2023 ANNUAL REPORT

& FINANCIAL STATEMENTS

ENRICHING LIVES
BUILDING RESILIENCE

HF GROUP

Dreams Made Possible

Embracing resilience Enriches Lives...


...enabling us all to thrive
even in the face of adversity.


IT'S A PIECE OF CAKE WITH HFC TARGET SAVE!
Save pole pole towards your party goals.
Download the HFC Whizz App today! or text 'Target' to 21938
HFC
Dreams Made Possible
HFC is regulated by Central Bank of Kenya

TABLE OF CONTENTS

PAGE NO

Annual Report

Financial statements

HF Group PLC Board of Directors

Board of directors

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

Prof. Olive Mwihaki Mugenda PhD	Chairperson
Dr. Benson Irungu Wairegi	
Mr. Robert Ngugi Kibaara	
Dr. Peter Kahara Munga	
Dr. Anne Helen Wairimu Nganga - Kimari	
Dr. Anthony Opare Omerikwa	
Ms. Felister Wangari Kembi	
Mr. Tom Mbuthia Gitogo	Appointed 1st August 2023
Mr. Charles Kimani Njuguna	Retired on 1st August 2023, Remains as alternate to Mr. Tom Mbuthia Gitogo
Ms. Constance W. Gakonyo	Retired on 26th May 2023

Company Secretary

Ms. Regina Anyika (CPS 880)
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 - 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
P.O. Box 60000 – 00200
Nairobi, Kenya

HFC Limited
Rehani House, Kenyatta Avenue
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

WELCOME TO SME & COMMERCIAL BANKING

- Real Estate Value Chains • Retail and Manufacturing
- Medical Sector • Education Sector

To open your account, email **mybank@hfgroup.co.ke**
or call **0709 943 000**

HFC Kenya

www.hfgroup.co.ke

HFC Limited is regulated by the Central Bank of Kenya.

HFC
Dreams Made Possible

HF Group Plc Board of Directors

Prof. Olive M. Mugenda, PhD, EBS, CBS, MGH 69 years
CHAIRPERSON
INDEPENDENT & NON EXECUTIVE

Dr. Benson I. Wairegi, EBS 71 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Dr. Peter K. Munga, EGH, CBS 81 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Dr. Anthony O. Omerikwa, MBS 47 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Felister W. Kembi, 67 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Tom M. Gitogo, 55 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Dr. Anne W. Kimari, PhD 51 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Robert N. Kibaara, 50 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT & EXECUTIVE

HFC Limited Board of Directors

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

Jane Kilonzo,
56 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

John Mwendwa,
50 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

Shilpa Haria,
63 years
BOARD MEMBER
INDEPENDENT & NON EXECUTIVE

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

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

Peter O. Mugeni,
47 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 28 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 to 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.

Tom M. Gitogo | Date of Appointment: 1st August 2023

Non Independent & Non Executive Director

Mr. Tom Gitogo is the Group MD and CEO, of Britam Holdings Plc, a leading diversified financial services group, present in seven African countries: Kenya, Uganda, Tanzania, Rwanda, South Sudan, Mozambique, and Malawi.

Tom joined Britam on 1st September 2022. He is an accomplished financial services professional and board level leader, skilled in general management, commercial and business strategy, sales, and finance operations, and talent management, having spent over 30 years in various roles in the financial services industry in Africa and Europe.
Before joining Britam, Tom was previously the Group CEO of CIC, a listed regional insurance group, and the CEO of Sanlam Insurance.
Tom holds a Master of Business Administration (Strategic Management) from Moi University and a Bachelor of Science in Civil Engineering from the University of Nairobi. He is also a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and a member of the Institute of Directors of Kenya (IOD).

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

Independent & Non Executive Director

Ms. Anne Kimari is a committed and dedicated professional with twenty-six 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, 50 years
GROUP CHIEF EXECUTIVE OFFICER

Peter O. Mugeni, 47 years
MANAGING DIRECTOR, HFC

Sammy Kamanthi, 49 years
GROUP CHIEF FINANCE OFFICER

Regina Anyika, 56 years
DIRECTOR LEGAL DIVISION & COMPANY SECRETARY

Joseph Chikove, 41 years
DIRECTOR, TREASURY

Kennedy Gachoki, 49 years
GENERAL MANAGER, RISK

Joseph Ngare, 54 years
GENERAL MANAGER, AUDIT

Senior Management Team

Catherine Olaka, 55 years
DIRECTOR, HUMAN RESOURCES & ADMINISTRATION

David Igweta, 52 years
CHIEF OPERATIONS OFFICER

Patrick Njunge, 44 years
DIRECTOR, RETAIL & BUSINESS BANKING

Joseph Kamau, 39 years
EXECUTIVE DIRECTOR,
HF DEVELOPMENT & INVESTMENT LTD

Juddy Wambita, 43 years
DIRECTOR, CREDIT

Tonney A. Mugah, 41 years
DIRECTOR, STRATEGY & BUSINESS PERFORMANCE

Nkatha Gitonga, 45 years
DIRECTOR, MARKETING,
CORPORATE AFFAIRS & CITIZENSHIP

Senior Management Team (Continued)

Robert N. Kibaara

Group Chief Executive Officer

Robert is a renowned banker, with over 28 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 17 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 15 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

General Manager, 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 Masters 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 25 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 Fintech engagements and partnerships.

David holds a degree in Mathematics and Computer Studies from Kenyatta University and various accreditation and certifications.

Patrick Njunge

Director, Retail & Business Banking

Patrick is a seasoned results-driven banker with 14 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.

Juddy Wambita

Director, Credit

Juddy is a credit professional with vast experience in Credit Policies formulation, Evaluation as well as Portfolio Management. She has held various positions in credit with the immediate former being Head of Credit, Consumer and High Net worth Clients and Acting Head of Credit, Business Banking & Commercial Clients. She has previously served as Senior Credit Manager, Business and Corporate Banking at Absa Kenya Plc and Credit Manager at NIC Bank.

Juddy holds a Bachelor of Education Science degree from Kenyatta University, Advanced Management Programme from IMD Business School -Switzerland, Credit Skills Development Certificate by Omega Performance Corporation (UK) and a Certificate in Agricultural Financing from ECAF. She is currently pursuing an MBA in Finance from the University of Nairobi.

Senior Management Team (Continued)

Joseph Kamau

Executive Director,
HF Development and Investment Ltd.

Joseph Kamau is a seasoned banker with over 12 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. He 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 16 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 21 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 25 years' experience spanning entertainment, advertising & media, aviation, ICT & financial sectors. She is passionate about leadership, brands, coaching, culture and sustainability. 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 71 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

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

Robert N. Kibaara, 50 years
GROUP CHIEF EXECUTIVE OFFICER
NON INDEPENDENT & NON EXECUTIVE

Patrick Njunge, 44 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Tonney A. Mugah, 41 years
BOARD MEMBER
NON INDEPENDENT & NON EXECUTIVE

Maureen Stephyne, 38 years
PRINCIPAL OFFICER

Notice of Annual General Meeting

To the Shareholders of **HF GROUP Plc**

NOTICE IS HEREBY GIVEN that in accordance with Articles 59 and 61 of the Articles of Association of the Company, the 58th Annual General Meeting of the Company will be held via electronic communication on Tuesday, 28th May 2024 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 2023, 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 2023.
5. To elect Directors:

   a) Prof. Olive M. Mugenda 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. Benson I. Wairegi, 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. Anthony Omerikwa Opare retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, offers himself for re-election.

   d) Mr. Tom M. Gitogo retires in accordance with Article 104 of the Company's Articles of Association, and being eligible, offers himself for re-election.

   e) 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 W. Kembi
   - Dr. Anthony Omerikwa Opare
   - Dr. Anne W. Kimari

6. To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2023.
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.
8. 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: 6th May 2024

Notice of Annual General Meeting (Continued)

NOTES:

1. Shareholders wishing to participate in the meeting should register for the AGM by dialing ***483*890#**on their Safaricom mobile telephone or ***483*890#** 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 **Monday, 6th May 2024 at 9:00 am** and will close on **Sunday, 26th May 2024** 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 2023.

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 Sunday, **26th May 2024** at **11.00 a.m.**

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

8. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before **Sunday, 26th May 2024** at **11.00 a.m**. by: (a) sending their written questions by email to agmquestions@hfgroup.co.ke; or (b) to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 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 sums 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.

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

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**

NOTISI INATOLEWA HAPA KWAMBA, kufungamana na vifungu nambari 59 na 61 vya sheria za kampuni, mkutano wa 58 wa pamoja wa mwaka wa kampuni utafanyika kwa mbinu ya mawasiliano ya kielektroniki Jumanne Mei 28, 2024 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 itaidhinishwa, kupitisha taarifa ya matumizi ya pesa iliyofanyiwa ukaguzi katika kipindi cha mwaka uliomalizika matumizi ya pesa uliomalizika Desemba 30, 2023 pamoja na ripoti kutoka kwa mwenyekiti, wakurugenzi na wahasibu.
4. Kutambua kwamba, wakurugenzi hawatoi pendekezo lolote la malipo ya mgao wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2023
5. Kuwachagua wakurugenzi:
    a) Prof. Olive M. Mugenda anastaafu kwa zamu kwa muijibu wa kifungu nambari 105 cha sheria za makampuni na kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
    b) Dr. Benson I. Wairegi, anastaafu kwa zamu kwa muijibu wa kifungu nambari 105 cha sheria za makampuni na kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
    c) Dr. Anthony Omerikwa Opare anastaafu kwa zamu kwa muijibu wa kifungu nambari 105 cha sheria za makampuni na kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
    d) Mr. Tom Gitogo anastaafu kwa zamu kwa muijibu wa kifungu nambari 104 cha sheria za makampuni na kuwa hali inamruhusu anajitokeza ili kuchaguliwa tena.
    e) 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 athari wachaguliwe kibnafsi ili waendelee kuhudumu kama wanachama wa kamati husika.
        - Bi. Felister W. Kembi
        - Dkt. Anthony Omerikwa Opare
        - Dkt. Anne W. Kimari
6. Kuidhinisha ripoti ya marupurupu ya wakurugenzi kama ilivyofafanuliwa kupitia ripoti ya mwaka kwa kipindi cha mwaka uliomalizika Desemba 31, 2023.
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
8. Kuzingatia shughuli nyinginezo za kibiashara ambazo notisi yake itakuwa imetolewa.

KWA AMRI YA HALMASHAURI
Regina Anyika
Katibu wa Kampuni
Slp 30088, GPO 00100
NAIROBI
Tarehe: Mei 6, 2024

Notisi kuhusu mkutano mkuu wa pamoja wa mwaka (Inaendelea)

NUKUU:

1. Wanashisa wanaotaka kuhudhuria mkutano wa pamoja wa mwaka wajisajili kushiriki kwa kupiga ***483*890#** kupitia mtandao wao wa simu ya Safaricom au ***483*890#** kwa mtandao wa simu zao za Airtel na Telkom 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 zilizotumika 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 **Jumatatu Mei 6, 2024 saa tatu asubuhi** na kufungwa **Jumapili Mei 26, 2024 saa tano asubuhi.** Wanahisa hawataweza kusajili 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 ya mwaka ya Kampuni na taarifa za matumizi ya pesa zilizokaguliwa kufikia Desemba 31, 2023.

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 imetolewa pamoja 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 jumapili Mei 26, 2024 saa tano asubuhi.

7. Fomu ya uwakala iliyotiwa sahihi kikamilifu inaweza kutumwa kupitia barua pepe HFGroupAgm@image.co.ke kwa mfumo wa PDF. Ni lazima 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 kabla ya **Jumapili Mei 26, 2024** saa tano asubuhi 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.

   Wakurugenzi wa Kampuni watatoa majibu kwa maswali yaliyopokelewa kupitia anwani iliyotolewa au barua pepe ya mwanahisa kabla ya saa 12 za kuanza kwa mkutano wa pamoja wa mwaka. Orodha kamili ya maswali yaliyopokelewa na kutolewa majibu yatachapishwa kupitia wavuti wa kampuni saa 12 kabla ya kuanza kwa mkutano wa pamoja wa mwaka.

9. Wanahisa waliosajiliwa watapokea ujumbe mfupi kwa nia ya SMS ukiwa na maelezo kuhusu nambari zao za simu zilizosajiliwa kuwaarifu kupendekeza na kuunga mkono 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) kwa njia ya USSD

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

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 Structure

CHAIRPERSON'S **REPORT**

Dear Shareholders,

I am privileged to welcome you to the 58th Annual General Meeting (AGM) of the HF Group Plc. As your Board Chairperson, I am truly humbled by the responsibility you have bestowed upon me and my fellow Board of Directors to oversee the business on your behalf. This is a role that we undertake with utmost diligence and stewardship.

This is my third year as your representative and over this period, it has been my ambition and focus to lead your company in reclaiming its profitability track record, with the view of delivering shared value. I am delighted to inform you that the Group is firmly on a profit-making trajectory and as your Board of Directors, we will work relentlessly to drive the requisite oversight and governance initiatives that will continue to deliver on this mandate. For the second year in a row, the Group has registered positive financial results with all the three active subsidiaries contributing positively to this financial performance.

In 2023, the Group posted a net profit of Kes 388M compared to Kes 266M in 2022. This signifies a growth of 46 percent. The detailed performance is published in the financial statements section within this Annual Report.

This improved performance is heartwarming given that we achieved this against the backdrop of a volatile macro-economic environment including increase in Treasury rates, forex rates and the Kenya Central Bank Rate that led to an adverse operating environment.

The business growth during the period amongst other factors, has also amplified the need to solidify our capital base in order to scale up the engines of growth. As such, we are in the process of raising capital. If and when a transaction materializes, details of the transaction will be announced to shareholders in compliance with the listing rules and Capital Market Authority regulations applicable to it.

Corporate Governance

As I have mentioned earlier, the Board of Directors is committed to steering your business to deliver value. This requires continuous capacity building and scaling up leadership capability to align with emerging trends. In 2023, The Board members of the Group and those of the Subsidiaries undertook a Board Continuous Development Training facilitated by Strathmore Business School. The program bolstered the Board Directors competencies to provide oversight sustainably and lead business to navigate volatile operating environment.

During the period, one independent director Ms. Constance Gakonyo retired from the Group Board, but continues to serve the Group as a Director in the Bancassurance Subsidiary. This followed the director having served the maximum tenure of nine years in accordance to the Company's Corporate Governance Policy. I take this opportunity to commend Ms. Constance Gakonyo for the invaluable service to the Group and Subsidiaries.

Further, the Group Board continues to strengthen capacity in the subsidiary Boards by ensuring diversity in the expertise of its membership. It is my pleasure to inform you, that Mr. John Mwendwa joined the banking subsidiary, HFC Board, effective 3rd January 2024. John is a seasoned business leader with cross functional industry experience, having worked in the aviation, banking, telecom and FMCG sectors. He will bring on board his expertise in matters human resource and sustainability.

The commitment to strengthen your company's governance structures and practice is further evidenced by the LEADERHIP rating attained in the comprehensive assessment conducted annually by the Capital Markets Authority (CMA). This assessment is conducted as per the code of Corporate Governance Practices for Issuers of Securities to the Public (CG Code) and seeks to promote good corporate governance and sustainability practices in Kenya.

Repositioning our Brand for Growth

Brand repositioning is one of the pillars of our Business Strategy "Magic Six". The past year saw the Group launch refreshed foundations of strategy following a rigorous process that involved all your Board Directors and Senior Management. Looking at our strong heritage in property and the impact this has had in the lives of thousands of Kenyans, we realized that our purpose all along and going into the future, based on our ambitions, is "Enriching Lives". Further, our mission of "Enriching Lives Through Financial Empowerment" captures our diversified business offering which cuts across property, full service banking and insurance solutions. I am optimistic that with the strategic initiatives that we have put in place, and our people who are our greatest asset, we will indeed accomplish our vision "To be a top ten banking group by being the most dependable and loved financial services provider".

Driving Efficiency Through Technology

As we pivot the Group for growth, we appreciate that technology is one of the critical enablers for this. The current core banking system has served the Group well for the last 8 years. However, with the growth ambitions and diversification of the business, there is opportunity to upgrade this system to support this upscaling. Accordingly, in 2023, your Board mandated the business to embark on the process of upgrading the core banking system to drive operational efficiency and enhanced customer experience. This process is now underway.

Sustainability

Building a business that has sustainable impact on stakeholders is a key focus for us. Towards this end, we introduced Environment, Social and Governance (ESG) terms of reference to our Group Strategy and Investment Committee. This will essentially ensure that sustainability is embedded in our strategy and that we measure our success not only based on profit but also in terms of our impact on people and the environment.

As a business, we appreciate that SMEs are the bedrock of our economy. As such, we are committed to enhancing financial inclusion to build sustainable businesses. Towards this, we partnered with Strathmore University to provide training and capacity building not only for our business clients but SMEs as a whole.

On the environment front, the Group is committed to community clean up and tree planting. During the National Tree Planting Day, the Management and Staff of the Group embarked on planting of fruit seedling at one of our properties, Fahari Residences, with a target of growing 2,000 fruit trees.

Looking ahead

I am optimistic about 2024, despite the prevailing tough macroeconomic environment. I am confident that our Group strategy and the measures we have taken towards execution of this will enable us to circumvent the anticipated headwinds and continue to achieve our business objectives.

I am indebted to you our shareholders, for your continuous support and the trust that you have bestowed upon the Board and Senior Management to steer the ship and build a resilient business that delivers shared value.

I commend our senior management and all employees for delivering a positive set of results and continuously propelling our business transformation.

I want to reaffirm my commitment and that of your Board of Directors to support the management in driving the business to deliver on its mandate.

As I have mentioned in the past, we will continue to adjust the sails to ensure that we maintain the momentum, towards achievement of our goals.

Our objective is to fulfill our brand purpose of enriching lives for you our shareholders and all other stakeholders.

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

Group Chairperson
28th March 2024

Taarifa Kutoka kwa Mwenye Kiti kwa Kipindi cha Mwaka Uliomalizika Desemba 31 2023

Wanahisa wapendwa,

Nachukua fursa hii kuwakaribisha kwenye Mkutano Mkuu wa 58 wa kila Mwaka (AGM) wa kampuni ya HF Group. Kama Mwenyekiti wa Bodi, ninawashukuru sana kwa kunipa mimi pamoja na Wakurugenzi wenzangu jukumu la kusimamia kampuni hii. Hili ni jukumu ambalo tunalitekeleza kwa juhudi na ustadi wa hali ya juu.

Huu ni mwaka wangu wa tatu kama mwakilishi wenu, na ndani ya kipindi hiki matamanio na malengo yangu yamekuwa kuirejesha tena kampuni hii katika hali ya kupata faida ili kutimiza malengo yetu. Ni furaha yangu kuwajulisha kwamba, kampuni hii iko imara na inaleta faida, na sisi kama Bodi ya Wakurugenzi tutafanya kazi kwa juhudi zote ili kutoa usimamizi na mipango inayohitajika ambayo itatusaidia katika kutekeleza jukumu hili. Kwa mwaka wa pili mfululizo, Kampuni hii imesajili matokeo mazuri ya kifedha huku kampuni tanzu zote tatu zinazofanya kazi zikichangia vizuri kwenye matokeo hayo ya kifedha.

Katika mwaka wa 2023, Kampuni hii iliandikisha faida halisi ya Kes 388M ikilinganishwa na Kes 266M mwaka 2022. Hatua hii inaashiria ukuaji wa asilimia 46%. Matokeo ya kina yamechapishwa katika sehemu ya taarifa za fedha ndani ya Ripoti hii ya Kila Mwaka.

Matokeo haya mazuri yanatia moyo ikizingatiwa kwamba tulifanikiwa kuyapata licha ya hali tete ya mazingira ya kufanyia biashara, ikiwemo ongezeko la viwango vya Hazina, viwango vya fedha za kigeni na Viwango vya Benki Kuu ya Kenya ambavyo vilifanya mazingira ya kufanyia biashara kuwa magumu.

Ukuaji huu wa biashara katika kipindi hicho pamoja na mambo mengine, pia umezidisha haja ya kuimarisha mtaji wetu ili kuongeza vichocheo vya ukuaji. Kwa hivyo, kulingana na notisi iliyotolewa hapo awali kwa wenyehisa, tuko kwenye harakati ya kuongeza mtaji wetu. Iwapo muamala utafanyika, maelezo ya muamala huo yatatolewa kwa wanahisa kwa kuzingatia sheria za uorodheshaji na kanuni husika za Mamlaka ya Kudhibiti Soko la Mtaji.

Uongozi wa Kampuni

Kama nilivyosema hapo awali, Bodi ya Wakurugenzi imejitolea kuchochea biashara yenu ili kukimu malengo yetu. Jambo hili linahitaji kutoacha kujenga uwezo na kuboresha uwezo wa uongozi ili kwenda sambamba na mambo yanayoibuka. Mwaka wa 2023, Wanachama wa Bodi ya Kampuni hii wale wa Kampuni Tanzu walipokea Mafunzo ya Maendeleo Endelevu ya Bodi yaliyotolewa na chuo cha Mafunzo ya Kibiashara cha Strathmore. Mafunzo hayo yaliimarisha uwezo wa Wakurugenzi ili kufanya usimamizi kwa njia ya uendelevu na kuongoza kampuni huku wakiwa wanaelewa mazingira tete ya kufanyia biashara.

Katika kipindi hicho, mkurugenzi mmoja wa kibinafsi, Bi. Constance Gakonyo alistaafu kutoka kwa Bodi ya Kampuni hii, lakini anaendelea kufanya kazi kama Mkurugenzi katika Kampuni Tanzu ya Bancassurance. Hii ni baada ya mkurugenzi huyo kuongoza kwa muda wa miaka tisa kwa mujibu wa Sera ya Uongozi wa Kampuni hii. Nachukua fursa hii kumpongeza Bi. Constance Gakonyo kwa mchango wake muhimu kwa Kampuni hii na Mashirika Tanzu.

Aidha, Bodi ya Kampuni hii inaendelea kuimarisha uwezo wa Bodi za kampuni tanzu kwa kuhakikisha kuwa wanachama wake wana uwezo wa taaluma mbalimbali. Ningependa kuwajulisha kuwa Bw. John Mwendwa alijiunga na kampuni tanzu ya benki, Bodi ya HFC, kuanzia Januari 3, 2024. John ni mwanabiashara mwenye uzoefu na ambaye ameongoza katika sekta mbalimbali. Amefanya kazi katika sekta ya usafiri wa angani, benki, mawasiliano na FMCG. Mchango wake utasaidia katika masuala ya rasilimali, watu na uthabiti.

Juhudi za kuimarisha mfumo na mbinu za usimamizi wa kampuni hii zinathibitishwa zaidi na kipimo cha UONGOZI kutoka kwa tathmini ya kina inayofanywa kila mwaka na Mamlaka ya Kudhibiti Masoko ya Mitaji (CMA). Tathmini hii inafanywa kwa mujibu wa kanuni za Mbinu nzuri za Uongozi kwa Kampuni zinazotoa Bima kwa Umma (Kanuni ya CG) na inalenga kukuza uongozi mzuri wa mashirika na mbinu thabiti nchini Kenya.

Kufanyia Kampuni yetu Mabadiliko ili Ikue

Kufanyia kampuni mabadiliko ni mojawapo ya nguzo za Mkakati wetu wa Kibiashara,"Mbinu Sita". Mwaka uliopita Kampuni hii ilizindua misingi mipya ya kimkakati kufuatia harakati madhubuti iliohusisha Wakurugenzi wote wa Bodi na Wasimamizi Wakuu. Kwa kuzingatia urithi wetu mkubwa wa mali na athari yake kwa maisha ya maelfu ya Wakenya, tuligundua kwamba lengo letu, kulingana na matarajio yetu, ni "Kuboresha Maisha". Zaidi ya hayo, dhamira yetu ya "kuboresha maisha kupitia uwezeshaji wa kifedha" inahusisha malengo yetu mbalimbali ya kibiashara ambayo yanajumuisha mali, huduma kamilifu za benki na suluhu za bima. Kwa hakika nina matumaini kwamba kupitia kwa mipango yetu ya kimkakati na watu wetu ambao ni rasilimali yetu kubwa, tutatimiza maono yetu "ya kuwa miongoni mwa kampuni kumi bora za benki na kuwa shirika la kifedha linalotegemewa na kupendwa zaidi".

Kuleta Mafanikio Kupitia Teknolojia

Tunapoikuza Kampuni hii, tunashukuru kwamba teknolojia ni moja ya mambo ya kimsingi kufanikisha jambo hilo. Mfumo wa sasa wa benki umesaidia Kampumi hii kwa miaka nane iliyopita. Hata hivyo, kutokana na matamanio yetu ya kukua na kutoa huduma mbalimbali za kibiashara, kuna haja ya kuboresha mfumo huu ili kusaidia kwa ukuaji huu. Kutokana na jambo hilo, mwaka wa 2023, Bodi ilipewa jukumu la kuboresha mfumo wa benki wa kampuni hii ili kuleta ufanisi katika shughuli zake na kukuza huduma kwa wateja. Kwa sasa, harakati hii inaendelea.

Uthabiti

Kujenga biashara ambayo ina athari endelevu kwa wadau ni jambo la kimsingi kwetu. Ili kutimiza jambo hili, tulianzisha hadidu za rejea za Mazingira, Kijamii na Uongozi (ESG) kwa Kamati ya Mikakati na Uwekezaji wa Kampuni yetu. Hii itahakikisha kwamba uthabiti unajumuishwa kwenye mkakati wetu na kwamba tunapima mafanikio yetu si tu kulingana na faida lakini pia kwa kuzingatia athari zetu kwa watu na mazingira.

Kama biashara, tunashukuru kwamba Biashara ndogondogo na zile za Kadri (SMEs) ndio msingi wa uchumi wetu. Kwa hivyo, tumejitolea kukuza ujumuishaji wa kifedha ili kujenga biashara thabiti. Ili kufaulisha jambo hili, tulishirikiana na Chuo Kikuu cha Strathmore kutoa mafunzo na kujenga uwezo si tu kwa wateja wetu pekee lakini pia kwa SMEs kwa jumla.

Kwa upande wa mazingira, Kampuni hii imejitolea kufanya usafi katika jamii na kupanda miti. Siku ya Kitaifa ya Kupanda Miti, Usimamizi na Wafanyakazi wa Kampuni hii walianza kupanda miche ya matunda kwenye moja ya mashamba yetu, Fahari Residences, kwa lengo la kukuza miti 2,000 ya matunda.

Mustakabali

Licha ya hali ngumu ya kiuchumi mwaka wa 2024 bado nina matumaini. Ninaamini kwamba mkakati wa Kampuni yetu na hatua ambazo tumechukua zitatuwezesha kukabiliana na changamoto zinazotarajiwa na kuendelea kutimiza malengo yetu ya kibiashara.

Nawashukuru wanahisa wetu kwa usaidizi wenu na kwa kutuamini sisi kama Bodi na Wasimamizi Wakuu wa kampuni hii ili kukuza biashara thabiti inayokidhi malengo.

Ninawapongeza wasimamizi wetu wakuu na wafanyikazi wote kwa matokeo mazuri na kuendelea kuchochea mabadiliko katika biashara yetu.

Ningependa kusisitiza dhamira yangu na ya Bodi ya Wakurugenzi katika kuunga mkono usimamizi wa kampuni hii ili kuendesha biashara na kutimiza majukumu yake.

Kama nilivyosema hapo awali, tutaendelea kufanya marekebisho kuhakikisha kuwa tunaendelea na hatua hii ya kufikia malengo yetu.

Malengo yetu ni kutimiza dhamira ya kampuni yetu ambayo ni kuboresha maisha kwa ajili yenu nyinyi, wanahisa wetu na wadau wengine wote.

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

Group Chairperson
28th March 2024

UNSECURED PERSONAL LOANS
Unlocking your financial goals

At HFC, we understand that sometimes you need a little push to enable you achieve your dreams. Our personal unsecured loans offer flexible options to meet your financial needs.

HFC Kenya
www.hfgroup.co.ke

*Terms and conditions apply.

HFC Limited is regulated by the Central Bank of Kenya.

HFC
Dreams Made Possible

GROUP CEO's STATEMENT

Dear Shareholders,

It is my distinct pleasure to bring to you an update on the performance of your company for the period ending 31st December 2023. The year kicked off against the backdrop of profitable results which was testament to the fact that our business transformation strategy is paying off. In 2023, we tightened the sails and geared the business for takeoff and I am happy to report to you, shareholders, that your company was able to deliver an even better performance despite the unfavorable economic operating environment.

At the beginning of 2023, the Group led by the Board of Directors, went through a rigorous process of revamping our Foundations of Strategy, a process that resulted in a refreshed purpose, mission and vision. The objective of this critical exercise was to ensure that our Foundations of Strategy are aligned to the elevated ambition of the Group. Over the years, we have empowered many individuals to own property, and now also support their financial growth through our diversified financial services offering. During this journey, it was interesting to appreciate that in fact, what we have been doing over the years is **Enriching Lives.** This sums up the Group's purpose. This purpose cascades into our mission of **Enriching Lives Through Financial Empowerment.**

Operating Environment

2023 was characterized by uncertainty and a depressed global economy. The prolonged Ukraine - Russia war, and Israel – Palestine conflict disrupted global food and fuel supply chains resulting in higher international oil and commodity prices. These factors have led to increased cost of production which continues to impact the local market adversely.

During the period, the Kenya shilling weakened significantly against the dollar and other international currencies, pushing up debt service costs. By December 2023, the shilling had lost 21% to the dollar. This had an adverse impact on some of our foreign currency denominated facilities.

The country's inflation rate was relatively high during the period, peaking at 9.2% and closing the year at 6.6%. This led to reduced interest rate margins for the business as we had to make inflation adjustment to accommodate the depreciating currency value. To curtail inflation, the Central Bank of Kenya (CBK) Monetary Policy Committee reviewed the Central Bank Rate (CBR) upwards a record five times. This decelerated access to credit as financial institutions including ourselves had to increase the cost of borrowing on the back of increased cost of deposits triggered by the elevated CBR.

Further, the Government introduced a number of tax changes, including the Housing Levy, geared at expanding the tax base and raising revenue to meet Government budget. These taxes have had an adverse effect on individual purchasing power and business operations as it has resulted in condensed income.

Your company, through its banking subsidiary, HFC, proactively cushioned our customers from the adverse impacts of the increased interest rates by offering loan restructures - extending loan repayment tenures while retaining the monthly repayments. We are cognizant of the challenges our customers are facing and our commitment is to support them with solutions that enrich their lives and build resilience to weather the headwinds.

Your company continues to exercise vigilance and will adjust the sails accordingly to ensure that our business ambitions are not sidetracked. We have put in place measures to mitigate the adverse impacts occasioned by the volatile operating environment.

Performance Highlights

In 2023, your company delivered a positive set of results for the second year in a row. The Group reported a net profit of Kes 388 million compared to Kes 266 million in 2022. This signified a 46% growth in performance. I am pleased to report that all our active subsidiaries contributed positively to these results.

This is testament to the effectiveness of our Magic Six Strategy and the dedication of the Board, Management and employees to building a resilient company that enriches the lives of all stakeholders. The performance of the Group is highlighted below:

- Total Interest Income grew by 23% from Kes 4.36 billion in 2022 to Kes 5.35 billion in 2023.
- Non-Funded Income grew by 23% from Kes 0.95 billion in 2022 to Kes 1.17 billion in 2023.
- Interest on Government Securities grew by 22% from Kes 0.94 billion in 2022 to Kes 1.15 billion in 2023.
- Total Operating Income grew by 20% from Kes 3.21 billion in 2022 to Kes 3.86 billion in 2023.
- Total Customer Deposits registered a 10% growth from 39.79 billion in 2022 to Kes 43.85 billion in 2023 driven by aggressive retail deposit mobilization strategies.

As we target greater business growth, we are also working tirelessly to solidify our capital base to support this. We are in the process of raising tier one capital and are optimistic that this process will be concluded in 2024.

Scaling up and Optimization of Businesses

Our diversification into full service banking has taken shape over the last four years and the established business units are now contributing positively to our overall performance. Through this business which we refer to as the "good bank", we have booked over Kes 35 billion worth of customer loans with less than four percent of this being non-performing. In 2023, we set our sights on establishing additional business functions to complement the existing ones. These initiatives are further geared towards building and strengthening our capabilities to deliver on superior customer experience.

Overall, we are building a responsive and customer centric business that provides bespoke solutions for our chosen customer segments. This focus on the customer is already paying off as evidenced by the steady growth of our net promoter score and Industry recognition - the Excellence in Customer Experience Award received from the Kenya Bankers Association following the industry wide 2023 Customer Satisfaction Survey.

During the period, our banking subsidiary, HFC, obtained a Retired Benefits Authority license which allows the business to offer custody services for pension schemes.

Further we onboarded two additional correspondent bank partners to enhance our international money transfer services and also improve transactions for our trading customers.

In regard to our property subsidiary, HFDI, the new business model is taking shape. This model focuses on 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. This is less capital intensive in comparison to the former model of property development that required intensive equity injection.

Strengthening of our Technology Environment

Technology is a critical enabler for our business and strengthening this is one of the initiatives that are geared towards optimizing our business performance. Our current core banking system, which has served the business well over the last 8 years, was customized at a time when we had a single business unit focus. In the last four years, we have diversified our business to include full service banking and with this has come the need to bolster our technology to power growth. In 2023, with the blessings of your Board of Directors, we embarked on a journey to upgrade our core banking system. This upgrade is geared to stream line our banking processes and enhance automation; enable the business to implement flexible and scalable products and systems; improve customer experience through enhanced account management and self-serve capabilities; support data utility, integrity, security and agility; and enable seamless integration with other systems and third-party applications.

During the period, we went live with a robust automated anti-money laundering system to enhance real time monitoring of customer transactions and avert money laundering activities within our environment.

On the cards side, we introduced a new Visa debit card which provides customers with enhanced usage touchpoints and up time. We separately revamped our website in line with our brand repositioning strategy.

I am pleased to inform you that our award-winning mobile banking app, HFC Whizz App, continues to trailblaze and during the period won Bronze Award for Best USSD App and Gold Award for Best Banking App at the Mobile App Awards 2023.

Leveraging Synergies between Group and Subsidiaries

As a Group we appreciate that our growth can be accelerated by our subsidiaries working together in synergy, albeit within stipulated regulatory frameworks, rather than independently. Our positive results in the last two years have been propelled by our deliberate efforts to unlock the potential of the respective subsidiaries but more so creating internal linkages that have catalyzed the performance of these subsidiaries. For instance, customers interested in purchasing our properties through HFDI, our real estate subsidiary, have benefited from financing through our mortgage business. We have put together structures to ensure that we create a well-oiled engine that benefits from the synergies of our subsidiaries.

Future Outlook

We are optimistic about the Group's outlook in 2024. We intend to conclude on a number of the initiatives that we kicked off in 2023, that are aimed at scaling up the business and delivering on our ambition. We anticipate that the tough macroeconomic and operating environments will prevail in 2024. The government is likely to take measures to expand the tax base further which will continue to weigh down on disposable income for our customers. Based on this and other factors such as the rising cost of living, industry non-performing loans ratio is likely to experience an increase.

However, we remain vigilant and will continue to adjust the sails to build a sustainable business that delivers on its promise to all stakeholders.

I take this opportunity to appreciate you our dear shareholders for the support and latitude you have given to me and the management team to steer your business to greater heights. I also wish to applaud our Board of Directors who have walked the journey with the management team and provided invaluable leadership and oversight.

As I have mentioned in the past, our employees are our biggest asset and I applaud this team for putting their best foot forward and delivering on our strategy.

On behalf of the senior management team and the employees of the Group, I want to reassure you that we will continue to execute our strategy with diligence and are committed to building a resilient business that enriches the lives of all its stakeholders.

Robert N. Kibaara
Group Chief Executive Officer

28th March 2024

Taarifa Kutoka Kwa Afisa Mkuu Mtendaji kwa Kipindi cha Mwaka uliomalizika Desemba 31 2023

Wanahisa Wapendwa,

Ni fahari kwangu kuwaletea vidokezo kuhusu matokeo ya kampuni yenu kwa kipindi cha mwaka uliomalizika Desemba 31, 2023. Mwaka huu ulianza kwa msingi wa faida ambao ulikuwa ni ushahidi kwamba mkakati wetu wa kuleta mabadiliko umeleta ufanisi. Mwaka 2023, tulikaza nanga na kuiandaa biashara kuendelea na mkondo. Nina furaha kuripoti kwenu wanahisa kuwa, kampuni yenu iliweza kuzalisha matokeo bora zaidi licha ya mazingira magumu ya utekelezaji shughuli za kiuchumi.

Mwanzo wa kipindi cha mwaka 2023, likiwa chini ya uongozi wa Halmashauri, kundi lilipitia mchakato mkali wa kurekebisha misingi yetu ya mkakati hatua ambayo ilipelekea kuwepo kwa mabadiliko mapya ya makusudio, dhamira na maono. Malengo ya zoezi hili muhimu yalikuwa kuhakikisha kuwa misingi yetu ya mkakati imekwekwa ili kwenda sambamba na matamanio ya kundi. Kwa kipindi cha miaka mingi, tumeinua hali ya watu wengi kumiliki mali na pia kusaidia ukuaji wao wa kifedha kupitia matoleo ya huduma mbali mbali za kifedha. Wakati wa safari hii, ilikuwa ni fahari kutambua kuwa, yote tuliyokuwa tukifanya yalikuwa ni kuinua hali ya maisha. Kwa pamoja, hii yote inajumuisha malengo ya kundi. Lengo hili linatuelekeza kwenye wajibu wetu wa kuinua hali ya maisha ya watu kupitia uimarishaji wa kifedha.

Mazingira ya Utekelezaji

Mwaka 2023 ulikumbwa na taharuki na kuzorota kwa uchumi wa dunia.Vita vya muda mrefu baina ya mataifa ya Ukraine na Russia na mzozo kati ya Israel na Palestine viliathiri mikondo ya usambazaji wa vyakula na mafuta ulimwenguni na kupelekea kupanda kwa bei ya mafuta na bidhaa. Hali hii ilisababisha kupanda kwa gharama za uzalishaji zinazozidi kuathiri masoko ya humu nchini.

Wakati wa kipindi hiki, thamani ya shilingi ya Kenya iliathirika dhidi ya Dola na sarafu nyingine za kimataifa na kupandisha gharama za huduma za mikopo. Kufikia Desemba 2023, shilingi ilikuwa imepoteza thamani yake kwa asilimia 21% dhidi ya Dola. Hii ilikuwa na athari dhidi ya bidhaa zetu nyinginezo zilizo na uhusiano na sarafu za kigeni

Kwa kiasi, kiwango cha mfumuko wa bei za bidhaa kilikuwa cha juu wakati wa kipindi hiki kuanzia asilimia 9.2% na kumalizia asilimia 6.6%. Hii ilipelekea kupunguka kwa viwango vya riba kwenye biashara kwani tuliwajibika kufanyia mabadiliko mfumuko kukabiliana na kushuka kwa thamani. Ili kupunguza mfumuko, kamati ya sera za kifedha ya benki kuu (CBK) ilitathmini kiwango cha Benki Kuu (CBR) mara tano juu. Hii ilipunguza kasi ya upatikanaji wa mikopo kwani taasisi za kifedha ikiwemo sisi tulilazimika kuongeza gharama za ukopaji chini ongezeko la gharama za uwekaji akiba kutokana na kupandishwa kwa kiwango cha Benki Kuu (CBR). Zaidi ya hayo, Serikali ilileta mabadiliko kadhaa ya ushuru ikiwemo ushuru wa nyumba ambao ulilenga kupandisha kiwango cha ushuru na kuisaidia kupanua mapato ili kukidhi bajeti yake.

Ushuru huu umekuwa na athari za ununuzi kwa watu binafsi na kwenye shughuli za kibiashara kwani umepelekea kushuka kwa mapato.

Kampuni yenu kupitia kitengo tanzu cha benki, HFC, ilitoa tahadhari kwa wateja wetu kuhusu athari za kupanda kwa viwango vya riba kwa kutoa miundo ya mikopo, kupanua muda wa malipo yake huku ikidumisha malipo ya kila mwezi. Tunafahamu kuhusu changamoto ambazo wateja wetu wanapitia na wajibu wetu ni kutoa suluhu ambayo itainua hali yao ya maisha na kuwapa nguvu kukabiliana na mawimbi haya.

Kampuni yenu inazidi kuwa macho na itakaza mikondo yake ipasavyo kuhakikisha kuwa matamanio ya biashara yetu hayayumbi. Tumeweka pamoja hatua thabiti kukabiliana na athari zinazojitokeza kutokana na mazingira makali ya utekelezaji shughuli.

Vidokezo vya Matokeo

Mwaka 2023, kampuni iliimarisha matokeo mbali mbali kwa mwaka wa pili mfululizo. Kampuni iliripoti mapato ya jumla ya Ksh milioni 388 ikilinganishwa na Ksh milioni 266 mwaka 2022. Hii inaashiria kiwango cha ukuaji wa mapato cha asilimia 46%. Nina furaha kuripoti kuwa vitengo vyetu vyote tanzu vilichangia pakubwa kwenye matokeo haya.

Huu ni ushahidi wa uwezo wa mkakati wetu wa “Magic Six” na kujitolea kwa Halmashauri, usimamizi na wafanyakazi kujenga kampuni thabiti inayoimarisha hali ya maisha ya washika dau wote. Matokeo ya kundi yamefafanuliwa hapa chini;

- Mapato ya jumla kutokana na riba yaliimarika kwa asilimia 23% kutoka bilioni 4.36 mwaka 2022 hadi Ksh. bilioni 5.35 mwaka 2023.
- Mapato yasiyogharamiwa yaliimarika kwa asilimia 23% kutoka Ksh bilioni 0.95 mwaka 2022 na kufikia Ksh bilioni 1.17 mwaka 2023
- Riba kutokana na dhamana za serikali iliimarika kwa asilimia 22% kutoka Ksh bilioni 0.94 mwaka 2022 hadi Ksh bilioni 1.15 mwaka 2023.
- Mapato ya jumla kutokana na utekelezaji yaliimarika kwa asilimia 20% kutoka Ksh bilioni 3.21 mwaka 2022 hadi Ksh bilioni 3.86 mwaka 2023.
- Jumla ya akiba kutoka kwa wateja iliimarika kwa asilimia 10% kutoka Ksh bilioni 39.79 mwaka 2022 hadi Kshs bilioni 43.85 mwaka 2023 kutokana na hamasisho kali la mkakati wa uwekaji akiba.

Huku tunapolenga ukuaji mkubwa wa biashara, pia, tunafanya juhudi nyingi kuimarisha kiwango cha mtaji wetu ili kusaidia hili. Tuko kwenye hatua za kuinua daraja la kwanza la mtaji na tuna imani kuwa zoezi hili litakamilika mwaka 2024.

Upanuzi na Uboreshaji wa Biashara

Upanuzi wetu hadi benki kamili umechukua sura mpya kwa muda wa miaka 4 iliyopita, huku vitengo vilivyoanzishwa vikichangia vizuri kwenye matokeo yetu ya jumla. Kupitia biashara hii tunayoiita '' good bank'', tumetoa zaidi ya bilioni 35 kama mikopo kwa wateja wetu wanaofaa huku tukiwa na chini ya asimilia 4% ya mikopo isiyolipika. Mwaka 2023, tulilenga upeo wetu kubuni vitengo zaidi vya biashara ili kuimarisha vilivyoko. Mikakati hii inalenga kujenga na kuimarisha uwezo wetu ili kutoa huduma za hali ya juu kwa wateja.

Kwa jumla, tunajenga biashara inayokidhi na kuangazia wateja ambayo inatoa suluhu kwa vitengo teule vya wateja. Tayari mtazamo huu kwa wateja umeleta natija kama ilivyodhidhirika kutokana na ukuaji wa haraka kupitia tathmini ya imani ya wateja na kutambuliwa kwa biashara kutokana na tuzo la utoaji wa huduma za hali ya juu lililotolewa na Kenya Bankers Association kutpitia utafiti wake wa Industry wide 2023 customer satisfaction Survey.

Wakati wa kipindi hiki, kitengo chetu tanzu , HFC kilipokea leseni kutoka kwa Halamashauri inayoshugulikia maslahi ya kustaafu (Retired Benefits Authority) ambayo inaipa idhini biashara kutoa huduma za uwekaji akiba kwa mradi wa pensheni.

Zaidi ya hayo, tuliongeza matawi mengine mawili ya washirika wa benki ili kuimarisha huduma za ubadilishanaji pesa za kimataifa na pia kufanikisha shughuli kwa wateja wetu wa biashara.

Kuhusiana na kitengo chetu tanzu HFDI, muundo mpya wa biashara umeanza kutoa taswira. Muundo huu unalenga mkakati wa ushirikiano kwa maendeleo ya miundo mipya ya ujenzi wa makao ya bei nafuu na kumaliza ufadhili wa mmiliki, suluhu la usimamizi wa mmiliki ardhi ikiwemo usimamizi wa mradi na utekelezaji ili kufungua mtaji; mikakati ya mauzo ya raslimali kuinua bidhaa yetu na turathi na huduma za ushauri wa raslimali. Hii haihitaji mtaji mkubwa ikilinganishwa na mfumo wa zamani wa maendeleo ya raslimali ambao ulihitaji kiwango kikubwa cha ufadhili.

Kuimarisha Mazingira Yetu Ya Kiteknlojia

Teknolojia ni kiungo muhimu cha biashara na kuimarishwa kwake ni mojawapo wa mikakati inayolenga kuboresha matokeo ya biashara yetu. Mfumo wetu muhimu wa sasa wa benki ambao sasa umeihudumia biashara kwa zaidi ya miaka 8 ulibuniwa wakati tulipokuwa na kitengo kimoja cha biashara. Kwa muda wa miaka 4 iliyopita, tumepanua biashara yetu na kuhusisha huduma kamili za benki na kuchochea haja ya kuimarisha teknolojia yetu kwa ukuaji. Kwa idhini ya Halmashauri, tulianzisha safari kuimarisha mfumo wetu muhimu wa benki. Uimarishaji huu unauiwa kuweka sawa taratibu zetu za benki na kupanua mfumo wa matumizi, kuiwezesha biashara kuzindua bidhaa rahisi na pana na mifumo, kuinua huduma za wateja kupitia kuimarishwa kwa usimamizi wa akaunti na uwezo wa kujihudumia, kusaidia matumizi ya data, uaminifu, usalama na wepesi na kuwezesha matumizi ya mfumo wa moja kwa moja na ikiwemo mingine.

Wakati wa kipindi hiki, tulianza matumizi ya mfumo mkali wa kukabiliana na utakatishaji wa pesa kupitia mitandao ili kuimarisha muda halisi wa uchunguzi wa huduma za mteja na kuzuia ulanguzi wa shughuli za pesa katika mazingira yetu.

Kwa upande wa kadi, tulianzisha kadi mpya ya Visa Debt inayowapa wateja huduma za haraka na kwa wakati unaofaa. Tuliimarisha wavuti wetu na kuwa sambamba na mkakati wetu wa kuweka upya bidhaa yetu.

Nina furaha kuwafahamisha kuwa, mtandao wetu HFC Whizz App, unaendelea kuongoza. Wakati wa kipindi ulishinda nishani ya shaba kwa kutambuliwa kama mfumo bora zaidi wa USSD App na tuzo ya dhahabu kwa kuwa mfumo bora wa benki wakati wa matuzo ya Mobile App Awards 2023.

Kutumia Vyema Ushirikiano Baina ya Shirika na Tanzu Zake

Kama kundi, tunatambua kuwa ukuaji wetu unaweza kuchochewa na watanzu wetu kwa kufanya kazi pamoja chini ya mfumo wa masharti ya utawala bila utengano. Matokeo yetu mema kwa miaka mbili mfululizo yamechochewa na juhudi zetu si kupitia ufunguzi wa tanzu zetu lakini pia kuanzisha njia ambazo zimesaidia matokeo yake. Kwa mfano, wateja walio na nia kununua bidhaa zetu kupitia HFDI ambayo ni mshirika wetu tanzu wa ujenzi wa mitaa wamefaidi kupitia ufadhili wa biashara ya rehani. Tumeweka pamoja mifumo itakayohakikisha kuwa tumeanzisha mbinu zilizoainishwa vyema ambazo zinafaidi kutokana umoja wa washirika wetu tanzu.

Mtazamo wa Siku za Usoni

Tuna imani kuhusu mtazamo wa Kampuni mwaka 2004. Tunanuia kukamilisha baadhi ya mipango tuliyoanzisha mwaka 2023 inayolenga kuinua biashara na kutimiza malengo yetu. Tunatarajia kuwa mazingira magumu ya chumi ndogo na utekelezaji yataonekana mwaka 2024. Huenda serikali ikachukua hatua kupanua kiwango cha ushuru na kuendelea kuongeza mzigo kwa mapato ya wateja wetu. Kutokana na hili na maswala mengine yanayotokana na kupanda kwa gharama za maisha, kiwango cha mikopo ya biashara isiyolipika kinatarajiwa kupanda. Hata hivyo, tutaendelea kuwa macho na kukaza mikondo yetu ili kujenga biashara thabiti itakayotimiza ahadi yake kwa wadau wote.

Nachukua fursa hii kuwashukuru ninyi wanahisa wetu kutokana na mchango ambao mmedhihirisha kwangu na timu ya usimamizi kuendeleza biashara yenu kwenda upeo wa juu. Pia, ningependa kuishukuru halmashauri ya wakurugenzi ambao wametembea safari hii na timu ya usimamizi na kutoa mwongozo wa uongozi na uangalizi.

Kama nilivyotaja hapo awali, wafanyakazi wetu ni raslimali kubwa na naipongeza timu hii kwa kujitolea kwao kufanikisha mkakati wetu.

Kwa niaba ya timu kuu ya usimamizi na wafanyakazi wote wa kundi, natoa hakikisho kuwa tutaendelea kutekeleza mkakati wetu kwa bidii na tumejitolea kujenga biashara thabiti ambayo itainua hali ya maisha ya wanahisa wake wote.

Robert N. Kibaara
Group Chief Executive Officer

28th March 2024

Pictorial of Activities

1


2


3


4


5


6


1 HF Group CEO Robert Kibaara and the JuaKali Contractors Federation of Kenya Chairman Joseph Muhia after signing a partnership that will see HFC provide credit access to unlock the Federation's members participation in the affordable housing real estate value chain. Looking on are State Department of Housing Director of Strategy and Partnerships Kingsley Kipury (4th left), the Secretary General of the Federation Peter Muema (4th right) and leadership from both teams.

2 HFC MD Peter Mugeni poses with a representative of Strathmore Business School during the SBS Healthcare Alumni Engagement Forum sponsored by the bank.

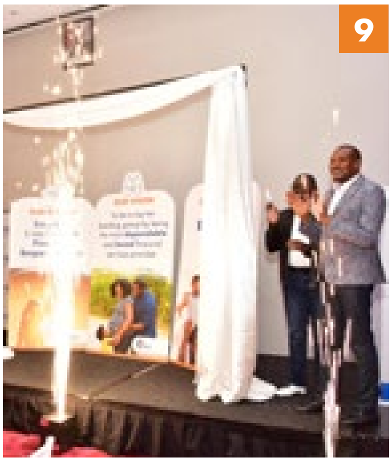
3 HF Group CEO Robert Kibaara and Executive Dean of Strathmore University School of Business Dr. Caesar Mwangi exchange documents following the signing of a partnership to collaborate on capacity building and Financing for SMEs. Looking on are Dr. Angela Ndunge of Strathmore Business School and Peter Mugeni, HFC Managing Director.

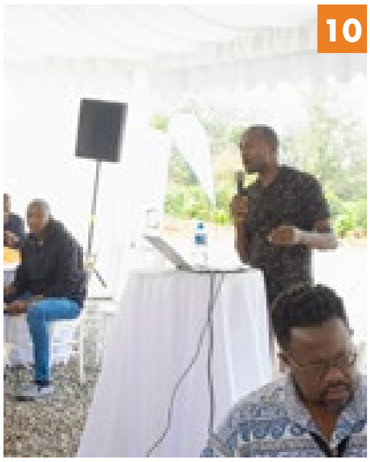
4 HFC ladies celebrate International Women's Day in March 2023.

5 HF Group CEO Robert Kibaara and HFDI Executive Director Joseph Kamau with Kigutha Farmers Board led by Chairperson Nyokabi Kamau during the launch of Barista Gardens master-planned plots in Kiambu in June 2023.

6 HFC Head of Mortgage Business Stella Mutai (right), GM Marketing Achieng Oluoch and Relationship Manager Francisca Kiilu receive the award for Best Property Finance Solutions Provider during the Real Estate 100 Awards, 2023.

Pictorial of Activities





7 Management and staff members come together to plant trees at Fahari Residences during the National Tree Planting Day on 13th November 2023.

8 Our team, led by the Bank MD Peter Mugeni (second right) and Head of Customer Experience Dorothy Jumba, receive an award from the then Kenya Bankers Association MD Habil Olaka (right) for Excellence in Customer Experience, based on the 2023 Customer Satisfaction Survey Report.

9 Our Group CEO Robert Kibaara and HFC MD, Peter Mugeni unveil the new Strategic Foundations of the organization to staff in March 2023.

10 Barista Gardens Project Manager Stanley Mwangi makes a presentation during a Sales Agents Open Day at the property.

11 & 12

Our team engage customers during various activations.

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.

The 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 in order 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 operates 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 seven non-executive Directors, four 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 is 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.

1. The Board of Directors (Continued)

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

Board Member	Date of Appointment	Expertise	Gender	Non Executive/ Executive	Independence
Prof. Olive M. Mugenda	21st October 2021	Academic research, public administration, leadership and governance	F	Non Executive	Independent
Dr Benson I. Wairegi	1st April 2008	Financial services, insurance, business strategy, leadership and corporate governance	M	Non Executive	Non Independent
Dr. Peter K. Munga	1st July 2008	Financial services, entrepreneurship, human resources and financial management, leadership	M	Non Executive	Non Independent
Dr. Anthony O. Omerikwa	18th January 2022	Public administration, Information technology, human resources, administration, procurement, leadership	M	Non Executive	Independent
Ms. Felister W. Kembi	26th September 2016	Financial advisory and management, audit, entrepreneurship,	F	Non Executive	Independent
Mr. Tom Gitogo	1st August 2023	Financial services, insurance, corporate governance, human resource, commercial and business strategy	M	Non Executive	Non Independent
Dr. Anne W. Kimari	24th June 2022	Financial services and management, tax, audit, risk, business strategy, corporate governance.	F	Non Executive	Independent
Mr. Robert N. Kibaara	1st March 2019	Financial services and management, retail banking, business strategy, change management	M	Executive	Non Independent

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 periodically. The committees include the Group Nomination and Governance, Audit & Risk and Strategy. As part of the corporate governance policy, HF Group has a co-option policy to ensure proper representation of the subsidiary Boards in the Group Committees.

A summary of the role of the current committees, current members and key activities undertaken during the year 2023 is reproduced below:-

Board Committee	Key Activities
Group Board Audit & Risk Committee (BARC) 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. • 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.	In line with this mandate, the Committee reviewed the unaudited financial statements for the full year 2023 and ensured that the same were approved by the Board. The Committee further reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year as per the approved audit plan. The Committee held sessions with PwC, the external auditor, to receive independent report and assurance on the financial statements. During the year, the Committee approved various Policies. The Committee also reviewed and considered the Enterprise Risk Management Report ensuring all business risks were identified and considered the mitigations, including the adequacy of capital to cover identified risks. Members Three Independent and Non Executive members. • Ms. Felister W. Kembi - Chairperson • Dr. Anthony O. Omerikwa, MBS • Dr. Anne W. Kimari, PhD 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).

2. Board Committees (Continued)

<table>
<tr><th>Board Committee</th><th>Key Activities</th></tr>
<tr><td>Group Nomination and Governance Committee
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.</td><td>In line with its mandate, the Committee reviewed the Senior Management performance for the year.

The Committee continued with the Board and Committee re-organization and welcomed a new Director with HR Competencies.

The Committee reviewed the Board Evaluation report, the Governance audit implementation tracker and the legal and compliance audit report and considered the areas to invest in recommended therein.

Members
• Prof Olive Mugenda, PhD, EBS, CBS, MGH (Chairperson)
• Dr. Peter Munga, EGH,CBS
• Mr. Tom Gitogo
• Mr. John Mwendwa - Co-opted HFC Limited
• Mr. Robert Kibaara - Group Chief Executive Officer
Majority of the committee members are Non Executive Directors with the chair being an Independent Non Executive Director.</td></tr>
<tr><td>Group Board Strategy Committee
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.</td><td>The Committee reviewed the performance of the Group against the set key performance indicators and the budget.

The Committee further reviewed the proposed 2024 strategic initiatives and budget proposed by management.
Members
This committee is composed of five Non Executive Directors and the Group Chief Executive Officer:
• Dr. Benson Wairegi, EBS – (Chairman)
• Dr. Peter Munga, EGH, CBS
• Dr. Dorcas Muthoni – Co-opted HFC
• Mr. Tom Gitogo
• Mr. John Mwendwa - Co-opted HFC
• Mr. Robert Kibaara - Group Chief Executive Officer</td></tr>
</table>

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 2023

Board meetings attendance for the year ended 31 December 2023										
Date	**03.03.23**	**11.05.23**	**15.05.23**	**01.08.23**	**23.08.23**	**15.09.23**	**16.10.23**	**24.11.23**	**11.12.23**	**Total**
Prof. Olive M. Mugenda	✓	✓	✓	x	✓	x	✓	✓	✓	7
Dr. Benson I. Wairegi	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Ms. Felister W. Kembi	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mr. Tom Gitogo**	x	x	x	✓	✓****	x	✓	✓	✓	5
Mr. Charles Njuguna K.*	✓	✓	x	x	x	x	x	x	x	2
Dr. Anthony O. Omerikwa	✓	✓	x	x	✓	✓	✓	x	✓	6
Dr. Anne W. Kimari	x	x	✓	✓	✓	✓	✓	✓	✓	7
Dr. Peter K. Munga	✓	x	✓	✓	✓	✓	✓	✓	✓	8
Ms. Constance Gakonyo***	✓	x	x	x	x	x	x	x	x	1
Mr. Robert N. Kibaara	✓	✓	✓	✓	✓	✓	✓	✓	✓	9

* Retired on 1st August 2023
** Appointed on 1st August 2023
*** Retired on 26th May 2023
**** Represented by alternate

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 (RMC), Management Lending committee (MLC), IT and Change Council, Service and Marketing Council. The Board appoints other committees as and when necessary.

4. Board Effectiveness

The Board conducts a rigorous performance evaluation each year to assess the performance of the Board, its committees, individual Directors, the Chief Executive Officer and the Company Secretary, in compliance with the CMA code and best practice.The process is led by the Chairperson and supported by the Company Secretary. In February 2024, 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.

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, the firm of Azali CPS LLP undertook a Governance Audit for the period up to and including 31st December 2021. 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. HF Group spent most of financial year 2023 implementing the recommendations contained in the Governance Audit report .

In FY2023, HF Group submitted a report to the Capital Markets Authority apprising them on the status of implementation of the governance audit recommendations in line with the Capital Market's Circular No. 1 of 2020 to Issuers requiring Issuers to submit such a report in the year in which a governance audit has not been conducted. The Legal and Compliance Audit for the period up to FY2022 was undertaken by the Law Firm of Walker Kontos Advocates. The legal and compliance auditors rendered an unqualified opinion confirming that the Board has put in place a satisfactory framework to ensure compliance with the laws, regulations and standards.

HF Group has partnered with the law firm of Walker Kontos Advocates to undertake a Governance Audit and a legal and compliance audit for the period up to 31st December 2023, which is currently underway.

11. Continuous Professional Development (CPD) Training

The Board members for the Group and Subsidiaries undertook a Board Continuous Development Training facilitated by Strathmore Business School. Through this partnership, all the Board members attained at least twelve hours of continuous professional development in compliance with the Capital Markets guidelines in this regard.

12. Major Shareholders as at 31 December 2023

	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%**

13. 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%**

14. 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	FELISTER WANGARI KEMBI	0	0.0000
5	ANTONY OPARE OMERIKWA	0	0.0000
6	TOM GITOGO	0	0.0000
7	OLIVE MWIHAKI MUGENDA	0	0.0000
8	ANNE WAIRIMU KIMARI	0	0.0000

"We're anchoring our ESG Agenda on our Purpose ... Enriching Lives"

Sustainability Report

In our bid to ensure we are building a truly sustainable business, 2023 kicked off with us laying the Foundations of our Strategy, as the Board and Management, in collaboration with our Team Members crafted and launched our Purpose, Vision, Mission and Values. Defining our **Purpose; Enriching Lives** and inculcating it in our People is the cornerstone of our overall Group Strategy.

In the same vein, we are cognizant of the fact that our inaugural ESG thrust must be moored in, and indeed embedded in our purpose and Group Strategy. As such, in 2023, we took time to ensure that we put the right people and structures in place so that we are well positioned to effectively deliver on our ESG Agenda. Over and above our Board receiving training on ESG from the foremost minds in the country, this Agenda was embedded in our Board's line of sight under the Board Group, Strategy & Investment Committee with the ESG Terms of Reference defined.

Further, we are delighted to have Mr. John Mwendwa, join our HFC Board as an additional Independent Non - Executive Director effective January 3rd 2024. He brings with him a wealth of knowledge in the ESG space.

He is currently accountable for leading the Environmental Social and Governance (ESG) agenda of the Coca Cola Beverages Africa - Nairobi Bottlers Limited (CCBA Kenya). His profile can be viewed on our website. We look forward to his invaluable input as we embark on this exciting journey.

As the global landscape on Sustainability and Climate Change evolves, we are paying close attention to the two standards issued on 26th June 2023 by the IFRS - International Sustainability Standards Board. We are also cognizant of the partnership to develop the Kenyan Green Finance Taxonomy intended to deliver a range of benefits to the Kenyan economy.

We are working closely with our fellow organizations and regulators, including Kenya Bankers Association, Nairobi Securities Exchange, Central Bank of Kenya and Capital Markets Authority amongst others, such as the Kenya Private Sector Alliance and Kenya Association of Manufacturers, to determine the direction we, as an industry and country, will take with regards to standardized ESG Reporting. We acknowledge that this is a global challenge as various entities and nations find the effective reporting framework for their peculiar circumstances. Our inaugural ESG Strategy takes cognizance of this emerging global shifts.

As such, IFRS S1 & S2, which require disclosure of material information about our sustainability-related and climate-related risks and opportunities respectively and the Kenyan Green Finance Taxonomy will come into sharper focus and alignment in 2024.

This report outlines our efforts with regards to sustainability in 2023.

Robert N. Kibaara
Group Chief Executive Officer

STAKEHOLDER MANAGEMENT

Our stakeholders

In 2023, these were the stakeholders that our activities, products, services & performance impacted.

2023 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 purpose and strategy. 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.
- **Discovering and ascertaining their material issues via a comprehensive Stakeholder Engagement Deep Dive will be determined in 2024.**

WHY

- Proactive engagement provides us with **insights that inform our prevailing Material Issues** and shape our business strategy and operations. This enables us to effectively manage and respond to stakeholder concerns, minimise reputational risk and ultimately deliver shared value for all our stakeholders.

HOW

- Oversight of our engagement approach is provided by our Board and Senior 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 Senior Management and Board levels.
- In 2024, a **comprehensive Stakeholder Engagement Deep Dive**, informing our inaugural ESG Strategy will take place in order to expand or contract our stakeholder listing. In collaboration with them, we will discover, ascertain and map what their material issues are. This will also include the requisite and documented engagement plan for each stakeholder going forward.

MATERIAL ISSUES

As our organization embarks on the development and implementation of our inaugural ESG Strategy, we are cognizant of the criticality of all our stakeholders and the impact of our activities, products, services and performance on them. In 2024, a **comprehensive Stakeholder Engagement Deep Dive**, informing our inaugural ESG Strategy will take place to expand or contract our stakeholder listing and in collaboration with them, discover, ascertain and map what their material issues are. This will also include the requisite and documented engagement plan for each stakeholder.

We will utilize online and in-person interviews, surveys, focus groups and workshops, digital and social media platforms as well as leverage on our partnerships and collaborations to garner more insights into our stakeholders' materials issues.

Based on the outcome of the Deep Dive, we will group the updated material issues into 3 categories: Financial Materiality, Impact Materiality and Double Materiality.

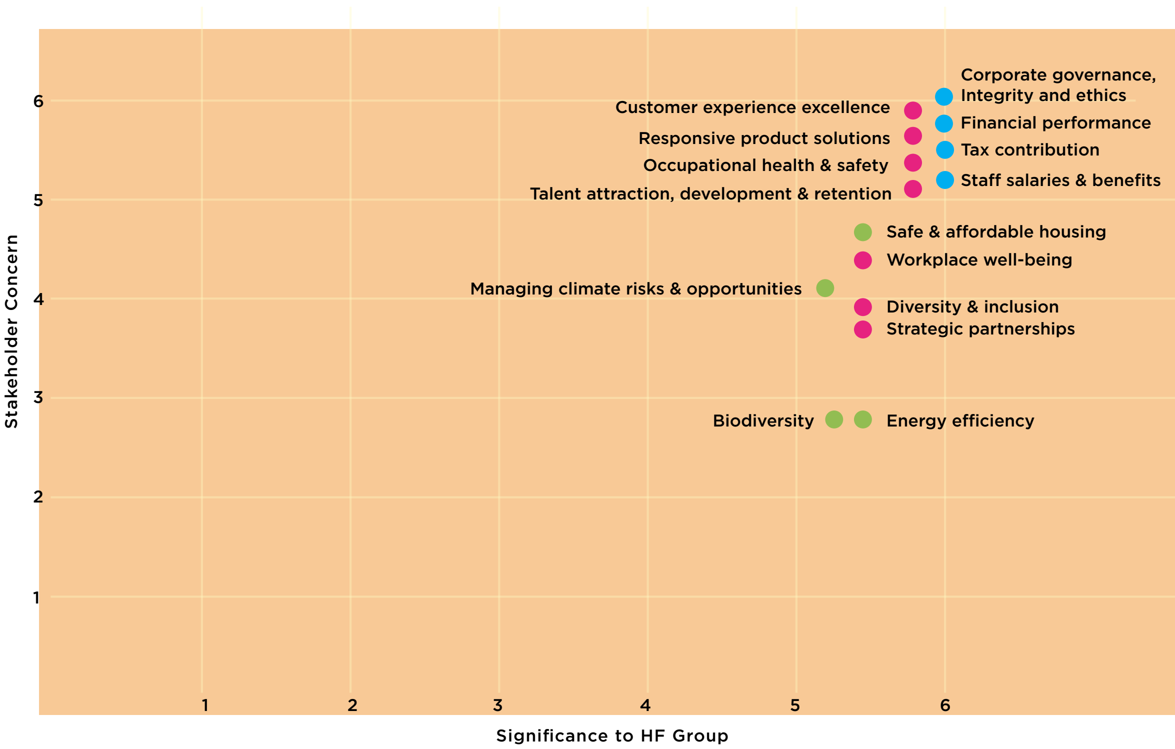
2023 Material Issues & Related Enterprise Risks

	HF GROUP MATERIAL ISSUES	RELATED ENTERPRISE RISKS
	Environmental	
1.	Climate change	· Inability to identify and mitigate climate-related physical and transition risks · Inability to incorporate climate-related risk management into our overall strategies including overall Group strategy and risk management strategy · Inability to develop scenario analysis and stress testing frameworks · Inability to invest in resources to deliver on the climate-related risks and opportunities · Non-compliance with regulatory requirements
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 & talent flight risks if employees feel undervalued or under-compensated · Skills scarcity and the talent war concerning technology and data skills · Inability to effectively respond to emerging workplace and generational trends
5.	Diversity and inclusion	· Negative impact on company reputation · Legal and compliance risks related to discrimination or failure to promote diversity and inclusion · Potential loss of market share due to lack of diversity and inclusion
6.	Employee health, safety and well-being	· Employee absenteeism · Lost productivity · Reputational risks related to the spread of disease · Compliance risks associated with health and safety regulations
7.	Safe and affordable housing	· Compliance with health and safety regulations · Risks related to affordability · Regulatory risks associated with property development and construction · Climate change-related risks associated with property development and construction
8.	Responsive solutions and strategic partnerships	· Unresponsive solutions to the market that leads to loss of time, money and resources for the organization · Ineffective solutions that do not meet the diverse and dynamic needs of the market · Loss of opportunities, innovations and growth arising from collaborations and strategic partnerships
	Governance	
9.	Economic performance	· Macroeconomic conditions · Market fluctuations · Interest rate risks · Forex risks
10.	Corporate governance, integrity & ethics	· Fraud, corruption, and unethical behaviour · Regulatory and legal risks related to non-compliance with corporate governance standards · Reputational risks · Failure to comply with or meet tax obligations

Materiality Matrix

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-related risks & opportunities
2. Energy efficiency
3. Biodiversity

Social

4. Talent attraction, development & retention
5. Diversity & inclusion
6. Occupational health & safety
7. Workplace well-being
8. Safe & affordable housing
9. Responsive product solutions
10. Customer experience excellence
11. Strategic partnerships

Governance

12. Corporate governance, integrity & ethics
13. Financial performance
14. Tax contribution
15. Staff salaries & benefits

Impacted SDGs

13 CLIMATE ACTION

ENVIRONMENTAL

MANAGING CLIMATE-RELATED 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 global landscape on sustainability and climate change is an evolving one and we as an organization are paying close attention to the two standards issued on 26th June 2023 by the IFRS - International Sustainability Standards Board. We are also cognizant of the partnership to develop the Kenyan Green Finance Taxonomy intended to deliver a range of benefits to the Kenyan economy.

We are working closely with our fellow organizations and regulators including Kenya Bankers Association, Nairobi Securities Exchange, Central Bank of Kenya and Capital Markets Authority amongst others such as Kenya Private Sector Alliance (KEPSA) and Kenya Association of Manufacturers (KAM), to determine the direction we as an industry and country will take with regards to standardized ESG Reporting.

We acknowledge that this is a global challenge as various entities and nations find the effective and unified reporting framework for their own peculiar circumstances. Our inaugural ESG Strategy takes cognizance of this emerging global shifts.

As we as an organization and indeed as a banking industry continue to find an effective path to delivering on this initiative, we are guided by the Task Force on Climate-Related Financial Disclosures (TCFD) as well as other Global Standards. It has been indicated that TCFD is in the process of being absorbed into IFRS S2 which sets out the disclosures of material information about climate-related risks and opportunities. As such, in our inaugural ESG strategy, IFRS S2 and the Kenyan Green Finance Taxonomy will come into sharper focus and alignment in 2024.

ISSB ⇄ TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

As we embark on the journey to mitigate the impact of our activities, products, services and performance on our environment, we also seek to deliver green-financing solutions to our market and look forward to offering effective solutions that financially incentivize sustainability to drive the much-needed behaviour change and impact.

7 AFFORDABLE AND CLEAN ENERGY

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.

As our 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 business activities and operations;

ii. Digitizing our processes in furtherance of our journey to reduce paper use;

iii. Going forward, as our inaugural ESG Strategy comes alive, giving preference to suppliers and contractors with environmentally friendly practices

We took on a target in **2022** to achieve at least a **25%** reduction in energy consumption from non-renewable energy sources. This target was achieved in 2022 due to our switch to lower energy consumption bulbs such as LED lighting as well as installations which resulted in a saving of **KShs. 4 Million.** In 2023, we increased the reduction to **33%** with a saving of **KShs. 5.55 Million.**

We will continue on this trajectory by adopting other renewable and efficient energy sources, acquiring more intelligent office equipment that use lower power consumption and ensuring that our motor vehicle fleet is well maintained and consuming less petrol or diesel. Targets in this regard will be identified once an effective baseline is established.

15 LIFE ON LAND

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.

As an organization, we are committed to playing our crucial role in promoting the sustainable use of natural resources. Further, as we continue to offer wealth and project management, as well as advisory services across the real estate value chain, (via our property subsidiary, and financing through our banking subsidiary), our inaugural ESG Strategy will address and outline the processes and structures that will enable us to effectively support and finance projects that embrace the pursuit and maintenance of biodiversity. This way, we can positively influence the sustainability agenda in all our engagements across our value chain.

Kenya celebrated a special public holiday on November 13, 2023, dedicated to a nation-wide tree-planting initiative as part of the **National Tree Planting Campaign under the Presidential Programme for the Accelerated Restoration of Forests and Rangelands,** which aims to plant 15 billion trees by 2032.

Our organization contributed to this initiative committing to plant 2,000 trees. This kick off project was undertaken at one of our Joint Venture Property Development Initiatives known as Fahari Residences in Ruiru.

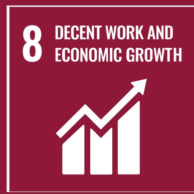
As an organization, we focused on planting fruit trees as we all have fond memories of enjoying fresh fruits straight from the trees, as we grew up across various parts of the country. We wish to bestow this same **enriched life** on our Fahari Residences dwellers.

Our Teams were trained by an Agronomist on how to effectively plant grafted fruit trees to ensure their sustained growth and health. We planted **macadamia, avocado, apple, pomegranate & mango trees.**

Our Group CEO takes the lead in demonstrating the correct way to plant grafted fruit trees.

Our enthused Team and their families delighted in planting the fruit trees

Our Board Directors Ms. Shilpa Haria, Dr. Benson Wairegi & Dr. Kaushik Manek planted fruit trees in solidarity with the Group.



SOCIAL

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. Developing a skilled workforce contributes to promotion of the advancement of the socio-economic agenda of our country.

At HF Group, we are anchored on our purpose of **Enriching Lives** and cognizant of the fact that our people are our most valuable asset. We provide avenues to improve productivity, morale and nurture talent.

We recognise that different age groups are at various personal and professional development stages and therefore, have different needs and motivations.

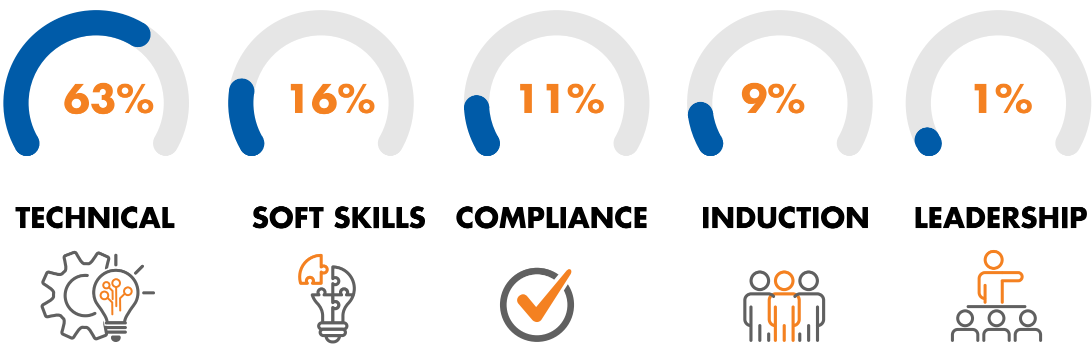
As we continue on our take-off journey as our organization turns around, we will work on strengthening our **Employee Value Proposition (EVP) based on the upcoming comprehensive Stakeholder Engagement Deep Dive** for employees to unpack and ascertain the **Material Issues** so that we can recruit and retain a workforce that delivers value to all our stakeholders.

Below and overleaf are some of the statistics in this regard.

- In 2023, we achieved **4,105 Learner Days** across the organisation, which is **143%** of our annual target.

2023 | **4,105 LEARNER DAYS** | 143%

- The main areas of learning included:



We also believe in the power of reward and recognition and undertake frequent award ceremonies for our top performing teams and team members. For instance, every month we reward our top performers in the Retail Team.

Our Group CEO, Bank MD, Director - Retail & Business Banking, GM Branch Business, GM Sales as well as our Regional Branch Manager award our various monthly top performers from across our branch network.

10 REDUCED INEQUALITIES

DIVERSITY & INCLUSION

In Support of Persons With Disabilities (PWDs)

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.

In the financial services sector, diversity and inclusion are crucial for creating a workforce that reflects and understands the diverse needs of customers and communities, while promoting innovation, creativity and better decision-making. As we journey on our more diverse and inclusive approach, we will move towards a more robust workplace, fair and equal engagement and thereby development of tailor-made solutions that deliver not only deliver value for our stakeholders, but also speak to their diverse and dynamic needs.

At HF Group, we have invested in training staff in sign language in a bid to foster a more inclusive and effective communications model with our stakeholders. We provided sign language training and currently have **13 team members from our Customer Service Team available to communicate with our stakeholders who require engagement in sign language.**

Some of our team members Peter Ochieng and Margaret Munene who are sign language interpeters including Hilary Migoya who is a sign language interpreter and trainer. They delight in signing H.F.C

In March 2023, we partnered with Kenya Bankers Association in the **Global Money Week (GMW)** campaign to raise awareness and promote financial literacy among young **Persons Living with Disability (PWD)** as part of efforts towards supporting financial inclusion. The theme was 'Plan Your Money, Plant Your Future".

This was a great opportunity for the banking sector to further inculcate a culture of saving and promoting financial literacy among young people, leading to sustainable financial inclusion and enabling young people to make sound financial decisions. The focus was on PWD (Persons with Disabilities) students in colleges and universities. Light of the World and Junior Achievement mobilized the students from colleges and universities to participate in job shadow sessions within banks' branch networks across the country.

Above: Our Director, HR & Administration poses with the PWD Young Adults at the close of their visit.
Below: Our Director, Marketing, Corporate Affairs & Citizenship and our GM HR & Administration kick off the engagement with the PWD Young Adults at the start of their visit.

Gender Inclusion & Executive Composition

As reported in the 2022 Sustainability Report, HF Group took on the target to onboard at least 3 additional female Directors to the Executive Committee. In 2023, this was realized with the onboarding of Director Marketing, Corporate Affairs & Citizenship, Director Human Resources & Administration & Director Credit. We now have 4 female Directors.

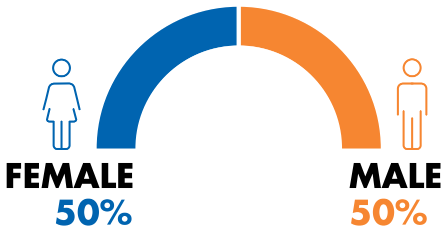
Regina Anyika
Director Legal & Company Secretary
Effective September 2013

Nkatha Gitonga
Director Marketing, Corporate Affairs & Citizenship
Effective January 2023

Catherine Olaka
Director Human Resources & Administration
Effective February 2023

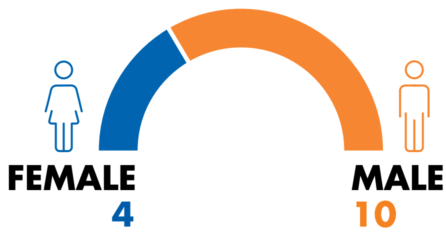
Juddy Wambita
Director Credit
Effective May 2023

HF Group Board of Directors by Gender 2023

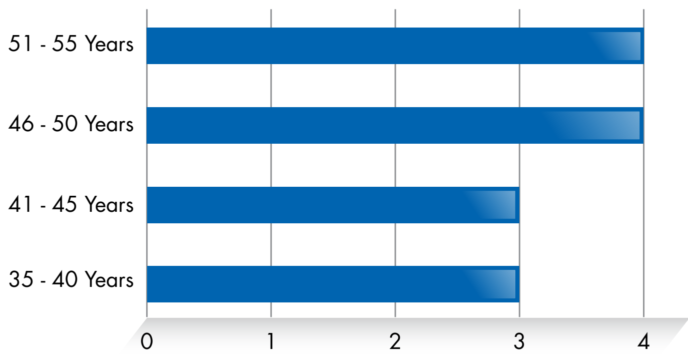


Senior Leadership Team by Gender 2022

Senior Leadership Team by Gender 2023

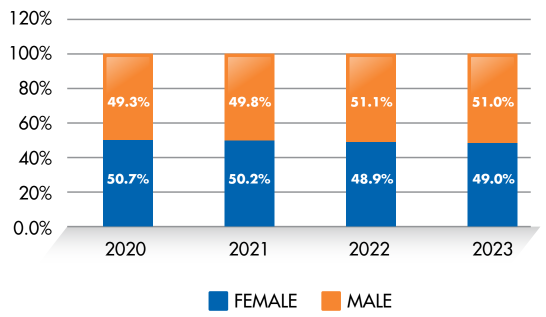


Age Demographics Senior Management 2023

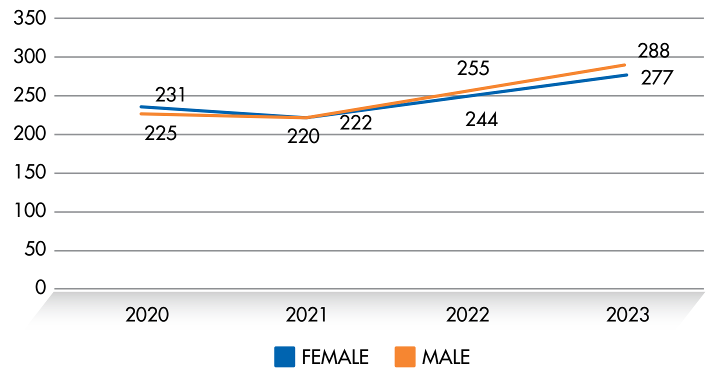


Average age of Senior Management in 2023 was 46.5 years

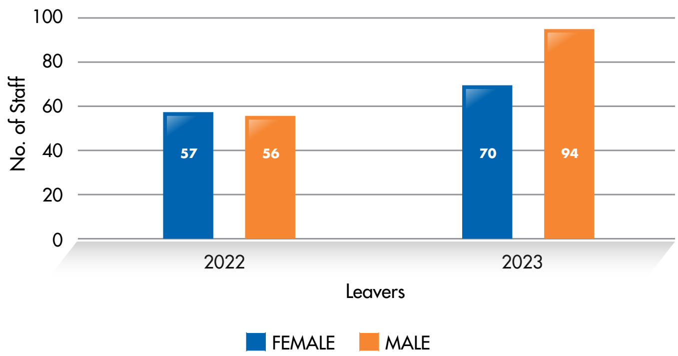
Overall Population Trend 2023



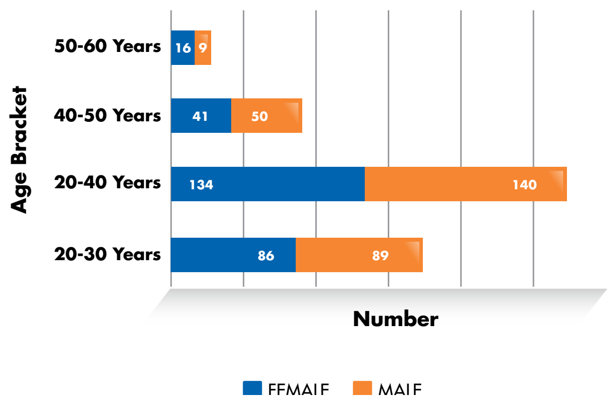
Male & Female Employees YoY



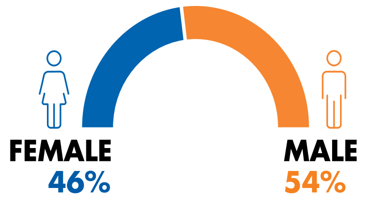
Attrition by Gender: 2023 - 2022



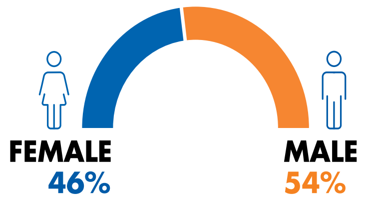
Age Distribution by Gender: 2023



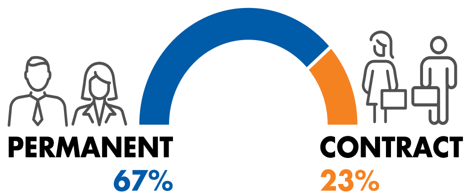
2022 Hires by Gender



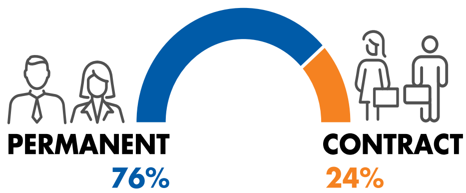
2023 Hires by Gender



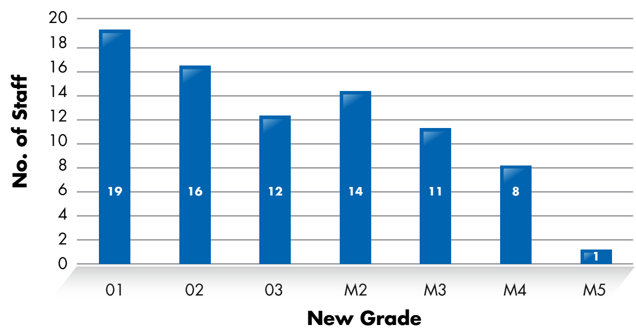
2022 Employee Compostion



2023 Employee Compostion



Promotions 2023



3 GOOD HEALTH AND WELL-BEING

EMPLOYEE HEALTH, SAFETY & 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.

Health and well-being are essential tenets for the financial 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.

Occupational Health & Safety

As we seek to promote employee health, mental health and positive workplace culture and 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.**

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 underwent training from certified organisations. The training comprised an examination, and those who passed received certifications.

The OSHA committee holds periodic meetings, while the first aiders and marshals receive annual refresher training. We are committed to adhering to the OSHA guidelines to guarantee OHS compliance.

We certified the following staff, facilitated by Red Cross:

First Aiders	**34**
Fire Marshals	**34**

Workplace Well-being

Following our comprehensive **Stakeholder Engagement Deep Dive** to ascertain the material issues for our employees, we will revamp our Group's **Employee Value Proposition (EVP)**.

Currently, we have programs to provide insights and education on good health and wellness via programmes spanning counselling, nutrition, physical and mental health. From the financial wellness front, we offer personal financial planning seminars as well as loans and mortgages, however we ensure that employees only borrow within a limit they can comfortably repay.

As we endeavor to deliver on our purpose of **Enriching Lives**, we also engage our staff in multiple and various activities to enhance our positive work environment and organizational energy. Below are some highlights from the year.

International Womens Day Celebrations 2023 following an engagement with two of our female Directors.

Our KBA Interbank Sports Team kitted out in their new gear. We emerged 1st Runners Up for our Bank Tier.

Our Group CEO hosts our Team to celebrate our return to profitability in FY 2022. We also launched our Strategic Foundations: Our Purpose, Vision, Mission and Values at the same engagement.

Team members enjoy regular Dress Down Fridays that include Sports Wear, Ol' Skool, Denim & White amongst others.

We host game nights after work to keep our Teams engaged.

8 DECENT WORK AND ECONOMIC GROWTH

RESPONSIVE SOLUTIONS & STRATEGIC PARTNERSHIPS

Target Save Product Campaign

Responsive product solutions align with **SDG 8: Decent Work and Economic Growth.** 2023 was a year that witnessed multiple tumultuous events in the economy resulting from the macro environment in addition to new legislation. As a result, the wallet sizes of residents in the country were impacted. That said, there was still an opportunity for one to save for a rainy day – even under adverse circumstances. Our HFC Whizz App accords individuals around the country the opportunity to save and achieve their financial goals in a targeted manner, suited to one's prevailing or upcoming financial circumstances. Better yet, you don't have to walk into a banking hall to do so, our solution offers fast and simple digital saving at the speed of your lifestyle!

In August 2023, we run a campaign to enlighten our target audience that our digital HFC Whizz App **Target Save Solution** allowed one to save and invest towards their financial goals at their desired pace. The behaviour change we sought to drive was that one can STILL achieve one's financial goals if you develop a consistent and disciplined personal savings and investments culture.

Download the HFC Whizz App & open the Target Save Account NOW! (Available on iOS & Playstore)

The benefits include:

- Competitive rate of return of up to 10% (Tiered – the more one deposits the better the rate)
- Interest is paid out at the end of your targeted savings period – short or long term
- Withdraw funds at any time to M-Pesa or your HFC Account
- Conveniently open the account on our award-winning HFC Whizz App

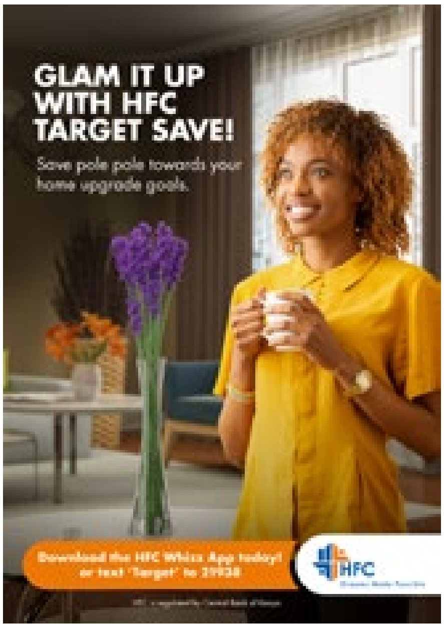
The solution is suited to those:

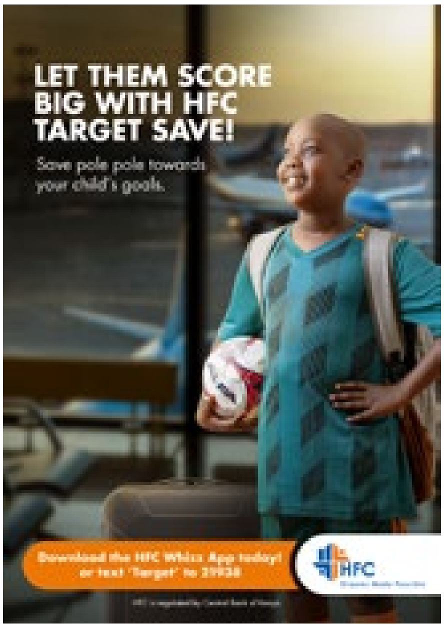
- With disposable income
- Predominantly between the ages of 25 and 45 who value growth, stability and a better future for themselves and their families
- In the early stages of wealth creation and have a lot of competing financial needs e.g. growth of their side hustles / businesses
- Are in chamas/investment groups, saccos, all of which serve as a bridge to their aspirations of wealth creation

IMPACT: AUGUST 25TH - DECEMBER 31ST 2023

- **998** New Accounts
- **Kes 6.25 Million** New Funding
- **36,386** Apps Engagement Sessions
- **282 per day** Average New User App Downloads
- **786** SMS Engagements


TIE THE KNOT
WITH HFC
TARGET SAVE!
Save pole pole towards
your wedding goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


GLAM IT UP
WITH HFC
TARGET SAVE!
Save pole pole towards your
home upgrade goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


LET THEM SCORE
BIG WITH HFC
TARGET SAVE!
Save pole pole towards
your child's goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


HATCH A PLAN
WITH HFC
TARGET SAVE!
Save pole pole towards
your hustle goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


IT'S A PIECE OF
CAKE WITH HFC
TARGET SAVE!
Save pole pole towards
your party goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


GLAM IT UP
WITH HFC
TARGET SAVE!
Save pole pole towards your
home upgrade goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC


ADVENTURE AWAY WITH
HFC TARGET SAVE!
Save pole pole towards your vacay goals.
Download the HFC Whizz App today!
or text 'Target' to 21938
HFC
HFC is regulated by Central Bank of Kenya

Fostering Customer Experience Excellence

One of our core values is **Customer Centricity** and as such our customers are at the heart of everything we do. Accordingly, 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 servicing.

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.

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 can be reached via multiple contact points including face-to-face at our branches, or via call, social media, webchat, WhatsApp and SMS.

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.

Award-Winning Solutions

Indeed, HFC was awarded **2nd Runners Up at the Kenya Bankers Association 2023 Customer Satisfaction Awards** for our tier.

Our **HFC Whizz App** was crowned the Winner of the **Best Banking App** & **Bronze Award** for **USSD** at the **2023 Mobile Banking Awards.**

HFC was awarded the **Best Property Finance Solutions provider** during the **Real Estate 100 Awards 2023.**

2nd Runners Up at the Kenya Bankers Association 2023 Customer Satisfaction Awards.

Winner of the Best Banking App & Bronze Award for USSD at the 2023 Mobile Banking Awards.

Best Property Finance Solutions provider.

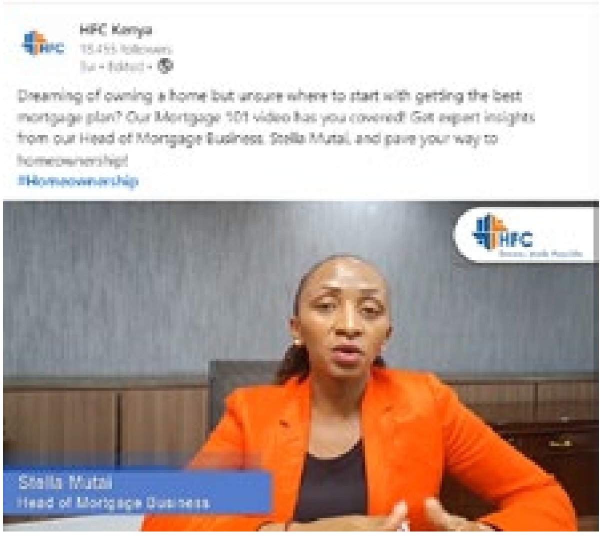
SAFE & AFFORDABLE HOUSING

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.

As a banking, property and insurance value chain player, we perform a critical role in promoting safe and affordable housing. We provide financing and advisory services for affordable housing projects and have partnered with government and industry bodies to curate financial products and services that cater to the needs of those seeking safe and affordable housing.

Further, HF Group, anchored on our rich heritage of over 110 years in the property value chain, offer wealth and project management, advisory, sales & marketing along with other products and services for various clients and partners. Critically, we offer financing and insurance solutions to make the dream of owning or investing in a home possible - true to our Brand Promise - **Dreams Made Possible.**

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 and conveyancing process in order to and make informed decisions.



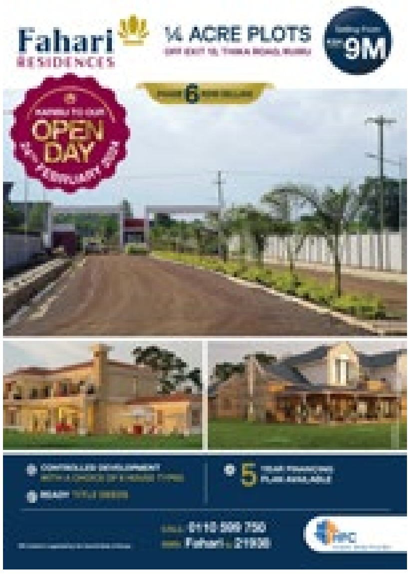
Stella Mutai, our Head of Mortgages demystifies Mortgages in a series to our digital audiences on our social media platforms.

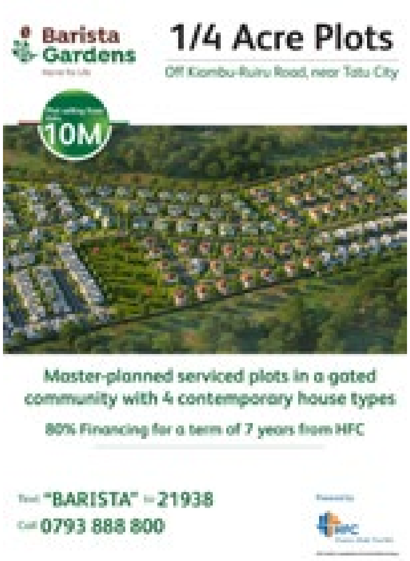
Our Bank MD Peter Mugeni delivers his insights as a panelist at the Kenya Affordable Housing Conference 2023.

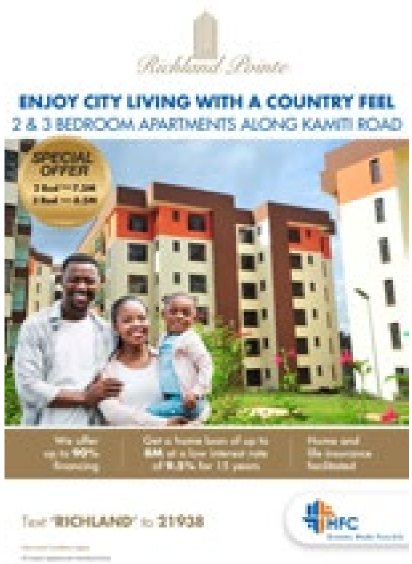
Furthermore, we continue to invest in technology to improve access to property financing. Our award-winning mobile banking platform **HFC Whizz** allows customers to access various services, including saving for their homes via our **HFC Nyumba Yangu Account** and **includes a 15% off tax incentive.** Further, as members of the Kenya Mortgage Refinance Company we are able to offer home loans that are incentivised at **less than 10% interest** for first time home owners of affordable housing properties (less than Kes 10M purchase price).

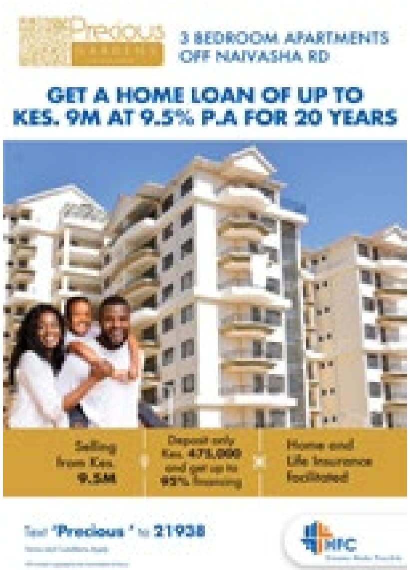
Our online property market place accessible via **www.hfmarketplace.hfgroup.co.ke** allows potential buyers to view available properties across our value chain, on the portal. This platform has made it easier for people to access information and financing options, thereby improving access to safe and affordable housing. 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.

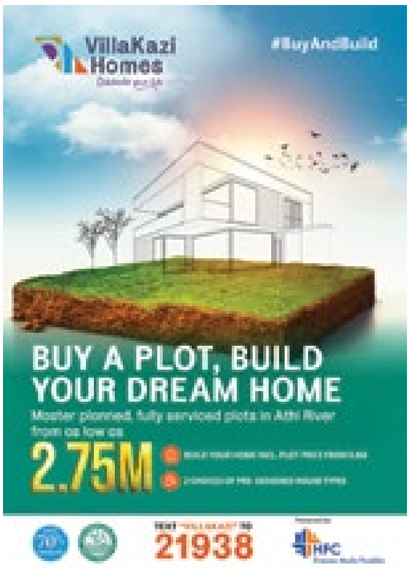
In 2023, we partnered to deliver the following developments across different price points to the market with financing available for the eligible parties, including the incentivized KMRC option.

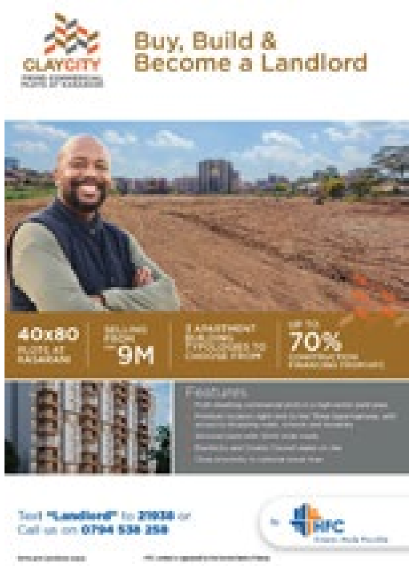













Enriching lives...
...through strategic partnerships

We aim to finance Kes 4 Billion over the next few years to finance players in the affordable housing ecosystem via HFC's Ujenzi na Makao

HF Group, through its banking subsidiary – HFC, entered into a partnership with the **Jua Kali Contractors Federation of Kenya (JKCFK)** that sees the lender support the federation and its members with access to credit and opportunities for enhanced participation in Kenya's real estate value chain. The two parties are creating synergies in the real estate market by supporting Jua Kali artisans with value addition for their products and services for increased revenue generation. The Jua Kali sector has been allocated preferential contracting of doors, windows and other ringfenced items for all affordable housing works by the Government of Kenya, but lack of financing to service the contracts has hindered uptake of this opportunity.

As we focus on the development of the SME sector, we are committed to strategic partnerships with the sector which plays a critical role in empowering lives, poverty eradication and the economic development of our country. Our partnership with the Jua Kali Contractors Federation dubbed **HFC Ujenzi na Makao** provides tailor-made financing solutions to its members and clusters, within HFC's lending policy and is a testament to our commitment to living up to our Group's purpose; **Enriching Lives.**

Through the partnership, HFC provides the artisans with working capital in addition to training and capacity building opportunities, including idea conceptualization to procurement of products and services, financing, joint market research and exposure to strategic partners. These trainings will leverage on a partnership that HF Group has with **Strathmore University's Small Business Development Centers**, which will facilitate the training programs at a subsidized rate of 10% off.

Our Bank provides a bouquet of financial solutions structured to suit the needs of all players in the affordable housing ecosystem. This includes financing for contracts in excavation, masonry, joinery, steel works, plumbing and finishings.

The State Department for Housing and Urban Development welcomed HFC's support of this vision through the provision of mortgage financing, training and working capital to the Jua Kali sector to bolster their capacity to deliver in the supply chain. The State Department has provided access to the market for the Jua Kali sector by ring-fencing doors, windows and other key inputs in the affordable housing supply chain. This provides a growth opportunity for the Jua Kali sector to corporatise and be the developers of tomorrow. Further, the intention is for every Jua Kali artisan to have the chance to be a home owner by providing affordable home financing solutions.

Through the **HFC Ujenzi na Makao** programme, the Federation members have access to working capital to facilitate works contracted for under the Government of Kenya's affordable housing project. **The Federation members have been allocated 10 percent of all the Government of Kenya affordable housing units** but members have faced challenges accessing financing in order to realize this benefit. Our Bank will bridge this gap by providing mortgage financing to enable individual members own decent housing hence giving them dignity and enriching their lives.

Impact: Access to **Kes 4 billion** of financing over the next few years to finance players in the affordable housing ecosystem.

Enable **federation members to own homes** that would previously have been inaccessible

Our Partnership with Athletics Kenya Boosts Athletes' Access to Home Ownership

Athletics Kenya (AK) and HF Group's banking subsidiary HFC, entered into a ground-breaking partnership which enables our Kenyan world-beating athletes to own homes at affordable prices.

Through this partnership, HFC provides home purchase financing to elite athletes and other Athletics Kenya Members at the incentivized rates of the Kenya Mortgage Refinancing Company (KMRC).

The athletes are also be trained on prudent financial management as well as the importance of planning for affordable home ownership while still active in their careers.

Further, the partnership facilitates linkages to strategic affordable housing developers and bulk allocation of government affordable housing projects, through joint application to the State Department of Housing and Urban Development.

Commenting on the historic partnership between the two entities, Athletics Kenya President General (Rtd) Jack Tuwei hailed it as an initiative whose time was long overdue, noting that it is another milestone towards securing the future of Kenyan sportspersons long after hanging their boots.

He further indicated that on many occassions we have heard and read of stories of sportsmen and women living in abject poverty despite bringing glory to the country. Many of them are struggling to pay rent or find that they are incurring a lot of expenses towards the same.

With this new partnership, athletes are assured that they will always have a roof over their heads. He also encouraged as many Kenyan athletes as possible to come on board, use their prize monies to invest in affordable homes under the new partnership.

This partnership has been mooted and executed with the best interests of athletes in mind. One of the best ways for an athlete to reward themselves for all the hard work on the track, field, road or cross country is to invest in a home where one will always rest easy and reflect on one's glory days in peace, knowing that one's talent bore fruit.

At HF Group, we truly believe this partnership is aligned to our purpose of **Enriching Lives** and we are committed to such strategic partnerships. Through this partnership, we will empower our gallant sports men and women to access credit and own their homes. This partnership is evidence of what Public-Private Partnerships (PPPs) can achieve as far as improving Kenyans' standards of living is concerned.

Many Kenyans rely on financing for home purchase and we at HFC are well-equipped to help them navigate this journey by providing relevant home ownership savings plans and end-buyer financing options.

Impact:

- Enabling our esteemed athletes to access credit and own their homes via home ownership savings plans and end-buyer financing solutions.
- Training on prudent financial management and the importance of planning for affordable home ownership while still active in their careers.

Partnering with Strathmore University Business School to Boost MSMEs Growth via Empowerment Programmes

HF Group and Strathmore University Business School entered into a strategic partnership to collaborate on empowerment programmes for micro, small and medium enterprises (MSMEs) within the sectors of manufacturing, real estate, healthcare, education and agriculture value-chain.

The initiative sees MSMEs within our ecosystem benefit from training, capacity building initiatives and tailor-made financing solutions geared towards business growth.

MSMEs are at the heart of Kenya's social, economic and industrial development. With this partnership, the Group and Strathmore will leverage each other's expertise to create a supportive ecosystem specifically designed to propel MSMEs to the next frontier of growth and economic contribution."

The collaboration aims to leverage the respective strengths and areas of expertise of both partners to deliver relevant insights through annual trainings on entrepreneurship, financial literacy, e-commerce, business mentorship and coaching.

MSMEs constitute 98 percent of all businesses in Kenya, responsible for 30 percent of jobs created annually and three percent of the GDP. This sector is critical to the country's economic vitality and we firmly believe that supporting this will expand trade and employment opportunities.

Impact:

- Enabling MSMEs sustained growth via financial and academic empowerment
- Over **400 SME** engaged:
  - SME Forum – **250 participants**
  - Medical Sector Forum – **150 participants**

A 2018 Kenya National Bureau of Statistics report showed approximately 400,000 micro small and medium enterprises do not celebrate their second birthday and very few SMEs reach their fifth birthday. 46% of Kenya's SMEs reportedly close within a year of founding. With this partnership, we seek to be at the forefront of turning the tides for MSMEs towards sustainability.

Our Group CEO Robert Kibaara delivers his remarks at the Strathmore Sustainability Conference focused on MSMEs.

Our Bank MD Peter Mugeni engages the medical fraternity at the Strathmore Healthcare Alumni dinner on healthcare and banking & the mutual opportunities.

GOVERNANCE

CORPORATE GOVERNANCE, INTEGRITY AND ETHICS

Corporate governance, integrity and ethics align with **SDG 16 Peace, Justice & Strong Institutions.** 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.

Our Board of Directors and Senior Management are charged with our organization's corporate governance and their profiles can be viewed on pages 8-17 of this report and are also available on our website.

Please see pages 36 - 43 for our Corporate Governance Statement that precedes this Sustainability Report.

HF Group Board Governance Programme | February - April 2023

8 DECENT WORK AND ECONOMIC GROWTH

FINANCIAL PERFORMANCE

Financial performance aligns with **SDG 8, Decent Work & Economic Growth**, which promotes sustained, inclusive and sustainable economic growth, full and productive employment, and decent work.

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 continues to gain momentum despite the tumultuous year that was 2023, within the macro environment. Indeed, as the theme of our report reads, we remained true to our **Purpose** of **Enriching Lives** as we built resilience to deliver a profit for another consecutive year in 2023.

HF Group FY 2023 Performance Highlights

	Dec-22	Dec-23	Movement
Profit After Tax	Ksh. 266 M	Ksh. 388 M	46% ✓
Total Interest Income	Ksh. 4.27 B	Ksh. 5.20 B	22% ✓
Non Funded Income	Ksh. 0.88 B	Ksh. 1.24 B	41% ✓
Interest on Government Securities	Ksh. 0.94 B	Ksh. 1.15 B	22% ✓
Total Operating Income	Ksh. 3.04 B	Ksh. 3.79 B	25% ✓
Total Assets	Ksh. 56.99 B	Ksh. 61.55 B	8% ✓

Regulated by the Central Bank of Kenya

HF GROUP Dreams Made Possible

Our audited financial statements can be reviewed from pages 74 - 196.

TAX CONTRIBUTION

2022	2023
KShs 0.523 BILLION	KShs 0.641 BILLION

Excludes funds collected as agents on behalf of KRA

STAFF SALARIES & BENEFITS

2022	2023
KShs 1.33 BILLION	KShs 1.625 BILLION

Financial Statements
2023

Report of the Directors

The directors submit their report together with the audited financial statements of HF Group Plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2023.

Incorporation

The Group is domiciled in Kenya where it is incorporated as a private group limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 6.

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 388,156,000 (2022: Profit of Shs 265,570,000). Interest income earned during the year was Shs 5,347,608,000 representing a 22.5% increase from Shs 4,364,293,000 earned in 2022, while the interest expense incurred during the year grew by 25.8% to Shs 2,654,824,000 from Shs 2,110,369,000 in 2022. The net loan book at the end of year was Shs 38,787,793,000 compared to Shs 36,299,175,000 in 2022.The non-performing loans (NPL) increased by Shs 2,332,780,000 from Shs 8,486,934,000 in 2022 to Shs 10,819,714,000. Deposits grew by Shs 4,050,703,000 to Shs 43,847,644,0000 as at the end of the year.

Report of the Directors (Continued)

Financial results and recommended dividend

The Group Profit for the year of Shs 388,156,000 (2022 Profit of Shs 265,570,000) has been deducted from accumulated losses. No interim dividend was paid during the year (2022: Nil). The directors do not recommend payment of a final dividend (2023: 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.

Environmental, social and employee matters

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

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

2. We offer products and services that deliver efficiency contributing to an overall reduction in the usage of natural resources.

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

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.

Report of the Directors (Continued)

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
28th March 2024

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 2023			Year ended 31 December 2022		
	Fees	Sitting allowance	Total	Fees	Sitting allowance	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Prof. Olive M. Mugenda, EBS, CBS, MGH	4,875	-	4,875	4,875	-	4,875
Dr. Benson I. Wairegi, EBS	488	2,597	3,085	488	2,878	3,366
Dr. Peter K. Munga, EGH,CBS	488	1,193	1,681	488	842	1,330
Dr. Anthony O. Omerikwa	488	1,264	1,752	464	1,264	1,728
Charles K. Njuguna. *	488	211	699	470	1,053	1,523
Dr. Anne W. Kimari	488	983	1,471	365	562	927
Ms. Constance Gakonyo ***	-	-	-	487	997	1,484
Ms. Felister W. Kembi	488	1,334	1,822	487	1,474	1,961
Mr. Tom M. Gitogo **	244	351	595	-	-	-
	8,047	7,933	15,980	8,124	9,070	17,194

. * Retired on 1st August 2023 *** Retired on 26th May 2023 ** Appointed 1st August 2023

Executive Director

Robert N. Kibaara	2023 Shs'000	2022 Shs'000
Salary	58,286	59,843
Gratuity	13,627	9,950
Total	71,913	69,793

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
28th March 2024

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 Company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the 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 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 Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

(i) designing, implementing and maintaining 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.

Having made an assessment of the Group's and company ability to continue as a going concern, 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 28th March 2024 and signed on its behalf by:

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

Robert N. Kibaara
Chief Executive Officer

Benson I. Wairegi, EBS
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 124, which comprise the consolidated statement of financial position at 31 December 2023 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 2023, 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, comprising material 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 2023 and of their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting 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.

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

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 Group'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. 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 assumptions 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 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. 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. 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.

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, 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 is 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 IFRS Accounting 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.

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

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

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.
- 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.

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

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

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.

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 2 to 4 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 5 to 6 has been properly prepared in accordance with the Companies Act, 2015.

FCPA Kang'e Saiti, Practicing Certificate number 1652
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

28th March 2024

Consolidated statement of profit or loss and other comprehensive income

	Note	2023 Shs'000	2022 Shs'000
Interest income	6	5,347,608	4,364,293
Interest expense	6	(2,654,825)	(2,110,369)
Net interest income		2,692,783	2,253,924
Allowance for expected credit losses	22	(309,299)	(194,130)
Net interest income after credit impairment losses		2,383,484	2,059,794
Fee and commission income	7(a)	414,469	506,894
Fees and commission expense	7(b)	(73,688)	(72,277)
Trading income	8	174,407	154,859
Other income	9	542,677	293,691
Net operating income		3,441,349	2,942,961
Employee benefits	11	(1,625,812)	(1,330,440)
Depreciation and amortisation	12	(364,829)	(360,779)
Other operating expenses	10	(1,184,170)	(1,054,083)
Share of profit/(loss) in joint ventures	21	31,946	(6,265)
Investment property fair valuation gain/ loss	29	36,000	(1,000)
Profit before income tax		334,484	190,394
Income tax credit	13	53,672	75,176
Profit for the year		388,156	265,570
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	(378,578)	(77,337)
Deferred income tax	26	113,573	23,201
		(265,005)	(54,136)
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	20,000	404,292
Deferred income tax	26	(3,000)	(121,288)
		17,000	283,004
Total comprehensive profit for the year		140,151	494,438
Basic and diluted earnings per share – Shs	14	1.01	0.69

Company statement of profit or loss and other comprehensive income

	Note	2023 Shs'000	2022 Shs'000
Other income	9	98,600	204,120
Employee benefits	11	(73,640)	(78,738)
Depreciation and amortisation	12	(273)	(210)
Other operating expenses	10	(20,808)	(75,230)
Profit before income tax		3,879	49,942
Income tax (expense)/credit	13	(463)	63
Profit for the year		3,416	50,005
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		3,416	50,005

Consolidated statement of financial position

	Note	2023 Shs'000	2022 Shs'000
Assets			
Cash and balances with banks	16	2,145,150	2,184,939
Placements with other banks	17	607,391	12,346
Investment in government securities	18	9,682,141	8,540,137
Loans and advances to customers	22	38,787,793	36,299,175
Other assets	23	2,495,449	2,317,399
Inventories	25	525,819	414,604
Property and equipment	19	792,635	579,410
Right-of-use asset	35	194,104	492,613
Intangible assets	20	277,897	332,592
Investment property	29	1,885,000	1,849,000
Investment in property fund	24	380,207	380,207
Investment in joint ventures	21	1,645,120	1,613,173
Current income tax	13	367,255	365,267
Deferred income tax	26	1,764,469	1,570,538
Total Assets		61,550,430	56,951,400
Liabilities			
Balances from Central Bank	27	1,500,000	499,777
Deposits from customers	27	43,847,644	39,796,941
Deposits from banks	27	3,193	24,317
Other liabilities	28	3,277,155	3,086,567
Derivative liabilities	37	1,570	13,268
Dividends payable	15	246	246
Deferred income tax	26	487	-
Borrowings	30	3,740,432	4,317,757
Government of Kenya income notes	32	52,860	52,860
Lease liabilities	35	261,513	434,488
		52,685,100	48,226,221
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Regulatory reserve	31	4,854,473	3,696,575
Revaluation reserves	31	1,312,129	1,295,129
Fair value reserves	31	(305,378)	(40,373)
Accumulated losses		(3,262,477)	(2,492,735)
		8,865,330	8,725,179
Total Liabilities and Shareholders' Equity		61,550,430	56,951,400

The financial statements on pages 89 to 200 were approved for issue by the Board of directors on 28th March 2024 and signed on its behalf by:

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

Robert N. Kibaara
Chief Executive Officer

Benson I. Wairegi, EBS
Director

Regina Anyika
Company Secretary

Company statement of financial position

	Note	2023 Shs'000	2022 Shs'000
Assets			
Cash and balances with banks	16	1,107	15,387
Other assets	23	3,033	36,692
Property and equipment	19	727	998
Investment in subsidiaries	21	9,857,594	9,857,594
Current income tax	13	57,486	52,016
Deferred income tax	26	49,377	49,840
Total Assets		9,969,324	10,012,527
Liabilities			
Other liabilities	28	347,439	394,058
Dividends payable	15	246	246
		347,685	394,304
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Retained earnings		3,355,056	3,351,640
		9,621,639	9,618,223
Total liabilities and shareholders' equity		9,969,324	10,012,527

The financial statements on pages 89 to 200 were approved for issue by the Board of directors on 28th March 2024 and signed on its behalf by:

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

Robert N. Kibaara
Chief Executive Officer

Benson I. Wairegi, EBS
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 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
Year ended 31 December 2023								
At start of year		1,923,071	4,343,512	1,295,129	3,696,575	(2,492,735)	(40,373)	8,725,179
Profit for the year		-	-	-	-	388,156	-	388,156
Other comprehensive loss for the year								
Transfer from statutory credit risk reserve		-	-	-	1,157,898	(1,157,898)	-	-
At fair value through other comprehensive income	31	-	-	-	-	-	(265,005)	(265,005)
Revaluation surplus on property and equipment		-	-	17,000	-	-	-	17,000
At end of year		1,923,071	4,343,512	1,312,129	4,854,473	(3,262,477)	(305,378)	8,865,330

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 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
Year ended 31 December 2023				
At start of year	1,923,071	4,343,512	3,351,640	9,618,223
Profit and total comprehensive income for the year	-	-	3,416	3,416
At end of year	1,923,071	4,343,512	3,355,056	9,621,639

Consolidated statement of cash flows

	Note	2023 Shs'000	2022 Shs'000
Net cash flows from operating activities	33	1,923,292	(173,240)
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(85,183)	(19,915)
Investment in Joint venture		-	(75,099)
Purchase of intangible assets	20	(158,411)	(52,764)
Proceeds from disposal of repurchased properties		35,700	106,251
Proceeds from disposal of property, plant and equipment		3,577	-
Net cash flows used in investing activities		(204,317)	(41,527)
FINANCING ACTIVITIES			
Receipts of borrowed funds	30	-	700,000
Principle repayments of borrowings	30	(577,325)	(680,592)
Interest lease payments		(30,422)	(24,309)
Principal lease payments	35	(92,798)	(117,414)
Net cash flows used in financing activities		(700,545)	(122,315)
Net increase/(decrease) in cash and cash equivalents		1,018,430	(337,082)
Cash and cash equivalents at start of year		848,691	1,185,773
Cash and cash equivalents at end of year	33	1,867,121	848,691

Company statement of cash flows

	Note	2023 Shs' 000	2022 Shs' 000
Net cash flows (used in) / generated from operating activities	33	(14,280)	103,877
INVESTING ACTIVITIES			
Purchase of property and equipment	19	-	(807)
Net cash flows (used in) / generated from investing activities		-	(807)
FINANCING ACTIVITIES			
Investments in subsidiaries-HFC	21	-	(90,000)
Net cash flows used in financing activities		-	(90,000)
Net increase/(decrease) in cash and cash equivalents		-	13,070
Cash and cash equivalents at start of year		15,387	2,317
Cash and cash equivalents at end of year	16	1,107	15,387

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 accounting policies set out below have been applied consistently to all periods presented on these financial statements, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with IFRS Accounting Standards. 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 Company's accounting policies. The are no areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements.

Going concern assessment

The banking subsidiary

The banking sector resiliently weathered through a challenging operating environment in year 2023. The sector liquidity ratio remained strong standing at 51% in as of November 2023. The private sector credit grew by 14% year on year as of Nov 2023. Profit before tax however dropped by 5% year on year for the period ended Nov 2023. This contrasts with the group's banking arm (HFC) 66% growth in PBT for the year ended December 2023, signifying the Bank's actual and potential superior performance as the market embraces the renewed HFC Limited.

The bank is now solidly back to profitability. The turnaround phase of 2018 – 2022 successfully ended with the bank's registering its first annual profit in 2022. During this transition phase, the bank laid the requisite strategies ranging from;

- Launching new business segments including SME Banking, Financial Institutions, Custody Business, Institutional Banking and Treasury as a business (they are now all profitable) to supplement its earlier single segment (Personal Banking)
- Recalibrating its assets-liabilities mix and structure to optimize the net interest margin and reduce structural liquidity fragilities.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern assessment (continued)

- Separating the "Good Bank" and the "Bad Bank" (Special Assets), assigning the 2 banks different management teams with different skill sets. This has allowed HFC to continue with the NPL resolution efforts while at the same time developing a new loan portfolio much healthier than the Kenyan banking sector loan portfolio. This Good Bank portfolio closed FY 2023 contributing slightly more than 75% of the total HFC loans and with an impressive NPL ratio of 6.49% against the prevailing Kenyan banking sector NPL ratio of 15.2% in November 2023.
- Revenue diversification: The new business segments have helped the bank to reduce its over reliance on interest income by creating new streams on non funded income.

Property subsidiary

The group's property subsidiary has undergone significant changes in its business structure. The subsidiary has changed its traditional core business mandate of property development and is now focusing on landowner solutions and other property management consultancy.

Over the last two years, this has proven to be profitable, sustainable, and less capital intensive. The subsidiary posted an enviable profit before tax growth rate of 32%.

Bancassurance subsidiary

The subsidiary has throughout the years been profitable and posted year on year profit before tax growth of 16%. The subsidiary has also reliably been supporting the group with dividend income.

Overall, the group has witnessed excitement in the equity market where HF Group stock defied the trend. Based on Central Bank of Kenya's recent monthly economic indicator report for November 2023, NSE All Share Index (NASI) lost 28% of all the listed stocks value on a year-to-date basis. In great contrast, HF Group Plc shares gained by 24% year to date for the same period.

Based on our internal equity valuations all the operating subsidiaries continue to have their intrinsic value way above their book value.

Based on the above factors, the Board and Management consider the entities to be a going concern.

Changes in accounting policy and disclosures

(i)New and amended standards adopted by the Group

A few amendments to standards became effective for the first time in the financial year beginning 1 January 2023 and have been adopted by the Group. The amendments have not had an effect on the Company's financial statements. The amendments are as follows:

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures

(i)New and amended standards adopted by the Group (continued)

Title	Effective date	Key requirements
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Annual periods beginning on or after 1 January 2023. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023. (Published May 2023)	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

None of these amendments have had a significant impact on the financial statements.

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures

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

Title	Effective date	Key requirements
Amendments to IAS 1 - Non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024 (Published January 2020 and November 2022)	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IFRS 16 – Leases on sale and leaseback	Annual periods beginning on or after 1 January 2024 (Published September 2022)	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	Annual periods beginning on or after 1 January 2024 (Published May 2023)	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

Notes (continued)

2 Summary of material 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.

Notes (continued)

2 Summary of material accounting policies (continued)

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment other than land and buildings 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.

Land and Buildings held at fair value are subsequently carried at a revalued amount based on valuations, Buildings are then carries at revalued amounts less any 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 Summary of material 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 Summary of material 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 Summary of material 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 Summary of material 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:

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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.

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

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
- 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.

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(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.
- 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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets

(iv) Derecognition other than on a modification (continued)

(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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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.

(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 Summary of material 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.

Notes (continued)

2 Summary of material accounting policies (continued)

(u) Provisions, contingent assets and contingent liabilities (continued)

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

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(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.

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.

Notes (continued)

2 Summary of material accounting policies (continued)

(w) Consolidation (continued)

i) Subsidiaries (continued)

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.

(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.

Notes (continued)

2 Summary of material accounting policies (continued)

(w) Consolidation (continued)

(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 Summary of material accounting policies (continued)

(x) 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.

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

(y) 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)

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
- Criteria used in determination of which exposures should be individually assessed;
- Definition of default and/or credit impaired;

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 (continued)

(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	2023 Shs' 000	2022 Shs' 000
Credit exposures			
On – balance sheet items			
Balances and deposits due from financial institutions*	16	1,277,201	1,652,834
Investment securities	18	9,682,141	8,540,137
Loans and advances to customers	22	38,787,793	36,299,175
Other assets**	23	1,299,136	1,076,671
		51,046,271	47,568,817
Off - balance sheet items			
Guarantees		2,428,566	1,353,528
Letters of credit, acceptances and other credits		80,452	581,569
		2,509,018	1,935,097
		53,555,289	49,503,914

*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 high credit rating.

**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 61,834,000 (2022: Shs 36,995,000) has been recognised against them at 31 December 2023.

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 (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

	2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Amortised cost	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Individually and collectively impaired				
Grade 3: Substandard	-	-	497,956	497,956
Grade 4: Doubtful	-	-	10,321,758	10,321,758
Grade 5: Loss	-	-	-	-
Gross amount	-	-	10,819,714	10,819,714
Provision for impairment losses	-	-	(3,383,399)	(3,383,399)
Carrying amount	-	-	7,436,315	7,436,315
Grade 1: Normal	27,817,660	-	-	27,817,660
Grade 2: Watch	-	3,790,128	-	3,790,128
Gross amount	27,817,660	3,790,128		31,607,788
Provision for impairment losses	(124,595)	(131,715)	-	(256,310)
Carrying amount	27,693,065	3,658,413		31,351,478
Total carrying amount	27,693,065	3,658,413	7,436,315	38,787,793

Notes (continued)

4 Financial risk management (continued)

(b) 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**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Amortized cost				
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	-	-	8,486,934	8,486,934
Provision for impairment losses	-	-	(3,028,743)	(3,028,743)
Carrying amount	-	-	5,458,191	5,458,191
Grade 1: Normal	26,009,719	-	-	26,009,719
Grade 2: Watch	-	5,234,201	-	5,234,201
Gross amount	26,009,719	5,234,201	-	31,243,920
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

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 (continued)

(a) 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 (continued)

(a) 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.

The Group has a panel of valuers who undertake valuation of property and other assets to be used as collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. 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	
	2023	**2022**
	Shs' 000	**Shs' 000**
Property	52,282,892	68,553,529
Cash	547,145	948,660
	52,830,037	69,502,189

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

	Group	
	2023	**2022**
	Shs' 000	**Shs' 000**
Concentration by segment (Gross)		
Mortgage	23,808,422	23,849,826
Projects	8,328,934	8,247,003
Commercial	6,127,733	5,174,815
Unsecured	3,467,644	2,433,879
IPF	62,117	25,341
Micro	632,652	-
	42,427,502	39,730,864

Notes (continued)

4 Financial risk management (continued)

(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 homogenous 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. An increase in PDs by 10bps would result to an increase in expected credit losses by Shs 37,964,000 (2022: Shs 46,250,000)

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 base and worst case scenarios.

2023	**Base case**	**Case ('PDs worse by 10%)**	**Change in ECL allowance. Increase**	
	Shs'000	**Shs'000**	**Shs'000**	**%**
Stage 1	124,595	135,446	(10,851)	(9)
Stage 2	131,715	158,828	(27,113)	(21)
Stage 3	3,383,399	-	-	-
Total	3,639,709	294,274	(37,964)	

2022	**Base case**	**Case ('PDs worse by 10%)**	**Change in ECL allowance. Increase**	
	Shs'000	**Shs'000**	**Shs'000**	**%**
Stage 1	102,960	101,936	(1,034)	(1)
Stage 2	299,975	254,729	(45,216)	(15)
Stage 3	3,028,743	-	-	-
Total	3,431,678	356,665	(46,250)	

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 2023.

Notes (continued)

4 Financial risk management (continued)

(b) 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 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.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

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.

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 lifetime ECL, 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. For stage 1 loans and advances, a qualitative assessment is performed to determine whether there has been a significant increase in credit.

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.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

The nominal values of such commitments are listed below: -

	2023 Shs'000	2022 Shs'000
Undrawn overdrafts	40,978	41,681
Letters of credit	39,474	581,569
Guarantees	2,428,566	1,353,528
	2,509,018	1,976,778
Allowance for impairment losses	(23,730)	(19,984)
	2,485,288	1,956,794

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:

	2023 Shs'000	2022 Shs'000
Against impaired accounts	9,964,325	9,661,507
Against accounts not impaired	42,865,712	59,820,682
	52,830,037	69,482,189

Notes (continued)

4 Financial risk management (continued)

(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.

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.

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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:

	2023	2022
At 31 December	24.25%	25.20%
Average for the year	23.27%	24.11%
Maximum for the year	27.00%	25.76%
Minimum for the year	20.40%	22.04%
Minimum statutory requirement	20.00%	20.00%

Notes (continued)

4 Financial risk management

(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 2023	Less than 3 months Shs'000	3 - 6 months Shs'000	6 months - 1 year Shs'000	1 - 5 years Shs'000	More than 5 years Shs'000	Total Shs'000
Financial assets						
Balances and deposits due from financial institutions	2,752,541	-	-	-	-	2,752,541
Government securities	677,323	1,067,672	251,936	3,450,630	5,433,132	10,880,693
Loans and advances	5,364,254	333,171	1,287,764	11,149,737	28,427,371	46,562,297
Other assets	195,405	-	2,008,828	1,951,670	-	4,155,903
Total financial assets	8,989,523	1,400,843	3,548,528	16,552,037	33,860,503	64,351,434
Financial liabilities						
Deposits from banks	3,193	-	-	-	-	3,193
Customer deposits	22,560,175	5,141,393	5,274,781	12,424,366	2,404,870	47,805,585
Derivative financial liabilities	1,570	-	-	-	-	1,570
Balances from Central Bank	1,500,000	-	-	-	-	1,500,000
Borrowings	74,297	126,519	1,892,267	2,010,429	58,867	4,162,379
Other Liabilities	3,138,535	-	1,516,621	-	-	4,655,156
Lease liabilities	-	-	107,988	174,680	3,002	285,670
Total financial liabilities	27,277,770	5,267,912	8,791,657	14,609,475	2,466,739	58,413,553
Net liquidity gap	(18,288,247)	(3,867,069)	(5,243,129)	1,942,562	31,393,764	5,937,881

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Year ended 31 December 2023	**Less than 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Off balance sheet exposures						
Letters of credit	-	37,668	1,806	-	-	39,474
Guarantees	259,550	1,256,785	843,957	68,273	-	2,428,565
Forward derivatives	289,511	-	-	-	-	289,511
Unrecognised loan commitments	17,381	-	23,597	-	-	40,978
Total commitments and guarantees	566,442	1,294,453	869,360	68,273		2,798,528
Year ended 31 December 2022						
Financial assets						
Balances and deposits due from financial institutions	2,197,285	-	-	-	-	2,197,285
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	9,299,688	1,703,012	3,534,100	10,383,861	32,869,604	57,790,265

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2022	Less than 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
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	3,421,472	970,549	729,832	5,598,366
Other liabilities	-	-	3,073,878	-	-	3,073,878
Lease liabilities	-	-	255,105	349,762	28,349	633,216
Total financial liabilities	32,077,802	4,844,320	10,780,311	1,382,052	1,134,520	50,219,005
Net liquidity gap	(22,778,114)	(3,141,308)	(7,246,211)	9,001,809	31,735,084	7,571,260
Off balance sheet items						
Letters of credit	582,276	-	-	-		582,276
Guarantees	289,112	213,224	380,157	481,989	-	1,364,482
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	-	3,817,289

*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)

Liquidity reserves

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

Liquidity reserves	2023 Shs'000	2022 Shs'000
Cash at hand	367,508	544,451
Balances with commercial banks	302,222	76,894
Balances with Central Bank of Kenya:	1,475,340	1,563,593
Placements with other banks	607,391	12,346
Government securities	9,682,141	8,540,137
Total liquidity reserves	12,434,602	10,737,421

(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 2023	**US$ Shs' 000**	**GBP Shs' 000**	**Euro Shs' 000**	**Total Shs' 000**
Assets				
Cash and cash equivalents	282,596	38,911	37,512	359,019
Loans and advances to customers	2,917,495	42,168	2	2,959,665
Investment in Govt. securities	1,772,823	-	-	1,772,823
Other assets	94,545	1,543	814	96,902
Total assets	5,067,459	82,622	38,328	5,188,409
Liabilities				
Customer deposits	3,199,189	11,361	22,411	3,232,961
Borrowed funds	1,800,086	-	-	1,800,086
Other liabilities	-	119,511	14,152	133,663
Total liabilities	4,999,275	130,872	36,563	5,166,710
Net financial position	68,183	(48,249)	1,764	21,698
31 December 2022				
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

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
	2023	2023	2022	2022
US Dollar	140.06	157	118.34	123.35
EUR	151.49	173.85	124.11	131.59
GBP	174.33	200.08	145.19	148.39

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. A 10% strengthening or weakening of the currencies below will result into an increase/decrease in the Bank's profit or loss and equity as shown below:

	2023			2022		
	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%	6,818	4,773	10%	18,328	12,829
GBP	10%	(4,825)	(3,377)	10%	(4,326)	(3,028)
EURO	10%	176	123	10%	(994)	(696)

(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:

		2023	2022
Assets	**Interest rate**	**Shs'000**	**Shs'000**
Loans and advances	10.62%	38,787,793	36,299,175
Government securities	12.69%	9,682,141	8,540,137
Placements with banks	12.27%	607,000	12,346
Total liquidity reserves		49,076,934	44,851,658
Liabilities			
Deposits	5.84%	43,851,506	39,821,258
Balances with CBK	15.62%	1,500,000	499,777
Borrowings and income notes	9.73%	3,793,300	4,370,617
Total liquidity reserves		49,144,806	44,691,652
Interest rate sensitivity gap		(67,872)	237,183

At 31 December 2023, if interest rates at that date had been 50 basis points higher for assets and 100 basis points higher for liabilities with all other variables held constant, pre-tax loss for the year would have been Shs 2,154,454 (2022: Shs 1,976,131) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 2,154,454 (2022: Shs 1,976,131) 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.

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

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

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year except for core and total capital ratio. The regulatory capital position for HFC Limited, the Group's banking subsidiary, as at 31 December 2023 was as follows:

Tier 1 capital	**2023 Shs'000**	**2022 Shs'000**
Ordinary share capital	5,090,000	5,090,000
Share premium	3,513,662	3,513,662
Retained earnings	(5,442,592)	(4,471,842)
Deferred income tax asset	(1,078,787)	(946,759)
Total tier 1 capital	2,082,283	3,185,061
Tier 2 capital		
Revaluation Reserve (25%)	105,000	-
Subordinated debt	867,417	1,050,750
Regulatory reserves	492,155	481,502
Total tier 2 capital	1,464,572	1,532,252
Total regulatory capital	3,546,855	4,717,313
Risk weighted assets	39,372,404	38,520,149
Capital ratios	**2023**	**2022**
Total regulatory capital expressed as a percentage of total risk-weighted assets	9.01%	12.20%
CBK minimum requirement	14.50%	14.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets	5.37%	8.30%
CBK minimum requirement	10.50%	10.50%

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

The Group's banking subsidiary was in breach of the regulatory capital ratios as at 31 December 2023, which were communicated to the Central Bank of Kenya (CBK). No penalties or fines were imposed by the CBK. The Bank committed a capital restoration plan to CBK and CBK has been monitoring the restoration progress. 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 2023. 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.

(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 Group 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 Group 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 2023 (2022: Nil).

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

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

31 December 2023	FVTPL Shs'000	FVOCI Shs'000	At amortised cost Shs'000	Total carrying amount Shs'000
Financial assets				
Cash and cash equivalents	-	-	2,145,150	2,145,150
Placements with banks	-	-	607,391	607,391
Investment in Government securities	-	5,645,273	4,036,868	9,682,141
Loan and advances to customers	-	-	38,787,793	38,787,793
Investment properties	1,885,000	-	-	1,885,000
	1,885,000	5,645,273	45,577,202	53,107,475
Financial liabilities				
Deposits from Banks	-	-	1,500,000	1,500,000
Customer deposits	-	-	43,868,948	43,868,948
Government of Kenya income notes	-	-	52,860	52,860
Borrowings		-	3,740,432	3,740,432
Derivatives	1,570	-	-	1,570
	1,570	-	49,162,240	49,163,810

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

31 December 2022	FVTPL Shs'000	FVOCI Shs'000	At amortised cost Shs'000	Total Shs'000
Financial assets				
Cash and cash equivalents	-	-	2,184,939	2,184,939
Placements with banks	-	-	12,346	12,346
Investment in government securities	-	4,760,994	3,779,143	8,540,137
Loan and advances to customers	-	-	36,909,331	36,909,331
Investment properties	1,849,000			1,849,000
	1,849,000	4,760,994	42,885,759	49,495,753
Financial liabilities				
Deposits from Banks			499,777	499,777
Customer deposits	-	-	39,886,049	39,886,049
Government of Kenya income notes	-	-	52,860	52,860
Borrowings	-	-	4,317,757	4,317,767
Derivatives	13,268	-	-	13,268
	13,268	-	44,756,443	44,769,721

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.

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 techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates.	Valuation models using significant unobservable market data
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.

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

Valuation hierarchy (continued)

The table below shows the classification of assets held at fair value by the level in the fair value hierarchy as at 31 December 2023:

31 December 2023	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Financial assets				
Cash and balances with banks	-	2,145,150	-	2,145,150
Placements with other banks	-	607,391	-	607,391
Loans and advances	-	38,787,793	-	38,787,793
Investment in government securities	5,645,273	-	-	5,645,273
Non-financial assets				
Investment properties	-	1,885,000	-	1,885,000
	5,645,273	43,425,334	-	49,070,607
Financial liabilities				
Deposits from customers	-	43,847,644	-	43,847,644
Deposits from banks	-	3,193	-	3,193
Derivative liabilities	-	1,570	-	1,570
	-	43,852,407	-	43,852,407

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

Valuation hierarchy (continued)

31 December 2022	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Financial assets				
Cash and balances with banks	-	2,184,939	-	2,184,939
Placements with other banks	-	12,346	-	12,346
Loans and advances	-	36,299,175	-	36,299,175
Investment in government securities	4,760,994	-	-	4,760,994
Non-financial assets				
Investment properties	-	1,849,000	-	1,849,000
	4,760,994	40,345,460	-	45,106,454
Financial liabilities				
Deposits from customers	-	39,796,941	-	39,796,941
Deposits from banks	-	24,317	-	24,317
Derivative liabilities	-	13,268	-	13,268
	-	39,834,526	-	39,834,526

The income approach is used in valuing investment property. The market value of such property is mainly based on the property's anticipated income (rent) from the perspective of a prudent investor. The rate is obtained by analysing actual and prudent property sales and rental incomes. This has also been closely compared with the recent trends in the market where such rental spaces are sold as small office suites.

Notes (continued)

5 Operating segments

The Group offers its services through various business segments, each business unit (entity) is reviewed separately for decision making.

- The HF Bancassurance Intermediary (formerly HF Insurance Agency Limited) – offers insurance solutions to both HF customer base and currently reaching out to the general public and partnering with underwriters on different bancassurance solutions including general and life insurance.
- HF Development and Investment Limited – (formerly known as Kenya Building Society Limited) was previously a property development company. The current entity strategy is providing wealth management solutions, affordable housing partnership and property advisory and sales services.
- Retail Banking - This segment encompasses branch-based Business tailored for individual customers and small businesses.
- Corporate Banking - This comprises of Treasury, Custodial and Financial institutions business, serving the financial needs of larger corporate clients, institutions, and government entities

Notes (continued)

5 Operating segments (continued)

	2023					
	Retail Banking	Corporate Banking	Property Development	Bancassurance	Others	Totals
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Interest income	4,169,173	1,173,075	-	4,653	707	5,347,608
Interest expense	(1,816,379)	(838,170)	-	(276)	-	(2,654,825)
Net interest income	2,352,794	334,905	-	4,377	707	2,692,783
Non-interest income	345,544	141,706	434,406	111,297	98,600	1,131,553
Reporting segment profit/(loss) before income tax	65,811	95,246	114,840	55,210	3,377	334,484
Deposits balances	41,303,472	2,544,172	-	-	-	43,847,644

Notes (continued)

5 Operating segments (continued)

	2023					
	Retail Banking	Corporate Banking	Property Development	Bancassurance	Others	Totals
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Other non-cash items						
Impairment losses on mortgage loans	309,299	-	-	-	-	309,299
Capital expenditure						
Reportable segment assets	37,922,221	9,682,141	3,806,430	159,238	9,980,400	61,550,430
Reportable segment liabilities	42,761,509	6,337,464	3,153,796	81,337	350,994	52,685,100

Notes (continued)

5 Operating segments (continued)

	2022					
	Retail Banking	**Corporate Banking**	**Property Development**	**Bancassurance**	**Others**	**Totals**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Interest income	3,405,284	948,445	-	9,979	585	4,364,293
Interest expense	(1,221,383)	(739,901)	(148,752)	(333)	-	(2,110,369)
Net interest income	2,183,901	208,544	(148,752)	9,646	585	2,253,924
Non-interest income	287,642	103,159	358,617	73,382	132,644	955,444
Reporting segment profit/(loss) before income tax	14,324	46,444	61,581	43,950	24,135	190,434
Deposits balances	35,813,585	3,983,356	-	-	-	39,796,941

Notes (continued)

5 Operating segments (continued)

	2022					
	Retail Banking Shs'000	Corporate Banking Shs'000	Property Development Shs'000	Bancassurance Shs'000	Others Shs'000	Totals Shs'000
Other non-cash items						
Impairment losses on mortgage loans	194,130	-	-	-	-	194,130
Capital expenditure	-	-	-	-		
Reportable segment assets	34,557,124	8,627,174	3,605,599	135,558	10,025,945	56,951,400
Reportable segment liabilities	36,333,294	8,353,973	3,067,805	80,054	391,095	48,226,221

Notes (continued)

5 Operating segments (continued)

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

	2023 Shs'000	2022 Shs'000
Net interest income		
Total net interest income for reportable segments	2,747,299	2,388,814
Other interest income adjustments	(54,515)	(134,890)
Consolidated net interest income	2,692,784	2,253,924
Non-interest income		
Total non-interest income for reportable segments	1,234,021	1,168,870
Other non-interest income	(102,468)	(213,426)
Consolidated non-interest income	1,131,553	955,444
Profit or loss		
Total profit or loss for reportable segments	334,484	280,393
Other profit or loss	-	(89,999)
Consolidated profit before income tax	334,484	190,394
Assets		
Total assets for reportable segments	62,416,002	49,278,607
Other assets	(865,573)	7,672,793
Consolidated total assets	61,550,429	56,951,400
Liabilities		
Total liabilities for reportable segments	51,251,551	47,904,302
Other liabilities	1,431,459	321,922
Consolidated total liabilities	52,683,010	48,226,224

Notes (continued)

6 Interest income and expense

(a) Interest income

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Loans and advances	4,174,558	3,415,848	-	-
Deposit with banks	27,413	10,522		
Financial assets at amortised cost	444,330	317,335	-	-
Financial assets at FVOCI	701,307	620,588	-	-
	5,347,608	4,364,293	-	-

(b) Interest expense

Deposits from customers	1,814,701	1,577,728	-	-
Deposits from banks	255,477	77,343	-	-
Repurchase agreement with CBK	199,023	81,961		
Borrowings	355,477	348,695	-	-
Lease liabilities	30,147	24,642	-	-
	2,654,825	2,110,369	-	-

7 (a) 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.

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Service fees and commission /transactional banking	199,987	189,663	-	-
Custodial services	19,082	21,822	-	-
Other commissions*	195,400	295,409	-	-
	414,469	506,894	-	-

*Other commissions majorly consist of commission on house and plot sales from HFDI

Notes (continued)

7 (b) Fee and commission expense

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Fees and commission expense	73,688	72,277	-	-
	73,688	72,277	-	-

8 Net trading income

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Foreign currency exchange gains	175,977	168,127	-	-
Fair value loss on derivatives	(1,570)	(13,268)	-	-
	174,407	154,859	-	-

9 Other income

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Rental income	85,164	74,983		-
Sales income	110,152	53,100		-
Other *	277,176	89,391	98,600	204,120
Insurance commission	70,185	76,217		-
	542,677	293,691	98,600	204,120

* Other income includes gain on disposal of government securities, gain on lease modification as well as gains on disposal of property plant and equipment

Notes (continued)

10 Other operating expenses

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Occupancy expenses	65,047	53,957	-	-
Deposit Protection Fund payment	80,184	72,705	-	-
Cost of sold houses	81,848	24,139	-	-
Marketing expenses	57,762	71,725	1,865	10,861
Information technology expenses	282,387	295,058	-	-
Legal expenses	59,733	111,745	-	-
Office expenses	66,604	192,311	5,998	44,318
General administration expenses	490,605	232,443	12,945	20,051
	1,184,170	1,054,083	20,808	75,230

11 Employee benefits

The following items are included in salaries and employee benefits:

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Salaries and other staff costs	1,496,475	1,211,142	49,652	44,884
Remuneration to executive directors	52,029	58,474	23,584	33,520
NSSF contributions	3,643	1,812	24	5
Contributions to the defined contribution retirement scheme	73,665	59,012	380	329
	1,625,812	1,330,440	73,640	78,738
Average number of employees	568	520	2	2

12 Depreciation and amortisation

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Depreciation of property and equipment (Note 19)	77,652	41,948	273	210
Amortisation of intangible assets (Note 20)	213,106	240,045	-	-
Amortisation of right-of-use asset (Note 35	74,071	78,786	-	-
	364,829	360,779	273	210

Notes (continued)

13 Income tax

(a) Income tax credit

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	
	2023 Shs'000	**2022 Shs'000**	**2023 Shs'000**	**2022 Shs'000**
Profit before income tax	334,484	190,394	3,878	49,942
Tax at the applicable tax rate of 30% (2022: 30%)	100,345	57,118	1,163	14,983
Prior year under provision of current tax	-	(126)		-
Tax effect of non-deductible costs and tax-exempt income	(154,017)	(132,168)	(1,626)	(15,046)
Income tax credit	(53,672)	(75,176)	(463)	(63)

	Group		Company	
	2023 Shs'000	**2022 Shs'000**	**2023 Shs'000**	**2022 Shs'000**
Current income tax at 30% (2022: 30%)	29,686	25,582		-
Prior year under provision of current tax		(126)		-
Deferred tax movement (Note 26)	(87,340)	(75,571)	(1,624)	(63)
Prior year deferred tax (under)/over provision (Note 26)	3,982	(25,061)		-
	(53,672)	(75,176)	(1,624)	(63)

(b) Current income tax recoverable

At start of year	365,267	342,746	52,016	46,947
Charge for the year	(29,687)	(25,582)	-	-
Prior year under provision of current tax	-	126	-	
Paid during the year	31,675	47,977	5,470	5,069
Reclassification from withholding tax		-		-
At end of year	367,255	365,267	57,486	52,016

Notes (continued)

14 Earnings per share

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

	2023 Shs'000	2022 Shs'000
Net profit for the year attributable to shareholders	388,156	265,570
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	1.01	0.69
Weighted earnings per share	1.01	0.69

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 2023 (2022: Nil) has been proposed. No interim dividend was paid during the year (2022: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2023 (2022: 384,614,168).

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

	2023 Shs'000	2022 Shs'000
At start of year	246	246
Dividends paid during the year	-	-
At end of year	246	246

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
Cash at hand	367,508	544,451		-
Balances with commercial banks	302,222	76,894	1,107	15,387
Placements with other banks (Note 17)	607,391	12,346		-
Balances with Central Bank of Kenya:				
- Restricted (Cash Reserve Ratio)	1,475,340	1,563,593	-	-
	2,752,461	2,197,284	1,107	15,387

Notes (continued)

16 (a) Cash and balances with banks

	Group		Company	
	2023 Shs'000	**2022 Shs'000**	**2023 Shs'000**	**2022 Shs'000**
12-month ECL:				
At start of year	(3)	(19)	-	-
Re-measurement during the year	83	16	-	-
Allowance for impairment losses	80	(3)	-	-
	2,752,541	2,197,281	1,107	15,387
Cash and balances with banks	2,145,150	2,184,939	1,107	15,387
Placement with other banks	607,391	12,346	-	-
	2,752,541	2,197,285	1,107	15,387

Movement in restricted balances:	**2023 Shs'000**	**2022 Shs'000**
Group		
At start of year	1,563,593	1,595,612
Movement during the year	(88,253)	(32,019)
At end of year	1,475,340	1,563,593

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 2023, the Cash Reserve Ratio was 4.25% (2022: 4.25%) of all deposits.

Notes (continued)

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	2023 Shs' 000	2022 Shs' 000
Cash and cash equivalents (Note 16(a))	1,277,201	633,691
Liquid investments:		
Investment in government securities (Note 18)	9,682,141	8,540,137
Borrowings - repayable within one year (Note 30)	(527,148)	(3,330,011)
Borrowings - repayable after one year (Note 30)	(3,213,284)	(987,750)
Lease liabilities	(259,598)	(434,488)
Net cash	6,959,312	4,421,579

Group	2023 Shs' 000	2022 Shs' 000
Cash and other liquid investments	10,959,342	9,173,828
Gross debt - fixed interest rates	(2,403,414)	(3,052,569)
Gross debt - variable interest rates	(1,596,616)	(1,699,680)
	6,959,312	4,421,579

Notes (continued)

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.

	Liquid assets		Borrowings		Leases	Total
	Cash and cash equivalents	Government 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 2023						
At start of year	633,691	8,540,137	(2,383,520)	(1,934,237)	(432,064)	4,424,007
Cash flows	643,510	1,142,004	239,704	337,621	122,435	2,485,274
Non-cash movements	-	-	-	-	50,031	50,031
At end of year	1,277,201	9,682,141	(2,143,816)	(1,596,616)	(259,598)	6,959,312
Year ended 31 December 2022						
At start of year	1,185,773	6,550,168	(3,888,548)	(409,801)	(560,903)	2,876,689
Cash flows	(554,127)	1,989,820	558,537	(577,949)	120,274	1,536,555
Non-cash movements	-	149	-	-	6,141	6,290
Foreign exchange	2,045	-	-	-	-	2,045
At end of year	633,691	8,540,137	(3,330,011)	(987,750)	(434,488)	4,421,579

17 Placements with other banks

	Group	
	2023	2022
	Shs'000	Shs'000
Placements with other banks	607,392	12,349
Less: Allowance for impairment losses	(1)	(3)
	607,391	12,346

The weighted average effective interest rate on placements with other banks was 12.27% (2022: 3.53%).

Notes (continued)

18 Investment in government securities

Held at amortised cost	**Group**	
	2023 Shs'000	**2022 Shs'000**
Treasury bills and bonds	4,036,868	3,779,143
FVOCI		
Treasury bonds	5,645,273	4,760,994
	9,682,141	8,540,137

The weighted average effective interest rate on government securities at 31 December was 12.69% (2022: 12.29%).

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

Held at amortised cost	**2023 Shs'000**	**2020 Shs'000**
At start of year	3,779,143	1,825,422
Purchases during the year	335,709	2,178,850
Sales/Maturities during the year	(70,000)	(225,000)
At end of year	4,044,852	3,779,272
Fair value through other comprehensive income (FVOCI)		
At start of year	4,760,994	4,724,746
Purchases during the year	16,553,746	9,044,559
Sales/maturities during the year	(15,290,889)	(8,930,974)
(Loss on fair valuation (Note 28)	(378,578)	(77,337)
At end of year	5,645,273	4,760,994
Total government securities	9,690,125	8,540,266
Less 12 months ECL		
At start of year	(129)	(362)
Re-measurement during the year	(7,855)	233
At end of year	(7,984)	(129)
Total government securities less ECL	9,682,141	8,540,137

Notes (continued)

18 Investment in government securities

Maturity analysis for the investments in government securities

	Group	
	2023 Shs'000	2022 Shs'000
Maturing within 90 days	590,000	215,000
Maturing after 90 days	9,092,141	8,325,137
Total	9,682,141	8,540,137

19 Property and equipment

(a) Group Year ended 31 December 2023	Freehold land Shs'000	Leasehold land	Buildings Shs'000	Furniture, fixtures, equipment & motor vehicles Shs'000	Total Shs'000
Cost or valuation					
At start of year	62,000	-	360,000	1,295,663	1,717,663
Additions	-	-	-	85,183	85,183
Work in progress	-	-	-	12,336	12,336
Disposals	-	-	-	(12,873)	(12,873)
Valuation gain	-		20,000	-	20,000
Transfer from right of use asset		180,000	-	-	180,000
At end of year	62,000	180,000	380,000	1,380,309	2,002,309
Comprising:					
At cost	52,000	180,000	260,000	1,380,309	1,872,309
At valuation	10,000		120,000		130,000
	62,000	180,000	380,000	1,380,309	2,002,309
Accumulated depreciation					
At start of year	-	-	13,716	1,124,532	1,138,248
Charge for the year	-	-	10,059	67,593	77,652
Disposals	-	-	-	(12,536)	(12,536)
Transfers	-	6,310	-	-	6,310
At end of year		6,310	23,775	1,179,589	1,209,674
Net book value at end of year	62,000	173,690	356,225	200,720	792,635

Notes (continued)

19 Property and equipment (continued)

(b) 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	1,020,847	1,073,382
Charge for the year	-	6,442	35,506	41,948
Disposals	-	-	(784)	(784)
Transfers	-	(10,910)	-	(10,910)
At end of year	-	48,067	1,055,569	1,103,636
Net book value at end of year	62,000	277,116	240,294	579,410

Notes (continued)

19 Property and equipment (continued)

The buildings were revalued on 31 December 2023 by Tyson's Limited, a firm of independent professional valuers based on open market value approach. In 2022 the Bank transferred 60% of Rehani Building to investment property. The net book value of properties at their historical cost is as follows:

	2023 Shs'000	2022 Shs'000
Free hold land	52,000	52,000
Buildings	310,000	259,893
	362,000	311,893

The historical cost of free hold land is Shs 52,000,000 and buildings is Shs 655,290,000 (of which Shs 393,174,000 was transferred to Investment property in the year 2022).

(b) Company

	Furniture, fixtures, equipment & motor vehicles	
	2023 Shs'000	**2022 Shs'000**
Cost or valuation		
At start of year	1,727	920
Additions	-	807
At end of year	1,727	1,727
Accumulated depreciation		
At start of year	727	517
Charge for the year	273	210
At end of year	1,000	727
Net book value at end of year	727	1,000

Notes (continued)

20 Intangible assets

	Group	
	2023 Shs'000	2022 Shs'000
Cost:		
At start of year	1,960,913	1,908,149
Additions during the year	147,222	52,764
Work in progress	11,189	-
At end of year	2,119,324	1,960,913
Accumulated amortisation		
At start of year	1,628,321	1,388,276
Amortisation during the year	213,106	240,045
At end of year	1,841,427	1,628,321
Net book value at end of year	277,897	332,592

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

		Company	
		2023 Shs'000	2022 Shs'000
HFC Limited	100%	8,603,662	8,603,662
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	9,857,594

An impairment assessment was conducted on the investments in subsidiaries and no impairment was identified.

Notes (continued)

21 Investments in subsidiary companies (continued)

(b) Investment in Joint ventures & associate

		Group	
		2023	2022
At start of year		Shs'000	Shs'000
Kahawa Downs Limited	50%	103,252	112,101
Precious Heights Limited	50%	86,306	86,040
Richland Development Limited	50%	101,409	96,768
Claycity Limited	33%	483,629	485,968
Theta Dam Estate Limited	50%	870,524	838,561
		1,645,120	1,619,438
Group's share of profit in joint ventures			
Kahawa Downs Limited	50%	(428)	(936)
Kahawa Downs Limited prior year adjustment *		1,480	
Precious Heights Limited	50%	1,772	(2,985)
Precious Heights Limited prior year adjustment*		(7,486)	-
Richland Development Limited	50%	1,177	3,465
Claycity Limited	33%	(2,076)	(262)
Theta Dam Estate Limited	50%	37,507	(5,547)
		31,946	(6,265)

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

*The prior year adjustment relates to share of profit from 2022 that was not captured as per the joint venture signed financial statements

Notes (continued)

21 Investment In subsidiary companies (continued)

(b) Investment In subsidiary companies (continued)

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 2023	Kahawa Development Limited Shs'000	Precious Heights Limited Shs'000	Richland Development Limited Shs'000	Claycity Limited Shs'000	Theta Dam Estate Limited Shs'000	Total Shs'000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	-	8,982	8,083	148	205,683	222,896
Operating costs	(855)	(5,439)	(5,225)	(6,435)	(106,396)	(124,350)
Income tax expense			(504)	(4)	(24,273)	(24,781)
(Loss)/profit and other comprehensive income	(855)	3,543	2,354	(6,291)	75,014	73,765
Group share of net loss	(428)	1,772	1,177	(2,076)	37,507	37,952
Prior year adjustment*	1,480	(7,486)	-	-	-	(6,006)
	1,052	(5,714)	1,177	(2,076)	37,507	31,946
Net assets	206,503	172,603	202,818	1,450,475	1,741,047	3,773,446
Groups share of net assets	103,252	86,306	101,409	483,629	870,524	1,645,120
Group's interest in net assets at the beginning of the year	111,165	83,056	100,233	485,706	833,014	1,613,174
Group share of current year total comprehensive income	(428)	1,772	1,177	(2,076)	37,507	37,952
Prior year adjustment	1,480	(7,486)	-	-		(6,006)
Carrying amount of interest in investee at end of year	112,217	77,342	101,410	483,630	870,521	1,645,120

*The prior year adjustment relates to share of profit from 2022 that was not captured as per the joint venture signed financial statements.

Notes (continued)

21 Investment In subsidiary companies (continued)

(b) Investment In subsidiary companies (continued)

Joint ventures (continued)

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)
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)
Carrying amount of interest in investee at end of year	111,165	83,056	100,233	485,706	833,014	1,613,173

Notes (continued)

22 Loans and advances at amortised cost

Group	**2023 Shs'000**	**2022 Shs'000**
Gross loans and advances to customers	42,427,502	39,730,864
Less: Provision for expected credit losses	(3,639,709)	(3,431,689)
Net loans and advances to customers	38,787,793	36,299,175
Current	6,188,328	8,249,203
Non-current portion	36,239,174	31,481,661
Gross loans and advances	42,427,502	39,730,864
Stage 1 loans	27,817,660	26,009,720
Stage 2 loans	3,790,128	5,234,210
Stage 3 loans	10,819,714	8,486,934
	42,427,502	39,730,864
Stage 1 impairment	(124,595)	(102,970)
Stage 2 impairment	(131,715)	(299,976)
Stage 3 impairment	(3,383,399)	(3,028,743)
	(3,639,709)	(3,431,689)
Net loans and advances	38,787,793	36,299,175

Notes (continued)

22 Loans and advances (continued)

Provision for expected credit losses on loans and advances

Year ended 31 December 2023	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	102,970	299,976	3,028,743	3,431,689
Movements during the year:				
Transfer to 12 months ECL	6,624	(3,401)	(3,223)	-
Transfer to lifetime ECL not credit impaired	(13,076)	131,152	(118,076)	-
Transfer to lifetime ECL credit impaired	(2,711)	(42,603)	45,314	-
Net remeasurement of loss allowance	(8,864)	(269,907)	602,926	324,155
Net financial assets originated	46,622	20,398	25,116	92,136
Financial assets derecognised	(6,970)	(3,900)	(197,401)	(208,271)
Loss allowance as at 31 December	124,595	131,715	3,383,399	3,639,709
Year ended 31 December 2022				
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

Notes (continued)

22 Loans and advances at amortised cost (continued)

	2023			
Year ended 31 December 2023	**Stage 1 Shs' 000**	**Stage 2 Shs' 000**	**Stage 3 Shs' 000**	**Total Shs' 000**
Gross carrying amount at start of year	26,009,720	5,234,210	8,486,934	39,730,864
Transfer to 12 months ECL	1,620,346	(1,289,110)	(331,236)	-
Transfer to lifetime ECL not credit impaired	(413,796)	2,354,883	(1,941,087)	-
Transfer to lifetime ECL credit impaired	(2,850)	(394,917)	397,767	-
Net remeasurement	(3,181,348)	261,388	4,564,581	1,644,621
Net financial assets originated	2,962,067	243,655	46,537	3,252,259
Financial assets derecognised	(1,531,363)	(265,097)	(302,503)	(2,098,963)
Write offs	-	-	(101,279)	(101,279)
Gross carrying amount at end of year	25,462,776	6,145,012	10,819,714	42,427,502
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

The weighted average effective interest rate on loan advances to customers as at 31 December 2023 was 10.62% (2022: 9.9%).

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 Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Investment in Government securities	Total Shs'000
Year ended 31 December 2023						
Net re-measurement of loss allowance	324,155	11,587	72	22,645	7,855	366,314
New financial assets originated or purchased	92,136	-	-	-	-	92,136
Financial assets derecognized	(208,271)	-	-	-	-	(208,271)
Write offs	101,279	-	-	-	-	101,279
	309,299	11,587	72	22,645	7,855	351,458

	Loans and advances to customers Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Investment in Government securities	Total 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

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

	2023			2022		
	Gross	Loss allowance	Carrying amount	Gross	Loss allowance	Carrying amount
Segment	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Commercial	7,016,914	(431,276)	6,585,638	5,174,815	(304,075)	4,870,740
IPF	62,117	(1,436)	60,681	25,342	(960)	24,382
Micro	13	(8)	5	10	(6)	4
Mortgage	24,045,835	(823,194)	23,222,641	23,849,815	(817,438)	23,032,377
Projects	8,328,934	(1,999,715)	6,329,219	8,247,003	(2,077,930)	6,169,073
Unsecured	2,973,689	(384,080)	2,589,609	2,433,879	(231,280)	2,202,599
	42,427,502	(3,639,709)	38,787,793	39,730,864	(3,431,689)	36,299,175

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

				2023			
	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	646,516	1,956,994	327,996	826	6	96,415	3,028,753
ECL Remeasurement	108,507	2,605	43,404	224	2	199,904	354,646
At end of year	755,023	1,959,599	371,400	1,050	8	296,319	3,383,399
Stage 1 & 2							
At start of year	165,195	126,664	20,121	134	-	90,822	402,936
ECL Remeasurement	(92,806)	(86,548)	3,632	252	220	28,623	(146,626)
At end of year	72,389	40,116	23,753	386	220	119,445	256,310

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
ECL 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
ECL 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)

23 Other assets

	Group		Company	
	2023 Shs'000	**2022 Shs'000**	**2023 Shs'000**	**2022 Shs'000**
Trade receivables	1,297,735	1,064,666	2,519	42,655
Less: Allowance for impairment losses	(61,834)	(37,995)	(13)	(6,970)
	1,235,901	1,026,671	2,506	35,685
Prepayments	248,020	243,274	527	1,007
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets deposits	103,819	121,766	-	-
Foreclosed assets	857,709	875,688	-	-
	2,495,449	2,317,399	3,033	36,692

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

12-month ECL:				
At start of year	(37,995)	(40,504)	(6,970)	(6,970)
Re-measurement during the year	(23,839)	2,509	6,957	-
At end of year	(61,834)	(37,995)	(13)	(6,970)

24 Investment in property fund

	2023 Shs'000	**2022 Shs'000**
Assets as at start of the year	380,207	380,207
Impairment losses	-	-
As at end of the year	380,207	380,207

HF Development and Investments Limited has invested in HF Property fund with a partner Crescent Finco. The assets owned by the property fund will be realized progressively and the proceeds distributed to the partners (Crescent Finco and HF Development and Investment Limited) in accordance with the partnership agreement. Crescent Finco will receive cash distribution first until its investment plus a return of 12% is fully paid. The residue will be distributed to HFDI Limited.

Notes (continued)

25 Inventories

	Group	
	2023 Shs'000	2022 Shs'000
At start of the year	414,604	414,604
Inventories (housing units and plots)	111,215	-
At end of year	525,819	414,604

Inventories held comprise of 2 and 3 bedroom units at Komarock Heights and Theta Dam plots for sale.

Notes (continued)

26 Deferred income tax

(a) Group

Year ended 31 December 2023	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year under provision Shs'000	At end of year Shs'000
Property and equipment	(89,362)	16,035	-	58,087	(15,240)
Revaluation surplus	(174,588)	(4,500)	(3,000)	-	(182,088)
Financial assets at FVOCI	16,975	-	113,573	-	130,548
Investment property	(44,454)	-	-	-	(44,454)
Other general provisions	8,693	8,260	-	-	16,953
Right of use asset	101,671	(4,158)	-	-	97,513
Trading losses	766,541	9,297	-	(3,829)	772,009
General provision on loans and advances	985,062	62,406	-	(58,240)	989,228
Deferred income tax	1,570,538	87,340	110,573	(3,982)	1,764,469

Deferred tax liability

Year ended 31 December 2023	At start of year Shs 000	Charge to P&L Shs 000	At end of year Shs 000
Furniture, fittings and equipment	61	(34)	27
Provisions	(107)	567	460
	(46)	533	487

Notes (continued)

26 Deferred income tax (continued)

(a) Group

Year ended 31 December 2022	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year under provision Shs'000	At end of year 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

b) Company

Year ended 31 December 2023	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(39)	(5)	(44)
Trading losses	9,286	(1,735)	7,551
General provisions	40,593	1,277	41,870
Net deferred tax	49,840	(463)	49,377

Year ended 31 December 2022	Shs'000	Shs'000	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

Notes (continued)

27 (a) Deposits from customers

	Group	
	2023	2022
	Shs'000	Shs'000
Government and parastatals:		
Payable within 90 days	8,888,748	10,605,604
Payable after 90 days and within one year	4,144,050	505,936
Payable after one year	-	1,487
Private sector and individuals:		
Payable within 90 days	12,734,281	14,164,528
Payable after 90 days and within one year	8,986,060	3,120,005
Payable after one year	9,094,505	11,399,381
	43,847,644	39,796,941

27 Deposits from customers

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2023 was 5.84% (2022 4.70%). The carrying value of customer deposits approximates their fair value.

The summary of terms and conditions for the various categories of deposits are below:

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.

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.

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.

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.

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.

Savings accounts - A savings account that earns relatively higher interest. It has limited access to funds. There's no minimum operating balance.

Notes (continued)

(b) Deposits from banks

	Group	
	2023 Shs'000	2022 Shs'000
Inter- bank lendings	3,193	24,317

(c) Deposits from CBK

	Group	
	2023 Shs'000	2022 Shs'000
Repurchase agreement	1,500,000	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 15.62% (2022: 9.9%).

28 Other liabilities

	Group		Company	
	2023 Shs'000	2022 Shs'000	2023 Shs'000	2022 Shs'000
House sales deposits	392,775	383,178	-	-
Withholding tax payable	95,073	114,064	-	-
Sundry creditors	303,647	53,055	-	-
Trade creditors	1,461,253	1,085,855	-	-
Insurance premium payable	87,330	338,896	-	-
Contractors payables	332,192	262,201	-	-
Asset retirement obligation – right of use asset	22,317	20,328	-	-
Other payables	582,568	828,990	347,439	394,058
	3,277,155	3,086,567	347,439	394,058

Notes (continued)

29 Investment property

In 2022 the Group has changed the accounting policy on investment property in the year. 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.

In 2022, management 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 also transferred 60% of the Rehani land and building that are not owner occupied to investment property in the year.

	Group	
	2023 **Shs'000**	**2022** **Shs'000**
Fair value		
At start and end of year	1,849,000	1,000,000
Transfer from rights of use assets	-	270,000
Transfer from property and equipment	-	580,000
Fair value gain/(loss)	36,000	(1,000)
	1,885,000	1,849,000

	2023	**2022**
Foreclosed properties	**Shs'000**	**Shs'000**
Cost		
At start of year	-	735,395
Disposals	-	(106,151)
Transfers to other assets	-	(629,244)
Revaluation		
At end of year		-
Accumulated depreciation		
At start of year	-	(36,613)
Charge for the year	-	(36,613)
At end of year	-	-
Net carrying amount at end of year	-	-

All foreclosed assets were transferred to other assets in 2022

Notes (continued)

Investment property reconciliation		
Investment property at fair value	1,849,000	1,849,000
Fair value gain	36,000	-
Total investment property	1,885,000	1,849,000

30 Borrowings

	Group	
	2023 Shs'000	**2022 Shs'000**
European Investment Bank (EIB)	1,214,764	1,309,816
Shelter Afrique	485,202	527,690
East African Development Bank	-	246,700
Arab Bank for Economic Development in Africa	81,972	147,505
Britam	1,029,442	1,024,480
Kenya Mortgage Refinance Company	929,052	1,061,566
	3,740,432	4,317,757
Current	527,148	3,330,011
Non-current portion	3,213,284	987,746
	3,740,432	4,317,757
Movement during the year		
At start of year	4,317,757	4,298,349
Receipt	-	700,000
Net movement in repayment and accrued interest	(577,325)	(680,592)
At end of year	3,740,432	4,317,757

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.

At 31 December 2023, HFC Limited, was in breach of loan covenants

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Capital adequacy ratio	Minimum of 14.5%	9.02%
	Cost to income ratio	Maximum of 87%	96.04%
	Investment in land and building ratio	Maximum of 20%	38.32%
East African Development Bank (EADB)	Capital adequacy ratio	Minimum of 14.5%	9.02%
	Single obligor ratio	Minimum of 25%	56.9%
	Single insider ratio	Maximum of 20%	43.23%
	Investment in land and building ratio	Maximum of 20%	38.32%
Arab Bank for Economic Development in Africa (BADEA)	Capital adequacy ratio	Minimum of 14.5%	9.02%
Britam	Capital adequacy ratio	Minimum of 14.5%	9.02%
	Single obligor ratio	Maximum of 25%	56.9%
	Single insider ratio	Maximum of 20%	43.23%
European Investment Bank (EIB)	Capital adequacy ratio	Minimum of 14.5%	9.02%
	Non performing loans to total loans ratio	Minimum of 15%	25.5%
	Open exposure ratio	Maximum of 30%	46.07%

As at 31 December 2023 Britam and Shelter Afrique had not provided a waiver on the above breaches hence the borrowings have been classified as current within the liquidity risk note. Britam however provided a Letter of support and waiver of financial covenants subsequently. Other lenders provided waivers during the ended 31 December 2023. The details of the directors' plan to cure the breaches have been disclosed in Note 2(a).

Notes (continued)

30 Borrowings (continued)

31 December 2023 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	1,214,764	457,498	757,266	4.321%	24 July 2017	01 October 2026
Shelter Afrique Limited	485,202	485,202	-	11.8%	28 December 2015	31 January 2026
Britam	1,029,442	1,029,442	-	19.41%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	929,052	142,576	786,476	5.00%	31 March 2021	31 March 2028
Arab Bank for Economic Development in Africa (BADEA)	81,972	81,972	-	10.9%	5 March 2018	23 December 2028
	3,740,432	2,196,690	1,543,742			

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	01 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			

The interest rate for EIB, KMRC and EADB loan is fixed. BADEA and Shelter Afrique borrowing interest rate is based on SOFR. There are no assets held as security for the borrowings.

Notes (continued)

31 Capital and reserves

(a) Share capital

	Group		Company	
	2023 Shs' 000	2022 Shs' 000	2023 Shs' 000	2022 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

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 2023 (2022: 384,614,168).

(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).

	2023 Shs' 000	2022 Shs' 000
At start of year	4,343,512	4,343,512
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 and buildings are to be held until the property is derecognised.

	2023 Shs'000	2022 Shs'000
At start of year	1,295,129	1,012,125
Change in fair value during the period:		
Revaluation gain on land	20,000	404,292
Deferred income tax	(3,000)	(121,288)
At end of year	1,312,129	1,295,129

(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:

	2023 Shs' 000	2022 Shs' 000
At start of year	3,696,575	3,413,517
Transfer	1,157,898	283,058
At end of year	4,854,473	3,696,575

(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.

	2023 Shs'000	2022 Shs'000
At start of year	(40,373)	13,763
Change in fair value during the year:		
Fair value losses on treasury bonds classified as FVOCI	(378,578)	(77,337)
Less: Deferred income tax	113,573	23,201
At end of year	(305,378)	(40,373)

Notes (continued)

32 Government of Kenya income notes and loans

	Group	
	2023 Shs'000	2022 Shs'000
Government of Kenya – Income Notes	52,860	52,860

* The Government of Kenya – Income Notes were transferred from HF Group Plc with effect from 3 August 2015. They carry no redemption date and are charged interest at a fixed rate of 8.25% per annum.

33 Cash flows from operating activities

	Note	Group	
		2023 Shs'000	2022 Shs'000
Profit before income tax		334,484	190,394
Adjustments for:			
Group's share of (profit)/loss from investments in joint ventures	20	(31,946)	6,265
Interest expense on lease liabilities	35	30,423	24,309
Depreciation of property and equipment	18	77,652	41,948
Amortisation of right of use asset	35	78,434	78,786
Amortisation of intangible assets	19	213,106	240,045
Loss on sale of repurchased property		720	-
Gain on sale of property and equipment	23	(3,556)	-
Increase in customer and banks deposits		4,029,629	1,504,738
Decrease in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	15	88,253	32,019
Increase in loans and advances to customers		(2,496,171)	(1,606,550)
Investment in government securities		(1,151,270)	(1,892,306)
(Increase)/decrease in inventory		(111,215)	48,054
Increase in other assets		(178,050)	(708,096)
Increase in other liabilities		190,588	1,427,697
Fair value loss on derivatives		(1,570)	(15,714)
Fair value (gain)/loss on investment property	28	(36,000)	1,000
(Gain)/Loss on modification on lease liabilities		(78,777)	2,371
Increase in deposit with Central Bank		1,000,233	499,777
Net cash flows from operating activities before tax		1,954,967	(125,263)
Income tax paid		(31,675)	(47,977)
Net cash flows from operating activities		1,923,292	173,240

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	
	2023 Shs'000	2022 Shs'000
Cash in hand and bank (Note 16 (a))	367,508	544,451
Balances due from banking institutions (Note 16 (a))	302,222	76,894
Placement	607,391	12,346
Investments maturing within 90 days (Note 18)	590,000	215,000
	1,867,121	848,691

	Company	
	2023 Shs'000	2022 Shs'000
Profit/(Loss) before income tax	3,879	49,942
Depreciation on property and equipment	273	210
Impairment of investment in subsidiaries		-
Decrease in other assets	33,658	(26,336)
(Decrease) / Increase in other liabilities	(46,620)	85,130
Loss on sales of property and equipment		-
Net cash flows from operating activities before tax	(8,810	108,946
Income tax paid	(5,470)	(5,069)
Net cash flows from operating activities	(14,280)	103,877

Notes (continued)

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

As at 31 December 2023, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2023 Shs'000	2022 Shs'000
Guarantees	2,428,566	366,154
Letters of credit	39,474	1,569,040
	2,468,040	1,935,194

Commitments contracted for at the reporting date but not recognised in the financial statements are as follows:

	2023 Shs'000	2022 Shs'000
Loans approved but not yet disbursed	785,727	1,416,322

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	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 2023					
Guarantees	259,550	1,256,785	843,957	68,273	2,428,565
Letters of credit	-	37,668	1,806	-	39,474
Loans approved but not yet disbursed	-	785,727	-	-	785,727
	259,550	2,080,180	845,763	68,273	3,253,766
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

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

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.

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

	2023 Shs' 000	2022 Shs' 000
At start of year	1,004,756	895,594
Adjustments due to changes in cashflows changes	(67,775)	(25,130)
Additions	25,934	
Fair value gain transferred to revaluation reserves	-	404,292
Transfer of land to inventory	(8,906)	-
Transfer of land to investment property	-	(270,000)
Transfer of land to property plant & equipment	(180,000)	-
	774,009	1,004,756
Accumulated depreciation	(579,905)	(512,143)
At end of year	194,104	492,613

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 2023				
Cost				
At start of year and end of year	188,904	595,949	219,903	1,004,756
Remeasurement during the year	-	25,934	-	25,934
Adjustments due to changes in cashflows	-	(6,760)	(61,015)	(67,775)
Transfer of land to inventory	(8,904)	-	-	(8,906)
Transfer of land to property plant and equipment	(180,000)	-	-	(180,000)
	-	615,123	158,888	774,009
Accumulated depreciation				
At start of year	(10,424)	(408,673)	(93,046)	(512,143)
Charge for the year		(53,009)	(25,425)	(78,434)
Transfers	6,310	-	-	6,310
Reversal of accumulated depreciation	4,362	-	-	4,362
Total accumulated depreciation	248	(461,682)	(118,471)	(579,905)
At end of year	248	153,441	40,417	194,104

Year ended 31 December 2022

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
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
	(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)

As at 31 December 2023, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2023 Shs '000	2022 Shs '000
Less than one year	107,988	255,105
Between one and five years	174,680	349,762
More than five years	3,002	28,349
	285,670	633,216

(b) Amounts recognised in profit or loss

Leases under IFRS 16		
Interest on lease liabilities	30,423	24,309
Interest on asset retirement obligation	-	1,865
Depreciation of Right-of-use assets	78,434	78,786

(c) Amounts recognised in statement of cash flows

Total cash outflow for leases	123,541	141,723

(d) Lease liabilities

	2023 Shs '000	2022 Shs '000
Current	83,998	103,884
Non-current	177,515	330,604
	261,513	434,488

Notes (continued)

35 Leases (continued)

(d) Lease liabilities

Movement in lease liabilities

At start of year	434,488	576,552
Additions	25,934	-
Remeasurement (principal)		(62,092)
Remeasurement (cashflows)	(106,111)	37,442
Interest expense charged	30,422	24,309
Interest elements of lease payments	(30,422)	(24,309)
Principal elements of lease payments	(92,798)	(117,414)
At end of year	261,513	434,488

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.85,163,941 (2022: Shs 74,983,000).

Notes (continued)

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	
	2023	**2022**
	Shs' 000	**Shs' 000**
At start of year	173,591	200,933
Loans disbursed	57,108	63,219
Repayments	(64,272	(90,561)
At end of year	166,427	173,591
Current	27,033	28,196
Non - current	139,394	145,395
Total	166,427	173,591

Notes (continued)

36 Related parties and related party transactions

(b) Loans to employees

	Group	
	2023 **Shs'000**	**2022** **Shs'000**
At start of year	1,049,491	771,795
Loans advanced during the year	835,386	728,059
Loans repayments received	(632,375)	(450,363)
At end of year	1,252,502	1,049,491
Comprising:		
Mortgages and advances	726,911	633,528
Personal loans	499,440	397,653
Staff car loans	26,151	18,310
	1,252,502	1,049,491
Current	325,651	272,868
Non - current	926,851	776,623
Total	1,252,502	1,049,491

Interest income arising from these employees' facilities amounted to Shs 76,494,119 (2022: Shs 60,087,974).

(c) Remuneration to directors and key management personnel

	Group	
	2023 **Shs' 000**	**2022** **Shs' 000**
Remuneration to executive directors:		
Company*	69,451	72,543
Group**	52,029	48,882
Remuneration to key management	145,264	105,214
	266,744	226,639

* Remuneration to the executive directors of the parent Company, HF Group Plc

** Remuneration to the executive directors of the subsidiary companies in the Group.

Notes (continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group	
	2023 **Shs' 000**	**2022** **Shs' 000**
Remuneration to key management:		
Salaries and short-term benefits	145,264	105,214
Pension	21,790	15,782
	167,054	120,996

Compensation to senior management including executive directors for the year ended 31 December 2023 amounted to Shs 145,264,000 (2022: Shs 135,850,000).

(d) Transactions with Britam Insurance Company (Kenya) Limited

	Group	
	2023 **Shs' 000**	**2022** **Shs' 000**
Bank balances held with HFC Limited	59,567	18,316

(e) Transactions with HF Development and Investment Limited

	Group	
	2023 **Shs'000**	**2022** **Shs'000**
Bank balances held with HFC Limited	9,161	7,082
Loans and other receivables	1,210,396	1,640,233
	1,219,557	1,647,315

Notes (continued)

36 Related parties and related party transactions (continued)

(f) Transactions with HF Bancassurance Intermediary

	Group 2023 Shs'000	2022 Shs'000
Bank balances held with HFC Limited	12,696	32,921
Other receivables	40,955	34,136
	53,651	67,057

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	1,863	2,942
Other receivables	2,746	-
	4,609	2,942

(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	10,265	170

(i) Transactions with Clay City Limited

Bank balances held with HFC Limited	1,820	26,805

(j) Transactions with Richland Development Limited

Bank balances held with HFC Limited	1,918	1,268

(k) Transactions with Housing Finance Development and Investment Property Fund

Bank balances held with HFC Limited	109	18,476

(l) Transactions with Pioneer International College

Loans and advances held with HFC Limited	11,624	54,468

Notes (continued)

36 Related parties and related party transactions (continued)

(k) Transactions with Agricultural and Industrial Holdings Ltd

Loans and advances held with HFC Limited	58,199	79,266

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	**2023 Shs'000**	**2022 Shs'000**
Foreign exchange contracts	289,511	1,570	13,268

Proxy Form

HF GROUP PLC
(the "Company")

CDC A/C No:
Shareholder No:
ID/Registration No:

FORM OF PROXY-2024 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 Tuesday 28th May 2024 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 2023, 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.			
3)	• Prof. Olive M. Mugenda			
	• Dr. Benson I. Wairegi			
	• Dr. Antony O. Omerikwa			
4)	In accordance with Article 104 of the Company's Articles of Association Mr.Tom M. Gitogo retires at this meeting, and being eligible, offers herself for re-election.			

Proxy Form

Item No.	*Resolutions:*	*For*	Against	Withheld
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 W. Kembi			
	• Dr. Anthony Omerikwa Opare			
	• Dr. Anne W. Kimari			
6)	To approve the Directors Remuneration Report as detailed in the Annual Report for the year ended 31st December 2023.			
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.			

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 Tuesday 28th May 2024.

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 HFGroupAgm@image.co.ke to arrive not later than 11:00 a.m. on 26th May 2024 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 26th May 2024 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 No:
Namb. ya mwanahisa
I ID/Namb ya usajili:

FOMU YA WAKALA – MKUTANO WA PAMOJA WA MWAKA (AGM) 2024

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 umiliki wangu .... (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 Jumanne Mei 28, 2024 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.

Namba	*Maazimio :*	*Kuunga*	Kupinga	kutopiga
1)	Kupokea na endapo itakubaliwa, kupitisha ukaguzi wa pesa uliofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2023 pamoja na ripoti kutoka kwa mwenyekiti, wakurugenzi na wakaguzi wa pesa			
2)	Kwa mujibu wa kifungu nambari 105 cha sheria za kampuni, wakurugenzi wafuatao wanastaafu kwa zamu na kwa kuwa hali inawaruhusu, wamejitokeza ili kuchaguliwa tena.			
3)	• Prof. Olive M. Mugenda			
	• Dkt. Benson I. Wairegi			
	• Dkt. Antony O. Omerikwa			
4)	Kufungamana na kifungu nambari 104 cha sheria ushirika wa makampuni, Bw. Tom M. Gitogo anastaafu wakati wa mkutano huu na kwa kuwa hali inamruhusu anajitokeza kuchaguliwa tena			

Proxy Form

Namba	*Maazimio :*	*Kuunga*	Kupinga	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 athari wachaguliwe tena kibnafsi ili kuendelea na jukumu la utoaji huduma kama wanachama wa kamati iliyotajwa;-			
	• Bi. Felister W. Kembi			
	• Dkt. Anthony Omerikwa Opare			
	• Dkt. Anne W. Kimari			
6)	Kuidhinisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2023 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.			

FOMU YA MAWASILIANO YA KIELEKTRONIKI YA HF

Please complete in BLOCK CAPITALS

Tafadhali jaza kwa kutumia HERUFI KUBWA ______________________________

____

____

Anwani ______________________________

____

____

____

CDSC No (endapo najulikana ______________________________
(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 kuirejesha kwa Image Registrar Slp 92877, GPO 00100,Orofa ya 5, ABSA Towers (zamani ikijulikana kama Barclays Plaza), Loita Street.

Proxy Form

Kuidhishwa kwa usajilin

MIMI/SISI twaidhinisha usajili ili kushiriki Mkutano wa Pamoja wa Mwaka kwa mfumo wa kielektroniki utakaofanyika Jumanne Mei 28, 2024.

Idhini ya matumizi ya nambari ya simu ya mkononi iliyotolew

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 26, 2024 au saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.

2. Endapo mwanachama ni shirika, ni lazima fomu ya uwakala ipigwe 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,kuhudhuria, 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 26, 2024 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 ya 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.

HFC TRADE FINANCE SOLUTIONS

1. Guarantees/Bonds
   - Bid Bond
   - Performance Bond
   - Advance Payment Guarantee
   - Other Guarantees/Bonds
2. Letters of Credit
3. Documentary Collections
4. Trade Loans
   - Pre/Post Shipment Finance
   - Contract Financing
   - Invoice Discounting
5. Structured & Commodity Finance
6. Supply Chain Finance

Visit any HFC branch or talk to our Trade Finance team on
0709 438 000 or **email TradeFinance@hfgroup.co.ke**

HFC
Dreams Made Possible

HF Group
Tel: 0709 438 800 | Toll Free 0800 721 400
Email: housing@hfgroup.co.ke | www.hfgroup.co.ke

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

HF GROUP
Dreams Made Possible