)

Notes (continued)

13 Income tax- Restated (continued)

(a) Income tax credit (continued)

The tax on the Group's and Company's loss before income tax differs from the theoretical amount using the basic tax rate as follows:

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Profit/(loss) before income tax	190,394	(875,753)	49,942	(34,070)
Tax at the applicable tax rate of 30% (2021: 30%)	57,118	(262,726)	14,983	(10,221)
Prior year under provision of current tax	(126)	-	-	-
Prior year deferred tax restatement – Note 38	-	(15,000)		
Prior year (under)/over provision of deferred tax	-	(875)	-	-
Tax effect of non-deductible costs and tax-exempt income	(132,168)	(18,861)	(15,046)	(2,352)
Income tax credit	(75,176)	(297,462)	(63)	(12,573)

(b) Current income tax recoverable

At start of year	342,746	344,929	46,947	41,682
Charge for the year	(25,582)	(24,905)	-	-
Prior year under provision of current tax	126	70	-	-
Paid during the year	47,977	7,600	5,069	5,265
Reclassification from withholding tax	-	15,053	-	-
At end of year	365,267	342,746	52,016	46,947

14 Earnings per share

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

	2022 Shs'000	2021 Shs'000
Net profit/(loss)loss for the year attributable to shareholders	265,570	(682,955)
Number of ordinary shares in issue (000's)	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	384,614
Basic earnings per share	0.69	(1.78)
Weighted earnings per share	0.69	(1.78)

Notes (continued)

15 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 2022 (2021: Nil) has been proposed. No interim dividend was paid during the year (2021: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2022 (2021: 384,614,168).

(b) Reconciliation of dividends payable – Group and Company:

	2022 Shs'000	2021 Shs'000
At start of year	246	6,361
Dividends paid during the year	-	(6,115)
At end of year	246	246

16 Cash and balances with banks

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
Cash at hand	544,451	538,629	-	-
Balances with commercial banks	76,894	364,260	15,387	2,317
Placements with other banks (Note 17)	12,346	33,311	-	-
Balances with Central Bank of Kenya:				
- Unrestricted	-	209,573	-	-
- Restricted (Cash Reserve Ratio)	1,563,593	1,595,612	-	-
	2,197,284	2,741,385	15,387	2,317
12-month ECL:				
At start of year	(19)	(550)	-	-
Re-measurement during the year	16	531	-	-
Allowance for impairment losses	(3)	(19)	-	-
	2,197,281	2,741,366	15,387	2,317

Notes (continued)

16 Cash and balances with banks (continued)

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with banks	2,184,939	2,708,074	15,387	2,317
Placement with other banks	12,346	33,311	-	-
	2,197,285	2,741,385	15,387	2,317

Movement in restricted balances:	2022	2021
	Shs'000	Shs'000
Group		
At start of year	1,595,612	1,688,236
Movement during the year	(32,019)	(92,624)
At end of year	1,563,593	1,595,612

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 2022, the Cash Reserve Ratio was 4.25% (2021: 4.25%) 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 4.25%. The restricted balances above are not available for use in the Group's day to day operations.

16 (b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Group	2022	2021
	Shs' 000	Shs' 000
Cash and cash equivalents (Note 16(a))	633,691	1,204,273
Liquid investments:		
Investment in government securities (Note 18)	8,540,137	6,550,168
Borrowings - repayable within one year (Note 30)	(3,330,011)	(3,888,548)
Borrowings - repayable between one and five year (Note 30)	(836,550)	(409,801)
Borrowings - repayable after five year (Note 30)	(151,196)	-
Net cash	4,856,071	3,456,092

Notes (continued)

16 (b) Net debt reconciliation (continued)

Group	2022 Shs' 000	2021 Shs' 000
Cash and liquid investments	9,173,828	7,754,441
Gross debt - fixed interest rates	(2,618,085)	(2,450,733)
Gross debt - variable interest rates	(1,699,672)	(1,847,616)
	4,856,071	3,456,092

	Liquid assets		Borrowings		Leases	Total
	Cash and cash equivalents	Investment securities	Due within 1 year	Due after 1 year	Lease liabilities	
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2022						
At start of year	1,185,773	6,550,168	(779,648)	(3,518,701)	(579,404)	2,858,188
Cash flows	(554,127)	1,989,820	(2,550,363)	2,530,951	(169,558)	1,246,723
Non-cash movements	-	149	-	-	(24,642)	(24,493)
Foreign exchange	2,045	-	-	-	-	2,045
At end of year	633,691	8,540,137	(3,330,011)	(987,750)	(773,604)	4,082,463
Year ended 31 December 2021						
At start of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055
Cash flows	126,070	(295,150)	(1,736,552)	1,886,032	142,964	(696,238)
Non-cash movements	-	(299)	-	-	(71,617)	(71,916)
Foreign exchange	1,287	-	-	-	-	1,287
At end of year	1,185,773	6,550,168	(3,888,548)	(409,801)	(579,404)	2,858,188

Notes (continued)

17 Placements with other banks

	Group	
	2022 Shs'000	2021 Shs'000
Placements with other banks	12,349	33,330
Less: Allowance for impairment losses	(3)	(19)
	12,346	33,311

The weighted average effective interest rate on placements with other banks was 3.75% (2021: 3.53%).

18 Investment in government securities

Held at amortised cost	Group	
	2022 Shs'000	2021 Shs'000
Treasury bills and bonds	3,779,143	1,825,422
FVOCI		
Treasury bonds	4,760,994	4,724,746
	8,540,137	6,550,168

The weighted average effective interest rate on investment securities at 31 December was 12.29% (2021: 11.70%).

The table below shows the movement in the investments in the year:

	Group	
Amortised cost	2022 Shs'000	2021 Shs'000
At start of year	1,825,422	1,941,696
Purchases during the year	2,178,850	-
Sales/maturities during the year	(225,000)	(115,912)
LLess: Allowance for impairment losses	(129)	(362)
At end of year	3,779,143	1,825,422
Fair value through other comprehensive income (FVOCI)		
At start of year	4,724,746	5,163,921
Purchases during the year	9,044,559	8,350,050
Sales/maturities during the year	(8,930,974)	(8,788,926)
(Loss on fair valuation	(77,337)	(299)
At end of year	4,760,994	4,724,746
Total investment securities	8,540,137	6,550,168

Notes (continued)

18 Investment in government securities (continued)

Maturity analysis for the investments in government securities	Group	
	2022 Shs'000	2021 Shs'000
Maturing within 90 days	215,000	40,000
Maturing after 90 days	6,390,137	6,510,168
Total	8,540,137	6,550,168

19 Property and equipment

(a) Group

Year ended 31 December 2022	Freehold land Shs'000	Buildings Shs'000	Furniture, fixtures, equipment & motor vehicles Shs'000	Total Shs'000
Cost or valuation				
At start of year	62,000	905,183	1,276,732	2,243,915
Additions	-	-	19,915	19,915
Disposals	-	-	(784)	(784)
Transfer to Investment property		(580,000)		(580,000)
At end of year	62,000	325,183	1,295,863	1,683,046
Comprising:				
At cost	52,000	225,183	1,295,863	1,573,046
At valuation	10,000	100,000	-	110,000
	62,000	325,183	1,295,863	1,683,046
Accumulated depreciation				
At start of year	-	52,535	1,057,415	1,109,950
Charge for the year	-	6,442	35,506	41,948
Disposals	-	-	(784)	(784)
Transfers	-	(10,910)	-	(10,910)
At end of year	-	11,499	1,092,137	1,103,636
Net book value at end of year	62,000	346,521	170,889	579,410

Notes (continued)

19 Property and equipment (continued)

(a) Group

Year ended 31 December 2021	Freehold land Shs'000	Buildings Shs'000	Furniture, fixtures, equipment & motor vehicles Shs'000	Total Shs'000
Cost or valuation				
At start of year	62,000	905,183	1,267,451	2,234,634
Additions	-	-	9,727	9,727
Disposals	-	-	(446)	(446)
At end of year	62,000	905,183	1,276,732	2,243,915
Comprising:				
At cost	52,000	655,183	1,276,732	1,983,915
At valuation	10,000	250,000	-	260,000
	62,000	905,183	1,276,732	2,243,915
Accumulated depreciation				
At start of year	-	36,956	959,998	996,954
Charge for the year	-	15,579	98,020	113,599
Disposals	-	-	(166)	(166)
Transfers	-	-	(437)	(437)
At end of year	-	52,535	1,057,415	1,109,950
Net book value at end of year	62,000	852,648	219,317	1,133,965

Notes (continued)

19 Property and equipment (continued)

The Buildings were revalued on 31 December 2022 by Tyson's Limited at Kes 850,000,000, a firm of independent professional valuers based on open market value approach. During the year the Bank transferred 60% of Rehani Building to Investment property. The motor vehicle was revalued at 860,000 in year 2018 after being fully depreciated while still in use. The net book value of properties at their historical cost is as follows:

	2022 Shs'000	2021 Shs'000
Free hold land	52,000	52,000
Buildings	259,893	555,308
	311,893	607,308

The historical cost of free hold land is Shs 52,000,000 and buildings is Shs 655,290,000. During the year 60% of the cost building cost was transferred to investment property.

Included in equipment are assets with a gross value of Shs 680,987,412 (2020: Shs 680,987,412) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of Shs 85,123,426 (2021: Shs 85,123,426). Revaluation of the Bank's assets is done after every 3 years.

The net book value of the revalued motor vehicle at its historical cost is as follows:

	2022 Shs'000	2021 Shs'000
Motor vehicle	344	344

(b) Company

	Furniture, fixtures, equipment & motor vehicles	
	2022 Shs'000	2021 Shs'000
Cost or valuation		
At start of year	919	801
Additions	807	118
At end of year	1,727	919
Accumulated depreciation		
At start of year	517	383
Charge for the year	210	134
At end of year	727	517
Net book value at end of year	998	402

Notes (continued)

20 Intangible assets

	Group	
	2022 Shs'000	2021 Shs'000
Cost:		
At start of year	1,908,149	1,860,391
Additions during the year	52,764	47,758
At end of year	1,960,913	1,908,149
Accumulated amortisation		
At start of year	1,388,276	1,157,137
Amortisation during the year	240,045	231,139
At end of year	1,628,321	1,388,276
Net book value at end of year	332,592	519,873

Included in the intangible assets is the Group's banking subsidiary, HFC Limited Core Banking Software at a cost of Shs 1,294,905,015 that was rolled out on 1 January 2016, whose estimated useful life is 8 years.

21 Investments in subsidiary companies and ventures

(a) Subsidiaries

		Group	
		2022 Shs'000	2021 Shs'000
HFC Limited	100%	8,603,662	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,243,912	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	5,000	5,000
		9,857,594	9,767,594

Notes (continued)

21 Investments in subsidiary companies and ventures (continued)

(b) Investment in Joint ventures & associate

		2022	2021
At start of year		**Shs'000**	**Shs'000**
Kahawa Downs Limited	50%	112,101	119,971
Precious Heights Limited	50%	86,040	88,101
Richland Development Limited	50%	96,768	96,861
Claycity Limited	33%	485,968	489,330
Theta Dam Estate Limited	50%	838,560	765,816
		1,619,438	1,560,079
Group's share of loss in joint ventures			
Kahawa Downs Limited	50%	(936)	(7,870)
Precious Heights Limited	50%	(2,985)	(2,060)
Richland Development Limited	50%	3,465	(94)
Claycity Limited	33%	(262)	(3,362)
Theta Dam Estate Limited	50%	(5,547)	(2,354)
		(6,265)	(15,740)

The Group has classified its interest in these entities as a joint venture, which is equity accounted.

Notes (continued)

21 Investments in subsidiary companies and ventures (continued)

(b) Joint ventures (continued)

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.

Group **Year ended 31 December 2022**	**Kahawa Development Limited**	**Precious Heights Limited**	**Richland Development Limited**	**Claycity Limited**	**Theta Dam Estate Limited**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	67	3,283	9,807	2,284	2,308	17,749
Operating costs	(1,938)	(9,253)	(2,877)	(3,080)	(13,402)	(30,550)
Income tax expense	-	-	-	-	-	-
Loss and other comprehensive income	(1,871)	(5,970)	6,930	(796)	(11,094)	(12,801)
Group share of net loss	(936)	(2,985)	3,465	(262)	(5,547)	(6,265)
Net assets	222,331	166,112	200,466	1,471,834	1,666,028	3,726,771
Groups share of net assets	111,165	83,056	100,233	485,705	833,014	1,613,173
Group's interest in net assets at the beginning of the year	112,101	86,041	96,768	485,968	763,462	1,544,339
Net asset adjustment	-	-	-	-	75,099	75,099
Group share of current year total comprehensive income	(936)	(2,985)	3,465	(262)	(5,547)	(6,265)
	111,165	83,056	100,233	485,706	833,013	1,613,173

Notes (continued)

21 Investments in subsidiary companies and ventures (continued)

(b) Joint ventures (continued)

Group Year ended 31 December 2021	Kahawa Development Limited	Precious Heights Limited	Richland Development Limited	Claycity Limited	Theta Dam Estate Limited	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	5,454	373	2,946	177	-	8,950
Operating costs	(21,194)	(6,259)	(2,572)	(10,312)	(4,709)	(45,046)
Income tax expense	-	1,766	(561)	(53)	-	1,152
Loss and other comprehensive income	(15,740)	(4,120)	(187)	(10,188)	(4,709)	(34,944)
Group share of net loss	(7,870)	(2,060)	(93)	(3,362)	(77,355)	(90,740)
Net assets	224,202	172,082	193,536	1,472,630	1,526,923	3,589,373
Groups share of net assets	112,101	86,041	96,768	485,968	763,461	1,544,339
Group's interest in net assets at the beginning of the year	119,971	88,101	96,861	489,330	840,816	1,635,079
Group share of current year total comprehensive income	(7,870)	(2,060)	(93)	(3,362)	(77,355)	(90,740)
	112,101	86,041	96,768	485,968	763,462	1,544,340

Notes (continued)

22 Loans and advances at amortised cost

Group	2022 Shs'000	2021 Shs'000
Gross loans and advances to customers	39,730,864	38,049,266
Less: Provision for impairment losses	(3,431,689)	(3,356,641)
Net loans and advances to customers	36,299,175	34,692,625
Current	8,249,203	6,030,247
Non-current portion	31,481,661	32,019,019
Gross loans and advances	39,730,864	38,049,266
Stage 1 loans	26,009,720	22,086,457
Stage 2 loans	5,234,210	7,290,049
Stage 3 loans	8,486,934	8,672,760
	39,730,864	38,049,266
Stage 1 impairment	(102,970)	(84,571)
Stage 2 impairment	(299,976)	(399,871)
Stage 3 impairment	(3,028,743)	(2,943,618)
	(3,431,689)	(3,428,060)
Net loans and advances	36,299,175	34,621,206

Notes (continued)

22 Loans and advances at amortised cost (continued)

Provision for impairment of loans and advances

Year ended 31 December 2022	Stage 1 12-month ECL Shs'000	Stage 2 Lifetime ECL Not credit impaired Shs'000	Stage 3 Lifetime ECL Shs'000	Total Shs'000
At start of the year	84,571	399,871	2,943,618	3,428,060
Movements during the year:				
Transfer to 12 months ECL	3,912	(2,017)	(1,895)	-
Transfer to lifetime ECL not credit impaired	(16,562)	18,411	(1,849)	-
Transfer to lifetime ECL credit impaired	(45,119)	(124,591)	169,710	-
Net remeasurement of loss allowance	34,933	(19,370)	213,273	228,836
Net financial assets originated	64,702	89,461	18,417	172,580
Financial assets derecognised	(23,467)	(61,789)	(312,531)	(397,787)
Loss allowance as at 31 December	102,970	299,976	3,028,743	3,431,689

Year ended 31 December 2021				
At start of the year	87,785	349,846	3,203,354	3,640,985
Movements during the year:				
Transfer to 12 months ECL	61,241	(45,786)	(15,455)	-
Transfer to lifetime ECL not credit impaired	(10,747)	46,772	(36,025)	-
Transfer to lifetime ECL credit impaired	(1,016)	(4,520)	5,536	-
Net remeasurement of loss allowance	(89,511)	(95,805)	1,323,931	1,138,615
Net financial assets originated	52,641	164,883	142,509	360,033
Financial assets derecognised	(15,822)	(15,519)	(893,407)	(924,748)
Write offs and transfer to shortfalls	-	-	(786,825)	(786,825)
Loss allowance as at 31 December	84,571	399,871	2,943,618	3,428,060

Notes (continued)

22 Loans and advances at amortised cost (continued)

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Year ended 31 December 2022	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Gross carrying amount at start of year	22,086,457	7,290,049	8,672,760	38,049,266
Transfer to 12 months ECL	1,074,041	(716,974)	(357,067)	-
Transfer to lifetime ECL not credit impaired	(663,556)	782,216	(118,660)	-
Transfer to lifetime ECL credit impaired	(373,914)	(565,075)	938,989	-
Net remeasurement	(2,555,272)	(1,085,881)	80,754	(3,560,399)
Net financial assets originated	7,490,033	1,141,996	87,204	8,719,233
Financial assets derecognised	(1,048,069)	(1,612,121)	(622,012)	(3,282,202)
Write offs	-	-	(195,034)	(195,034)
Gross carrying amount at end of year	26,009,720	5,234,210	8,486,934	39,730,864
Year ended 31 December 2021				
Gross carrying amount at start of year	24,478,632	6,558,292	10,798,847	41,835,771
Transfer to 12 months ECL	1,614,743	(1,563,171)	(51,572)	-
Transfer to lifetime ECL not credit impaired	(2,193,566)	2,307,147	(113,581)	-
Transfer to lifetime ECL credit impaired	(86,215)	(295,908)	382,123	-
Net remeasurement	(2,023,615)	33,395	(333,792)	(2,324,012)
Net financial assets originated	5,381,775	1,486,267	276,304	7,144,346
Financial assets derecognised	(5,085,297)	(1,235,973)	(2,285,569)	(8,606,839)
Gross carrying amount at end of year	22,086,457	7,290,049	8,672,760	38,049,266

The weighted average effective interest rate on loan advances to customers as at 31 December 2022 was 9.9% (2021: 13.4%).

Notes (continued)

22 Loans and advances at amortised cost (continued)

Loss allowance on financial instruments

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

	Loans and advances to customers	Guarantees and letters of credit	Cash and cash equivalents	Other financial assets and receivables	Investment in Government securities	Total
	Shs'000	Shs'000	Shs'000	Shs'000		Shs'000
Year ended 31 December 2022						
Net re-measurement of loss allowance	228,836	(7,841)	(16)	3,557	(233)	224,303
New financial assets originated or purchased	172,580	-	-	-	-	172,580
Financial assets derecognized	(397,787)	-	-	-	-	(397,787)
Write offs	195,034	-	-	-	-	195,034
	198,663	(7,841)	(16)	3,557	(233)	194,130

Year ended 31 December 2021	Loans and advances to customers	Guarantees and letters of credit	Cash and cash equivalents	Other financial assets and receivables	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Net re-measurement of loss allowance	1,076,930	12,321	(169)	8,942	1,098,024
Financial assets derecognised	(924,748)	-	-	-	(924,748)
New financial assets originated or purchased	108,939	-	-	-	108,939
Modification losses	(1,570)	-	-	-	(1,570)
	259,551	12,321	(169)	8,942	280,645

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

	2022			2021		
	Gross	Loss allowance	Carrying amount	Gross	Loss allowance	Carrying amount
Segment	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Commercial	5,174,815	(304,075)	4,870,740	3,988,518	(352,472)	3,636,046
IPF	25,342	(960)	24,382	30,764	(997)	29,767
Micro	10	(6)	4	10	(6)	4
Mortgage	23,849,815	(817,438)	23,032,377	24,138,451	(927,455)	23,210,996
Projects	8,247,003	(2,077,930)	6,169,073	8,955,214	(1,894,928)	7,060,286
Unsecured	2,433,879	(231,280)	2,202,599	936,309	(180,783)	755,526
	39,730,864	(3,431,689)	36,299,175	38,049,266	(3,356,641)	34,692,625

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

	2022						
	Mortgage	Projects	Commercial	IPF	Micro	Unsecured	Total
Stage 3	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	666,500	1,939,688	204,752	901	6	131,771	2,943,618
Remeasurement	(19,984)	17,306	123,244	(75)	-	(35,356)	85,135
At end of year	646,516	1,956,994	327,996	826	6	96,415	3,028,753
Stage 1 & 2							
At start of year	157,475	122,598	157,157	186	-	47,026	484,442
Remeasurement	7,720	4,066	(137,036)	(52)	-	43,796	(81,506)
At end of year	165,195	126,664	20,121	134	-	90,822	402,936

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

				2021			
	Mortgage	Projects	Commercial	IPF	Micro	Unsecured	Total
Stage 3	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,005,815	1,855,022	229,154	664	11	112,688	3,203,354
Remeasurement	(137,110)	95,378	62,139	(267)	-	26,670	46,810
At end of year	868,705	1,950,400	291,293	397	11	139,358	3,250,164
Stage 1 & 2							
At start of year	294,585	27,219	85,284	453	-	20,356	427,897
Remeasurement	(339,315)	84,666	(86,088)	237	(5)	19,085	(321,420)
At end of year	(44,730)	111,885	(804)	690	(5)	39,441	106,477

Notes (continued)

23 Other assets

	Group		Company	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	1,064,666	521,542	42,655	16,825
Less: Allowance for impairment losses	(37,995)	(40,504)	(6,970)	(6,970)
	1,026,671	481,038	35,685	9,855
Prepayments	243,274	162,503	1,007	500
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets Deposits	121,766	381,200	-	-
Foreclosed assets	875,688	-	-	-
	2,317,399	1,074,741	36,692	10,355
12-month ECL:				
At start of year	(40,504)	(24,825)	(6,970)	-
Re-measurement during the year	2,509	(15,679)	-	(6,970)
At end of year	(37,995)	(40,504)	(6,970)	(6,970)

Other assets are settled no more than 12 months after the reporting date. All the balances are non-interest bearing.

24 Investment in property fund

	2022	2021
	Shs'000	Shs'000
Assets as at start of the year	380,207	324,251
Impairment losses	-	55,956
As at end of the year	380,207	380,207

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.

25 Inventories

	Group	
	2022	2021
	Shs'000	Shs'000
Inventories (housing units)	414,604	462,658

Inventories held comprise of 2- and 3-bedroom units at Komarock Heights.

Notes (continued)

26 Deferred income tax

(a) Group

Year ended 31 December 2022	At start of year	Recognised in profit or loss	Recognised in other comprehensive income	Prior year under provision	At end of year
	Shs'000	Shs' 000	Shs'000	Shs'000	Shs'000
Property and equipment	(147,808)	58,446	-	-	(89,362)
Revaluation surplus	(53,300)	-	(121,288)	-	(174,588)
Financial assets at FVOCI	(6,316)	-	23,201	90	16,975
Investment property – Restated (Note 38)	(44,454)	-	-	-	(44,454)
Other general provisions	17,382	(8,689)	-	-	8,693
Right of use asset	93,206	8,465	-	-	101,671
Unrealised exchange losses	1	-	-	-	1
Trading losses	725,309	16,260	-	24,971	766,540
General provision on loans and advances	983,973	1,089	-	-	985,062
Deferred income tax	1,567,993	75,571	(98,087)	25,061	1,570,538

Notes (continued)

26 Deferred income tax (continued)

(a) Group

Year ended 31 December 2021	At start of year	Recognised in profit or loss	Recognised in other comprehensive income	Prior year under provision	At end of year
	Shs'000	Shs' 000	Shs'000	Shs'000	Shs'000
Property and equipment	(210,895)	63,087	-	-	(147,808)
Revaluation surplus	(53,230)	-	-	(70)	(53,300)
Financial assets at FVOCI	(6,406)	-	90	-	(6,316)
Other general provisions	(9,818)	27,200	-	-	17,382
Investment property – Restated (Note 38)	(59,454)	15,000	-	-	(44,454)
Right of use asset	(32,815)	126,021	-	-	93,206
Unrealised exchange losses	1	-	-	-	1
Trading losses	568,859	155,505	-	945	725,309
General provision on loans and advances	1,049,363	(65,390)	-	-	983,973
Deferred income tax	1,245,605	321,423	90	875	1,567,993

Year of origination	Loss brought forward	Taxable losses	Loss carried forward
2017	(50,110)	(200,670)	(250,780)
2018	(250,780)	(436,510)	(687,290)
2019	(687,290)	(426,784)	(1,114,074)
2020	(1,114,074)	(782,123)	(1,896,197)
2021	(1,896,197)	(273,337)	(2,169,534)
2022	(2,169,534)	(297,157)	(2,466,691)

Notes (continued)

26 Deferred income tax (continued)

(b) Company

Year ended 31 December 2022	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(14)	(25)	(39)
Trading losses	9,466	(180)	9,286
General provisions	40,325	268	40,593
Net deferred tax	49,777	63	49,840
Year ended 31 December 2021			
Property and equipment	(27)	13	(14)
Trading losses	10,978	(1,512)	9,466
General provisions	26,253	14,072	40,325
Net deferred tax	37,204	12,573	49,777

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
2021	(115,584)	(43,754)	(159,338)	2030
2022	(159,338)			

27 Deposits from customers

	Group 2022 Shs'000	2021 Shs'000
Government and parastatals:		
Payable within 90 days	10,605,604	2,704,529
Payable after 90 days and within one year	505,936	550
Payable after one year	1,487	4,937,695
Private sector and individuals:		
Payable within 90 days	14,164,528	17,865,571
Payable after 90 days and within one year	3,120,005	5,942,167
Payable after one year	11,399,381	6,264,402
	39,796,941	37,714,914

Notes (continued)

27 Deposits from customers (continued)

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2022 was 4.70% (2021: 4.03%). The carrying value of customer deposits approximates their fair value.

The summary of terms and conditions for the various categories of deposits are below:

(a) Mortgage scheme deposits – These are deposits under scheme arrangements where an employer has provided funds for onward lending to their staff within set rules and regulations. Funded schemes have a lower interest rate than the market whereas for unfunded schemes the interest rates are usually at commercial rates and any discount on rates is based on volumes.

(b) Fixed term deposits – This account targets both individuals and corporates that will not need to access their funds for duration of time which is usually from 1 to 12 months. The minimum operating balance is Shs 50,000.

(c) Housing development bond – This account targets individuals who wish to save towards home ownership while at the same time earning attractive interest rates on their deposits. interest earned is subjected to a 10% withholding tax consolidated amount of up to Shs 300,000 as opposed to the normal rate of 15%. The minimum operating balance is Shs 50,000.

(d) Transactional deposits – These accounts are characterized by unlimited access to funds and they earn no interest. They attract fees based on transactions. The minimum opening balance is Shs 200.

(e) Current accounts – It allows unlimited access to funds through various channels with the cheque book being the unique instrument used to access the funds. It earns no interest. The minimum opening balance is Shs 2,000.

(f) Savings accounts - A savings account that earns relatively higher interest. It has limited access to funds. There's no minimum operating balance.

(b) Deposits from banks

	Group	
	2022 Shs'000	2021 Shs'000
Money market deposits	24,317	601,606

The weighted average interest rate on deposits from banks was 3.75% (2021: 4.8%).

(c) Deposits from CBK

	Group	
	2022 Shs'000	2021 Shs'000
Repurchase agreement	499,777	-

The Banking subsidiary entered into a repurchase agreement with the Central Bank of Kenya. The repurchase agreement is secured by investment in government securities. The weighted average interest rate on repurchase agreement was 9.9% (2021:Nil).

Notes (continued)

28 Other liabilities

	Group		Company	
	2022 Shs'000	2021 Shs'000	2022 Shs'000	2021 Shs'000
House sales deposits	383,178	303,827	-	-
Withholding tax payable	114,064	77,154	-	-
Sundry creditors	53,055	35,232	-	-
Trade creditors	1,085,855	417,786	-	-
Insurance premium payable	338,896	328,637	-	-
Contractors payables	262,201	259,437	-	-
Asset retirement obligation – right of use asset	20,328	18,383	-	-
Other payables	828,990	218,414	394,058	341,828
	3,086,567	1,658,870	394,058	341,828

29 Investment property

The Group has changed the accounting policy on investment property in the year. We have further explained the change in accounting policy under Note 2(a).

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the Group are classified as investment properties and are non-current assets. Investment properties are carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are presented in the income statement in the year to which they relate.

During the year, management has reclassified the foreclosed properties held under investment property to other assets. This is due to management intention is to sell these assets as opposed to holding them for longer term appreciation. The investment property had been held at cost in the previous year.

The Group has also transferred 60% of the Rehani land and building that are not owner occupied to investment property in the year.

Notes (continued)

29 Investment property (continued)

	2022 Shs'000	2021 Restated Shs'000	2020 Restated Shs'000
Fair value			
At start and end of year	1,000,000	1,100,000	750,554
Prior year restatement (Note 38)- Fair value gain	-	-	349,446
Transfer from right of use assets	270,000	-	-
Transfer from property and equipment	580,000	-	-
Fair value loss	(1,000)	(100,000)	-
	1,849,000	1,000,000	1,100,000
Accumulated depreciation			
At start of year	-	-	31,850
Charge for the year	-	10,545	15,067
Prior year restatement (Note 38)		(10,545)	(46,917)
	-	-	-

Foreclosed properties	2022 Shs'000	2021 Shs'000
Cost		
At start of year	735,395	582,798
Additions	-	171,756
Disposals	(106,151)	(19,159)
Transfers to other assets	(629,244)	-
At end of year	-	735,395
Accumulated depreciation		
At start of year	36,613	23,167
Charge for the year	(36,613)	13,446
At end of year	-	36,613
Net carrying amount at end of year	-	698,782
Investment property reconciliation		
Investment property at fair value	1,849,000	1,000,000
Foreclosed properties at cost	-	698,782
Total investment property	1,849,000	1,698,782

Notes (continued)

30 Borrowings

	Group	
	2022	2021
	Shs'000	Shs'000
European Investment Bank (EIB)	1,309,816	1,523,134
Shelter Afrique	527,690	615,376
East African Development Bank	246,700	452,691
Arab Bank for Economic Development in Africa	147,505	209,549
Britam	1,024,480	1,022,691
Kenya Mortgage Refinance Company	1,061,566	474,908
	4,317,757	4,298,349
Current	3,330,011	3,888,548
Non-current portion	987,746	409,801
	4,317,757	4,298,349
Movement during the year		
At start of year	4,298,349	3,628,227
Receipt	700,000	1,514,574
Interest expense charged during the year	-	-
Payments on interest	-	-
Payments on principal	(680,592)	(844,452)
At end of year	4,317,757	4,298,349

Notes (continued)

30 Borrowings (continued)

During the year, the Bank did not default on any of the following loan repayment obligations from all the existing lenders.

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Capital Adequacy Ratio	Minimum of 14.5%	12.20%
	Cost to income ratio	Maximum of 98%	96.9%
	Investment in land and building ratio	Maximum of 20%	42.75%
East African Development Bank (EADB)	Capital Adequacy Ratio	Minimum of 14.5%	12.20%
	Single Obligor Ratio	Minimum of 25%	33.82%
	Single Insider Ratio	Maximum of 20%	47%
	Investment in land and building ratio	Maximum of 20%	42.75%
Arab Bank for Economic Development in Africa (BADEA)	Capital Adequacy Ratio	Minimum of 14.5%	12.20%
Britam	Capital Adequacy Ratio	Minimum of 14.5%	12.20%
	Single Obligor Ratio	Maximum of 25%	33.82%
	Single Insider Ratio	Maximum of 20%	47%
European Investment Bank (EIB)	Capital Adequacy Ratio	Minimum of 14.5%	12.20%
	Non Performing loans to Total Loans Ratio	Minimum of 15%	21.04%
	Open Exposure Ratio	Maximum of 30%	56.77%

Notes (continued)

30 Borrowings (continued)

31 December 2022 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	1,309,819	1,309,819	-	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	527,691	527,691	-	9.29%	28 December 2015	31 January 2026
Britam	1,024,480	1,024,480	-	14.41%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	1,061,566	136,497	925,069	5.00%	31 March 2021	31 March 2028
East African Development Bank (EADB)	246,700	246,700	-	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	147,501	84,824	62,677	9.27%	5 March 2018	23 December 2028
	4,317,757	3,330,011	987,746			

31 December 2021 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	1,523,134	1,523,134	-	4.32%	24 July 2017	1 October 2026
Shelter Afrique Limited	615,376	615,376	-	6.51%	28 December 2015	31 January 2026
Britam	1,022,691	1,022,691	-	12.94%	01 February 2021	01 February 2028
East African Development Bank (EADB)	452,691	452,691	-	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	209,549	209,549		5.16%	5 March 2018	23 December 2028
Kenya Mortgage Refinance Company	474,908	65,107	409,801	5.00%	31 March 2021	31 March 2028
	4,298,349	3,888,548	409,801			

The interest rate for EIB and EADB loan is fixed whereas for the other loans, interest rate is based on Libor + margin. There are no assets held as security for the borrowings.

Notes (continued)

31 Capital and reserves

(b) Share capital

	Group		Company	
	2022 Shs' 000	2021 Shs' 000	2022 Shs' 000	2021 Shs' 000
Authorised – 500,000,000 (2021: 500,000,000) ordinary shares of Shs 5 each	2,500,000	2,500,000	2,500,000	2,500,000
Issued and fully paid - 384,614,168 (2020: 384,614,168) ordinary shares of Shs 5 each	1,923,071	1,923,071	1,923,071	1,923,071
Movement in ordinary shares				
At start and end of year (384,614,168)	384,614	384,614	384,614	384,614
In monetary terms:				
At start and end of year	1,923,071	1,923,071	1,923,071	1,923,071

(a) Share capital (continued)

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2022 (2021: 384,614,168). In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

(b) Share premium

This reserve arises when the shares of the Company are issued at a price higher than the nominal (Par) value. In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

	2022 Shs' 000	2021 Shs' 000
At start of year	4,343,512	4,343,512
Issue of shares at a premium	-	-
At end of year	4,343,512	4,343,512

Notes (continued)

31 Capital and reserves (continued)

(c) Revaluation reserve

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

	2022 Shs'000	2021 Shs'000
At start of year	1,012,125	1,012,125
Change in fair value during the period:		
Revaluation gain on Land	404,292	-
Deferred income tax	(121,288)	-
At end of year	1,295,129	1,012,125

(d) Statutory credit risk reserve

The loan loss reserve represents excess of the loans and advances impairment provision determined in accordance with the Central Bank of Kenya's prudential guidelines compared with the requirements of IFRS 9 - Financial instruments. These reserves are not available for distribution.

The movement during the year is as below:

	2022 Shs' 000	2021 Shs' 000
At start of year	3,413,517	3,653,888
Transfer	283,058	(240,371)
At end of year	3,696,575	3,413,517

(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 until the investment is derecognised when the net changes are recycled to profit or loss.

	2022 Shs'000	2021 Shs'000
At start of year	13,763	13,972
Change in fair value during the year:		
Fair value movement on treasury bonds classified as FVOCI	(77,337)	(299)
Less: Deferred income tax	23,201	90
At end of year	(40,373)	13,763

Notes (continued)

32 Government of Kenya income notes and loans

Government of Kenya – Income Notes	52,860	52,860

33 Cash flows from operating activities

	Note	Group 2022 Shs'000	2021 Shs'000 Restated
Profit/ (loss) before income tax		190,394	(965,208)
Adjustments for:			
Group's share of loss from investments in joint ventures	20	6,265	15,740
Interest expense on lease liabilities	35	24,309	71,616
Depreciation of property and equipment	18	41,948	113,599
Amortisation of right of use asset	35	78,786	86,685
Depreciation of investment property	28	-	14,000
Amortisation of intangible assets	19	240,045	231,139
Property fund impairment	23	-	(55,956)
Gain on sale of property and equipment		-	(1,192)
Unrealised exchange gains on cash		-	-
Increase in customer and banks deposits		1,504,738	(2,818,088)
Increase/(decrease) in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	15	32,019	92,624
Increase in deposit with Central Bank		499,777	-
Movement in loans and advances to customers		(1,606,550)	2,305,848
Investment in government securities		(1,892,306)	335,150
Decrease in inventory		48,054	51,764
Increase in other assets		(708,096)	(91,351)
Increase in other liabilities		1,427,697	280,184
Fair value loss on derivatives		(15,714)	28,982
Fair value loss on investment property	28	1,000	100,000
Loss on modification on lease liabilities		2,371	-
Exchange rate difference		-	1,287
Net cash flows from operating activities before tax		(125,263)	(203,177)
Income tax paid		(47,977)	(7,669)
Net cash flows from operating activities		173,240	(210,846)

Notes (continued)

33 Cash flows from operating activities (continued)

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	Group	
	2022	2021
	Shs'000	Shs'000
Cash in hand and bank (Note 16 (a))	544,451	1,112,462
Balances due from banking institutions (Note 16 (a))	76,894	33,311
Placement	12,346	-
Investments maturing within 90 days (Note 18)	215,000	40,000
	848,691	1,185,773

	Company	
	2022	2021
	Shs'000	Shs'000
Profit/(Loss) before income tax	49,942	(34,070)
Depreciation on property and equipment	210	134
Impairment of investment in subsidiaries	-	-
Decrease in other assets	(26,335)	(8,712)
(Decrease) / Increase in other liabilities	85,130	41,167
Loss on sales of property and equipment	-	-
Net cash flows from operating activities before tax	108,947	(1,481)
Income tax paid	(5,069)	(5,265)
Net cash flows from operating activities	103,878	(6,746)

Analysis of cash and cash equivalents	2022	2021
Group	Shs'000	Shs'000
Cash in hand and bank (Note 15 (a))	544,451	1,112,462
Balances due from banking institutions (Note 15 (a))	89,240	33,311
Investments maturing within 90 days	215,000	40,000
	848,691	1,185,773

Notes (continued)

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

As at 31 December 2022, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2022 Shs'000	2021 Shs'000
Guarantees	366,154	976,588
Letters of credit	1,569,040	169,046
	1,935,194	1,145,634

Commitments contracted for at the reporting date but not recognised in the financial statements are as follows:

	2022 Shs'000	2021 Shs'000
Loans approved but not yet disbursed	1,416,322	1,214,932

Commitments contracted for at the reporting date but not recognised in the financial statements are as follows:

	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
31 December 2022					
Guarantees	366,154	-	-	-	366,154
Letters of credit	502,303	211,512	377,105	478,120	1,569,040
Loans approved but not yet disbursed	-	1,416,322	-	-	1,416,322
	868,457	1,627,834	377,105	478,120	3,351,516
31 December 2021					
Guarantees	36,080	151,015	615,480	174,013	976,588
Letters of credit	-	135,780	33,266	-	169,046
Loans approved but not yet disbursed	-	1,214,932	-	-	1,214,932
	36,080	1,501,727	648,746	174,013	2,360,566

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities

In the ordinary course of business, the Group is a defendant 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) against HFC Limited and others for a loss of Shs 120 million which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stockbrokers.

Sharok Kher Mohamed sued HFC Limited for selling his property by public auction in 2000. In 2015, the High Court awarded the plaintiff Shs 20 million plus interest from January 2000. HFC appealed against the judgement to the Court of Appeal. The Court of Appeal in 2019 upheld the judgement of the High Court. The amount as at date of Court of Appeal ruling was Shs 1.2 billion. During the year contact was established with the Claimant (Sharok Kher) and negotiations resulted in an agreed settlement of Shs 239 million. When served with notification of the settlement, the Advocate representing the Principal Debtor filed an application in the Supreme court on the issue of Representation. On 4 September 2020, the Supreme Court dismissed the application on the issue of Representation for want of jurisdiction. Following dismissal of the application, HF filed a consent entering judgement in favour of Sharok Kher in the sum of Shs. 239 million to be paid in instalments as set out in the Settlement Agreement. On 25 September 2020, the Supreme court adopted the said consent as an order of the court. The Bank continues to comply with the settlement terms, subject to the conservatory orders issued by the High Court placing a lien of the sum of Shs 65 Million out of the settlement sum of Shs 239 million.

35 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.

(a) Right-of-use assets

	2022 Shs' 000	2021 Shs' 000
At start of year	895,594	895,594
Remeasurement	(25,130)	-
Fair value gain transferred to revaluation reserves	404,292	-
Transfer of land to investment property	(270,000)	-
Accumulated depreciation	(512,143)	(439,105)
At end of year	492,613	456,489

Notes (continued)

35 Leases (continued)

(a) Right-of-use assets (continued)

	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Year ended 31 December 2022				
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
Remeasurement during the year		(25,130)	-	(25,130)
Fair value gain transferred to revaluation reserves	404,292	-	-	404,292
Transfer of land to investment property	(270,000)	-	-	(270,000)
	188,904	595,949	219,903	1,004,756
Accumulated depreciation				
At start of year	(12,894)	(354,096)	(72,115)	(439,105)
Charge for the year	(3,278)	(54,577)	(20,931)	(78,786)
Transfers	5,748	-	-	5,748
At end of year	(10,424)	(408,673)	(93,046)	(512,143)
	178,480	187,276	126,857	492,613

Notes (continued)

35 Leases (continued)

(a) Right-of-use assets (continued)

Year ended 31 December 2021

Cost	Leasehold land Shs'000	Office premises Shs'000	IT software Shs'000	Total Shs'000
At start of year and end of year	54,612	621,079	219,903	895,594
	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start of year	(12,432)	(295,361)	(44,627)	(352,420)
Charge for the year	(462)	(58,735)	(27,488)	(86,685)
At end of year	(12,894)	(354,096)	(72,115)	(439,105)
	41,718	266,983	147,788	456,489

At 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2022 Shs '000	2021 Shs '000
Less than one year	255,105	148,019
Between one and five years	349,762	654,111
More than five years	28,349	30,184
	603,217	832,314

(b) Amounts recognised in profit or loss

Leases under IFRS 16		
Interest on lease liabilities	24,309	71,616
Interest on asset retirement obligation	1,865	1,906
Depreciation of Right-of-use assets	78,786	86,685

(c) Amounts recognised in statement of cash flows

Total cash outflow for leases	141,723	139,959

Notes (continued)

35 Leases (continued)

(d) Lease liabilities

	2022 Shs '000	2021 Shs '000
Current	103,884	142,810
Non-current	330,604	436,593
	434,488	579,403
Movement in lease liabilities		
At start of year	576,552	650,751
Remeasurement (Principal)	(62,092)	-
Remeasurement (Interest)	37,442	-
Interest expense charged	24,309	71,616
Principal elements of lease payments	(141,723)	(142,964)
At end of year	434,488	579,403

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 Shs.28,715,126 (2021: Shs 42,342,000).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

Notes (continued)

35 Leases (continued)

(d) Lease liabilities (continued)

Operating leases under IFRS 16	2022 Shs'000	2021 Shs'000
Within one year	73,923	73,923
One to five years	134,116	134,116
After five years	-	-
	208,039	208,039

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.

36 Related parties and related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. HF Group Plc is listed on the Nairobi Securities Exchange. The largest shareholder of HF Group Plc is Britam Holdings Plc, which has 48% shareholding. There are other companies which are related to HFC Limited through common shareholdings or common directorships.

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group (including subsidiaries) and its employees. The Group considers the Board of Directors, executive and non-executive directors, to be key management personnel for the purposes of IAS 24 - related party disclosures.

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business.

(a) Loans to key management personnel

	Group	
	2022 Shs' 000	2021 Shs' 000
At start of year	200,933	159,741
Loans disbursed	63,219	82,943
Repayments	(90,561)	(41,751)
At end of year	173,591	200,933
Current	28,196	32,637
Non - current	145,395	168,296
Total	173,591	200,933

Notes (continued)

36 Related parties and related party transactions (continued)

(b) Loans to employees

	Group	
	2022 Shs'000	2021 Shs'000
At start of year	771,795	793,613
Loans advanced during the year	728,059	404,169
Loans repayments received	(450,363)	(425,987)
At end of year	1,049,491	771,795
Comprising:		
Mortgages and advances	633,528	565,842
Personal loans	397,653	193,653
Staff car loans	18,310	12,300
	1,049,491	771,795
Current	272,868	200,667
Non - current	776,623	571,128
Total	1,049,491	771,795

Interest income arising from these employees' facilities amounted to Shs 60,087,974 (2021: Shs 52,936,000).

Notes (continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group	
	2022 Shs' 000	2021 Shs' 000
Remuneration to executive directors:		
Company*	72,543	50,293
Group**	48,882	16,865
Remuneration to key management	105,214	140,807
	226,639	207,965

* Remuneration to the executive directors of the parent Company, HF Group Plc
** Remuneration to the executive directors of the subsidiary companies in the Group.

	Group	
	2022 Shs' 000	2021 Shs' 000
Remuneration to key management:		
Salaries and short-term benefits	105,214	140,807
Pension	15,782	21,162
	120,996	161,969

Compensation to senior management including executive directors for the year ended 31 December 2022 amounted to Shs 135,850,000 (2021: Shs 157,672,000).

(d) Transactions with Britam Insurance Company (Kenya) Limited

	Group	
	2022 Shs' 000	2021 Shs' 000
Bank balances held with HFC Limited	18,316	64,582

(e) Transactions with Britam Asset Managers Limited

Bank balances held with HFC Limited	-	-

Notes (continued)

36 Related parties and related party transactions (continued)

(f) Transactions with Housing Finance Development and Investment LLP

	Group	
	2022 Shs'000	2021 Shs'000
Bank balances held with HFC Limited	7,082	12,772
Loans and other receivables	1,640,233	2,168,658
	1,647,315	2,181,430

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	2,942	6,889

(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	170	86,263

(i) Transactions with Housing Finance Development and Investment Property Fund

Bank balances held with HFC Limited	18,476	175,792

(j) Transactions with Pioneer International College

Loans and advances held with HFC Limited	54,468	102,288

(k) Transactions with Agricultural and Industrial Holdings Ltd

Loans and advances held with HFC Limited	79,266	97,292

Notes (continued)

37 Derivative Liabilities

The Bank's derivative financial instruments are entered into for trading purposes. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously

	Notional contract amount Shs'000	2022 Shs'000	2021 Shs'000
Foreign exchange contracts	1,815,854	13,268	28,982

38 Restatement of financial statements

In the year 2022, the Group changed its accounting policy for investment property from cost to fair value measurement basis. Management's judgement is that fair value measurement provides more reliable and relevant information because it better presents management's intentios for the investment property and is consistent with local industry practice. It also makes the Group's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2021 have been restated. The effect of the change has been below

Statement of profit or loss and other comprehensive income

Year ended 31 December 2021	As previously stated Shs'000	Adjustment Shs'000	Restated Shs'000
Depreciation and amortisation	(455,968)	10,545	(445,423)
Fair value loss on investment property	-	(100,000)	(100,000)
Income tax expense	282,462	15,000	297,462
Loss for the year	(593,291)	(74,455)	(667,746)

Statement of financial position

As at 31 December 2020	As previously stated Shs	Adjustment Shs	Restated Shs
Investment property*	1,263,268	396,362	1,659,630
Deferred tax asset	1,305,059	(59,454)	1,245,605
Accumulated losses	(2,384,780)	336,908	(2,047,872)

*Reconciliation to the note- Investment property

Investment property- Note 29	
Fair value gain	349,446
Reversal of cumulative depreciation	46,916
	396,362

Notes (continued)

38 Restatement of financial statements (continued)

As at 31 December 2021	As previously stated	Adjustment	Restated
	Shs	Shs	Shs
Investment property	1,391,875	306,907	1,698,782
Deferred tax asset	1,612,447	(44,454)	1,567,993
Accumulated losses	(2,737,700)	262,453	(2,475,247)

*Reconciliation to the note- Investment property

Investment property- Note 29	
Fair value gain - 2020	396,362
Reversal of depreciation charge	10,545
Fair value loss on investment property	(100,000)
	306,907

Proxy Form

HF GROUP PLC
(the "Company")

CDC A/C No:
Shareholder No:
ID/Registration No:

FORM OF PROXY-2023 ANNUAL GENERAL MEETING(AGM)

Please complete in BLOCKS CAPITALS

I/We ____

of ____

Being a shareholder /shareholders of **HF Group Plc** hereby appoint ______________________________

____

of ____

or failing him/her the Chairlady of the meeting 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 Annual General Meeting of the company to be held electronically on Friday 26th May 2023 at 11.00 a.m 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 2022, together with the Chairman's, the Directors' and Auditor's Reports thereon.			
2)	In accordance with Article 105 of the Company's Articles of Association the following Directors retire by rotation and being eligible, offer themselves for re-election.			
	• Ms. Felister Kembi			
	• Dr. Peter Kahara Munga			
3)	Dr, Benson Wairegi, 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			
4)	In accordance with Article 104 of the Company's Articles of Association Ms. Ann Kimari retires at this meeting, and being eligible, offers herself for re-election.			
5)	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 individually to continue to serve as members of the said Committee:-			
	• Ms. Felister Kembi			
	• Dr. Anthony Omerikwa Opare			
	• Ms. Anne Kimari			

Proxy Form

6)	To appoint PricewaterhouseCoopers (PWC) Kenya as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.			
7)	To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2022.			
8)	To consider and if thought fit to pass the following resolution as a Special Resolution: **THAT** subject to receipt of requisite regulatory approvals, the Directors be generally authorised to allot new ordinary shares of Kshs.5 each not exceeding five per cent (5%) of the total issued share capital of the Company to the Employee Share Ownership Plan (ESOP) for such consideration and upon such terms and conditions as the Directors may determine. The authority granted under this resolution shall expire on 26th May 2025, noting that the Directors may notwithstanding the expiry of the authority conferred by this resolution allot ordinary shares of the Company where such allotment is done pursuant to an offer or agreement made before such expiry.			

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.

Proxy Form

Approval of Registration

I/WE approve to register to participate in the virtual AGM to be held on Friday 28th April 2023**.**

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.

Signature ______________________________**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 11:00 a.m. on 24th May 2023 at 11.00am 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 11.00 am on 24th May 2023 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.

Proxy Form

HF GROUP PLC
("Kampuni")

CDC A/C Namb.:
Namb. ya mwanahisa

ID/Namb ya usajili:

FOMU YA WAKALA – MKUTANO WA PAMOJA WA MWAKA (AGM) 2023

Tafadhali jaza kwa kutumia HERUFI KUBWA

Mimi/sisi ____

Kutoka ____

Kama mwanahisa/ wanahisa wa **HF Group Plc** twamteua ______________________________

____

Kutoka ____

au akikosa Mwenyekiti wa Mkutano kwa mujibu wa............ (idadi ya hisa) kama wakala wangu/ wetu kuhudhuria , kuwakilisha na kupiga kura kwa niaba yangu/ yetu wakati wa Mkutano wa Pamoja wa Mwaka utakaofanyika kwa mfumo wa kielektroniki siku ya **Ijumaa Mei 26, 2023** kuanzia **saa tano asubuhi** au kuahirishwa kwake.

MIMI/ SISI tunampa uhuru kupiga kura kuhusiana na azimio maalumu lifuatalo kama nilivyoonyesha/ tulivyoonyesha kwa kutia alama ya ''X'' panapostahili . endapo hakuna ishara zilizotolewa , wakala wangu wetu atapiga kura au kutofanya hivyo. Mimi/ Sisi twampa uhuru wakala Wangu/ Wetu kupiga kura (au kutopiga kura) jinsi atakavyoona inafaa kuhusiana na swala lolote litakalowasilishwa mbele ya mkutano.

Tafadhali weka alama ipasavyo ndani ya kijisanduku kilichoko hapa chini kumshauri wakala wako jinsi atakavyopiga kura.

Namb.	***Maazimio :***	***kubali***	**kataa**	**Kutopiga**
1)	Kupokea na endapo itakubaliwa, kupitisha mizania iliyofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2022 pamoja na ripoti kutoka kwa mwenyekiti, wakurugenzi na wakaguzi wa pesa			
2)	Kufungamana na kifungu nambari 105 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu kwa zamu na kwa kuwa hali inawaruhusu, wamejitokeza ili kuchaguliwa tena.			
	• Bi. Felister Kembi			
	• Dkt. Peter Kahara Munga			
3)	Dkt. Benson Wairegi, ambaye amefikisha miaka 70 anastaafu kwa zamu kwa mujibu wa maadili ya utawala wa mashirika na utoaji wa dhamana za hisa kwa umma ya mwaka 2015 na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena			
4)	Kwa mujibu wa kifungu nambari 104 cha sheria ushirika wa makampuni, Bi Ann Kimari atastaafu wakati wa mkutano huu na kwa kuwa hali inamruhusu anajitokeza kuchaguliwa tena			

Proxy Form

Namb.	***Maazimio :***	***kubali***	**kataa**	**Kutopiga**
5)	Kwa mujibu wa sehemu ya vipengele nambari 769 vya sheria za makampuni ya mwaka 2015, wakurugenzi wafuatao ambao ni wanachama wa kamati ya halmashauri ya kundi kuhusu uhasibu na hatari wachaguliwe tena kibnafsi ili kuendelea na jukumu la utoaji huduma kama wanachama wa kamati iliyotajwa;-			
	• Bi. Felister Kembi			
	• Dkt. Anthony Omerikwa Opare			
	• Bi . Anne Kimari			
6)	Kupitisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2022 kama ilivyofafanuliwa kupitia ripoti ya mwaka.			
7)	Kuwateua PricewaterhouseCoopers (PWC) Kenya kama wahasibu wa kampuni kwa mujibu wa sehemu ya 721 sheria za makampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu yao kufungamana na sehemu ya 724 ya sheria za kampuni iliyotajwa.			
8)	Kuzingatia na endapo itakubalika kupitisha azimio lifuatalo kama azimio la kipekee; **KWAMBA** Kwa kutegemea kupokea idhini za kisheria zinazohitajika, wakurugenzi kwa pamoja waruhusiwe kutenga hisa mpya za kawaida za kshs. 5 kila moja bila kupitisha asilimia 5 (5%) ya jumla ya hisa za mtaji wa kampuni kwa mpango wa umiliki wa hisa kwa wafanyakazi (ESOP) kwa mazingatio kama hayo na kwa kutegemea kanuni na masharti kama hayo ambayo wakurugenzi wataona yanafaa. Mamlaka iliyotolewa chini ya azimio hili itakamilika Mei 26, 2025 na kufahamu kuwa wakurugenzi wanaweza bila kuzingatia kukamilika kwa amri iliyotolewa kupitia azimio hili kugawa hisa za kawaida za kampuni mahali ambapo ugawaji huo utatolewa kwa kutegemea utoaji huo au makubaliano yaliyotolewa kabla ya muda kukamilika.			

FOMU YA MAWASILIANO YA KIELEKTRONIKI YA HF

Tafadhali jaza kwa kutumia HERUFI KUBWA

Jina Kamili la mwanachama/ wanachama ____

____

____

Anwani ____

____

____

Proxy Form

Nambari ya akaunti ya CDSC (endapo inajulikana) ______________________________
(Hii inaweza kupatikana kupitia taarifa yako ya CDSC)

Nambari yako ya simu ya mkono (ya wakala) ______________________________

Tarehe: ______________

Tafadhali weka alama kwenye sanduku lililoko hapa chini na kurejesha kwa Image Registrar Slp 92877, GPO 00100,Orofa ya 5, ABSA Towers (zamani ikijulikana kama Barclays Plaza), Loita Street.

Kuidhinishwa kwa usajili

MIMI/ SISI twaidhinisha usajili ili kushiriki kwenye mkutano wa pamoja wa mwaka utakaofanyika kwa mfumo wa kielektroniki Ijumaa Mei 26, 2023.

Idhini ya matumizi ya nambari ya simu ya mkononi iliyotolewa

MIMI/ SISI tumetoa/ nimetoa ruhusa kwa matumizi ya nambari ya simu iliyotolewa kwa madhumuni ya kupiga kura wakati wa mkutano wa pamoja wa Mwaka

Sahihi ______________

Nukuu:

1. **Endapo mwanachama hataweza kuhudhuria mwenyewe, fomu hii ya uwakala ijazwe kikamilifu na kutumwa kwa;** Company Secretary S.L.P. 30088 GPO 00100 Nairobi au iwasilishwe moja kwa moja katika ofisi ya kampuni iliyosajiliwa au kwa, Image Registrars S.L.P 9287 – 00100, Nairobi, Kenya au kupitia anwani ya barua pepe: info@image.co.ke ili kupokelewa kabla ya saa tano asubuhi Mei 24, 2023 au saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.

2. Endapo mwanachama ni shirika, ni lazima fomu ya uwakala kupigwa mhuri wake rasmi na kutiwa sahihi na afisa au wakili aliyeidhinishwa na shirika kama hilo.

3. Kama mwanahisa, una ruhusa kumteua wakala mmoja au zaidi kutekeleza majukumu yako yote kama mwanahisa, kuongea na kupiga kura kwa niaba yako wakati wa mkutano. Uteuzi wa mwenyekiti wa mkutano kama wakala wako umeorodheshwa ili kuwa rahisi. Ili kumteua mtu mwingine kama wakala, futilia maneno '' the Chairman of the Meeting'' na badala yake kuingiza majina kamili ya wakala wako katika nafasi iliyoachwa wazi. Si lazima kwa wakala wako kuwa mwanahisa wa kampuni.

4. Ujazaji na uwasilishaji wa fomu ya uwakala hautakuzuia wewe kuhudhuria mkutano na kupiga kura binafsi. Kwa sababu hiyo, kura iliyopigwa na wakala haitahesabiwa.

5. Ili kuwa halali, fomu ya uwakala inafaa kujazwa, kutiwa sahihi na kuwasilishwa (pamoja na sahihi ya wakili au mwakilishi mwingine (endapo yuko) ambaye ameidhinishwa au nakala iliyotiwa sahihi na mtu kama huyo au mamlaka) kwa Company Secretary, S.L.P 30088 GPO 00100 Nairobi au Image Registrars, Absa Towers (zamani Barclays Plaza), Orofa ya 5, Loita Street au S.L.P 9287-00100 Nairobi kabla ya saa tano asubuhi Mei 24, 2023 au ,endapo kutakuwa na kura itakayopigwa baada ya tarehe ya mkutano, au kuahirishwa kwake, kabla ya saa 24 ya wakati uliotengwa kupigwa kwa kura ambayo inapigwa zaidi ya saa 48 baada ya siku mkutano au kuahirishwa kwake.

6. Kwa hali ambapo shirika ni mwanahisa,basi, basi fomu hii ya uwakala ijazwe na kupigwa mhuri wake rasmi au kutiwa sahihi kwa niaba yake na afisa wa kampuni hiyo au wakili wake aliyeidhinishwa

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Email: housing@hfgroup.co.ke | www.hfgroup.co.ke

HF GROUP
Dreams Made Possible