HF GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

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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	
Robert Ngugi Kibaara	
Dr. Peter Kahara Munga	
Dr. Anne W. Kimari	
Dr. Antony Opare Omerikwa	
Felister Wangari Kembi	
Tom Mbuthia Gitogo	

Company secretary

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
PO Box 60680–00200
Nairobi

Principal bankers

Central Bank of Kenya
Haile Selassie Avenue
PO Box 60000–00200
Nairobi, Kenya

HFC Limited
Rehani House, Kenyatta Avenue
PO Box 30088–00100,
Nairobi, Kenya

Independent auditor

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

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 2024.

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 1.

Directorate

The directors who held office during the year and to date of this report are set out on page 1.

Board meetings attendance for the year ended 31 December 2024

Date	8.03.24	3.04.24	27.05.24	13.09.24	14.10.24	11.11.24	14.11.24	18.12.24	Total
Prof. Olive Mugenda	✓	✓	✓	✓	✓	✓	✓	x	7
Dr. Benson Wairegi	✓	✓	✓	✓	✓	✓	✓	✓	8
Ms. Felister Kembi	✓	✓	✓	✓	✓	✓	✓	✓	8
Mr. Tom Gitogo**	✓	x	✓	✓	✓	✓	✓	✓	7
Dr. Anthony Omerikwa	✓	✓	x	✓	x	✓	✓	✓	6
Dr. Anne Kimari	✓	x	✓	✓	✓	✓	✓	✓	7
Dr. Peter Munga	x	x	✓	✓	✓	✓	✓	✓	6
Mr. Robert Kibaara	✓	✓	✓	✓	✓	✓	✓	✓	8

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

In 2024, the Group demonstrated strong financial and operational resilience despite economic headwinds. Profit before tax grew by 37.4% year-on-year to Shs 459.7 million, while total assets increased to Shs 70.1 billion. Customer deposits increased by 9%, reflecting growing customer confidence and the continued adoption of digital banking solutions.

The bank generated Shs 3.6 billion in total revenue, with net interest income reaching Shs 2.7 billion, supported by a 3% year-on-year growth in the loan portfolio, which now stands at Shs 43.8 billion. Additionally, the group increased its investments in government securities to Shs 16.97 billion, accounting for 75% growth year and year, in line with its strategy to balance risk and optimize returns. Operational efficiency improved, with the cost-to-income ratio declining to 89%, driven by disciplined expense management and higher non-interest income.

The group mobilized capital through a rights issue which achieved an over subscription, with a total subscription performance rate of 138.32%. HF Group's stock demonstrated strong performance in the equity market, closing the year at its highest level for the year with a year to date gain exceeding 31%. The surge was largely fueled by positive investor sentiment following the successful and oversubscribed rights issue, which increased liquidity and demand for the stock. The rally also reflected broader market optimism and improved confidence in the company's strategic direction.

This significant capital raise is a cornerstone of HF Group's five-year strategy, aimed at evolving into a full-service banking institution and a fully diversified financial entity. This capital will enable the group expand its product offering, strengthen its technology platforms and position itself for future growth. HF Group Plc is on its third straight year of profitability.

Banking subsidiary

Kenya's banking sector demonstrated resilience. Sector liquidity remained strong at 56% as of November 2024, ensuring stability despite rising interest rates. Private sector credit contracted by 1.1% year-on-year over the same period, reflecting cautious lending. However, sector-wide profitability improved, with profit before tax rising by 15% year-on-year as of November 2024. Notably, HFC outperformed the market, recording an impressive 32% year-on-year growth in profit before tax for the period ending December 2024. This highlights the institution's strong financial trajectory and growing market confidence in its renewed strategic direction.

The bank has firmly established its profitability, marking three consecutive years of sustained growth. This consistent upward trajectory is a testament to the effectiveness of the strategies implemented during its transition phase. The key strategies that have driven this success include;

- 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.

- 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 2024 contributing slightly more than 75% of the total HFC loans and with an impressive NPL ratio of 8.14% against the prevailing Kenyan banking sector NPL ratio of 16.5% in November 2024.

- 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.

Business review (continued)

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 52%.

Bancassurance subsidiary

The subsidiary has throughout the years been profitable and posted year on year profit before tax growth of 15%. The gross written premiums grew by 6% to Shs 672 million.

Results and recommended dividend

The group profit for the year of Shs 524,685,000 (2023 Shs 388,156,000) has been deducted from accumulated losses. No interim dividend was paid during the year (2023 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.

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

_____March 2025

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 2024			Year ended 31 December 2023		
	Fees	Sitting allowance	Total	Fees	Sitting allowance	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Prof. Olive Mugenda	4,875	-	4,875	4,875	-	4,875
Dr. Benson Wairegi, EBS	488	2,456	2,944	488	2,597	3,085
Dr. Peter K Munga	488	1,052	1,540	488	1,193	1,681
Anthony Opare Omerikwa	488	1,123	1,611	488	1,264	1,752
Charles Kimani Njuguna. *	-	-	-	488	211	699
Dr Anne W. Kimari	488	1,332	1,820	488	983	1,471
Felister Kembi	488	1,404	1,892	488	1,334	1,822
Mr. Tom Gitogo **	488	1,334	1,822	244	351	595
	7,803	8,701	16,504	8,047	7,933	15,980

* Retired on 1st August 2023

** Appointed 1st August 2023

Executive director

Robert Kibaara	2024 Shs'000	2023 Shs'000
Salary	58,910	58,286
Gratuity	12,115	13,627
Total	71,025	71,913

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 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

_____March 2025

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of 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 IFRS Accounting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining 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's ability to continue as a going concern, the directors are not aware of any material uncertainties related to any events or conditions that may cast doubt upon the Group's and Company's ability to continue as going concern.

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 27 March 2025 and signed on its behalf by:

Mugenda

Prof. Olive Mugenda
Chairperson

Robert Kibaara
Director

Wairegi

Benson Wairegi
Director

Regina Anyika
Company secretary

Independent auditor's report to the shareholders of HF Group Plc

Report on the financial statements

Our opinion

We have audited the accompanying financial statements of HF Group Plc (the "Company") and its subsidiaries (together, the "Group") set out on pages 14 to 126, which comprise the consolidated statement of financial position at 31 December 2024 and the consolidated statement of profit or loss and other 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 2024, 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 2024 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.

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.	We evaluated the appropriateness of the methodology applied by management in the estimation of expected credit losses for consistency with IFRS 9. We evaluated the appropriateness of segmentation of the loan portfolio. We validated management's basis for staging of loans and advances.

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Independent auditor's report to the shareholders of HF Group Plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
The policies for estimating ECL are explained in notes 2 (j) and 4 (a) of the financial statements. The economic impact of increased interest rates has resulted in heightened risk of credit default and potential for significant increases in credit risk, increasing the uncertainty around the management judgements and estimation process. 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 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.

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.

Independent auditor's report to the shareholders of HF Group Plc (continued)

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the Directors' report on pages 2 to 5 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 6 to 7 has been properly prepared in accordance with the Companies Act, 2015.

K. Saiti

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

27 **March 2025**

Consolidated statement of profit or loss and other comprehensive income

	Note	2024 Shs'000	2023 Shs'000
Interest income	6	6,555,348	5,347,608
Interest expense	6	(3,744,072)	(2,654,825)
Net interest income		2,811,276	2,692,783
Allowance for expected credit losses	22	(364,460)	(309,299)
Net interest income after credit impairment losses		2,446,816	2,383,484
Fee and commission income	7	542,323	414,469
Fees and commission expense	7	(68,776)	(73,688)
Net fees and commission income		473,547	340,781
Trading income	8	227,197	174,407
Other income	9	568,500	542,677
Net operating income		3,716,060	3,441,349
Employee benefits	11	(1,894,275)	(1,625,812)
Depreciation and amortization	12	(238,518)	(364,829)
Other operating expenses	10	(1,166,517)	(1,184,170)
Share of profit/(loss) in joint ventures	21	23,243	31,946
Investment property fair valuation gain	29	20,000	36,000
Profit before income tax		459,993	334,484
Income tax credit	13	64,692	53,672
Profit for the year		524,685	388,156
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	687,796	(378,578)
Deferred income tax	26	(206,339)	113,573
		481,457	(265,005)
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	-	20,000
Deferred income tax	26	-	(3,000)
		-	17,000
Total comprehensive profit for the year		1,006,142	140,151
Basic and diluted earnings per share – Shs	14	0.90	1.01

Company statement of profit or loss and other comprehensive income

	Note	2024 Shs'000	2023 Shs'000
Other income	9	109,961	98,600
Employee benefits	11	(94,436)	(73,640)
Depreciation and amortisation	12	(242)	(273)
Other operating expenses	10	(89,076)	(20,808)
(Loss)/profit before income tax		(73,793)	3,879
Income tax credit/(expense)	13	18,438	(463)
(Loss)/profit for the year		(55,355)	3,416
Other comprehensive income, net of tax		-	-
Total comprehensive (loss)/income for the year		(55,355)	3,416

Consolidated statement of financial position

	Note	2024 Shs'000	2023 Shs'000
Assets			
Cash and balances with banks	16	2,578,697	2,145,150
Placements with other banks	17	1,066,290	607,391
Investment in government securities	18	16,970,061	9,682,141
Loans and advances to customers	22	38,861,015	38,787,793
Other assets	23	2,687,452	2,495,449
Inventories	25	482,338	525,819
Property and equipment	19	872,546	792,635
Right-of-use asset	35	147,929	194,104
Intangible assets	20	316,318	277,897
Investment property	29	1,905,000	1,885,000
Investment in property fund	24	548,771	380,207
Investment in joint ventures	21	1,668,363	1,645,120
Derivative asset	34	15,797	-
Current income tax	13	372,751	367,255
Deferred income tax	26	1,654,454	1,764,469
Total assets		70,147,782	61,550,430
Liabilities			
Deposits from the Central Bank	27	-	1,500,000
Deposits from customers	27	47,470,795	43,847,644
Deposits from banks	27	388,106	3,193
Other liabilities	28	3,669,426	3,277,155
Derivative liabilities	37	-	1,570
Dividends payable	15	246	246
Deferred income tax	26	903	487
Borrowings	30	2,690,960	3,740,432
Government of Kenya income notes	32	52,860	52,860
Lease liabilities	35	192,819	261,513
Total liabilities		54,466,115	52,685,100
Shareholders' equity			
Share capital	31	9,427,440	1,923,071
Share premium	31	2,649,338	4,343,512
Regulatory reserve	31	4,808,520	4,854,473
Revaluation reserves	31	1,312,129	1,312,129
Fair value reserves	31	176,079	(305,378)
Accumulated losses		(2,691,839)	(3,262,477)
Total equity		15,681,667	8,865,330
Total liabilities and shareholders' equity		70,147,782	61,550,430

The financial statements on pages 14 to 126 were approved for issue by the Board of directors 27 March 2025 and signed on its behalf by:

Prof.Olive Mugenda - Chairperson	**Robert Kibaara - Director**
Benson Wairegi - Director	**Regina Anyika – Company secretary**

Company statement of financial position

	Note	2024 Shs'000	2023 Shs'000
Assets			
Cash and balances with banks	16	250,736	1,107
Other assets	23	552	3,033
Property and equipment	19	685	727
Investment in subsidiaries	21	15,587,594	9,857,594
Current income tax	13	59,657	57,486
Deferred income tax	26	67,815	49,377
Total assets		15,967,039	9,969,324
Liabilities			
Other liabilities	28	590,314	347,439
Dividends payable	15	246	246
Total liabilities		590,560	347,685
Shareholders' equity			
Share capital	31	9,427,440	1,923,071
Share premium	31	2,649,338	4,343,512
Retained earnings		3,299,701	3,355,056
		15,376,479	9,621,639
Total liabilities and shareholders' equity		15,967,039	9,969,324

The financial statements on pages 14 to 126 were approved for issue by the Board of directors on ________March 2025 and signed on its behalf by:

Mugenda

Prof. Olive Mugenda -Chairperson

Robert Kibaara -Director

BWairegi

Benson Wairegi -Director

Regina Anyika – Company secretary

Consolidated statement of changes in equity

	Notes	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Accumulated losses	Fair value reserves	Total
		Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 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 income 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
Year ended 31 December 2024								
At start of year		1,923,071	4,343,512	1,312,129	4,854,473	(3,262,477)	(305,378)	8,865,330
Profit for the year		-	-	-	-	524,685	-	524,685
Other comprehensive income for the year								
Transfer from statutory credit risk reserve		-	-	-	(45,953)	45,953	-	-
At fair value through other comprehensive income	31	-	-	-	-	-	687,796	687,796
Deferred income tax on change in fair value		-	-	-	-	-	(206,339)	(206,339)
Transaction with owners								
Additional shares through rights issue		7,499,975	-	-	-	-	-	7,499,975
Additional shares through Employee Share Options Programme		4,394	-	-	-	-	-	4,394
Discount shares fully paid through share premium		-	(1,499,995)	-	-	-	-	(1,499,995)
Total transaction cost, recorded directly in equity		-	(194,179)	-	-	-	-	(194,179)
At end of year		9,427,440	2,649,338	1,312,129	4,808,520	(2,691,839)	176,079	15,681,667

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 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
Year ended 31 December 2024				
At start of year	1,923,071	4,343,512	3,355,056	9,621,639
Profit and total comprehensive income for the year	-	-	(55,355)	(55,355)
Transaction with owners				
Additional share capital	7,504,369	-	-	7,504,369
Total transaction cost, recorded directly in equity	-	(1,694,174)	-	(1,694,174)
At end of year	9,427,440	2,649,338	3,299,701	15,376,479

Consolidated statement of cash flows

	Note	2024 Shs'000	2023 Shs'000
Net cash flows from operating activities	33	(3,256,758)	1,333,292
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(166,896)	(85,183)
Investment in property fund	24	(168,564)	-
Purchase of intangible assets	20	(115,864)	(158,411)
Proceeds from disposal of repurchased properties		-	35,700
Proceeds from disposal of property, plant and equipment		-	3,577
Net cash flows used in investing activities		(451,324)	(204,317)
FINANCING ACTIVITIES			
Additional capital (rights issue)	31	7,499,975	-
Additional capital (Employee Share Options Programme shares)	31	4,394	-
Bonus shares fully paid through share premium	31	(1,499,995)	-
Transactions cost recorded directly in equity	31	(194,179)	-
Principle repayments of borrowings	30	(1,049,472)	(577,325)
Interest lease payments	35	(23,611)	(30,422)
Principal lease payments	35	(82,934)	(92,798)
Net cash flows used in financing activities		4,654,178	(700,545)
Net increase/(decrease) in cash and cash equivalents		946,096	428,430
Cash and cash equivalents at start of year		1,277,121	848,691
Cash and cash equivalents at end of year	33	2,223,217	1,277,121

Company statement of cash flows

	Note	2024 Shs' 000	2023 Shs' 000
Net cash flows (used in) / generated from operating activities	33	169,634	(14,280)
INVESTING ACTIVITIES			
Purchase of property and equipment	19	(200)	-
Net cash flows (used in) / generated from investing activities		169,434	(14,280)
FINANCING ACTIVITIES			
Additional capital (rights issue)	31	7,499,975	-
Additional capital (Employee Share Options Programme shares)	31	4,394	-
Bonus shares fully paid through share premium		(1,499,995)	-
Transactions cost recorded directly in equity		(194,179)	-
Investments in subsidiaries-HFC	21	(5,730,000)	-
Net cash flows used in financing activities		80,195	-
Net increase in cash and cash equivalents		249,629	-
Cash and cash equivalents at start of year		1,107	15,387
Cash and cash equivalents at end of year	16	250,736	1,107

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 Material 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 Accounting Standards 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.

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 2024 and have been adopted by the Group. The amendments have not had an effect on the Group's financial statements. The amendments are as follows:

Title	Effective date	Key requirements
Amendments to IAS 1, 'Presentation of Financial Statements' - 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.

Notes (continued)

2 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
Amendment to IFRS 16, 'Leases' - 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 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosure')	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.

The amendments listed above did not have any impact on the amounts recognised in prior periods and do not have a material impact in the current year.

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

Title	Effective date	Key requirements
Amendments to IAS 21, 'The Effects of Changes in Foreign Exchange Rates' - Lack of Exchangeability (Amendments to IAS 21)	Annual periods beginning on or after 1 January 2025 (Published August 2023)	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

Notes (continued)

2 Material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

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

Title	Effective date	Key requirements
Amendment to IFRS 9, "Financial Instruments" and IFRS 7, "Financial Instruments: Disclosures" - Classification and Measurement of Financial Instruments	Annual periods beginning on or after 1 January 2026 (Published May 2024)	These amendments: • clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; • clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion; • add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and • make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).
IFRS 19, 'Subsidiaries without Public Accountability'	Annual periods beginning on or after 1 January 2027 (Published May 2024)	The objective of IFRS 19 is to provide reduced disclosure requirements for subsidiaries, with a parent that applies the Accounting Standards in its consolidated financial statements. IFRS 19 is a voluntary Accounting Standard that eligible subsidiaries can apply when preparing their own consolidated, separate or individual financial statements.

Notes (continued)

2 Material accounting policies (continued)

(a) Basis of preparation

Changes in accounting policy and disclosures (continued)

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

Title	Effective date	Key requirements
IFRS 18, 'Presentation and Disclosure in Financial Statements'	Annual periods beginning on or after 1 January 2027 (Published April 2024)	The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses. IFRS 18 replaces IAS 1 'Presentation of Financial Statements' and focuses on updates to the statement of profit or loss with a focus on the structure of the statement of profit or loss; required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general. Many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'.

These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(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.

Notes (continued)

2 Material accounting policies (continued)

(c) Revenue recognition (continued)

Net interest income (continued)

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

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

Non – interest revenue

i. Net fee and commission revenue

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

ii. Trading revenue

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

iii. Other revenue

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

(d) Property and equipment

(i)Recognition and measurement

Items of property and equipment 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.

Notes (continued)

2 Material accounting policies (continued)

(d) Property and equipment (continued)

(i)Recognition and measurement (continued)

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 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 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 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 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 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 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 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 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 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 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 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 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 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 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

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(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 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 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 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 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	2024 Shs' 000	2023 Shs' 000
Credit exposures			
On – balance sheet items			
Balances and deposits due from financial institutions*	16	2,966,629	2,385,053
Investment securities	18	16,970,061	9,682,141
Loans and advances to customers	22	38,861,015	38,787,793
Other assets**	23	1,430,790	1,297,735
		60,228,495	52,152,722
Off-balance sheet items			
Guarantees		607,593	2,428,566
Letters of credit, acceptances and other credits		174,150	80,452
		781,743	2,509,018
		61,010,238	54,661,740

*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 26,957,000 (2023: Shs 61,834,000) has been recognised against them at 31 December 2024.

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)

		2024		
Amortised cost	**Stage 1 12-month ECL Shs' 000**	**Stage 2 Lifetime ECL Shs' 000**	**Stage 3 Lifetime ECL Shs' 000**	**Total Shs' 000**
Individually and collectively impaired				
Grade 3: Substandard	-	-	1,571,423	1,571,423
Grade 4: Doubtful	-	-	9,976,276	9,976,276
Grade 5: Loss	-	-	416,776	416,776
Gross amount	-	-	11,964,475	11,964,475
Provision for impairment losses	-	-	(3,695,809)	(3,695,809)
Carrying amount	-	-	8,268,666	8,268,666
Grade 1: Normal	27,612,434	-	-	27,612,434
Grade 2: Watch	-	3,270,559	-	3,270,559
Gross amount	27,612,434	3,270,559	-	30,882,993
Provision for impairment losses	(136,208)	(154,436)	-	(290,644)
Carrying amount	27,476,226	3,116,123	-	30,592,349
Total carrying amount	27,476,226	3,116,123	8,268,666	38,861,015

Notes (continued)

4 Financial risk management (continued)

(a) 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**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Amortized cost				
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

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	
	2024	**2023**
	Shs' 000	**Shs' 000**
Property	21,857,992	52,282,892
Cash	50,361,581	547,145
	72,219,573	52,830,037

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

	Group	
	2024	**2023**
	Shs' 000	**Shs' 000**
Concentration by segment (Gross)		
Mortgage	24,432,556	24,045,835
Projects	7,473,777	8,328,934
Commercial	6,513,033	7,016,914
Unsecured	3,911,428	2,973,689
IPF	67,686	62,117
Micro	448,988	13
	42,847,468	42,427,502

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 32,017,000 (2023: Shs 37,964,000)

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.

2024	**Base case**	**Case ('PDs worse by 10%)**	**Change in ECL allowance. Increase**	
	Shs'000	**Shs'000**	**Shs'000**	**%**
Stage 1	136,208	151,537	(15,329)	(11)
Stage 2	154,436	171,124	(16,688)	(10)
Stage 3	3,695,809	-	-	-
	3,986,453	322,661	(32,017)	

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	-	-	-
	3,639,709	294,274	(37,964)	

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 2024.

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: -

	2024 Shs'000	2023 Shs'000
Undrawn overdrafts	79,215	40,978
Letters of credit	94,935	39,474
Guarantees	607,593	2,428,566
	781,743	2,509,018
Allowance for impairment losses	(7,749)	(23,730)
	773,994	2,485,288

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:

	2024 Shs'000	2023 Shs'000
Against impaired accounts	21,857,992	9,964,325
Against accounts not impaired	50,361,581	42,865,712
	72,219,573	52,830,037

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:

	2024	**2023**
At 31 December	41.90%	24.25%
Average for the year	27.71%	23.27%
Maximum for the year	41.90%	27.00%
Minimum for the year	24.30%	20.40%
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 2024	**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	2,578,697	-	-	-	-	2,578,697
Government securities	965,628	1,500,670	1,524,318	4,766,725	10,414,424	19,171,765
Loans and advances to banks	919,837	165,967	-	-	-	1,085,804
Loans and advances	3,388,502	329,252	3,866,443	8,855,981	28,240,382	44,680,560
Derivative financial assets	9,353	5,812	632	-	-	15,797
Other assets	-	-	1,353,143	1,353,143	-	2,706,286
Total financial assets	7,862,017	2,001,701	6,744,536	14,975,849	38,654,806	70,238,909
Financial liabilities						
Deposits from banks	388,105	-	-	-	-	388,105
Customer deposits	14,482,013	11,853,669	6,739,601	18,184,863	432,662	51,692,808
Borrowings	2,173,429	26,850	78,579	563,166	199,500	3,041,524
Other liabilities	1,833,172	-	1,833,172	-	-	3,666,344
Lease liabilities	-	-	75,684	139,714	17,056	232,454
Total financial liabilities	18,876,719	11,880,519	8,727,036	18,887,743	649,218	59,021,235
Net liquidity gap	(11,014,702)	(9,878,818)	(1,982,500)	(3,911,894)	38,005,588	11,217,674

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	3,050,329	84,518	107,822	626,697	291,709	4,161,075
Other liabilities	3,138,535	-	1,516,621	-	-	4,655,156
Lease liabilities	-	-	107,988	174,680	3,002	285,670
Total financial liabilities	30,253,802	5,225,911	7,007,212	13,225,743	2,699,581	58,412,249
Net liquidity gap	(21,264,279)	(3,825,068)	(3,458,684)	3,326,294	31,160,922	5,939,185

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Year ended 31 December 2024	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	34,029	60,906	-	-	-	94,935
Guarantees	270,506	119,736	171,880	45,471	-	607,593
Forward derivatives	511,346	202,825	275,100	-	-	989,271
Unrecognised loan commitments	42,266	4,133	32,816	-	-	79,215
Total commitments and guarantees	858,147	387,600	479,796	45,471	-	1,771,014
Year ended 31 December 2023						
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

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	**2024 Shs'000**	**2023 Shs'000**
Cash at hand	678,473	367,508
Balances with commercial banks	478,339	302,222
Balances with Central Bank of Kenya:	1,421,885	1,475,340
Placements with other banks	1,066,290	607,391
Government securities	16,970,061	9,682,141
Total liquidity reserves	20,615,048	12,434,602

(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 2024	**US$ Shs' 000**	**GBP Shs' 000**	**Euro Shs' 000**	**Total Shs' 000**
Assets				
Cash and cash equivalents	(44,847)	40,062	98,102	93,317
Loans and advances to customers	1,428,412	30,805	1	1,459,218
Investment in government securities	1,945,701	-	-	1,945,701
Other assets	30,749	139	434	31,322
Total assets	3,360,015	71,006	98,537	3,529,558
Liabilities				
Customer deposits	2,131,124	13,612	5,793	2,150,529
Borrowed funds	892,287	-	-	892,287
Other liabilities	393,552	56,697	91,687	541,936
Total liabilities	3,416,963	70,309	97,480	3,584,752
Net financial position	(56,948)	697	1,057	(55,194)
31 December 2023				
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 government 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

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
	2024	2024	2023	2023
US Dollar	134.70	129.25	140.06	157
EUR	145.83	134.68	151.49	173.85
GBP	172.18	162.45	174.33	200.08

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:

	2024			2023		
	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%	(5,694)	(3,986)	10%	6,818	4,773
GBP	10%	70	49	10%	(4,825)	(3,377)
EURO	10%	106	74	10%	176	123

(ii) Sensitivity analysis to interest rate risk

The following table sets out the components of the Group's financial instruments subject to interest rate risk:

Assets	**Interest rate**	**2024 Shs'000**	**2023 Shs'000**
Loans and advances	12.11%	38,861,015	38,787,793
Government securities	13.23%	16,970,061	9,682,141
Placements with banks	13.52%	1,066,290	607,000
Total liquidity reserves		56,897,366	49,076,934
Liabilities			
Deposits	6.32%	47,470,795	43,851,506
Balances with CBK	-	-	1,500,000
Deposits from local Banks	5.00%	388,106	-
Borrowings and income notes	10.85%	2,743,820	3,793,300
Total liquidity reserves		50,602,721	49,144,806
Interest rate sensitivity gap		6,294,645	(67,872)

At 31 December 2024, 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 330,156,000 (2023: Shs 444,561,000) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 330,156,000 (2023: Shs 444,561,000) 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 2024 was as follows:

Tier 1 capital	**2024 Shs'000**	**2023 Shs'000**
Ordinary share capital	10,820,000	5,090,000
Share premium	3,513,662	3,513,662
Retained earnings	(5,115,436)	(5,442,592)
Deferred income tax asset	(550,957)	(1,078,922)
Total tier 1 capital	8,667,269	2,082,148
Tier 2 capital		
Revaluation Reserve (25%)	105,000	105,000
Subordinated debt	667,417	867,417
Regulatory reserves	506,338	491,756
Total tier 2 capital	1,278,755	1,464,173
Total regulatory capital	9,946,024	3,546,321
Risk weighted assets	40,507,073	39,340,511

Capital ratios	**2024**	**2023**
Total regulatory capital expressed as a percentage of total risk-weighted assets	24.6%	9.01%
CBK minimum requirement	14.50%	14.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets	21.4%	5.3%
CBK minimum requirement	10.50%	10.50%

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

Central Bank of Kenya required the Group to maintain a minimum core capital of Shs 1 billion as at 31 December 2024. 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 2024 (2023: 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 2024	FVTPL Shs'000	FVOCI Shs'000	At amortised cost Shs'000	Total carrying amount Shs'000
Financial assets				
Cash and cash equivalents	-	-	2,578,697	2,578,697
Placements with banks	-	-	1,066,290	1,066,290
Investment in Government securities	-	13,741,761	3,228,300	16,970,061
Loan and advances to customers	-	-	38,861,015	38,861,015
Derivatives	15,797	-	-	15,797
Investment properties	1,905,000	-	-	1,905,000
	1,920,797	13,741,761	45,734,302	61,396,860
Financial liabilities				
Deposits from Banks	-	-	388,106	388,106
Customer deposits	-	-	43,847,644	43,847,644
Government of Kenya income notes	-	-	52,860	52,860
Borrowings		-	2,690,960	2,690,960
Derivatives	-	-	-	-
	-	-	46,979,570	46,979,570

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 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

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 2024:

31 December 2024	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Financial assets				
Cash and balances with banks	-	2,578,697	-	2,578,697
Placements with other banks	-	1,066,290	-	1,066,290
Loans and advances	-	38,861,015	-	38,861,015
Investment in government securities	-	13,741,761	-	13,741,761
Non-financial assets				
Investment properties	-	1,905,000	-	1,905,000
Derivative Assets	-	15,797	-	15,797
	-	58,168,560	-	58,168,560
Financial liabilities				
Deposits from customers	-	47,470,735	-	47,470,735
Deposits from banks	-	388,106	-	388,106
Derivative liabilities				
	-	47,858,841	-	47,858,841

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

Valuation hierarchy (continued)

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

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)

	2024					
	Retail Banking Shs'000	**Corporate Banking Shs'000**	**Property Development Shs'000**	**Bancassurance Shs'000**	**Others Shs'000**	**Totals Shs'000**
Interest income	4,907,351	1,640,878	-	6,210	909	6,555,348
Interest expense	(2,466,279)	(1,277,584)	-	(209)	-	(3,744,072)
Net interest income	2,441,072	363,294	-	6,001	909	2,811,276
Non-interest income	165,370	295,361	666,884	123,321	110,326	1,361,262
Reporting segment profit/(loss) before income tax	83,615	130,782	253,054	65,277	(72,735)	459,993
Deposits balances	43,362,766	4,108,029	-	-	-	47,470,795

Notes (continued)

5 Operating segments

			2024			
	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	364,460	-	-	-	-	364,460
Reportable segment assets	32,761,559	16,970,061	4,230,395	195,793	15,989,974	70,147,782
Reportable segment liabilities	47,332,100	3,142,426	3,324,708	72,895	593,986	54,466,115

Notes (continued)

5 Operating segments (continued)

			2023			
	Retail Banking Shs'000	**Corporate Banking Shs'000**	**Property Development Shs'000**	**Bancassurance Shs'000**	**Others Shs'000**	**Totals 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	98,244	114,840	52,211	3,378	334,484
Deposits balances	41,303,472	2,544,172	-	-	-	43,847,644

Notes (continued)

5 Operating segments

			2023			
	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	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)

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

	2024 Shs'000	2023 Shs'000
Net interest income		
Total net interest income for reportable segments	2,871,741	2,747,299
Other interest income adjustments	(60,465)	(54,516)
Consolidated net interest income	2,811,276	2,692,783
Non-interest income		
Total non-interest income for reportable segments	1,498,799	1,234,021
Other non-interest income	(117,537)	(102,468)
Consolidated non-interest income	1,381,262	1,131,553
Profit or loss		
Total profit or loss for reportable segments	459,993	334,484
Other profit or loss	-	-
Consolidated profit before income tax	459,993	334,484
Assets		
Total assets for reportable segments	72,378,464	62,416,002
Other assets	(2,230,682)	(865,573)
Consolidated total assets	70,147,782	61,550,429
Liabilities		
Total liabilities for reportable segments	56,757,496	51,251,551
Other liabilities	(2,291,381)	1,431,459
Consolidated total liabilities	54,466,115	52,683,010

Notes (continued)

6 Interest income and expense

(a) Interest income

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Loans and advances	4,914,481	4,174,558	-	-
Deposit with banks	57,776	27,413	-	-
Financial assets at amortised cost	388,084	444,330	-	-
Financial assets at FVOCI	1,195,007	701,307	-	-
	6,555,348	5,347,608	-	-

Included within interest income is Shs306 million (2023: Shs282 million) in respect of credit impaired financial assets

(b) Interest expense

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Deposits from customers	2,937,070	1,814,701	-	-
Deposits from banks	91,384	255,477	-	-
Repurchase agreement with CBK	356,259	199,023	-	-
Borrowings	335,748	355,477	-	-
Lease liabilities	23,611	30,147	-	-
	3,744,072	2,654,825	-	-

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 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Service fees and commission /transactional banking**	184,505	199,987	-	-
Custodial services	81,046	19,082	-	-
Other commissions*	276,772	195,400	-	-
	542,323	414,469	-	-

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

**The service fees largely relate to fees earned from transactions with customers and commissions charged on facilitation of remittances.

Notes (continued)

7 (b) Fee and commission expense

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Fees and commission expense	68,776	73,688	-	-
	68,776	73,688	-	-

8 Net trading income

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Foreign currency exchange gains	211,400	175,977	-	-
Fair value loss on derivatives	15,797	(1,570)	-	-
	227,197	174,407	-	-

9 Other income

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Rental income	86,893	85,164	-	-
Sales income	58,518	110,152	-	-
Other income *	349,979	277,176	109,961	98,600
Insurance commission	73,110	70,185	-	-
	568,500	542,677	109,961	98,600

* Other income includes project management fees and commissions, Bancassurance profit share gain on lease modification as well as gains on disposal of property plant and equipment.

Notes (continued)

10 Other operating expenses

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Occupancy expenses	69,351	65,047	-	-
Deposit Protection Fund	86,985	80,184	-	-
Cost of sales Theta plots	43,482	81,848	-	-
Marketing expenses	148,072	57,762	61,571	1,865
Information technology expenses	355,311	282,387	-	-
Legal expenses	38,754	59,733	-	-
Office expenses	130,862	66,604	5,316	5,998
Auditor remuneration	23,715	17,234	2,029	1,551
General administration expenses	269,985	473,371	20,160	11,394
	1,166,517	1,184,170	89,076	20,808

11 Employee benefits

The following items are included in salaries and employee benefits:

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other staff costs	1,681,109	1,484,832	50,262	49,310
Remuneration to executive directors	95,627	52,029	42,918	23,584
NSSF contributions	13,889	3,643	49	24
Contributions to the defined contribution retirement scheme	85,106	73,665	507	380
Contributions to Housing Levy	18,544	11,643	700	342
	1,894,275	1,625,812	94,436	73,640
Average number of employees	634	568	2	2

12 Depreciation and amortisation

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Depreciation of property and equipment (Note 19)	84,211	77,652	242	273
Amortisation of intangible assets (Note 20)	77,443	213,106	-	-
Amortisation of right-of-use asset (Note 35	76,864	74,071	-	-
	238,518	364,829	242	273

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	
	2024	**2023**	**2024**	**2023**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Profit /(loss) before income tax	459,993	334,484	(73,793)	3,878
Tax at the applicable tax rate of 30% (2023: 30%)	137,998	100,345	-	1,163
Tax effect of non-chargeable income	(246,325)	(202,781)	18,438	(1,626)
Tax effect of non-deductible costs	43,635	48,764		
Income tax credit	(64,692)	(53,672)	18,438	(463)
Current income tax at 30% (2023: 30%)	31,955	29,686	-	-
Deferred tax movement (Note 26)	(96,647)	(87,340)	18,438	(1,624)
Prior year deferred tax over provision (Note 26)	-	3,982	-	-
	(64,692)	(53,672)	18,438	(1,624)

(b) Current income tax recoverable

At start of year	367,255	365,267	57,486	52,016
Charge for the year	(31,955)	(29,687)	-	-
Paid during the year	37,451	31,675	2,171	5,470
At end of year	372,751	367,255	59,657	57,486

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:

	2024 Shs'000	2023 Shs'000
Net profit for the year attributable to shareholders	524,685	388,156
Number of ordinary shares in issue (000's)	1,885,488	384,614
Weighted average number of ordinary shares (000's)	582,429	384,614
Basic earnings per share	0.90	1.01
Diluted earnings per share	0.90	1.01

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 dividend in respect of the year ended 31 December 2024 (2023: Nil) has been proposed.

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

	2024 Shs'000	2023 Shs'000
At start of year	246	246
Dividends paid during the year	-	-
At end of year	246	246

16 (a) Cash and balances with banks

	Group		Company	
	2024 Shs'000	2023 Shs'000	2024 Shs'000	2023 Shs'000
Cash at hand	678,473	367,508	-	-
Balances with commercial banks	478,454	302,322	250,753	1,107
Placements with other banks (Note 17)	1,066,290	607,391	-	-
Balances with Central Bank of Kenya:				
- Restricted (Cash Reserve Ratio)	1,421,885	1,475,340	-	-
	3,645,102	2,752,561	250,753	1,107

Notes (continued)

16 (a) Cash and balances with banks (continued)

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
12-month ECL:				
At start of year	80	(3)	-	-
Re-measurement during the year	35	83	17	-
Allowance for impairment losses	115	80	17	-
	3,644,987	2,752,541	250,736	1,107
Cash and balances with banks	2,578,697	2,145,150	250,736	1,107
Placement with other banks	1,066,290	607,391	-	-
	3,644,987	2,752,541	250,736	1,107

Movement in restricted balances:	2024 Shs'000	2023 Shs'000
Group		
At start of year	1,475,340	1,563,593
Movement during the year	(53,455)	(88,253)
At end of year	1,421,885	1,475,340

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 2024, the Cash Reserve Ratio was 4.25% (2023: 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	**2024 Shs' 000**	**2023 Shs' 000**
Cash and cash equivalents (Note 16(a))	2,223,102	1,277,201
Liquid investments:		
Investment in government securities (Note 18)	16,970,061	9,682,141
Borrowings - repayable within one year (Note 30)	(2,047,419)	(2,953,956)
Borrowings - repayable after one year (Note 30)	(643,541)	(786,476)
Lease liabilities	(192,819)	(261,513)
Net cash	16,309,384	6,957,397

Group	**2024 Shs' 000**	**2023 Shs' 000**
Cash and other liquid investments	19,193,163	10,959,342
Gross debt - fixed interest rates	(1,612,252)	(2,405,329)
Gross debt - variable interest rates	(1,271,527)	(1,596,616)
	16,309,384	6,957,397

Notes (continued)

16 (b)Net debt reconciliation

	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 2024						
At start of year	1,277,201	9,682,141	(2,953,956)	(786,476)	(261,513)	6,957,397
Cash flows	945,901	7,287,920	906,537	143,205	106,397	9,389,960
Non-cash movements	-	-	-	-	(37,703)	(37,703)
At end of year	2,223,102	16,970,061	(2,047,419)	(643,271)	(192,819)	16,309,654
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	(570,436)	1,147,761	122,435	2,485,274
Non-cash movements	-	-	-	-	48,116	48,116
Foreign exchange	-	-	-	-	-	-
At end of year	1,277,201	9,682,141	(2,953,956)	(786,476)	(261,513)	6,957,397

17 Placements with other banks

	Group	
	2024	2023
	Shs'000	Shs'000
Placements with other banks	1,066,655	607,392
Less: Allowance for impairment losses	(365)	(1)
	1,066,290	607,391

The weighted average effective interest rate on placements with other banks was 13.52% (2023: 12.27%).

Notes (continued)

18 Investment in government securities

Held at amortised cost	**Group**	
	2024	**2023**
	Shs'000	**Shs'000**
Treasury bills and bonds	3,228,300	4,036,868
FVOCI		
Treasury bonds	13,741,761	5,645,273
	16,970,061	9,682,141

The weighted average effective interest rate on government securities at 31 December was 13.23% (2023: 12.29%).
The table below shows the movement in the investments in the year:

Held at amortised cost	**Group**	
	2024	**2023**
	Shs'000	**Shs'000**
At start of year	4,044,852	3,779,143
Purchases during the year	20,000	335,709
Sales/Maturities during the year	(829,530)	(70,000)
At end of year	3,235,322	4,044,852
Fair value through other comprehensive income (FVOCI)		
At start of year	5,645,273	4,760,994
Purchases during the year	30,426,413	16,553,746
Sales/maturities during the year	(22,988,047)	(15,290,889)
Gain/(loss) on fair valuation (Note 31)	687,796	(378,578)
At end of year	13,771,435	5,645,273
Total government securities	17,006,757	9,690,125
Less 12 months ECL		
At start of year	(7,984)	(129)
Re-measurement during the year	(28,712)	(7,855)
At end of year	(36,696)	(7,984)
Total government securities net ECL	16,970,061	9,682,141

Notes (continued)

18 Investment in government securities

Maturity analysis for the investments in government securities	Group 2024 Shs'000	2023 Shs'000
Maturing within 90 days	830,00	590,000
Maturing after 90 days	16,140,061	9,092,141
	16,970,061	9,682,141

19 Property and equipment

(a) Group Year ended 31 December 2024	Freehold land Shs'000	Leasehold 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	180,000	380,000	1,380,309	2,002,309
Additions	-	-	-	159,936	159,936
Work in progress	-	-	-	6,960	6,960
Disposals	-	-	-	(2,774)	(2,774)
At end of year	62,000	180,000	380,000	1,544,431	2,166,431
Accumulated depreciation					
At start of year	-	6,310	23,775	1,179,589	1,209,674
Charge for the year	-	-	10,233	73,978	84,211
At end of year	-	6,310	34,008	1,253,567	1,293,885
Net book value at end of year	62,000	173,690	345,992	290,864	872,546

Notes (continued)

19 Property and equipment (continued)

(b) Group	Freehold land	Leasehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
Year ended 31 December 2023	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**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
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)

The buildings were revalued on 31 December 2024 by Tyson's Limited, a firm of independent professional valuers based on open market value approach. The net book value of properties at their historical cost is as follows:

	2024 Shs'000	2023 Shs'000
Free hold land	52,000	52,000
Buildings	330,000	310,000
	382,000	362,000

(b) Company

	Furniture, fixtures, equipment & motor vehicles 2024 Shs'000	 2023 Shs'000
Cost or valuation		
At start of year	1,727	1,727
Additions	200	-
At end of year	1,927	1,727
Accumulated depreciation		
At start of year	1,000	727
Charge for the year	242	273
At end of year	1,242	1000
Net book value at end of year	685	727

Notes (continued)

20 Intangible assets

	Group 2024 Shs'000	2023 Shs'000
Cost:		
At start of year	2,119,324	1,960,913
Additions during the year	89,531	147,222
Work in progress	26,333	11,189
At end of year	2,235,188	2,119,324
Accumulated amortisation		
At start of year	1,841,427	1,628,321
Amortisation during the year	77,443	213,106
At end of year	1,918,870	1,841,427
Net book value at end of year	316,318	277,897

21 Investments in subsidiary companies and ventures

(a) Subsidiaries

		Company 2024 Shs'000	2023 Shs'000
HFC Limited	100%	14,333,662	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
		15,587,594	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	
		2024 **Shs'000**	**2023** **Shs'000**
Kahawa Downs Limited	50%	103,155	112,217
Precious Heights Limited	50%	87,815	77,342
Richland Development Limited	50%	101,572	101,410
Claycity Limited	33%	483,144	483,630
Theta Dam Estate Limited	50%	892,677	870,521
At end of year		1,668,363	1,645,120
Group's share of profit in joint ventures			
Kahawa Downs Limited	50%	(97)	(428)
Kahawa Downs Limited prior year adjustment *		-	1,480
Precious Heights Limited	50%	1,509	1,772
Precious Heights Limited prior year adjustment*		-	(7,486)
Richland Development Limited	50%	163	1,177
Claycity Limited	33%	(485)	(2,076)
Theta Dam Estate Limited	50%	22,153	37,507
		23,243	31,946

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

Notes (continued)

21 Investment In subsidiary companies (continued)

(b) Joint ventures (continued)

The following are summarized financial information for Kahawa Downs Limited, Precious Heights Limited, Richland Development Limited, Claycity Limited and Theta Dam Estate Limited based on their financial statements prepared in accordance with IFRS Accounting Standards.

Group **Year ended 31 December 2024**	**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	20	5,787	470	2,530	251,316	260,123
Operating costs	(213)	(2,771)	(145)	(3,999)	(188,021)	(195,149)
Income tax expense					(18,989)	(18,989)
(Loss)/profit and other comprehensive income	(193)	3,016	325	(1,469)	44,306	45,985
Group share of net (loss)/profit	(97)	1,509	163	(485)	22,153	23,243
Net assets	206,310	175,634	203,140	1,464,074	1,785,354	3,834,512
Groups share of net assets	103,155	87,817	101,570	483,144	892,677	1,668,363
Group's interest in net assets at the beginning of the year	103,252	86,308	101,407	483,629	870,524	1,645,120
Group share of current year total comprehensive income/(loss)	(97)	1,509	163	(485)	22,153	23,243
Carrying amount of interest in investee at end of year	103,155	87,817	101,570	483,144	892,677	1,668,363

Notes (continued)

21 Investments in subsidiary companies (continued)

(b) Joint ventures (continued)

Group **Year ended 31 December 2023**	**Kahawa Development Limited**	**Precious Heights Limited**	**Richland Developmen t 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	-	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	172,615	202,816	1,465,542	1,741,048	3,788,524
Groups share of net assets	103,252	86,308	101,408	483,629	870,524	1,645,120
Group's interest in net assets at the beginning of the year	103,680	84,536	100,230	485,705	833,017	1,607,169
Group share of current year total comprehensive income	(428)	1,772	1,177	(2,076)	37,507	37,952
Carrying amount of interest in investee at end of year	103,252	86,308	101,407	483,629	870,524	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)

22 Loans and advances at amortised cost

Group	2024 Shs'000	2023 Shs'000
Gross loans and advances to customers	42,847,468	42,427,502
Less: Provision for expected credit losses	(3,986,453)	(3,639,709)
Net loans and advances to customers	38,861,015	38,787,793
Current	7,601,853	6,188,328
Non-current portion	35,245,615	36,239,174
Gross loans and advances	42,847,468	42,427,502
Stage 1 loans	27,612,434	27,817,660
Stage 2 loans	3,270,559	3,790,128
Stage 3 loans	11,964,475	10,819,714
	42,847,468	42,427,502
Stage 1 impairment	(136,208)	(124,595)
Stage 2 impairment	(154,436)	(131,715)
Stage 3 impairment	(3,695,809)	(3,383,399)
	(3,986,453)	(3,639,709)
Net loans and advances	38,861,015	38,787,793

Notes (continued)

22 Loans and advances (continued)

Provision for expected credit losses on loans and advances

Year ended 31 December 2024	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	124,595	131,715	3,383,399	3,639,709
Movements during the year:				
Transfer to 12 months ECL	284,787	(84,025)	(200,762)	-
Transfer to lifetime ECL not credit impaired	(663)	269,630	(268,967)	-
Transfer to lifetime ECL credit impaired	(16)	(6,546)	6,562	-
Net remeasurement of loss allowance	(292,743)	(163,125)	1,032,377	576,509
Net financial assets originated	26,022	11,410	-	37,432
Financial assets derecognised	(5,774)	(4,623)	(256,800)	(267,197)
Loss allowance as at 31 December	136,208	154,436	3,695,809	3,986,453

Year ended 31 December 2023				
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

Notes (continued)

22 Loans and advances at amortised cost (continued)

	2024			
Year ended 31 December 2024	**Stage 1 Shs' 000**	**Stage 2 Shs' 000**	**Stage 3 Shs' 000**	**Total Shs' 000**
Gross carrying amount at start of year	27,817,660	3,790,128	10,819,714	42,427,502
Transfer to 12 months ECL	2,178,688	(1,670,739)	(507,949)	-
Transfer to lifetime ECL not credit impaired	(245,246)	1,678,542	(1,433,296)	-
Transfer to lifetime ECL credit impaired	(1,375)	(152,796)	154,171	-
Net remeasurement	(4,741,314)	(553,630)	3,342,989	(1,951,955)
Net financial assets originated	4,295,371	328,205		4,623,576
Financial assets derecognised	(1,691,350)	(149,151)	(162,735)	(2,003,236)
Write offs	-	-	(248,419)	(248,419)
Gross carrying amount at end of year	27,612,434	3,270,559	11,964,475	42,847,468

Year ended 31 December 2023	**Shs' 000**	**Shs' 000**	**Shs' 000**	**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	(826,464)	(2,093,496)	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	27,817,660	3,790,128	10,819,714	42,427,502

The weighted average effective interest rate on loan advances to customers as at 31 December 2024 was 12.11% (2023: 10.62%).

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 2024						
Net re-measurement of loss allowance	576,509	(15,982)	392	(23,145)	28,712	566,486
New financial assets originated or purchased	37,432	-	-	-	-	37,432
Financial assets derecognized	(267,197)	-	-	-	-	(267,197)
Write-offs	17,716	-	-	-	-	17,716
	364,460	(15,982)	392	(23,145)	28,712	354,437

	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

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

	2024			2023		
Segment	Gross Shs'000	Loss allowance Shs'000	Carrying amount Shs'000	Gross Shs'000	Loss allowance Shs'000	Carrying amount Shs'000
Commercial	6,513,033	(358,634)	6,154,399	7,016,914	(431,277)	6,585,637
IPF	67,686	(5,908)	61,778	62,117	(1,436)	60,681
Micro	448,988	(77)	448,911	13	(8)	5
Mortgage	24,432,556	(916,662)	23,515,894	24,045,835	(823,192)	23,222,643
Projects	7,473,777	(2,017,379)	5,456,398	8,328,934	(1,999,716)	6,329,218
Unsecured	3,911,428	(687,793)	3,223,635	2,973,689	(384,080)	2,589,609
	42,847,468	(3,986,453)	38,861,015	42,427,502	(3,639,709)	38,787,793

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

				2024			
Stage 1 & 2	**Mortgage Shs'000**	**Projects Shs'000**	**Commercial Shs'000**	**IPF Shs'000**	**Micro Shs'000**	**Unsecured Shs'000**	**Total Shs'000**
At start of year	72,380	40,116	35,245	386	-	108,183	256,310
ECL remeasurement	33,485	(39,635)	10,727	132	77	29,548	34,334
At end of year	105,865	481	45,972	518	77	137,731	290,644
Stage 3							
At start of year	750,812	1,959,600	396,032	1,050	8	275,897	3,383,399
ECL remeasurement	59,985	57,298	(83,370)	4,340	(8)	274,165	312,410
At end of year	810,797	2,016,898	312,662	5,390	-	550,062	3,695,809
Total impairment	916,662	2,017,379	358,634	5,908	77	687,793	3,986,453

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

				2023			
Stage 1 & 2	**Mortgage Shs'000**	**Projects Shs'000**	**Commercial Shs'000**	**IPF Shs'000**	**Micro Shs'000**	**Unsecured Shs'000**	**Total Shs'000**
At start of year	157,475	122,598	157,158	186	-	47,025	484,442
ECL remeasurement	(85,095)	(82,482)	(121,913)	200	-	61,158	(228,132)
At end of year	72,380	40,116	35,245	386	-	108,183	256,310
Stage 3							
At start of year	666,500	1,939,688	204,752	901	6	131,771	2,943,618
ECL remeasurement	84,312	19,912	191,280	149	2	144,126	439,781
At end of year	750,812	1,959,600	396,032	1,050	8	275,897	3,383,399
Total Impairment	823,192	1,999,716	431,277	1,436	8	384,080	3,639,709

Notes (continued)

23 Other assets

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Trade receivables	1,430,790	1,297,735	-	2,519
Less: Allowance for impairment losses	(26,957)	(61,834)	-	(13)
	1,403,833	1,235,901	-	2,506
Prepayments	267,706	248,020	552	527
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets deposits	99,308	103,819	-	-
Foreclosed assets	866,605	857,709	-	-
	2,687,452	2,495,449	552	3,033
12-month ECL:				
At start of year	(61,834)	(37,995)	(13)	(6,970)
Re-measurement during the year	34,877	(23,839)	(19)	6,957
At end of year	(26,957)	(61,834)	(32)	(13)

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

24 Investment in property fund

	2024 Shs'000	2023 Shs'000
Assets as at start of the year	380,207	380,207
Partnership distributions	168,564	-
As at end of the year	548,771	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.
The proceeds from the sale of the assets (housing units) would be used to settle the loan balance to Crescent Finco and any residual balance after clearing the loan balance would go to HFDI Limited.

In December 2024, HFDI paid off Cresent Finco, resulting to partnership distributions into HFDI increasing the investment in property fund.

Notes (continued)

25 Inventories

	Group 2024 Shs'000	2023 Shs'000
At start of the year	525,819	414,604
Inventories (housing units and plots) (sales/additions)	(43,481)	111,215
At end of year	482,338	525,819

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 2024	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year (under)/ over provision	At end of year Shs'000
Property and equipment	(15,240)	(12,660)	-	-	(27,900)
Revaluation surplus	(182,088)	-	-	-	(182,088)
Financial assets at FVOCI	130,548	-	(206,339)	(741)	(76,532)
Investment property	(44,454)	-	-	-	(44,454)
Other general provisions	16,953	(25,401)	-	-	(8,448)
Right of use asset	97,513	(18,673)	-	-	78,840
Trading losses	772,009	49,776	-	-	821,785
General provision on loans and advances	989,228	104,023	-	-	1,093,251
Deferred income tax	1,764,469	97,065	(206,339)	(741)	1,654,454

Deferred tax liability

Year ended 31 December 2024	At start of year Shs 000	Charge to P&L Shs 000	At end of year Shs 000
Furniture, fittings and equipment	27	(27)	-
Provisions	460	443	903
	487	416	903

Notes (continued)

26 Deferred income tax (continued)

(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)

(b) Company

Year ended 31 December 2024	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(44)	(30)	(74)
Trading losses	7,551	53,806	61,357
General provisions	41,870	(35,338)	6,532
Net deferred tax	49,377	18,438	67,815
Year ended 31 December 2023	**Shs'000**	**Shs'000**	**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

27 (a)Deposits from customers

	Group 2024 Shs'000	2023 Shs'000
Government and parastatals:		
Payable within 90 days	14,048,724	8,888,748
Payable after 90 days and within one year	3,268,948	4,144,050
Private sector and individuals:		
Payable within 90 days	23,081,409	12,734,281
Payable after 90 days and within one year	6,169,021	8,986,060
Payable after one year	902,693	9,094,505
	47,470,795	43,847,644

Notes (continued)

27 Deposits from customers

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2024 was 5% (2023 5.84%). The carrying value of customer deposits approximates their fair value. The summary of terms and conditions for the various categories of deposits are below:

(a) Mortgage scheme deposits – These are deposits under scheme arrangements where an employer has provided funds for onward lending to their staff within set rules and regulations. Funded schemes have a lower interest rate than the market whereas for unfunded schemes the interest rates are usually at commercial rates and any discount on rates is based on volumes.

(b) Fixed term deposits – This account targets both individuals and corporates that will not need to access their funds for duration of time which is usually from 1 to 12 months. The minimum operating balance is Shs 50,000.

(c) Housing development bond – This account targets individuals who wish to save towards home ownership while at the same time earning attractive interest rates on their deposits. interest earned is subjected to a 10% withholding tax consolidated amount of up to Shs 300,000 as opposed to the normal rate of 15%. The minimum operating balance is Shs 50,000.

(d) Transactional deposits – These accounts are characterized by unlimited access to funds and they earn no interest. They attract fees based on transactions. The minimum opening balance is Shs 200.

(e) Current accounts – It allows unlimited access to funds through various channels with the cheque book being the unique instrument used to access the funds. It earns no interest. The minimum opening balance is Shs 2,000.

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

(b)Deposits from banks

	Group 2024 Shs'000	2023 Shs'000
Inter- bank lending	388,106	3,193

(c)Deposits from the Central Bank

	Group 2024 Shs'000	2023 Shs'000
Repurchase agreement	-	1,500,000

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 nil (2023: 15.62%).

Notes (continued)

28 Other liabilities

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
House sales deposits	398,569	392,775	-	-
Withholding tax payable	80,083	95,073	-	-
Sundry creditors	360,656	303,647	-	-
Trade creditors	1,977,463	1,461,253	-	-
Insurance premium payable	307,798	87,330	-	-
Contractors payables	169,160	332,192	-	-
Asset retirement obligation – right of use asset	21,717	22,317	-	-
Other payables	353,980	582,568	590,314	347,439
	3,669,426	3,277,155	590,314	347,439

29 Investment property

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.

	Group 2024 Shs'000	Group 2023 Shs'000
Fair value		
At start and end of year	1,885,000	1,849,000
Fair value gain	20,000	36,000
	1,905,000	1,885,000

Income from investment property

	2024 Shs'000	2023 Shs'000
Rental income from operating leases	33,101	39,836
Direct operating expenses from property that generated rental income	(7,785)	(8,864)
	25,316	30,972

Notes (continued)

29 Investment property (continued)

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2024	-	1,905,000	-	1,905,000
31 December 2023	-	1,885,000	-	1,885,000

The following are the main inputs:

- Average occupancy rate: 96% (2023: 97%)
- Weighted average rent of Shs 1,193 (2023: Shs 1,193) per square metre

30 Borrowings

	Group 2024 Shs'000	2023 Shs'000
European Investment Bank (EIB)	629,938	1,214,764
Shelter Afrique	239,026	485,202
Arab Bank for Economic Development in Africa	-	81,972
Britam	1,032,501	1,029,442
Kenya Mortgage Refinance Company	789,495	929,052
	2,690,960	3,740,432
Current	2,047,419	2,953,956
Non-current portion	643,541	786,476
	2,690,960	3,740,432
Movement during the year		
At start of year	3,740,432	4,317,757
Net movement in repayment and accrued interest	(1,049,472)	(577,325)
At end of year	2,690,960	3,740,432

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 2024, HFC Limited, a subsidiary of HF Group Plc was in breach of the following loan covenants

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Cost to income ratio	Maximum of 87%	93.68%
Britam	Non- Performing Loans to Total Loans	Minimum of 19.2%	27.23%
European Investment Bank (EIB)	Non-Performing loans to total loans ratio	Minimum of 15%	26.78%
	Open exposure ratio	Maximum of 30%	34.05%

As at 31 December 2024 Britam, Shelter Afrique and EIB had not provided waivers on the above breaches hence the borrowings have been classified as current within the liquidity risk note.

31 December 2024 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	629,938	629,938	-	4.32%	24 July 2017	1 October 2026
Shelter Afrique Limited	239,026	239,026	-	11.50%	28 December 2015	31 January 2026
Britam	1,032,501	1,032,501	-	20%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	789,495	145,954	643,541	5.00%	31 March 2021	31 March 2028
	2,690,960	2,047,419	643,541			

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	1,214,764	-	4.321%	24 July 2017	1 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	2,953,956	786,476			

The interest rate for EIB, KMRC is fixed. Shelter Afrique borrowing interest rate is based on 6 months SOFR +5.4% margin and Britam loan interest rate is based of CBR+4%.

Notes (continued)

31 Capital and reserves

(a) Share capital

	Group 2024 Shs' 000	Group 2023 Shs' 000	Company 2024 Shs' 000	Company 2023 Shs' 000
Authorised – 1,999,995,255 (2023: 500,000,000) ordinary shares of Shs 5 each	9,999,976	2,500,000	9,999,976	2,500,000
Issued and fully paid – 1,885,488,016(2023: 384,614,168) ordinary shares of Shs 5 each	7,541,940	1,923,071	7,541,940	1,923,071
Movement in ordinary shares				
At start of year (384,614,168)	384,614	384,614	384,614	384,614
Additional shares (rights Issue)	1,499,995	-	1,499,995	-
Employee Share Options Programme shares issue	876	-	876	-
	1,885,485	384,614	1,885,485	384,614
In monetary terms:				
At start of year	1,923,071	1,923,071	1,923,071	1,923,071
Additional capital (rights issue)	7,499,975	-	7,499,975	-
Additional capital (Employee Share Options Programme shares)	4,394	-	4,394	-
	9,427,440	1,923,071	9,427,440	1,923,071

In December 2024 HF Group Plc mobilized capital through a rights issue. The rights issue priced at Shs 4.00 per share, was structured to offer shareholders two (2) new ordinary shares for every one (1) existing ordinary share held, with the shareholders having the option to apply for additional shares. In addition, it had a green shoe option of up to 30% (equivalent to 384,614,168 shares) to accommodate any potential oversubscription. The grand total number of new shares applied for under the rights issue (Entitlement shares + Additional shares) was 1,595,995,966 with a total gross value of Shs 5,999,999,999.

HF Group issued additional 1,499,999 shares (2023: 384,614,168).

Notes (continued)

31 Capital and reserves (continued)

(a) Share capital (continued)

HF Group established an Employee Share Options Programme (ESOP) Scheme in 2007, whose main aim was to ringfence talent during the vesting period.

In September 2022,1,437,500 shares at a price of Shs 3.72 with a vesting period of 2 years were granted to staff based on 2021 individual performance ratings to eligible staff. These shares were to come from the authorised but not paid up shares of the group.

The vesting date was in September 2024 and the options exercised were 878,593 shares with a par value of Shs 4,392,965 out of which Shs 3,268,365 was paid for by staff while the difference of Shs 1,124,600 was expensed to the statement of profit or loss. The balances were deemed not material to be disclosed in the prior year financial statements.

(b) Share premium

This reserve arises when the shares of the Company are issued at a price higher than the nominal (Par) value. In 2024 the Group raised additional capital, issuing 1,499,999 shares at Shs 4 per share. There was a bonus/discount given of Shs 1 for the shares issued which were fully paid through Group share premium account.

	2024 Shs' 000	2023 Shs' 000
At start of year	4,343,512	4,343,512
Bonus shares fully paid through share premium	(1,499,995)	-
Transactions cost recorded directly in equity	(194,179)	-
At end of year	2,649,338	4,343,512

(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.

	2024 Shs'000	2023 Shs'000
At start of year	1,312,129	1,295,129
Change in fair value during the period:	-	
Revaluation gain on land	-	20,000
Deferred income tax	-	(3,000)
At end of year	1,312,129	1,312,129

Notes (continued)

31 Capital and reserves (continued)

(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:

	2024 Shs' 000	2023 Shs' 000
At start of year	4,854,473	3,696,575
Transfer	(45,953)	1,157,898
At end of year	4,808,520	4,854,473

(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.

	2024 Shs'000	2023 Shs'000
At start of year	(305,378)	(40,373)
Change in fair value during the year:		
Fair value losses on treasury bonds classified as FVOCI	687,796	(378,578)
Less: Deferred income tax	(206,339)	113,573
At end of year	176,079	(305,378)

32 Government of Kenya income notes and loans

	Group 2024 Shs'000	2023 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.

Notes (continued)

33 Cash flows from operating activities

	Note	Group 2024 Shs'000	2023 Shs'000
Profit before income tax		459,993	334,484
Adjustments for:			
Group's share of profit from investments in joint ventures	21	(23,243)	(31,946)
Interest expense on lease liabilities	35	23,611	30,423
Depreciation of property and equipment	19	84,211	77,652
Amortisation of right of use asset	35	76,864	78,434
Amortisation of intangible assets	20	77,443	213,106
Loss on sale of repurchased property		-	720
Gain on sale of property and equipment	19	-	(3,556)
Fair value gain/(loss) on derivatives		15,797	(1,570)
Fair value gain on investment property	29	(20,000)	(36,000)
Gain on modification on lease liabilities		(15,491)	(78,777)
Operating profit before changes in operating assets and liabilities		679,185	582,970
Increase in customer and banks deposits		4,415,446	3,739,629
Increase in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	16	53,455	88,253
Increase in loans and advances to customers		(73,222)	(2,796,171)
Increase in investment in government securities		(7,037,920)	(1,151,270)
Decrease/(increase) in inventory		43,481	(111,215)
Increase in other assets		(192,003)	(178,050)
Increase in other liabilities		392,271	190,588
(Decrease)/increase in deposit with Central Bank		(1,500,000)	1,000,233
Net cash flows from operating activities before tax		(3,219,307)	1,364,967
Income tax paid		(37,451)	(31,675)
Net cash flows from operating activities		(3,256,758)	1,333,292

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 2024 Shs'000	2023 Shs'000
Cash in hand and bank (Note 16 (a))	678,473	367,508
Balances due from banking institutions (Note 16 (a)	478,454	302,222
Placement	1,066,290	607,391
	2,223,217	1,277,121

	Company 2024 Shs'000	2023 Shs'000
(Loss)/profit before income tax	(73,793)	3,879
Depreciation on property and equipment	242	273
Decrease in other assets	2,481	33,658
Increase/(decrease) in other liabilities	242,875	(46,620)
Net cash flows from operating activities before tax	171,805	(8,810
Income tax paid	(2,171)	(5,470)
Net cash flows from operating activities	169,634	(14,280)

Notes (continued)

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

As at 31 December 2024, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2024 Shs'000	2023 Shs'000
Guarantees	607,593	2,428,566
Letters of credit	94,935	39,474
	702,528	2,468,040

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

	2024 Shs'000	2023 Shs'000
Loans approved but not yet disbursed	1,643,193	1,643,241

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 2024					
Guarantees	270,506	119,736	171,880	45,471	607,593
Letters of credit	34,029	60,906	-	-	94,935
	304,535	180,642	171,880	45,471	702,528
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
	259,550	1,294,453	845,763	68,273	2,468,039

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Directors believe, based on the information currently available and legal advice, that the claims can successfully be defended and therefore no provision has been made in the financial statements.

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

	2024 Shs' 000	2023 Shs' 000
At start of year	774,009	1,004,756
Adjustments due to changes in cashflows changes	15,491	(67,775)
Additions	15,198	25,934
Transfer of land to inventory	-	(8,906)
Transfer of land to property plant & equipment	-	(180,000)
	804,698	774,009
Accumulated depreciation	(656,769)	(579,905)
At end of year	147,929	194,104

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 2024				
Cost				
At start of year and end of year	-	615,121	158,888	774,009
Remeasurement during the year	-	15,198	-	15,198
Adjustments due to changes in cashflows	-	15,491	-	15,491
		645,810	158,888	804,698
Accumulated depreciation				
At start of year	248	(461,682)	(118,471)	(579,905)
Charge for the year	-	(51,439)	(25,425)	(76,864)
At end of year	248	132,689	14,992	147,929

	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)	-	-	(8,904)
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
At end of year	248	153,441	40,417	194,104

Notes (continued)

35 Leases (continued)

(a) Right-of-use assets (continued)

As at 31 December 2024, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2024 Shs '000	2023 Shs '000
Less than one year	76,569	107,988
Between one and five years	128,989	174,680
More than five years	17,056	3,002
	222,614	285,670

(b) Amounts recognised in profit or loss

Leases under IFRS 16		
Interest on lease liabilities	23,611	30,423
Depreciation of Right-of-use assets	76,864	78,434

(c) Amounts recognised in statement of cash flows

Total cash outflow for leases	106,545	123,541

(d) Lease liabilities

	2024 Shs '000	2023 Shs '000
Current	68,057	83,998
Non-current	124,762	177,515
	192,819	261,513

Notes (continued)

35 Leases (continued)

(d) Lease liabilities

Movement in lease liabilities

At start of year	261,513	434,488
Additions	15,198	25,934
Remeasurement (principal)	-	-
Remeasurement (cashflows)	(958)	(106,111)
Interest expense charged	23,611	30,422
Interest elements of lease payments	(23,611)	(30,422)
Principal elements of lease payments	(82,934)	(92,798)
At end of year	192,819	261,513

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.86,893,000 (2023: Shs 85,163,000).

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.

Notes (continued)

36 Related parties and related party transactions (continued)

(a) Loans to key management personnel

	Group 2024 Shs' 000	2023 Shs' 000
At start of year	166,427	173,591
Loans disbursed	115,415	57,108
Repayments	(83,020)	(64,272
At end of year	198,822	166,427
Current	35,278	27,033
Non - current	163,544	139,394
Total	198,822	166,427

(b) Loans to employees

At start of year	1,252,502	1,049,491
Loans advanced during the year	1,094,157	835,386
Loans repayments received	(951,601)	(632,375)
At end of year	1,395,058	1,252,502
Comprising:		
Mortgages and advances	789,024	726,911
Personal loans	584,861	499,440
Staff car loans	21,173	26,151
	1,395,058	1,252,502
Current	198,601	325,651
Non - current	1,196,457	926,851
Total	1,395,058	1,252,502

Interest income arising from these employees' facilities amounted to Shs 91,181,000 (2023: Shs 76,494,119).

Notes (continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group 2024 Shs' 000	Group 2023 Shs' 000
Remuneration to executive directors:		
Company*	74,104	69,451
Group**	50,873	52,029
Remuneration to key management	178,740	145,264
	303,717	266,744

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

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

(c) Remuneration to directors and key management personnel

	Group 2024 Shs' 000	Group 2023 Shs' 000
Remuneration to key management:		
Salaries and short-term benefits	178,740	145,264
Pension	28,552	21,790
	207,292	167,054

Compensation to senior management including executive directors for the year ended 31 December 2024 amounted to Shs 228,113,000 (2023: Shs145,264,000).

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

	Group 2024 Shs' 000	Group 2023 Shs' 000
Bank balances held with HFC Limited	58,872	59,567

Notes (continued)

36 Related parties and related party transactions (continued)

(e) Transactions with HF Development and Investment Limited

	Group 2024 Shs'000	2023 Shs'000
Bank balances held with HFC Limited	80,813	9,161
Loans and other receivables	1,423,844	1,210,396
	1,504,657	1,219,557

(f) Transactions with HF Bancassurance Intermediary

Bank balances held with HFC Limited	103,730	12,696
Other receivables	28,384	40,955
	132,114	53,651

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	1,244	1,863
Other receivables	-	2,746
	1,244	4,609

(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	17,932	10,265
Other receivables	-	63,631
	17,932	73,896

(i) Transactions with Clay City Limited

Bank balances held with HFC Limited	1,758	1,820

(j) Transactions with Richland Development Limited

Bank balances held with HFC Limited	11,693	1,918

Notes (continued)

36 Related parties and related party transactions (continued)

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

	Group 2024 Shs'000	2023 Shs'000
Bank balances held with HFC Limited	34	109

(l) Transactions with Pioneer International College

Loans and advances held with HFC Limited	-	11,624

(k) Transactions with Agricultural and Industrial Holdings Ltd

	Group 2024 Shs'000	2023 Shs'000
Loans and advances held with HFC Limited	25,777	58,199

(l) Transactions with Micro Land Investments

Loans and advances held with HFC Limited	9,205	9,452

37 Derivative liabilities

The Group'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. At 31 December 2024 all derivatives are to be settled on a gross basis.

The table below shows the fair values of currency forwards recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a currency forward or swap's underlying off-balance sheet asset / liability and is the basis upon which changes in the fair values of currency forwards and swaps are measured. The notional amounts indicate the volume of transactions outstanding at the year-end.

	2024				2023			
	Notional amount asset Shs'000	Notional amount liability Shs'000	Fair value asset Shs'000	Fair value liability Shs'000	Notional amount asset Shs'000	Notional amount liability Shs'000	Fair value asset Shs'000	Fair value Liability Shs'000
Forwards	989,271	989,271	952,237	937,140	289,511	289,511	289,339	290,909

Notes (continued)

37 Derivative liabilities (continued)

The table below summarises the currency forwards subject to offsetting, whose net amounts are presented in other assets.

	2024			2023		
	Fair value asset	**Fair value Liability**	**Fair value asset**	**Fair value asset**	**Fair value Liability**	**Fair value liability**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Forwards	952,937	937,140	15,797	289,339	290,909	(1,570)

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