

Annual 2020 Report

AND FINANCIAL STATEMENTS



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Directors, Officers and Administration

Directors

Dr. Steve O. Mainda - (Resigned on 10th July 2020)
 Outgoing Chairman

Dr. Kaushik Manek - (Appointed on 10th July 2020)
 Interim Chairman

Robert Kibaara - Group Chief Executive Officer

Dr. Peter K. Munga

Dr. Benson I. Wairegi

Adan D. Mohamed

Constance Gakonyo

Felister Kembi

Gladys Karuri

Company Secretary

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

Share Registrar

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

Auditor

PricewaterhouseCoopers LLP
 PwC Tower
 Waiyaki Way/Chromo Road, Westlands
 P. O. Box 439603 – 00100
 Nairobi, Kenya

Subsidiaries

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

Registered Office

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

Banker

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

Principal Legal Advisors

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



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HFC Limited is regulated by the Central Bank of Kenya.

HF Group Plc Board of Directors



Dr. Kaushik Manek, 63 years

INTERIM CHAIRMAN
INDEPENDENT &
NON EXECUTIVE



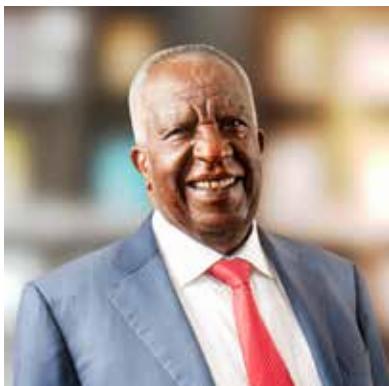
Robert Kibaara, 47 years

GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT &
EXECUTIVE



Dr. Benson I. Wairegi, 68 years

BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE



Dr. Peter K. Munga, 78 years

BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE



Adan Mohamed, 58 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Constance Gakonyo, 56 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Felister Kembu, 64 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Gladys Karuri, 47 years

BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE

HFC Limited Board of Directors



Dr. Kaushik Manek, 63 years

BOARD CHAIRMAN
INDEPENDENT &
NON-EXECUTIVE



Dr. Benson I. Wairegi, 68 years

BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE



Gladys Ogallo, 54 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



**Nicholas Ashford-Hodges,
70 years**

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Shilpa Haria, 60 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Robert Kibaara, 47 years

GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT & NON
EXECUTIVE



Adan Mohamed, 58 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Dorcas Muthoni, 42 years

BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Regina Anyika, 53 years

DIRECTOR, LEGAL
DIVISION & COMPANY
SECRETARY

HF Group Plc Board of Directors (Continued)

Dr. Kaushik Manek, EBS | Date of Appointment: 26th June 2015

Interim Chairman-Independent & Non-Executive

Dr. Kaushik Manek, EBS was appointed as a Non-Executive Director of HF Group PLC effective 26th June 2015. Upon completing his education, locally in Kenya and the UK, Dr. Manek joined the family business in 1978 and has since been instrumental in its growth from a small retail shop in Nairobi to multi-faceted business interests in Kenya.

Dr. Manek is committed to both social and community service. This is exhibited through his extensive involvement with Rotary since 1997, having worked through the ranks within the club level and eventually serving as District Governor in 2008- 2009.

His social service spans beyond Rotary and is reflected through community leadership roles within the Lohana community and the Desai Memorial Foundation, amongst others.

Robert Kibaara | Date of Appointment: 1st March 2019

Group Chief Executive Officer - Executive & Non Independent

Robert is a renowned banker, with over 26 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

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

Dr. Benson I. Wairegi, EBS | Date of Appointment: 1st April 2008

Non Independent & Non Executive Director

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

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

Dr. Peter K. Munga, EGH | Date of Appointment: 1st July 2008

Non Independent & Non Executive Director

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

HF Group Plc Board of Directors (Continued)

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

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

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

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

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

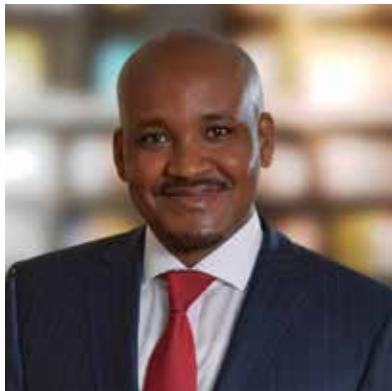
Ms. Felister Kembi joined the board on 26th September 2016. She is a graduate of the University of Nairobi with a Bachelors Degree in Commerce (Accounting option). She is also a CPA (K) holder and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Felister has vast experience having worked for Kenya Airways, East African Portland Cement, Kenya Times, Bellhouse Mwangi, Ernst & Young and Roussel of EA later known as AgrEvo EA Limited. mainly as an accountant, auditor and Finance Manager. She is also a Director of Felicity Exclusive Designs, a major importer and distributor of clothing and household goods.

Gladys Karuri | Date of Appointment: 4th November 2016 Non Independent & Non Executive Director

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

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

Senior Management Team



Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER



Peter Mugeni, 44 years
DIRECTOR, CREDIT



Tom Shivo, 49 years
DIRECTOR, HUMAN
RESOURCES



Regina Anyika, 53 years
DIRECTOR LEGAL
DIVISION & COMPANY
SECRETARY



Joseph Chikove, 38 years
HEAD OF TREASURY



Kennedy Gachoki, 46 years
HEAD OF RISK

Senior Management Team (Continued)



Rose Muturi, 39 years
CHIEF DIGITAL OFFICER



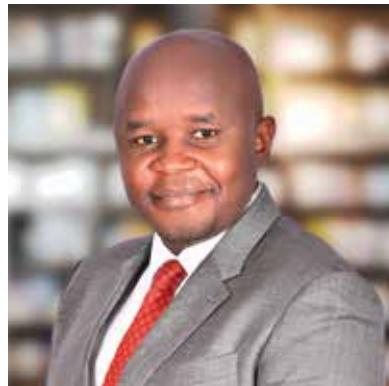
David Igweta, 49 years
CHIEF OPERATIONS
OFFICER



Patrick Njunge, 41 years
DIRECTOR, RETAIL



Joseph Ngare, 51 years
GENERAL MANAGER, AUDIT



Tonney A. Mugah, 38 years
DIRECTOR, STRATEGY &
BUSINESS PERFORMANCE



Sammy Kamathi, 46 years
GROUP CHIEF FINANCE
OFFICER



Joseph Kamau, 36 years
EXECUTIVE DIRECTOR,
HF DEVELOPMENT AND
INVESTMENT LTD

Senior Management Team

Robert Kibaara

Group Chief Executive Officer

Robert is a renowned banker, with over 26 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; General Manager - Integrated Distribution for Southern Africa and General Manager Personal Banking & New Business at Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya.

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

Peter Mugeni

Director, Credit

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

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

Tom Shivo

Director, Human Resources

Tom is a seasoned HR practitioner with 26 years working experience. He has previously worked at Safaricom as the Head of Business Partners (Commercial Divisions); Airtel Africa as the HR Director (Talent Management) and had a stint in Nigeria as the HR Director for Airtel Nigeria. He has also worked at Kenya Airways, where he was the Head of HR Relationships & Reward, and also acted as the HR Director for one year. At Coca-Cola Sabco, he was the Country HR Manager for the Kenya business, and previous to this he was the HR Manager at The Nairobi Hospital. He has been a HR consultant with Hawkins Associates /KHI Training, and a teacher in his early career.

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

Regina Anyika

Director Legal Division and Company Secretary

Regina is a seasoned legal professional with expertise in governance, commercial law, labour relations and dispute resolution, deal structuring for Capital Raising including corporate bonds, Rights Issues, Mergers and Acquisitions. She joined HF Group Plc in September 2013 and is currently the Company Secretary and Director, Legal. Prior to joining the bank, Regina worked with the Co-operative Bank of Kenya Limited and Senator Cards Limited. She holds an MBA (Employee Relations) from the University of Leicester, LLB from the University of Nairobi, Diploma from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPS K). She is an award winning legal expert, having been recognized in the 2015 Legal 500's list of the top 100 corporate counsel in Africa (www.Legal500.com).

Joseph Chikove

Head of Treasury

Joseph is a seasoned treasury professional, with over 13 years' experience in the banking industry across the East African Region. He has had an excellent track record orchestrating high team performance in the treasury business.

Senior Management Team (Continued)

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

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

Kennedy Gachoki

Head of Risk

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

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

Rose Muturi

Chief Digital Officer

Rose is a seasoned Commercial and Business Transformation practitioner with 14 years working experience cutting across banking, credit scoring, product development & pricing, digital financial services and technology. She joined HF Group Plc from Tala, where she was an Executive Director, and Regional Manager (East Africa). Prior to this, she was the Country Manager for the Kenya business.

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

Banking; Business Planning Manager and Business Analyst.

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

David Igweta

Chief Operations Officer

David is an astute ICT and operations expert with over 23 years of experience in Information Technology and Banking. Before joining HF Group Plc, he worked as the Head of Technology and Operations at Spire Bank, GM ICT at NIC Bank, Soluziona (an entity affiliated to the Spanish Power company as a systems consultant) and Car and General.

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

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

Patrick Njunge

Director, Retail

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

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

Senior Management Team (Continued)

Joseph Ngare

General Manager, Audit

Joseph joined HF Group Plc on 19th April, 2010 as the Head of Audit. Prior to joining the Company, Joseph worked with Gulf African Bank and Cooperative Bank of Kenya Limited. Joseph holds a Bachelor of Commerce degree (Finance Option) and is a qualified Certified Public Accountant (Kenya), Certified Internal Auditor (CIA) and a Certified Quality Assessor (QA).

on long term business and financial planning.

Prior to joining HF Group Plc, he held the position of General Manager and Head of Finance for the Kenya operations at Equity Bank. He has also served as the Finance Manager & Head of Financial Reporting at the same institution. Sammy has also held other positions including Accountant at Kenya Airways; Graduate Management Trainee, Senior Bank Officer and Assistant Finance Manager at the Central Bank of Kenya.

Toney Agira Mugah

Director Strategy & Business Performance

Tonney is a seasoned Banker, with over 14 years' experience in Strategy development & Execution, Business intelligence and analytics, retail banking and Products Management. Through his experience, he has been able to achieve business results which have made significant turnaround impacts to the organizations he has worked for, including growth in revenue and profitability; process improvements; development of business scorecards and frameworks that created excellence in market execution.

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

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

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

Joseph Kamau

Executive Director, HF Development & Investment Limited

Joseph Kamau is a seasoned banker with over 10 years experience in corporate banking. Before Joining HF Group Plc in April 2019, he was a senior corporate banker with NIC Bank. Joseph is responsible for providing leadership for the Group's Property Developments and Investment subsidiary. Joseph has a deep understanding of structured finance transactions which is critical in execution and delivery of the projects and investments undertaken by the group. He is currently undertaking an MBA, Strategic Management from Strathmore Business School. He holds a Bachelor of Commerce Degree from the University of Nairobi, CPA-K and a Certified Investments and Securities Analyst of East Africa

Sammy Kamanthi

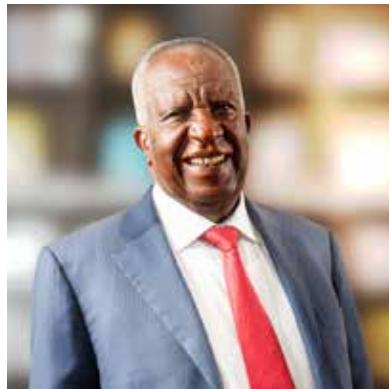
Group Chief Finance Officer

Sammy is a finance professional and a seasoned banker with over 19 years track record in the banking industry. His role includes providing leadership in financial forecasting & budgets, overseeing the preparation of financial reports as well as advisory

HF Development & Investment Limited Directors



Adan Mohamed, 58 years
BOARD CHAIRMAN
INDEPENDENT &
NON EXECUTIVE



Peter Munga, 78 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE



Benson Wairegi, 68 years
BOARD MEMBER
NON INDEPENDENT &
NON EXECUTIVE



Caroline Ongeri, 52 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



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



Joseph Kamau, 36 years
EXECUTIVE DIRECTOR

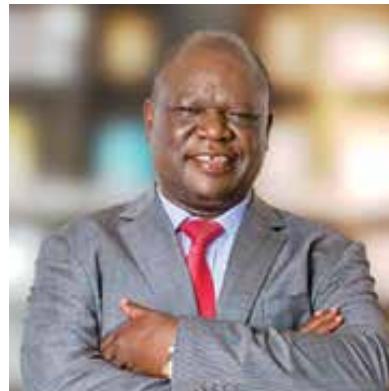
HF Insurance Agency Limited Directors



Constance Gakonyo, 56 years
BOARD CHAIRPERSON
INDEPENDENT &
NON EXECUTIVE



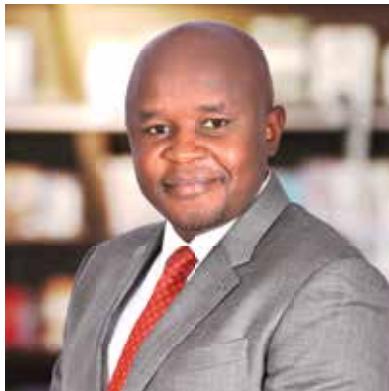
Robert Kibaara, 47 years
GROUP CHIEF EXECUTIVE
OFFICER
NON INDEPENDENT & NON
EXECUTIVE



Christopher Khaembba, 61 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



Patrick Njunge 41 years
BOARD MEMBER
NON INDEPENDENT & NON
EXECUTIVE



Tonney A. Mugah, 38 years
BOARD MEMBER
NON INDEPENDENT & NON
EXECUTIVE

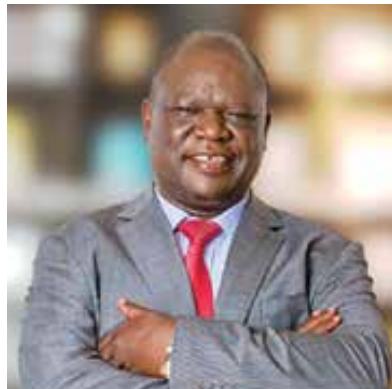


Maureen Stephyne, 35 years
PRINCIPAL OFFICER

HF Foundation Limited Directors



Peter Munga, 78 years
BOARD CHAIRMAN
NON INDEPENDENT &
NON EXECUTIVE



Christopher Khaemba, 61 years
BOARD MEMBER
INDEPENDENT &
NON EXECUTIVE



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

Notice of Annual General Meeting

To the Shareholders of HF GROUP Plc

NOTICE IS HEREBY GIVEN that in accordance with Articles 59 and 60 of the Articles of Association of the Company, the 55th Annual General Meeting of the Company will be held via electronic communication on Friday, 28th May 2021 at 12.00 noon to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2020, together with the Chairman's, the Directors' and Auditor's Reports thereon.
4. To note that the Directors do not recommend the payment of a dividend for the year ended 31st December 2020.
5. To elect Directors:
 - a) Ms. Gladys Karuri retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, does not offer herself for re-election.
 - b) Dr. Kaushik Manek retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, does not offer himself for re-election.
 - c) Mr. Adam Mohammed retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible, does not offer himself for re-election.
6. To consider, and if thought fit, to authorize the Directors to appoint Independent Directors to sit as members of the Group Board Audit & Risk Committee.
7. To approve the Directors Remuneration Report for the year ended 31st December 2020.
8. To appoint PricewaterhouseCoopers LLP as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.

Special Business

1. To consider, and if thought fit, to pass a Special Resolution pursuant to Section 22 of the Companies Act 2015, to amend the Articles of Association of the Company to be in line with the Companies Act No. 17 of 2015, with the Capital Markets Authority's Code of Corporate Governance Practices for Issuers to the Public and with good governance practice and to ratify and approve the publication of the full text of the proposed Special Resolution on the Company's website www.hfgroup.co.ke such that the said Special Resolution will be valid and effective as if the full text had been included in the notice of the annual general meeting.
9. To consider and, if thought fit, to pass a Special resolution pursuant to Section 22 of the Companies Act, 2015, to adopt the revised Articles of Association of the Company.
10. To consider any other business for which due notice has been given.

BY ORDER OF THE BOARD



Regina Anyika

Company Secretary
 P.O. Box 30088, GPO 00100
 Nairobi
 Date: 6th May 2021

Notes:

2. Shareholders wishing to participate in the meeting should register for the AGM by dialing ***483*251#** on their Safaricom mobile telephone or ***483*251#** on their Airtel & Telkom mobile telephone and follow the various prompts on the registration process. Shareholders will not incur any cost for such registration.

Notice of Annual General Meeting (Continued)

3. To complete the registration process, shareholders will need to provide their National ID/Passport Numbers which were used to purchase their shares and/or their CDSC Account Number. For assistance shareholders should dial the following helpline number: **(+254) 709 170 000** from **9:00 a.m. to 3:00 p.m.** from Monday to Friday. Shareholders outside Kenya should dial the helpline number for assistance during registration.
4. Registration for the AGM opens on **Thursday 6th May 2021** at **9:00 am** and will close on **Wednesday, 26th May 2021** at **11.00 a.m.** Shareholders will not be able to register after this time.
5. In accordance with Article 160 of the Company's Articles of Association, the following documents may be viewed on the Company's website www.hfgroup.co.ke **(a)** a copy of this Notice and the proxy form; **(b)** the Company's Annual Report & Audited financial statements for the year ended **31st December 2020**; **(c)** the amended Articles of Association of the Company to be approved for adoption;
6. Any shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. Such proxy need not be a member of the Company.
7. A proxy form is provided with the Annual Report. The proxy form can also be obtained from the Company's website www.hfgroup.co.ke or from Image Registrars Limited, Absa Towers (formerly Barclays Plaza), 5th Floor, Loita Street, P. O. Box 9287 – 00100, Nairobi, Kenya. Shareholders who do not propose to be at the Annual General Meeting are requested to complete and return the proxy form to Image Registrars Limited, or alternatively to the Registered Office of the Company so as to arrive not later than **Wednesday, 26th May 2021** at **11.00 a.m.**
8. Duly signed proxy forms may also be emailed to info@image.co.ke in PDF format. A proxy form must be signed by the appointor or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument appointing the proxy shall be given under the Company's common seal or under the hand of an officer or duly authorized attorney of such body corporate.
9. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so on or before **Wednesday, 26th May 2021** at **11.00 a.m.** by: **(a)** sending their written questions by email to agmquestions@hfgroup.co.ke or **(b)** to the extent possible, physically delivering or posting their written questions with a return physical, postal or email address to the registered office of the Company or P.O. Box 30000 – 00100, Nairobi, or to Image Registrars offices at the address above. **(c)** Shareholders who will have registered to participate in the meeting shall be able to ask questions via sums by dialing the USSD code above and selecting the option (Ask Question) on the prompts **(d)** During the AGM, shareholders can send their questions by using the "Questions" tab on their livestream link.

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

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

10. Registered Shareholders will receive an SMS prompt, with instructions, on their registered mobile phone number alerting them to Propose and Second the resolutions put forward in the notice.
11. The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent one hour ahead of the AGM, as a reminder that the AGM will begin in an hours' time and providing a link to the live stream.
12. Shareholders and proxies who have registered to attend the AGM may follow the proceedings using the live stream platform, access the agenda and vote (when prompted by the chairman) via the USSD prompts.
13. Results of the resolutions voted on will be published on the Company's website i.e. www.hfgroup.co.ke within 48 hours following conclusion of the AGM.

Notisi Kuhusu Mkutano Mkuu wa Pamoja wa Mwaka

Kwa wanahisa wa HF GROUP Plc

NOTISI INATOLEWA HAPA KWAMBA, kufungamana na vifungu vya sheria nambari 59 na 60 vya sheria za ushirika wa kampuni, mkutano wa 55 wa pamoja wa mwaka utafanyika kwa njia ya mawasiliano ya kielektroniki ljamua Mei 28, 2021 kuanzia saa sita adhuhuri ili kuangazia maswala yafuatayo ya kibashara;

1. Kuwataja mawakala na kuzingatia akida ya mkutano.
2. Kusoma notisi ya kuitishwa kwa mkutano.
3. Kupokea na endapo itaidhinishwa, kupitisha mizania iliyokaguliwa na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2020 pamoja na ripoti kutoka kwa mwenyekiti, wakurugenzi na mkaguzi wa pesa.
4. Kutambua kwamba wakurugenzi hawatoi pendekezo la kutolewa kwa malipo yoyote ya mgawo wa faida kwa kipindi cha mwaka uliomalizika Desemba 31, 2020.
5. Kuwachagua wakurugenzi:
 - a) Bi Gladys Karuri anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za ushirika wa makampuni na hajitokezi ili kuchaguliwa tena.
 - b) Dkt. Kaushik Manek anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za ushirika wa makampuni na ingawa hali inamruhusu, hajitokezi ili kuchaguliwa tena.
 - c) Bw. Adan Mohammed anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za ushirika wa makampuni na kwa kuwa hali inamruhusu hajitokezi ili kuchaguliwa tena.
6. Kuzingatia na endapo itaonekana kuwa sawa, kuwaamuru wakurugenzi kuteua wakurugenzi wa ziada wa ukaguzi wa pesa wa kujitegemea ili kuwa wanachama kwenye kamati ya halmashauri ya kundi ya ukaguzi wa pesa na athari.
7. Kupitisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2020.
8. Kuteua PricewaterhouseCoopers LLP kuwa wakaguzi wa pesa za kampuni kwa mujibu wa sehemu ya 721 ya sheria za kampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua kiwango cha marupurupu ya wahasibu kufungamana na sehemu ya 724 ya sheria za makampuni zilizotajwa.

Shughuli Maalum:

9. Kuzingatia, na endapo itaonekana kuwa sawa, kupitisha azimio maalum kwa mujibu wa sehemu ya 22 ya sheria za makampuni ya mwaka 2015, kufanya marekebisho hati ya ushirika ya kampuni ili kuwa sawa na sheria za kampuni kifungu nambari 17 ya mwaka 2015 pamoja na Halmashauri ya soko la hisa kuhusu taratibu za maadili bora ya usimamizi kwa utoaji dhamana za hisa kwa umma na utekelezaji wa uongozi bora na kuthibitisha na kupitisha uchapishaji wa nakala nzima ya azimio lililopendekezwa kwenye wavuti wa kampuni www.hfgroup.co.ke ili kwamba azimio hilo maalum liweze kuanza kutumika kana kwamba nukuu nzima ilikuwa imewekwa kwenye notisi ya mkutano mkuu wa pamoja wa Mwaka.
10. Kuzingatia na endapo itaoneka kuwa sawa, kukubali azimio maalumu kufungamana na sehemu ya 22 ya sheria za kampuni ya mwaka 2015 ili kupitisha hati ya ushirika wa kampuni iliyofanyiwa marekebisho.
11. Kuzingatia shughuli nyingine zozote ambazo notisi yake itakuwa imetolewa mapema.

Kwa Amri ya Halmashauri



Regina Anyika

Katibu wa Kampuni
 Slp 30088, GPO 00100
 Nairobi
 Tarehe: Mei 6, 2021

Nukuu:

Notisi Kuhusu M^{ku}tano M^{ku}u wa Pamoja wa Mwaka (Inaendelea)

1. Wanahisa weny^e nia kushiriki m^{ku}tano wajisajili kuhudhuria m^{ku}tano m^{ku}u wa pamoja wa mwaka kwa kupiga simu nambari ***483*251#** k^upitia laini zao za Safaricom au ***483*251#** k^unye laini zao za Airtel na Telkom na kufuata hatua za usajili. Wanahisa hawatatozwa gharama yoyote kwa usajili kama huo.
2. Ili kukamilisha hatua za usajili, wanhisa watahitajika kuonyesha nambari zao za kitambulisho cha uraia/ paspoti zilizotumika wakati wa ununuzi wa hisa zao au nambari zao za akaunti ya CDSC. Ili kupata usaidizi, wanahisa wanaweza kupiga simu k^upitia nambari ya usadizi **(+254) 709 170 000** kuanzia **saa tatu asubuhi** hadi **saa tisa alasiri** siku za **Jumatatu** hadi **Ijumaa**. Wanahisa walio nje ya Kenya wapige simu k^upitia nambari ya usaidizi wakati wa usajili
3. Usajili wa m^{ku}tano wa pamoja wa mwaka utaanza **Alhamisi Mei 6 2021** saa **tatu** asubuhi na kufungwa **Jumatano Mei 26, 2021** saa **tano asubuhi**. Wanahisa hawataweza kujisajili baada ya muda huu k^upita.
4. Kwa mujibu wa sehemu ya 160 ya sheria za ushirika wa makampuni, stakabadhi zifuatazo zinaweza kukaguliwa k^upitia wavuti wa kampuni www.hfgroup.co.ke **(a)** nakala ya notisi hii na fomu ya uwakala **(b)** ripoti ya mwaka ya kampuni na taarifa za matumizi ya pesa zilizokaguliwa kwa kipindi cha mwaka uliomalizika **Desemba 31, 2020; (c)** Vifungu vya sheria za kampuni vilivyofanyiwa marekebisho na k^upitishwa kwa matumizi.
5. Mwanahisa yeyote aliye na uwezo kuhudhuria na kupiga kura wakati wa m^{ku}tano wa pamoja wa mwaka ana uhuru kumteua wakala kuhudhuria na kupiga kura hiyo kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mwanachama wa kampuni.
6. Fomu ya uwakala imeambatishwa na ripoti hii ya mwaka. Fomu hii ya uwakala inaweza pia kupatikana k^upitia wavuti wa kampuni; www.hfgroup.co.ke au Image Registrars Limited Absa Towers (Zamani Barclays Plaza), orofa ya 5, Loita Street, S.L.P 9287 – 00100, Nairobi, Kenya Wanahisa ambao wanapendekeza kutohudhuria m^{ku}tano wa pamoja wa mwaka wanaombwa kujaza fomu ya uwakala na kuirejesha kwa image Registrars Limited au k^upitia ofisi ya kampuni iliyosajiliwa na kupokelewa kabla au ifikiapo **Jumatano Mei 26, 2021** saa **tano asubuhi**.
7. Fomu ya uwakala iliyotiwa sahihi kikamilifu inaweza kutumwa k^upitia barua pepe info@image.co.ke kwa mfumo wa PDF. Ni lazima kwa fomu ya uwakala iwe imetiwa sahihi na mwenye kuteua au wakala wake kwa njia ya kuandika. Endapo anayeteua ni shirika, nakala inayomteua wakala iwe imepigwa mhuri wa kampuni au kutiwa sahihi na afisa aliyeidhinishwa na wakili wa shirika kama hilo.
8. Wanahisa wanaotaka kuuliza maswali yoyote au ufanuzi kuhusiana na m^{ku}tano wa pamoja wa mwaka wanaweza kufanya hivyo kabla ya **Jumatano Mei 26, 2021** saa **tano asubuhi**. **(a)** kutuma maswali waliyoandika kwa agmquestions@hfgroup.co.ke au **(b)** ikiwezekana kuwasilisha kwa njia ya moja kwa moja au kutuma kwa njia ya posta pamoja na anwani ya kutuma majibu au anwani ya barua pepe kwa ofisi ya kampuni iliyosajiliwa au S.L.P 30000 – 00100, Nairobi, au kwa ofisi za Image Registrars k^upitia anwani zilizotajwa hapo juu. **(c)** wanahisa ambao watakuwa wamejisajili kuhudhuria m^{ku}tano wataweza kuuliza maswali k^upitia ujumbe mfupi kwa kupiga nambari ya USSD iliy^e hapo juu na kufanya chaguo la (uliza swalii) k^unye kama iliyoelekezwa **(d)** Wakati wa m^{ku}tano wa pamoja wa Mwaka, wanahisa wanaweza kutuma maswali yao kwa kubonyeza kidude “questions” k^unye kiunganishi chao cha moja kwa moja.
- Ni lazima kwa wanahisa kutoa maelezo yao kamili (majina kamili, nambari ya kitambulisho/ akaunti ya CDSC) wakati wanapotuma maswali yao au ufanuzi.
- Wakurugenzi wa kampuni watatoa majibu yaliyoandikwa kuhusu maswali yaliyopokelewa k^upitia anwani ya majibu , posta au barua pepe iliyotolewa na mwanahisa saa 12 kabla ya kuanza kwa m^{ku}tano wa pamoja wa mwaka. Orodha kamili ya maswali yaliyopokewa na majibu yatachapishwa k^upitia wavuti wa kampuni saa 12 kabla ya kuanza kwa m^{ku}tano m^{ku}u wa pamoja wa mwaka.
9. Wanahisa waliosajiliwa watapokea ujumbe wa SMS mara moja ukiwa na maelezo k^upitia nambari zao za simu zilizosajiliwa kuwaarifu kutoa kuchagua na kupendekeza maazimio yaliyopendekezwa k^unye notisi.

Notisi Kuhusu M^kutano M^kuu wa Pamoja wa Mwaka

10. M^kutano wa pamoja wa mwaka utaendeshwa kwa njia ya moja kwa moja (stream live) kupitia kiunganishi ambacho kitatolewa kwa wanahisa wote ambao watakuwa wamejisajili kushiriki m^kutano huo. Wanahisa waliosajiliwa kikamilifu pamoja na mawakala watapokea ujumbe mfupi (SMS/USSD) kupitia nambari zao za simu zilizosajiliwa saa 24 kabla ya kuanza kwa M^kutano wa pamoja wa mwaka kuwakumbusha kuhusu m^kutano. Ujumbe wa pili wa SMS/USSD utatumwa saa moja kabla ya kuanza kwa m^kutano kuwakumbusha kwamba m^kutano wa pamoja wa mwaka utaanza kwa muda wa saa moja ijayo na kuwapa kiunganishi ili kufuatilia matukio moja kwa moja.
11. Wanahisa na mawakala ambao wamejisajili kuhudhuria m^kutano a pamoja wa mwaka wanaweza kufuatilia matukio moja kwa moja, kusoma agenda na kupiga kura (watakaposhauriwa na mwenyekiti) kupitia njia ya USSD.
12. Matokeo ya maazimio yaliyopitishwa yatachapishwa kupitia wavuti wa kampuni ambao ni www.hfgroup.co.ke chini ya muda wa saa 48 baada ya kukamilika kwa m^kutano m^kuu wa pamoja wa mwaka kwenye wavuti wa kampuni.

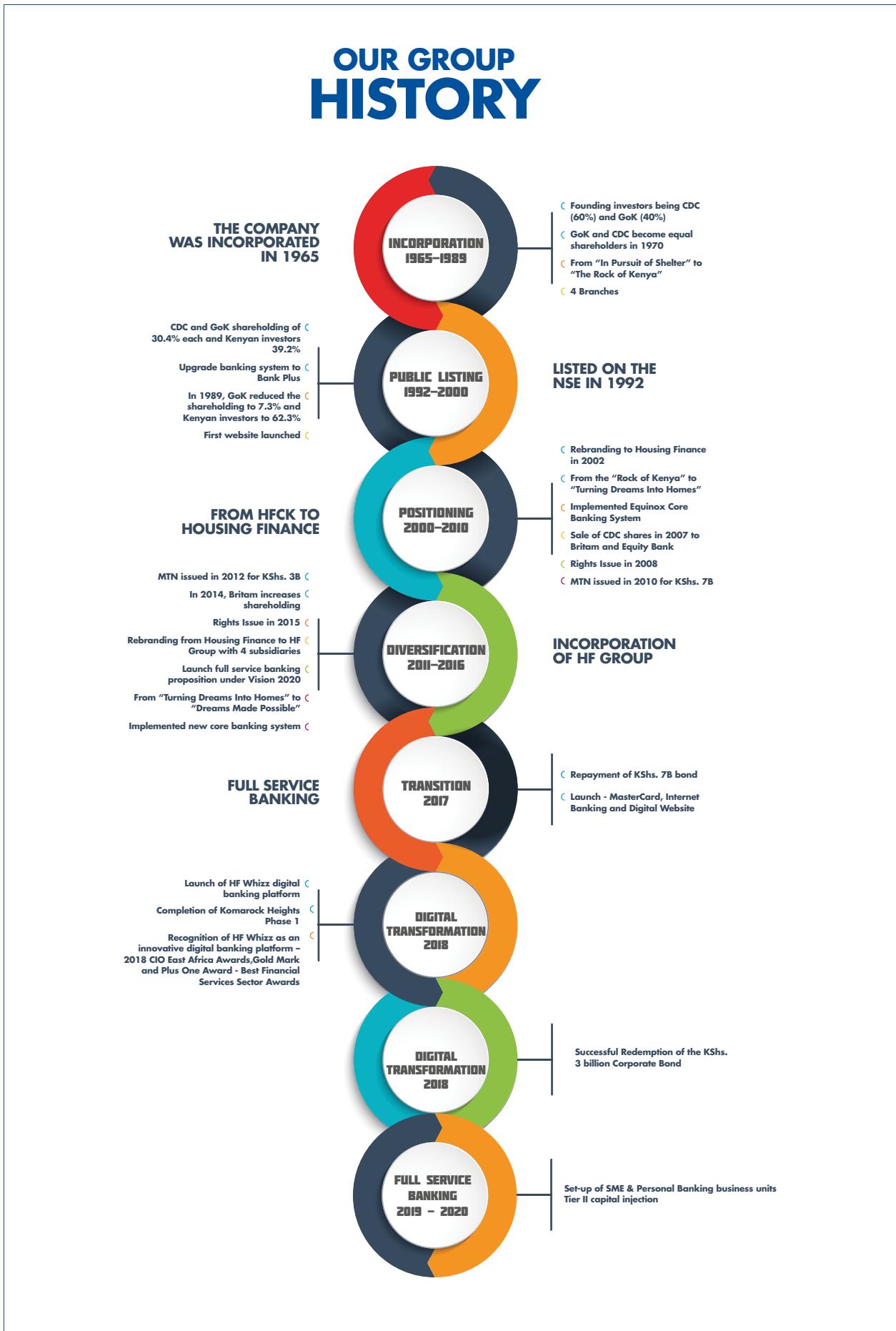
Group Overview

HF Group Plc, was registered as a non – operating holding company (under the Banking Act Cap.488), regulated by the Central Bank of Kenya (CBK) in August 2015. The holding company oversees the operations of the Group subsidiaries, which include HFC, HF Insurance Agency, HF Development and Investment (HFDI) and the HF Foundation. The Group structure was set up to enhance corporate governance, provide oversight in management of the subsidiaries and ensure optimal growth at both Group and subsidiary levels.

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

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

Group Overview (Continued)



Group Overview (Continued)

Mission and Vision



Where we are going

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

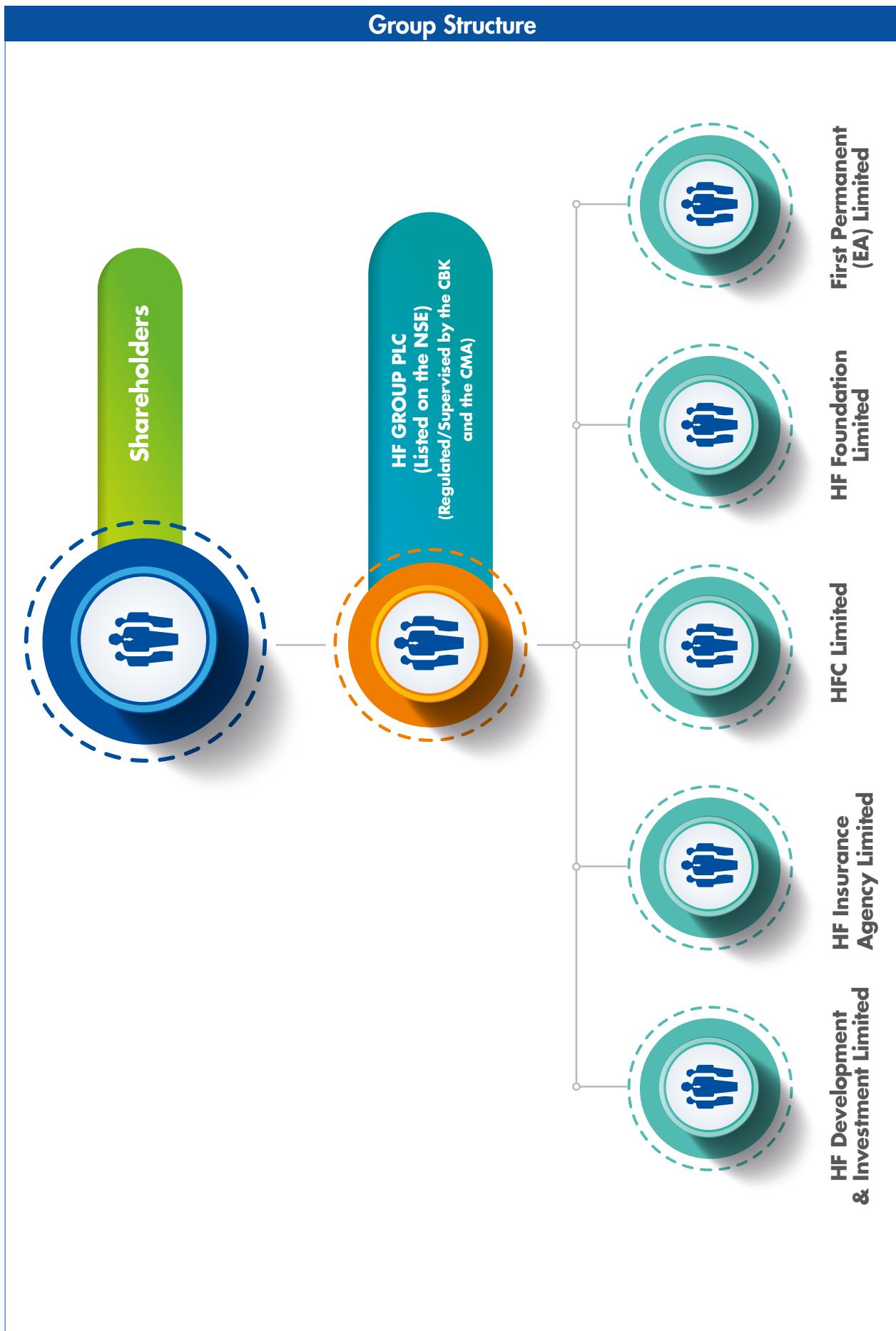


Our non-negotiable commitments

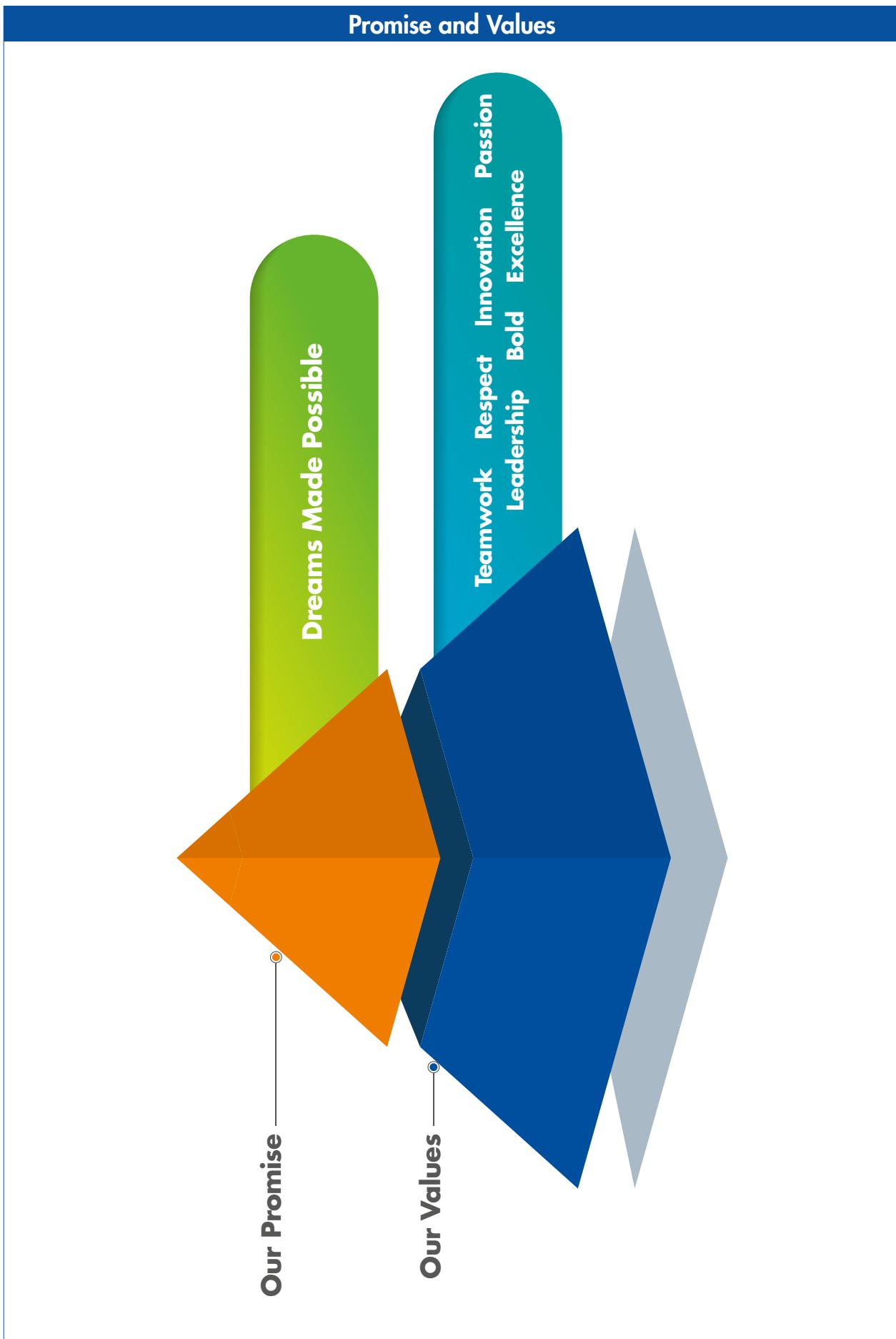
We will be the leading **integrated solutions enabler** for the property industry.

We will offer innovative products and services, delivered under one roof by exceptionally committed people to enhance shareholder value. We will operate across the property value-chain as suppliers and financiers that offer unique solutions to all while being environmentally responsible.

Group Overview (Continued)



Group Overview (Continued)



Group Overview (Continued)

Our Turnaround Strategy

RESTORE

- A. NPL Management
- B. Cost rationalization
- C. Recapture mortgage leadership
- D. Build retail liquidity engine anchored on Retail and IB
- E. Solidify the Capital Base
- F. Restructure the Group for optimal efficiency

DEFEND

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

GROW

- L. Radically improve sales performance
- M. Expand to new banking segments: Diaspora banking, SME Banking, Institutional Banking, Treasury as a business and personal Banking
- N. Build a digital Bank
- O. Transform into a high performance organization
- P. Build a direct sales driven deposit mobilization unit



HF WHIZZ SCHOOL FEES SOLUTION

**Instant transfer of
payments to school
account from:**

- Your HF Account
- M-PESA
- Instant school fees loan

To get started:

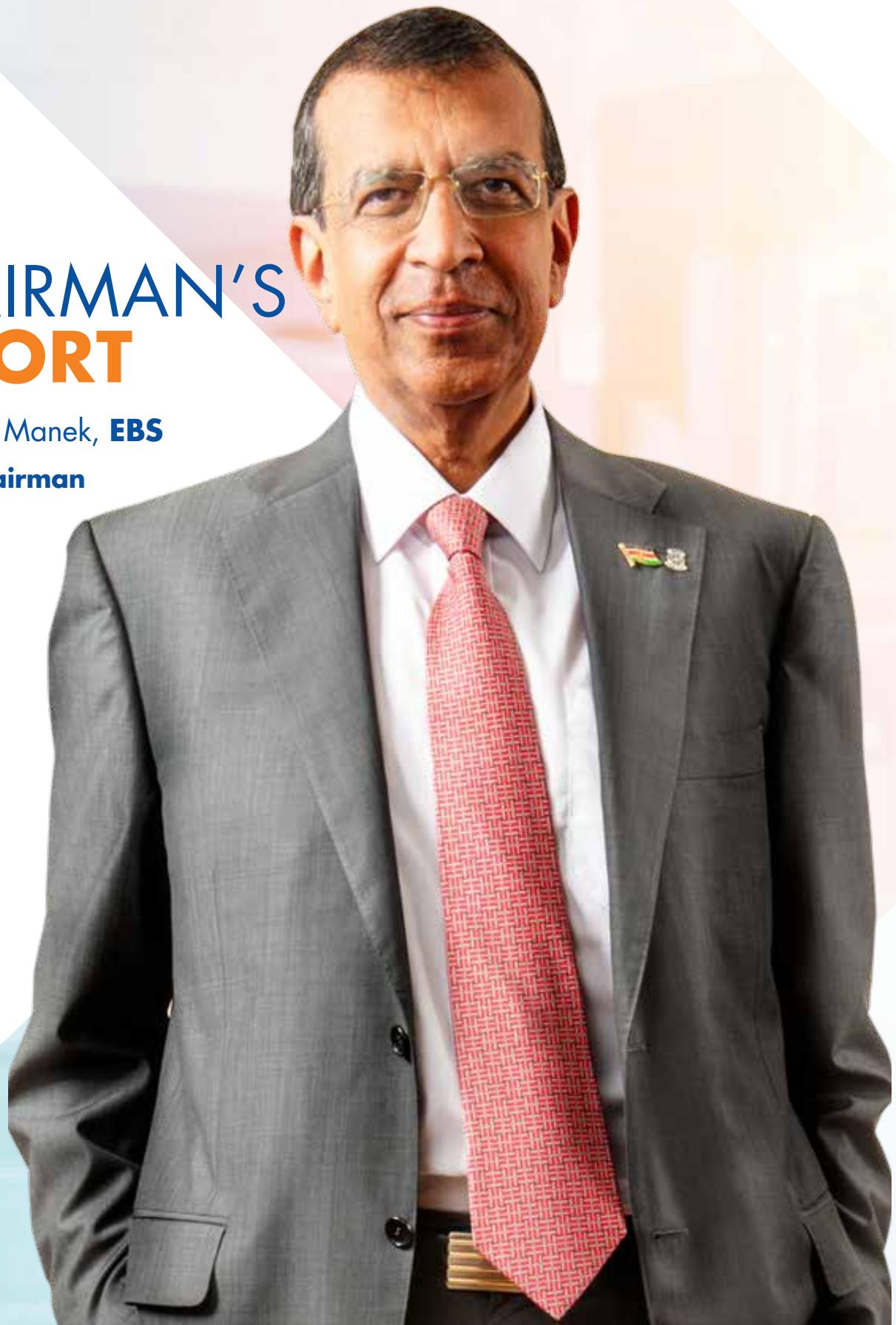
Download the HF Whizz App on [Download on the App Store](#) or [Android App on Google Play](#) and select the 'School Fees' icon.

Terms and conditions apply.

CHAIRMAN'S REPORT

Dr. Kaushik Manek, **EBS**

Interim Chairman



Chairman's Statement

Dear Shareholders,

I welcome you to the 55th Annual General Meeting of the Group. I am humbled to serve as your chairman albeit in an interim capacity. The Group kicked off the year on a high note as evidenced by the 2020 Q1 performance which reflected a positive trajectory. However, in March of the same year, the first case of COVID-19 was reported in Kenya and thereafter the pandemic took a toll on the economy. The decelerating economic growth had ripple effects across industry and our business was not spared. This turn of events derailed the Group's gains in turning around the business. The Board of Directors has since been working closely with the management team to safeguard business continuity.

Economic Overview

The economy decelerated as a result of the global pandemic and was characterized by interest rate volatilities, growth in inflation and a weakening shilling. The Central Bank Rate (CBR) remained flat to enable the country's economy to recover. This slowdown in economic growth had a significant impact on the banking industry. Given the pandemic induced economic shock, the industry registered an upsurge in non-performing loans and a tightening of credit market conditions. Banks put in place buffers to support customers to navigate through the pandemic. According to statistics from the Central Bank of Kenya, the banking sector restructured loans worth Shs. 1.63 Trillion being 54.2 percent of the total banking sector loan book by the end of December 2020.

2021 is projected to see an economic rebound given developments in the corona virus vaccines as well as other interventions to contain the pandemic. We anticipate that the gains from this will have a positive impact on our business performance in the medium to long term.

Business Transformation: Strategy Extension

In 2019, the Board approved a two-year business strategy that was poised to transform the business into a full service bank and accelerate performance to profitability. However, the global pandemic side-tracked the strategy which was set to mature at the end of 2020. Given this adverse impact of the pandemic, the Board of Directors made a decision

to extend the strategy further by one year to enable recovery of the lost momentum. The strategy is geared towards transforming the business into a full service bank in order to meet the holistic needs of our customers and deliver greater value to all stakeholders. It is the expectation of the Board that by the end of 2022, given the measures put in place, the strategy will pay off and the business will have turned to profitability.

Supporting customers during the pandemic

We believe that the true test of a partner is demonstrated during tough times. Due to the adverse effects of the pandemic on the economy, a number of our customers lost their livelihoods and needed support to navigate through the tough times. The business successfully restructured loans totalling to Shs. 15 billion.

Additional Capital by Key Shareholder

During the period, the Board gave approval for additional capital in the form of debt from our key shareholder, Britam Holdings Plc which was received on 1st February 2021. This capital of Shs. 1 billion, is set to power business growth and specifically the diversification into full service banking. The Group has over the years benefited from the support of Britam Holdings Plc and this gesture is also testament to the viability of the Group. Whilst the Group's overall financial performance was side-tracked by the pandemic, the full service bank proposition has taken off; SME and Personal banking business units have been set up and are already making a contribution to the business. During the period deposits grew by Shs. 3 billion and customer numbers by 25 percent.

Corporate Governance

In 2020, the Chair of the Group Board of Directors, Dr. Steve Mainda, stepped down in line with the Board Charter and the Code of Corporate Governance practices for issuers of Securities to the Public 2015 that set out a maximum tenure of service for Directors. Under his stewardship the Group has grown and achieved several milestones. These include the successful rights issue held in 2015; redemption of tranche I and II of the Shs.10 billion Corporate Bond in 2017 and 2019 respectively; and the rebrand and reorganization of the Group to create a non-operating holding company. On behalf of the Board

Chairman's Statement For The Year Ended 31 December 2020 (Continued)

of Directors, I would like to express gratitude to Dr Mainda for his invaluable contribution to the Group over the years. The Group has embarked on the process of recruiting a substantive Chairperson. In the interim, the Board continues to enforce the requisite business continuity and governance structures to ensure that its oversight role is not compromised.

During the period, we had changes at the subsidiary boards level, with two new members joining the HFC Limited Board. Mr Adan Mohammed who also serves on the Group Board joined the HFC Limited Board in October, while Ms. Dorcas Muthoni was onboarded to the HFC Limited Board in May of the same year. The two directors have a mix of expertise and experience that will enhance the Board diversity. The details on the various Board compositions are provided within this report.

As part of the Board's continuous skills development, and adherence to the Capital Markets Authority (CMA) Corporate Governance code, the Directors participated in the Stewardship code and the Fiduciary Duties training.

The Board continues to demonstrate its commitment to good governance and sustainability. CMA

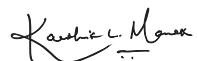
conducted a comprehensive assessment of the Group's Corporate Governance per the code of Corporate Governance practices for issuers of securities to the public (CG Code) and was awarded a score of "Leadership".

Conclusion

On behalf of the Board of Directors, I would like to express gratitude to all our shareholders for your support as we navigate the storms occasioned by the pandemic. As a Board, we are very clear that we are building a business for posterity. The Group is resilient and despite the headwinds, the Board is working closely with the management team to ensure that the business turns around and delivers shared value.

Dr Kaushik Manek

Interim Board Chairman



Date: 31st March 2021

Taarifa Kutoka Kwa Mwenyekiti Kwa Kipindi Cha Mwaka Uliomalizika Desemba 31 2020

Kwa Wanahisa,

Nawakaribisha kwenye mukutano wa 55 wa pamoja wa mwaka wa kundi. Ni fahari yangu kuwahudumia kama mwenyekiti wenu kwa kipindi cha mpito. Kundi lilianza kipindi cha mwaka kwa kasi kama ilivyodhihirishwa kupitia matokeo ya muhula wa kwanza na kutoa ishara njema za ufanisi. Hata hivyo, mwezi Machi mwaka huo, kisa cha kwanza cha maambukizi ya homa ya COVID-19 kiliripotiwa nchini Kenya. Hatimaye, janga hilo liliadhiri vibaya hali ya uchumi. Kushuka kwa kasi ya ukuaji wa uchumi kulikuwa na athari zake kote na biashara yetu haikusazwa. Mabadiliko haya ya hali yalichelewesha faida za kundi kubadili hali ya biashara. Halmashauri ya wakurugenzi imekuwa ikifanya kazi kwa karibu na timu ya usimamizi ili kulinda mwendelezo wa biashara.

Mtazamo wa biashara

Uchumi ulipunguza kasi ya ukuaji kutohaka na janga la kimataifa na kuchangiwa sana na mabadiliko ya viwango vya riba, kuongezeka kwa mfumuko wa bei za bidhaa na shilingi iliyopunguwa thamani. Kiwango cha riba cha benki kuu (CBR) kilibaki kuwa sawa ili kuwezesha hali ya uchumi wa taifa kurejea hali yake. Kupungua kwa kasi ya ukuaji wa uchumi kulipelekea kuwepo athari katika sekta ya benki. Kwa kutambua taharuki ya janga hili kiuchumi, biashara ilisajili ongezeko la madeni yasiyolipika na kukazwa kwa masharti ya soko la utoaji mikopo. Benki zilizindua masharti nafuu kuwasaidia wateja kupitia mapito magumu ya janga hili. Kwa mujibu wa takwimu kutohaka kwa benki kuu ya Kenya, sekta ya benki iliyofanya marekebisho mikopo ya thamani ya Ksh. Trilioni 1.63 hii ikiwa ni asilimia 54.2 (54.2%) ya jumla ya mikopo katika biashara ya benki kufikia Desemba 2020.

Inabashiriwa kwamba, mwaka 2021 utashuhudia kuinuka kwa uchumi ikizingatiwa uwepo wa chanjo ya Corona pamoja na mbinu nyinginezo za kukabiliana na janga hili. Tunatarajia kuwa manufaa yaliyopatikana kutohaka na hali hii yatakuwa na athari zuri kwa matokeo ya bishara kipindi cha muda wa kadri na mrefu.

Mabadiliko ya biashara: kuongezwa kwa muda wa mkakati

Mwaka 2019, halmashauri ilipitisha mkakati wa miaka 2 ambao ulitarajiwa kubadili hali ya biashara na kuwa benki kamili inayotoa huduma

na kuchoea matokeo kuwa faida. Hata hivyo, janga la kimataifa lilikwaza mkakati huu uliotarajiwa kukamilika mwaka 2020. Hata hivyo, kutohaka na athari hii kubwa ya janga, halmashauri ya wakurugenzi ilifanya uamuzi kuongeza muda wa mkakati kwa kipindi cha mwaka mmoja ili kuwezesha kurejelea kwa kasi iliyopotea. Mkakati huu unakusudiwa kubadili biashara na kuwa benki kamili inayotoa huduma kuafikiana na mahitaji ya wateja wetu na wakati huo kuzalisha thamani kwa wanahisa wote. Ni matumaini ya halmashauri kwamba, ifikiapo mwisho wa mwaka 2022 na pia kutohaka na hatua zilizowekwa, mkakati huu utazaa matunda na biashara kurejelea kuzalisha faida.

Kuwasaidia wateja wakati wa kipindi cha janga

Tunaamini kwamba urafiki wa kweli hudhihirika wakati wa hali ngumu. Kutohaka na athari kubwa za janga kwa uchumi, idadi fulani ya wateja wetu ilipoteza riziki yao na ilihitaji msaada kupambana na mapito nyakati ngumu. Biashara ilifaulu kufanya mabadiliko mikopo iliyofikia Shillingi Bilioni 15.

Mtaji zaidi kutoka kwa wanahisa muhimu

Wakati wa kipindi hiki, halmashauri ilitoa idhini kuongezwa mtaji zaidi kwa mfumo wa mkopo kutohaka mwanahisa wetu maalum Britam Holding Plc mnamo 1 Februari 2021. Mtaji huu wa Shillingi bilioni 1 unanuiwa kuchoea ukuaji wa biashara na kuibadili kuwa benki kamili inayotoa huduma. Kwa kipindi cha miaka kadhaa, kundi limefaidi kutohaka na msaada wa Britam Holdings Plc na pia ni ishara ya ushahidi wa uwepo wa kundi. Wakati matokeo yote ya kundi yalikwamizwa na janga, pendekezo la benki kamili limeanza; vitengo vya chumi ndogo ndogo (SME) na vile vya huduma za kibnafsi vimeanzishwa na tayari vinatoa mchango wake kwa ukuaji wa biashara. Wakati wa kipindi hiki, akiba ziliimarika kwa shilingi bilioni 3 na idadi ya wateja kuongezeka kwa asilimia 25 (25%)

Usimamizi wa shirika

Mwaka 2020, mwenyekiti wa halmashauri ya wakurugenzi Dkt. Steve Maina alijuzulu kwa mujibu wa kanuni za halmashauri kuhusu maadili ya usimamizi wa mashirika ya utoaji wa dhamana za umma ya mwaka 2015 ambayo inafafanua kipindi kamili cha utoaji huduma kwa wakurugenzi.

Taarifa Kutoka kwa Mwenyekiti kwa Kipindi Cha Mwaka Uliomalizika Desemba 31 2020 (Inaendelea)

Chini ya uongozi wake, kundi limekua na kupata ufanisi mbali mbali. Hii inahusu ufanikishaji wa utoaji wa hisa za dhamana uliofanyika mwaka 2015; kutolewa kwa awamu ya kwanza na ya pili ya bilioni 10 za dhamana za shirika mwaka 2017 na 2019 mtawalia; na kubadilisha sura na kufanya mabadliko kundi ili kubuni kitengo tanzu cha kampuni kisicholeta faida mwaka 2015. Kwa niaba ya Halmashauri ya wakurugenzi ningependa kutoa shukrani zangu kwa Dkt. Mainda kwa mchango wake mahsusii kwa kundi kipindi cha miaka iliyopita. Kundi limerejelea harakati kutafuta na kupata mrithi wake. Kwa kipindi cha mpito, halmashauri inazidi kushinikiza mbinu zinazohitajika za kibashara na miundo ya utawala kuhakikisha kuwa jukumu lake la usimamizi haliathiriki

Wakati wa kipindi hiki, tulikuwa na mabadliko katika viwango vya usimamizi wa kampuni tanzu huku wanachama wawili wakijiunga na halmashauri ya HFC Limited. Bw. Adan Mohammed ambaye pia anahudumu kwenye halmashauri ya kundi alijiunga na halmashauri ya HFC mwezi Oktoba huku Bi. Dorcas Muthioni akijiunga nayo mwezi Mei mwaka huo. Wakurugenzi hawa wana tajriba na ujuzi aina mbali mbali utakaofaidi utekelezaji kazi wa Halmashauri. Ufafanuzi wa kina kuhusu halmashauri mbali mbali umetolewa kupitia ripoti hii.

Kama sehemu moja ya kuendeleza utoaji mafunzo ya kitaaluma na kwa kuzingatia kanuni za masoko ya hisa (CMA) kuhusu usimamizi bora wa mashirika, wakurugenzi walishiriki mafunzo kuhusu utawala na mengine yanayohusu majukumu ya usimamizi.

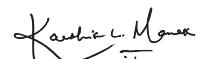
Halmashauri inazidi kudhihirisha uwajibikaji wake katika utawala bora na udumishaji. Halmashauri ya masoko (CMA) ilifanya tathmini ya kina kuhusu utawala bora kwa mujibu wa taratibu za usimamizi wa mashirika katika utoaji wa hisa za dhamana kwa umma (CG Code) na kupokea tuzo la usimamizi.

Hitimisho

Kwa niaba ya halmashauri ya wakurugenzi, ningependa kutoa shukrani kwa wanahisa kutokana na mchango wenu huku tunapopambana na dhoruba zilizoletwa na janga hili la COVID-19. Kama wakurugenzi, tuna hakika kuwa tunajenga biashara la kizazi. Licha ya mawimbi, Kundi lina ujasiri na, halmashauri inafanya kazi kwa karibu na timu ya usimamizi kuhakikisha inaleta mabadliko na kuzalisha thamani.

Dkt. Kaushik Manek

Kaimu Mwenyekiti



Tarehe: 31 Machi 2021



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GROUP CHIEF EXECUTIVE OFFICER'S **STATEMENT**

Robert Kibaara
Group Chief Executive Officer



Group Chief Executive Officer's Statement For The Year Ended 31 December 2020

Dear Shareholders,

I am pleased to join you for the 55th Annual General Meeting of HF Group Plc. We set off 2020 confident that the business would be profitable by the end of the year, given that the period would coincide with the maturity of the Group's two years' business transformation strategy. The core pillars of our strategy include diversification to a full service bank with established business units in SME, Institutional Banking and Personal Banking; deepening customer relationships & experience; and building a digital bank. We worked painstakingly to put in place the right building blocks and by quarter 1, 2020 the performance was reflective of these efforts. However, the challenging economic conditions occasioned by the Covid-19 pandemic affected our business adversely and slowed down our performance.

Business Environment

The Covid-19 Pandemic has negatively impacted the economy causing unprecedented disruptions of global supply chains, impacting the performance of the financial markets and causing general volatility in major currencies, among other issues. The business environment was characterised by regulatory focus on safeguarding sustained industry stability, decline in asset quality and shift to a low touch economy. The banking industry percentage of gross non-performing loans to gross loans increased to 14.1% in December 2020 from 12% in December 2019 on the back of the pandemic which saw a rise in job losses and business slow down. The real estate sector which forms a big part of the Group's historical value chain was largely affected by the pandemic and this had a ripple effect on our performance. The shilling had a bearish run against most of the major currencies. The Central Bank of Kenya Monetary Policy Committee retained the Central Bank Rate (CBR) at 7 percent.

Impact of Covid-19 and adapting to the new normal

A key business challenge given the disruptive nature of the pandemic was to ensure business continuity. We sensitized staff on the key symptoms of the virus and proactively enforced all the safety and health measures recommended by the Ministry of Health and the World Health Organization including regular fumigation of our premises, provision of sanitizers and temperature checks. To observe

social distancing flexi work policy was enforced whereby vulnerable and non-critical staff were provided with the relevant technology for effective remote working. Regular communication was and continues to be sent out to customers encouraging digital banking as a safety measure. The Group had 84 staff and dependents directly affected by the virus, all of whom were put under home based care and follow up by medical personnel until recovery.

With the pandemic inadvertently affecting our customers, the Group held a series of virtual forums to empower customers on how to navigate through this. Further the business provided loan payment moratoriums and restructures totalling Shs. 15 billion to accommodate the borrowers income downtime. The business also saw a decline in transactional income as a result of the concession on mobile banking fees.

Financial Performance

During the period, we issued a profit warning as we projected a substantial reduction in our earnings as a result of the pandemic induced slowdown in real estate sector credit growth and its impact on our non – performing loans take out initiatives. The performance highlights include the below:

- Group Loss before tax of Shs. 1.8 billion on the back of provisions made on Covid related loan restructures, reduced interest income, one off litigation and redundancy expenses.
- Deposits grew by Shs. 3 billion from Shs. 38 billion in 2019 to Shs. 41 billion in 2020 as a result of aggressive retail deposit mobilization.
- Interest expense reduced by Shs. 0.7 billion from Shs. 3.1 billion to Shs. 2.4 billion. This is attributed to the expensive deposits retired during the period as well as reduction in borrowings.
- Non – performing loans reduced by Shs. 1.5 billion from Shs. 12.3 billion to Shs. 10.8 billion.

Investment in a digital led full service bank

The significance of low touch economy cannot be over emphasized in today's world, with customer purchase and transaction trends having shifted in favour of digital channels. As a business, we accelerated our digital banking strategy and investment in technology to leverage the emerging

Group CEO Statement For The Year Ended 31 December 2020 (Continued)

opportunities. We continue to innovate and bolster our digital offering in line with this low touch economy. During the period, we revamped the HF Whizz digital banking channels: mobile banking, online banking and WhatsApp banking, to provide an enhanced self-service experience including enabling customers to view all their deposit and loan balances on the app as well as instant access of deposit statements. We invested in technology and rolled out digital products to enhance real time and on the go access to our services. These include International Money Transfer services which enables our diaspora customers to seamlessly transfer money from wherever they are in the world into any HF account instantly; virtual marketplace which currently features our property offering but is poised to serve as a portal for buyers and sellers to connect with each other. We have also introduced a digital collections portal for businesses which is being utilized by various SMEs such as schools for school fees payments and general merchants to settle their digital payments with us. Transactions on our digital platforms have grown by 17.9 percent to 1.24million up from 1.05million transactions in 2019. We have also introduced a virtual "chat with an agent" on our WhatsApp platform to enhance customer engagement and real time resolution of queries. Further we have simplified the online banking user interface and are proactively engaging business customers to use this channel for their business transactions. Over 15,000 branch and virtual customers were also converted to full service digital banking through the year.

Business Restructure for optimal performance

The Group has adjusted the sails to surmount the prevailing headwinds and ensure business continuity. One of the measures taken is cost containment which has seen the business review and make savings on routine operational expenditure. In quarter 4, the business conducted a staff voluntary early retirement and redundancy program whose intention was to streamline roles and build a nimble team that is aligned to our full service banking strategy. This exercise reduced head count by 5 percent from 479 to 456. Management ensured that the impacted employees were accorded the relevant support and counselling for a seamless transition.

The management is committed to building a high performance organization anchored on capacity building through coaching and mentorship programmes as well as rigorous performance tracking and management. We have initiated a Group – wide mentoring programme whose intention is to nurture high performing professionals.

Extension of the business turnaround strategy

In light of the operating environment witnessed in 2020, the Board of Directors mandated the management team to extend the business transformation strategy for a further period of one year. This is the proverbial last mile towards turning around our business to profitability. We have realigned the strategic objectives in line with the prevailing pandemic. Beyond the strategic pillars which we have been executing, the period saw heightened focus on strengthening the balance sheet and maintaining adequate capital ratios. We also look to grow the Group's asset book albeit with a risk based pricing model.

Additional Capital Injection to power growth

In December, the Board of Directors approved a subordinated capital injection of Shs. 1billion in form of debt from our key shareholder, Britam Holdings Plc. This capital will go towards powering business growth of our full service banking strategy particularly short term loans to business owners.

Building a "customer first" culture

We have made it our business to proactively engage customers and engineer solutions that are customer led and offer best in class user experience. This is a continuous process and is being reinforced with consistent customer engagement. We have made painstaking efforts to track and remedy issues raised by customers and make changes that enhance customer experience whilst unlocking opportunities for them. We believe that we are on the right track as reflected by our Net promoter score which grew from +39 in 2019 to +51 in 2021.

Group CEO Statement For The Year Ended 31 December 2020 (Continued)

Looking ahead

2021 presents an optimistic outlook, given the gains made in the fight against the pandemic; The vaccine breakthrough will have a significant impact on the economic rebound. The Group is however cognisant that this rebound will be a marathon, not a sprint and has calibrated the strategy accordingly to mitigate its impact. The management team has set out a clear road map that will turnaround the business to profitability in the medium term.

I wish to thank the Board of Directors for their steer and support, and staff members for the resilience

they have demonstrated in the eye of the storm. To you our esteemed shareholders, I am most grateful for the confidence you have bestowed on us. We are building a business for posterity, that will deliver shared value.

Robert Kibaara
Group Chief Executive Officer



Date: 31st March 2021

Taarifa Kutoka kwa Afisa Mkuu Mtendaji kwa Kipindi Cha Mwaka Uliomalizika Desemba 31 2020

Kwa wanahisa,

Nina furaha kuungana nanyi kwenye mkutano wa 55 wa pamoja wa mwaka wa HF Group Plc. Tulianza 2020 tukiwa na imani kwamba biashara italeta faida ifikiapo mwisho wa mwaka ikikumbukwa kwamba kipindi hicho kingelingana na kukomaa kwa mkakati wetu wa miaka 2 kuleta mabadiliko katika biashara. Nguzo muhimu ya mkakati wetu ni pamoja na upanuzi wa benki kamili inayotoa huduma kikiwemo kitengo kinachohudumia chumi ndogo ndogo, benki ya kitaasisi na ya kibnafsi; kuimarisha uhusiano na wateja na matarajio yao pamoja na kubuni benki ya kidijitali. Tulifanya kazi kwa bidii kujenga mitaa kipindi cha muhula wa kwanza mwaka 2020 na matokeo ya juhudi hizi yalioneckana. Hata hivyo, changamoto za mazingira ya biashara kutokana na janga la Covid-19 ziliathiri biashara na kudorora kwa matokeo yetu.

Mazingira ya Biashara

Janga la COVID-19 limeathiri vibaya uchumi na kupelekea kukatiza usambazaji wa bidhaa kimataifa, kuathiri matokeo ya masoko ya kifedha na kusababisha kushuka kwa thamani ya sarafu muhimu mionganii mwa mambo mengine. Mazingira ya biashara yalitegemea mtazamo wa masharti ya utawala yaliyoangazia kulinda uthabitwa biashara, kushuka kwa thamani ya ubora wa mali na kubadilisha hadi uchumi wa mapato ya chini. Asilimia ya sekta ya benki kuhusiana na mikopo isiyolipika iliongezeka na kufikia asilimia 14.1(14.1%) mwezi Desemba 2020 kutoka asilimia 12 (12%) Desemba 2019 kutokana na janga hili na kushuhudia kupotea kwa kazi na kuathirika kwa biashara na kushuka kwa kasi ya biashara. Sekta ya ujenzi wa nyumba ambayo imechukua nafasi kubwa ya thamani ya kihistoria kwa kundi iliathirika pakubwa kutokana na janga na kuathiri pakubwa matokeo yetu. Shilingi ilikuwa hafifu dhidi ya sarafu nyingi kuu. Kamati ya benki kuu ya Kenya kuhusu sera za fedha (Central Bank of Kenya Monetary Policy Committee-CBR) iliweka kiwango cha riba cha benki kuu kusalia katika asilimia 7 (7%).

Athari za janga la Covid-19 na kuzoea hali mpya

Changamoto kuu ya biashara ikizingatia hali ya mabadliko kutokana na janga ilikuwa ni kuhakikisha uendelevu wa biashara. Tuliwahamasisha wafanyakazi kuhusu dalili za virusi hivi na kuhakikisha matumizi kamili ya kanuni za usalama

na afya zilizopendekezwa na wizara ya afya pamoja na shirika la afya ulimwenguni ikiwemo ufukizaji dawa kwenye majengo yetu, usambazaji wa vitakasa na upimaji joto. Kanuni ya kuzingatia umbali baina ya mtu na mwininge ilizingatiwa ambapo wafanyakazi ambao wamo hatarini walipewa vifaa vya kiteklonolojia vinavyohitajika kuwawezesha kutekeleza kazi. Mawasiliiano ya mara kwa mara yalikuwepo na yatazidi kutumwa kwa wateja wetu kuwahimiza kutumia mfumo wa benki wa kidijiteli kama ulio salama. Kundi lilikuwa na wafanya 84 pamoja na jamii zao walioathirika moja kwa moja na virusi hivi. Wote walijitenga manyumbani na kufuutiliwa kwa karibu na maafisa wa matibabu hadi walipopona.

Huku janga likiathiri wateja wetu, kundi lilifanya misururu ya mikutano ya mbali ili kuwapa mafunzo jinsi wanavyoweza kujihami dhidi ya hali hii. Zaidi ya hayo, kampuni ilitoa mfumo nafuu wa ulipaji mikopo uliofikia bilioni 15 ili kuwakimu wakopaji ambao mapato yao yalishuka. Pia, biashara ilishuhududia kushuka kwa mapato kutokana na kupunguzwa kwa ada za matumizi ya huduma za benki kuititia simu za mkononi.

Matokeo ya fedha

Wakati wa kipindi hiki, tulitoa tahadhari ya kushuka kwa faida huku tukikadiria kupungua kwa kiasi kwa mapato kutokana na janga na kuchoea ukuaji wa wa utoaji wa mikopo ya ujenzi wa nyumba na mpango wa athari kwa mikopo isiyolipika. Videkezo vya matokeo yetu ni kama vifuatavyo;

- Faida kabla ya kundi kabla ya kutozwa ushuru ya Shillingi bilioni 1.8 kufungamana na maamuzi yaliyofanywa kutokana na mipango ya mikopo kutokana na janga la COVID-19, kupungua kwa mapato ya riba, madai na gharama za kupunguza idadi ya wafanyakazi.
- Akiba iliongezeka kwa Shillingi bilioni 3 kutoka Shillingi bilioni 38 mwaka 2019 hadi Shillingi bilioni 41 maka 2020 kutokana na hamasisho kali la uwekaji akiba.
- Gharama ya riba ilishuka kwa Shillingi bilioni 0.7 kutoka Shillingi bilioni 3.1 na kufikia Shillingi bilioni 2.4. Hii ilitokana na akiba za juu zilizolipwa wakati wa kipindi hiki cha Mwaka pamoja na kupungua kwa maombi ya mikopo.
- Mikopo isiyolipika ilishuka kwa Shillingi bilioni 1.5 kutoka Shillingi bilioni 12.3 hadi Shillingi bilioni 10.8.

Taarifa Kutoka kwa Afisa Mkuu Mtendaji kwa Kipindi Cha Mwaka Uliomalizika Desemba 31 2020 (Inaendelea)

Uwekezaji kwenye mfumo kamili wa kidijiteli wa utoaji huduma wa benki

Umuhimu wa dijiteti hauwezi kupuuzwa katika ulimwengu wa sasa huku shughuli za ununuzi na mienendo ya utekelezaji zikihama na kufaidi mbinu za mfumo huu. Kama biashara, tuliharakisha mkakati wetu wa kidijiteli wa benki na kuwekeza kwenye teknolojia hii ili kutumia vyema nafasi zinazojitokeza. Tunazidi kuvumbua na kuimarisha bidhaa zetu za kidijiteli ili kwenda sambamba na uchumi huu wa mapato ya chini. Wakati wa kipindi hiki, tuliiimarisha mifumo ya kidijiteli ya HF Whizz : huduma za benki kwa njia ya simu ya mkononi, huduma za benki kwa njia ya mtandao na mfumo wa WhatsApp, kutoa huduma zilizoimarishwa za kibnafsi ikiwemo kuwawezesha wateja kutazama masalio yao ya akiba na mikopo kupitia mtandao pamoja na kupokea taarifa zao kwa njia ya moja kwa moja. Tuliwekeza kwenye teknolojia na kuzindua bidhaa ili kuimarisha huduma za moja kwa moja na papo kwa hapo kufikia huduma zetu. Hii inahusu huduma za uhamishaji pesa kimataifa ya kigeni kuhamisha fedha moja kwa moja mahali walipo ulimwenguni hadi akaunti yoyote ya HF; eneo la soko bila kuonana ana kwa ana ambalo linaonyesha bidhaa zetu lakini linahudumu kama kituo cha wanunuzi na wauzaji kuanganishwa pamoja. Pia, tumezindua kituo cha ukusanyaji cha kidijiteli cha biashara ambazo bado zinatumiwa na chumi ndogo ndogo (SMEs) mbali mbali kama vile malipo ya karo za shule na wafanyabiashara kwa jumla ili kufanya malipo yao ya kidijiteli nasi. Utekelezaji wa huduma kupitia mfumo wetu wa kidijiteli umekua kwa asilimia 17.9 (17.9%) na kufikia milioni 1.24 kutoka milioni 1.05 mwaka 2019. Pia, tumeanzisha mfumo wa mawasiliano ya mbali kwa mbali "chat with an agent" kupitia mfumo wa njia ya WhatsApp kuimarisha ushirikishaji wa wateja na kutoa suluhu kuhusu maswala moja kwa moja. Zaidi ya hayo, tuimerahisisha sura ya huduma za benki kupitia mtandao wa kiteknolojia ili kuwawezesha wateja kutumia mfumo huu kutekeleza shughuli zao za kibashara. Zaidi ya wateja 15,000 kwenye matawi na wateja kwa njia isiyo ya kukutana walisajiliwa kutumia huduma kamili za kidijiteli za benki kipindi chote cha mwaka.

Mabadiliko ya biashara ili kuimarisha matokeo

Kundi limefanyia mabadiliko mikondo yake ili kukabili ana na mawimbi yaliyoko na kuhakikisha kuwa biashara inaendelea. Mojawapo wa hatua zilizochukuliwa ni kukabili ana na gharama ambayo imefanyiwa marekebisho kuokoa pesa kwenye gharama za utekelezaji. Wakati wa kipindi cha awamu ya nne, kundi lilitekeleza mpango wa wafanyakazi kustaafu mapema kwa hiari na upungazaji idadi ya wahudumu amba mafhumuni yake yalikuwa kuweka sawa majukumu na kubuni timu inayoenda sambamba na mkakati wetu wa utoaji huduma kamili za benki. Zoezi hili lilipunguza idadi ya wafanyakazi kwa asilimia tano (5%) kutoka 479 hadi 456. Usimamizi ulihakikisha kwamba wafanyakazi walioathirika walipewa msaada unaohitajika na ushauri kutokeana na mabadiliko haya.

Usimamizi umejitelea kujenga shirika linalotoa matokeo ya hali ya juu kwa kuimarisha uwezo kupitia mipango ya utoaji mafunzo na ushauri pamoja na matokeo Tumeanzisha mpango mpana wa kundi amba kusudi lake ni kukuza waatalamu wanaofanikisha matokeo ya juu.

Kuongezwa kwa muda wa mkakati kufanya biashara mabadiliko

Kutokeana na mazingira ya utekelezaji kazi yaliyoshuhudiwa mwaka 2020, halmashauri ya wakurugenzi iliupu uhuru timu ya usimamizi kuongezwa muda wa mkakati wa kufanya mabadiliko biashara kwa kipindi cha mwaka mmoja zaidi. Hii ndio hatua ya mwisho ya kubadili hali ya biashara yetu ili kuzalisha faida. Tumefanya mabadiliko malengo ya mkakati kwenda sambamba na hali ya janga iliyoko kwa sasa. Licha ya msingi wa mkakati ambao tumekuwa tukiutekeleza, kipindi hiki kilishuhudia juhudi za ziada za mtazamo wa uimarishaji mizania na kudumisha viwango vya mtaji. Pia, tunalenga kuimarisha raslimali za kundi licha ya kuwepo kwa mfumo unaohusiana na uwekaji bei.

Taarifa Kutoka kwa Afisa Mkuu Mtendaji kwa Kipindi Cha Mwaka Uliomalizika Desemba 31 2020 (Inaendelea)

Kuongezwa kwa mtaji wa ziada kuchochea ukuaji

Mwezi Desemba, Halmashauri ya wakurugenzi ilipitisha kuongezwa kwa mtaji wa Kshs. bilioni moja kwenye mfumo wa deni kutoka kwa mwanahisa wetu maalum *Britam Holdings Plc.* Mtaji huu tulioipata tarehe 1 Februari 2021, utatumika kuchochea ukuaji wa biashara yetu kwenye mkakati wa utoaji huduma kamili za benki hasa utoaji wa mikopo kwa wamiliki wa biashara ndogo.

Kubuni utamaduni wa "mteja kwanza"

Tumefanya kuwa biashara yetu kuwahusisha wateja na kutafuta suluhu ambayo imetoka kwao. Hii ni hatua inayoendelea ya kuwahusisha wateja inayotoa maoni ya hali ya juu kuimarisha matarajio yao. Tumetekeleza jukumu kali kufuatilia na kuchukua hatua zinazofaa kutokana na maswala yaliyotolewa na wateja na kufanya mabadiliko yatakayoimarisha matarajio yao huku tukianzisha nafasi zitakazowafaa. Tunaamini kuwa tuko kwenye mkondo unaofaa kama ilivyodhihirishwa kuititia tathmini yetu ambayo iliimarika kutoka +39 mwaka 2019 hadi +51 mwaka 2021.

Mtazamo wa siku za usoni

2021 inatoa matumaini huku ikikumbukwa juhudi zilizofanywa kupambana na janga hili. Utoaji chanjo utaleta mabadiliko makubwa kiuchumi. Hata hivyo, kundi linatambua kwamba mabadiliko haya ni mbio ndefu isiyo ya kasi na imeweka mkakati sawa kukabiliana na athari zake. Timu ya usimamizi imeweka vyema mkakati wa barabara itakayotumia kuleta mabadliko ya biashara ili kuzalisha faida kipindi cha muda na cha kadri. Ningependa kushukuru halmashauri ya wakurugenzi kwa uongozi na mchango wao, na pia wafanyakazi kwa ukakamvu wao waliodhihirisha licha ya dhoruba hili la Covid 19. Kwenu wanahisa wetu, ninawashukuru sana kwa imani mliyoonyesha kwetu. Tunajenga biashara ya kizazi itakayozalisha thamani.

Robert Kibaara
 Afisa Mkuu mtendaji



Tarehe: 31st March 2021

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Access the HF Whizz Money Transfer services on the HF Group website, fill in the details required and proceed to make the transfer in minutes.

Terms and Conditions apply.

HFGROUPKE www.hfgroup.co.ke

Help line: 0800 721400

HFC Limited is regulated by the Central Bank of Kenya.



Pictorial of Activities



HF Group CEO Robert Kibaara (left) poses with Britam Group's former MD Dr. Benson Wairegi after signing deal that saw Britam inject Kes. 1B Capital into the Group.



HF Group CEO Robert Kibaara with Interswitch Kenya Country Manager Romana Rajput (left) and Ag HFC MD Regina Anyika during the launch of HF Whizz Money Transfer service.



HF Group CEO Robert Kibaara congratulates a home buyer during the Clay City handover ceremony



HF Group CEO Robert Kibaara congratulates home owners at the Precious Gardens handover ceremony.

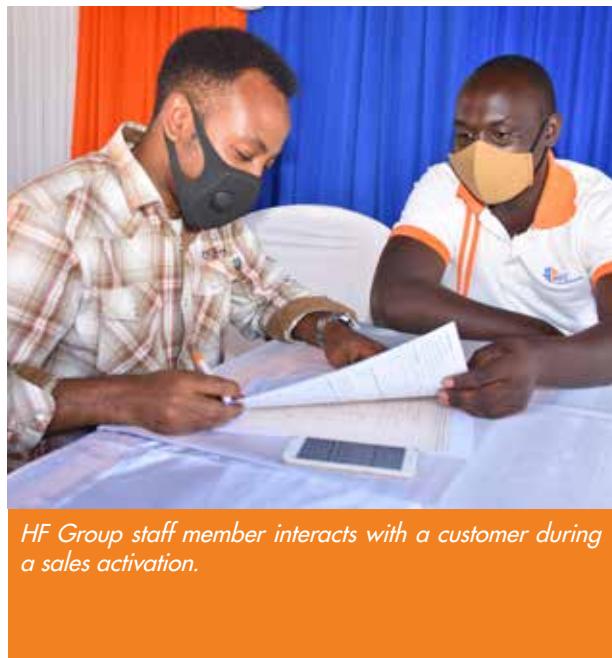


HF Group CEO Robert Kibaara and the Interswitch Kenya Country Manager Romana Rajput pose with HF Group's Ag MD Regina Anyika and Chief Digital Office Rose Muturi during the launch of the HF Money Transfer Service. With them is Daniel Kiriungi of Interswitch.

Pictorial of Activities (Continued)



HF Group Interim Chairman Dr. Kaushik Manek presents the former HF Group Chairman Dr. Steve Mainda with a farewell gift.



HF Group staff member interacts with a customer during a sales activation.



HF Group Staff members engaging customers during an activation.



HF Group's Head of Mortgage Sales, Joseph Kamau (2nd right) presents plans to PS State Department of Housing & Urban Development, Charles Hinga and HF Group CEO, Robert Kibaara during the Clay City open day.



HF Group CEO Robert Kibaara formally hands over Komarock 5B estate to James Kiama, Chairman of the estate's Management Company.

Corporate Governance

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

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

1. The Board of directors

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

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

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

Composition of the Board

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

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

All non-executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

Conflict of interest

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

Procedure for nomination of directors

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

Corporate Governance (Continued)

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

2. Board committees

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

a) Nomination and Governance Committee

The members of the Nomination and Governance committee are:

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

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

The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board to ensure the optimum balance of skills, knowledge and experience taking into account the opportunities and challenges which face the Group;
- Identifying and nominating for the approval of the Board a suitable candidate for any Board vacancy which may arise;
- Monitoring the development of succession plans for the Group relating to senior executive management;
- Reviewing the emoluments of both executive and non-executive Directors, and senior management.

This Committee carries out a peer and self-evaluation of the Board and its committees to assess their contribution and also to ensure that there is the requisite mix of skills and experience available to effectively discharge their duties.

(b) Board Audit & Risk Committee (BARC)

This committee is composed of three Non-Executive Directors and operates under board approved Terms of References.

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

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

The principal roles of the committee are to:

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

Corporate Governance (Continued)

2. Board committees(continued)

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

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

c) Board Strategy Committee

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

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

The principal roles of the committee are to:

- Oversee the implementation of the Group's strategy;
- Approve and participate in the annual strategy review process;
- Approve all key strategic initiatives including but not limited to; appointment of consultants, capital & revenue expenditure and investments.

3. Attendance of individual Directors

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

Board meetings attendance for the year ended 31 December 2020	Board meetings					Total attendance
	09-Mar	06-May	29 - July	06-Nov	24-Nov	
*Steve Mainda	✓	✓				2
Benson Wairegi	✓	✓	✓	✓	✓	5
Constance Gakonyo	✓	✓	✓	✓	✓	5
Peter Munga	✓	✓	✓			3
Kaushik Manek	✓	✓	✓	✓	✓	5
Robert Kibaara	✓	✓	✓	✓	✓	5
Gladys Karuri	✓	✓	✓	✓	✓	5
Felister Kembi	✓	✓	✓	✓	✓	5
Adan Mohamed	✓	✓	✓	✓	✓	5

Corporate Governance (Continued)

HF Group Audit and Risk Committee attendance for the year ended 31 December 2020	Board meetings				Total attendance
	26-Feb	21-Apr	26-Oct	15-Dec	
Date					
Felister Kembi	✓	✓	✓	✓	4
Adan Mohamed	✓	✓	✓	✓	4
Gladys Karuri	✓	✓	✓	✓	4

A number of Management committees have been established by the Board to oversee operations in some critical areas. These are Executive committee (EXCO), Asset and Liabilities committee (ALCO), Risk Management committee, Management Lending committee, IT and Council and Service Council. The Board appoints other committees as and when necessary.

4. Board effectiveness evaluation

To assess the performance of the Board, its committees and individual Directors, the Board conducts a rigorous performance evaluation each year. The process is led by the Chairman and supported by the Company Secretary.

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

5. Internal audit function

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

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

6. Risk management

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

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

7. Whistle blowing policy

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

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

Corporate Governance (Continued)

8. Communication with shareholders

The Group is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about its performance; and
- Compliance with regulations and obligations applicable to the Nairobi Securities Exchange and the Capital Markets Authority.

Information is disseminated to the shareholders through an annual report and press notices following the release of quarterly, half yearly and annual results. Press releases on significant developments are also reported.

9. Directors benefits and loans

All the non-executive Directors have continued to receive Directors' fees. The aggregate amount of Directors' fees is disclosed in Note 36 to the financial statements.

10. Compliance

In the Financial Year 2020, a Governance Audit which was undertaken by competent professionals accredited by the Institute of Certified Secretaries, in line with the requirements of the Code of Corporate Governance Practices for Issuers of Securities to the Public (the Code), 2015. The Board was found to have established and implemented a sound corporate governance framework, which is in compliance with the legal and regulatory requirements, and in line with internal policies and global best governance practices in the interest of shareholders and stakeholders. In this regard, the governance auditor issued an unqualified opinion. In 2021, the Board is focusing on implementation of the areas of improvement identified by the Governance Auditor.

11. Compliance shareholders as at 31 December 2020

	Name	No. of shares	% age shareholding
1	Britam Holdings Plc	74,666,146	19.41
2	Equity Nominees Limited A/C 00104	48,828,477	12.70
3	Britam Life Assurance Company (Kenya) Ltd	35,891,083	9.33
4	Britam Life Assurance Company (Kenya) Ltd	25,597,000	6.66
5	Standard Chartered Nominees Resd A/C KE11401	11,050,569	2.87
6	Permanent Secretary Treasury	9,265,135	2.41
7	Kerai, Ramila Harji Mavji & Harji Mavji	7,202,000	1.87
8	Mwangi, Peter Kingori	6,075,704	1.58
9	Bid Management Consultancy Limited	5,298,500	1.38
10	Kibuwa Enterprises Limited	5,012,575	1.30
11	Others	155,726,979	40.49
Total		384,614,168	100.00

Corporate Governance (Continued)

12. Distribution of shareholders as at 31 December 2020

Range	No. of Shareholders	No. of shares held	Percentage shareholding (%)
1 - 500	7,917	1,509,465	0.3925
501 - 1,000	4,485	2,988,615	0.7770
1,001 - 5,000	11,496	23,810,521	6.1908
5,001 - 10,000	1,870	12,748,064	3.3145
10,001 - 50,000	1,419	27,661,168	7.1919
50,001 - 100,000	174	11,934,171	3.1029
100,001 - 500,000	16	24,746,903	6.4342
500,001 - 1,000,000	23	267,649,609	69.5891
Total	27,528	384,614,168	100%

13. Shareholding by Directors

In the Financial Year 2020, a Governance Audit which was undertaken by competent professionals accredited by the Institute of Certified Secretaries, in line with the requirements of the Code of Corporate Governance Practices for Issuers of Securities to the Public (the Code), 2015. The Board was found to have established and implemented a sound corporate governance framework, which is in compliance with the legal and regulatory requirements, and in line with internal policies and global best governance practices in the interest of shareholders and stakeholders. In this regard, the governance auditor issued an unqualified opinion. In 2021, the Board is focusing on implementation of the areas of improvement identified by the Governance Auditor.

Name	No. of Shares	Percentage shareholding (%)
1 Robert Kibaara	291,500	0.0757
2 Benson I. Wairegi	78,512	0.0204
3 Kaushik Manek	3,300	0.0009
4 Peter K. Munga	0	0.0000
5 Adan Mohammed	0	0.0000
6 Constance Gakonyo	0	0.0000
7 Felister Kembi	0	0.0000
8 Gladys Karuri	0	0.0000

WELCOME TO SME & COMMERCIAL BANKING

- Real Estate Value Chains • Trade Sector • Medical Sector • Education Sector



Sustainability Report

Our Business

HF Group strongly believes in the important role that the finance industry plays in our society. Our purpose is to create a more financially inclusive society. We are driven by this desire to make a real difference for our customers and communities where we operate.

Creating excellent outcomes for our customers means not only making good financial results, but also being able to act responsibly by balancing social, environmental, and economic values across all our operations. Our ambition is to take part in building a more trustworthy, transparent, and ethically sound financial industry.

At HF Group, we always focus on the best interest of our customers and all our stakeholders.

Sustainability Approach

We believe that building a sustainable business means increasing transparency and promoting open dialogue about our opportunities and challenges. We earn our license to operate and the trust of our customers by conducting our business responsibly.

We have organized our sustainability report around the key topics that are most material to our stakeholders. This being our third reporting year, we are taking an in-depth look at how we are addressing the challenges and opportunities that are presented by having a responsible business strategy. Research has shown that, companies that proactively reduce their use of scarce resources have a better financial performance and lower-risk profile. Also the investment community is increasingly interested in understanding how businesses are contributing to and generating impact for the Sustainable Development Goals (SDGs).

2020 was an extraordinary year for all. The clear financial impact of the 'non-financial' sustainability issues i.e. environmental, social, and governance (ESG) issues during the COVID-19 pandemic reinforced the need to better integrate sustainability into our risk management strategy. Also, we are presented with the opportunity to use our materiality assessments to better explore the relationship between our impacts on a sustainability issue and the impact of that issue on the business. Businesses can no longer consider these issues as a "nice to have" rather they are an opportunity to examine how the issue interacts with our core business or changes the Group's risk exposure.

Strategy

The Covid -19 pandemic in 2020 caused us to shift our focus to balancing short-term needs with long-term resilience. We increased our attention to risk factors such as public health threats, supply chain disruptions and operational flexibility. We will complete our sustainability goal setting in 2021 and thus giving fresh impetus to our efforts to better link nonfinancial and financial reporting. Our overall aim is to ensure that we manage our risks and opportunities in a more comprehensive manner and drive performance across the issues that are most important to our business and stakeholders.

Alignment with the Sustainable Development Goals (SDGs)

The SDGs have also expanded our outlook and remind us of the important role business has to play in sustainable development. We continue to make progress having already identified the SDGs that are most relevant to our business operations. In 2021, we will narrow this down to the actual SDGs indicators that are most significant to our business.



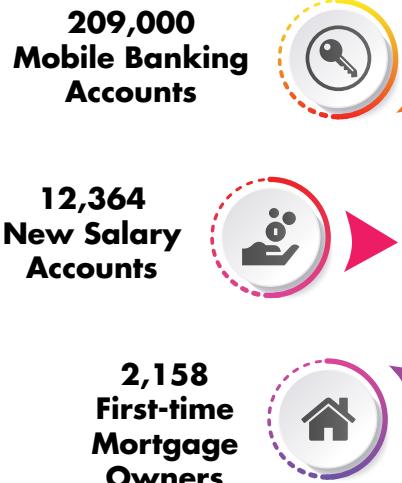
Reporting Parameters and Scope

The 2020 Sustainability Report has been prepared in accordance with the GRI Standards: Core option. The report relates to the entire HF Group and all measures; activities and key figures refer to the 2020 fiscal year, unless otherwise stated.

Sustainability Report (Continued)

2020 Sustainability Highlights

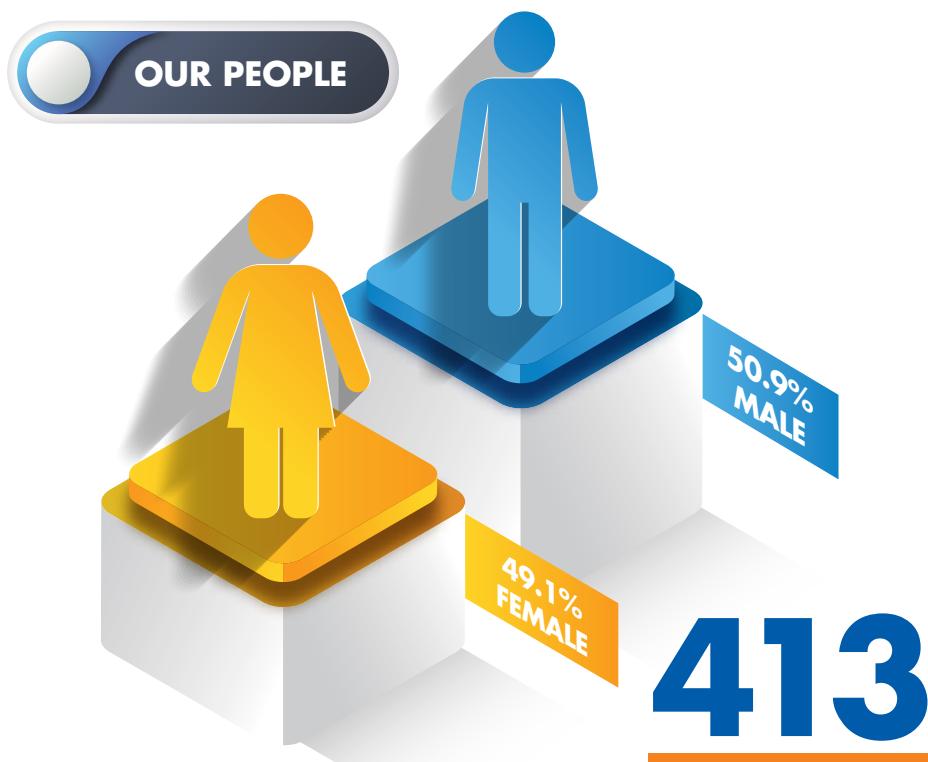
MARKET PRESENCE



CUSTOMER TRANSACTIONS

CHANNEL	COUNT	AMOUNT
ATM	113,331	1,775,847
BRANCH	425,601	37,272,702
DIGITAL	1,283,844	12,397,784,054
SYSTEM	65,424	960,789,952

Sustainability Report (Continued)

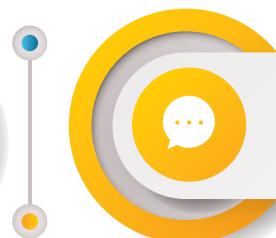


INNOVATION

45 operational
processes digitized



Net Promoter Score
fully digitized



Sustainability Report (Continued)

Key Sustainability Topics

Our key sustainability topics are a reflection of our long-term sustainability goals, and we have incorporated them in all our daily operations. These seven material topics reflect the economic, social, and environmental impacts of HF Group. Some of the topics relate to only one of these areas of sustainability, while some relate to many of them.

In 2018, when we reported on sustainability for the first time, we constructed the most relevant sustainability topics based on discussions with, mainly, internal stakeholder groups. We revisited this analysis and found it valid for the 2020 reporting period.

However, the Covid-19 pandemic and the subsequent impact on the overall Kenyan economy, and the financial sector in particular, point to the importance of not only managing our material topics such as business ethics, digitalization, governance

and compliance, as well as living our purpose and values, which constitute our foundation. Whilst our economic performance continues to reflect the challenges that can be expected from our ongoing internal restructuring process, our Code of Conduct gives a guideline on caring for the environment, how we treat our customers, human rights, the right to privacy, fair competition, anti-bribery and anti-corruption.

Our operations change over time, which is why it is important to review our sustainability focus on a yearly basis. Our objective is to come up with an updated list of material topics that best captures HF Group's experience and learnings from the Covid-19 pandemic. We will continue identifying avenues for cost and operational optimization from the pandemic experience as we implement a balanced business recovery strategy maintaining an equilibrium between value creation for the society, economy and the environment.

	Topic	Definition	Stakeholders Concerned
1	Economic Performance	Our business is not making profit but is stable. As the company grows, we want to make sure that we follow the same values as when HF Group was founded. We have an active risk management strategy, and we keep our operations agile to be as stable as possible.	Customers Shareholders Employees
2	Health & Well-Being	People are our most important asset. Given the unique circumstances presented by the Covid-19 pandemic, naturally, a primary focus in 2020 was the health and well being of our 456 staff.	Employees
3	Digitalization of the business	In 2020, we continued our transformation journey to digitalize our existing offerings. The Covid-19 compelled us to re-engineer & improve on our processes. Innovations in the dynamic financial technology space allow us to serve a range of customers, specifically women and youth.	Employees Customers
4	Governance & Regulatory Compliance	We take our corporate citizenship seriously with strict compliance to the regulatory framework laid out by the Central Bank of Kenya. Our Code of Conduct sets parameters and guidelines for how we treat our customers while outlining the expectations from our employees.	Regulators Employees
5	Innovation	As part of our efforts to advance financial inclusion, we continued to enhance and innovate our products, operating models and distribution channels with a particular focus on mobile banking.	Employees Suppliers Customers

Sustainability Report (Continued)

People



The most valuable part of our business is people. We develop practices that are best for all the people that we have an impact on directly and indirectly from employees to customers and the community. Our aim is to enrich diversity and continue working for equity, meaningful work, and good leadership.

Stakeholder Engagement in a Covid-19 World

Through an internal survey carried out in 2018, we asked our employees who they think HF's most important stakeholders are. The results confirmed that our key stakeholders are our customers, employees, suppliers, regulators and shareholders. This result is reflective of how we see our operations as part of the social environment around us. Being an active member of society means that we engage with our stakeholders in as many ways as we can and our activities are not limited to financial activities only. Examples include seminars, customer calls, our website, publications, and social media. We also greatly value the information that we receive from interaction with our stakeholders as we use it to develop our Group further.

The Covid-19 pandemic tested our capacity to adapt swiftly when faced with multiple pressures. The impact on the real estate industry was felt all across its segments such as retail, hospitality, residential and construction, as well as in their corresponding supply chains. The mortgage portfolio was particularly exposed as the disruption to the economy meant a reduction in labor force and disruption of supply chains, translating into longer development periods, as well as a slowdown in building approvals, as public offices remained closed. Funding release was delayed as Land Registries were equally closed so little to no collections were possible, hence affecting installment plans. Since most of our credit is in the real estate industry, we sought to accelerate our diversification process by enhancing our personal and business banking propositions.

Our stakeholders will eventually look back on how we responded during the COVID-19 pandemic. They will look for new information on important sustainability issues and insights into our decision-making processes. Therefore consulting with stakeholders to find out what information they may seek in the future will take precedence in 2021. We will, in the coming months, look at actively engaging with stakeholders to understand their changing needs, perceptions and expectations. Our long-term objective is establishing agile and continuous stakeholder engagement mechanisms based on digital platforms.

Customers

Our customers are our most important stakeholder group. We are focused on providing the best possible customer experience and creating long-term partnerships. The pandemic led to many of our customers experiencing intense competing financial pressures. In recognition of this, we increased our engagement with them in order to better understand their needs and provide them with timely and safe communication channels such as WhatsApp, SMS messaging and online chatting.

While we had to scale back our training and outreach efforts owing to the Government social distancing protocols brought on by the Covid-19 pandemic, we held 3 well attended webinars for HF customers and interested members of the public. The webinars, which in total reached about 900 participants, covered emerging opportunities for SMEs, tax laws, personal financial management and wellness during the Covid-19 pandemic.

We serviced 2,114 overdraft loans in the reporting period with the real impact on customers showing up in the second half of the year when we had 100 loans defaulted by customers who could not meet the terms of their loan restructuring plans. Despite this, about 50% of our customers continued to meet their repayments and the 25% who were already non-performing before the onset of the pandemic were given an extended grace-period with slower repossession processes. We granted moratoriums to about 25% of our customers, in recognition of the cash flow challenges experienced by millions of Kenyans, and in adherence to Central Bank of Kenya's Circular No. 3; March 2020 which mandated extension and restructuring facilities as part of the Covid-19 pandemic emergency measures recommended by the Kenya Government.

Sustainability Report (Continued)

Exploring the finance industry digital landscape

We launched our digital banking platform dubbed HF Whizz in mid 2018. HF Whizz started as a mobile banking platform but has now evolved to providing innovative products and services to various customer segments such as personal banking, SME banking and Diaspora customers via HF Whizz mobile, online, remittances and Whizz Pay digital collections. We adopted a WhatsApp banking solution, coupled with a two-way SMS channel to provide customers with more ways to reach us. This solution that was enhanced in 2020 was provided by Infobip and has led to a tremendous improvement in our Net Promoter Score (NPS) which measures customer experience and predicts business growth. At the beginning of the year, digital banking NPS stood at below +10 but has now shot up to above +50. We also focus on continuous push to move USSD users onto the WhatsApp platform. Out of the 7,000 customers engaged 52% have been converted. In total, we converted over 15,000 existing customers onto digital platforms in 2020 which led to a 135% increase in digital transactions. 73% of customer initiated transactions were done on digital platforms while 27% were branch-based transactions. Out of these, 65% comprised of HF Whizz app and WhatsApp transactions.

Our products are reflective of our target customer lifestyle. For instance, our newly launched HF Whizz school fees product, which is part of our HF Whizz pay bouquet for SMEs, enables schools to instantly reconcile versatile payments such as school fees, lunch fees, transport fees amongst other fees paid into the school account. We also provide incentives for savers by providing competitive saving products with attractive returns, such as Target Savings and Nyumba Yangu, which help the customers to set money aside for purposes such as education, home improvement. Digital platforms facilitate access considerably. We have summarized our product offering in the table below:

Product	Target
HF Whizz Mobile App and USSD	<ul style="list-style-type: none"> Middle income, emerging affluent, high net worth individuals, SMEs, diaspora customers. Enables customers to view their account balances, download statements, transfer funds with HFC, to other banks or mobile money or pay for goods, services and utilities via tills and paybills. Enables customers to access loans, save towards a specific target or towards home ownership
HF Whizz Online market place	Web platform that enables anyone to view and even book any of the properties on offer eg. affordable housing or auction properties
HF Whizz International money transfer	Diaspora customers sending funds to Kenya instantly
WhatsApp Banking	<ul style="list-style-type: none"> Upsell products & services. Offer more versatility and efficiency Instant chat with contact centre agent
Personal Banking (Nyumba Yangu)	Middle-income segment customers saving towards home ownership.

Employees

People are our most important asset. Given the unique circumstances presented by the Covid-19 pandemic, naturally, our primary focus in 2020 was the health and well being of our 456 staff. In order to meet the requisite social-distancing requirements, we implemented working from home and flexi-time arrangements re-distributed up to 70% of head office staff to work from our branches.

We also conducted training sessions on medical protocols, facilitated employee testing and counseling services for affected employees and their families. We also provided new end-to-end IT infrastructure and bandwidth to accommodate the new working arrangements.

HF Group is re-defining purpose and finding new and agile ways of working. In 2020 we continued with the restructuring process that started in 2015 even as the Covid-19 pandemic highlighted the importance of faster communication, decision-making, more collaboration and common solutions. We recognize that responsive engagement across departments enables performance and drives the business momentum needed to achieve our strategic vision and meet our KPIs.

Training & Employee Surveys

Our training options include paid education leave or on-the job trainings delivered online. In 2020, we had 40 trainings and total number of staff members trained was 539.

We also engaged in team dialogues per department on a quarterly basis where we identified product knowledge, efficiency and customer satisfaction as being closely linked to the Net Promoter Score (NPS) for customer satisfaction. We therefore plan to conduct online surveys and roadshows in the coming months so as to establish a solid internal communication culture that captures arising challenges well.

We engaged in two employee surveys in 2020 i.e. one in February where 465 staff were surveyed and another in October where 410 staff Surveyed. The objective of the surveys was to gauge interdepartmental support and service delivery. The teams that were deemed as most supportive were rewarded in an elaborate ceremony during the 2020 Customer Service Week. The objective of this exercise was to create better team synergy and improve service turn-around times.

Sustainability Report (Continued)

Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave (expected to be settled within 12 months after the end of the period in which the employee render the related service) are recognized in respect of employees' service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. We operate a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund. An independent fund manager sourced by contributions from both the company and the employees manages this scheme. We also contribute to the statutory National Social Security Fund. Our obligation under this scheme is limited to specific obligations legislated from time to time.

Diversity

We aspire to mirror our diverse customer base to deliver the best services and innovative solutions. To ensure great customer experience and sustainable growth, we are constantly monitoring and identifying the range of barriers to diversity and inclusion. We are proud to have a balanced gender representation across HF Group, consisting of 49.1% female staff, which represents a slight increase from 2019. We are yet to achieve the same result across all levels and business functions. Our leadership is 33% female and 66% male. While we strive for better gender balance, our management team is youthful with most of the senior management team being in the 30-50 age bracket. Further, 82% of our overall employees are below the age of 40. This young workforce is a result of our restructuring process and enhanced hiring policy.

At HF, we provide a workplace that is free from discrimination, and have zero tolerance for any form of harassment, victimization or similar violations. By introducing guidelines and policies, we expect our employees to be responsible for treating others with dignity and respect and to report all incidents of harassment immediately so that they can be quickly and fairly resolved.

Health, Wellness and Safety

Our Occupational Health and Safety (OHS) Management System covers our employees and contractors in all our workplaces and all the activities that the company carries out. This comprises of a well-defined policy that governs our health and safety; a well trained and certified committee

and audits being carried regularly by the director of safety and health. The operations manager is overseeing our OHS system.

The Covid-19 pandemic did not allow us to conduct the planned training on first aid, fire safety and OHS guidelines but we look forward to implementing this in 2021.

The challenges and stress put on our employees by the pandemic called for a broader understanding of work-life balance and the measures outlined above with regard to flexibility are a reflection of that. Yet we also cater for specific needs such as nursing mothers and consider specific health situations as they arise. We had zero work related injuries within the reporting period.

Suppliers

We work with a mostly local supply chain of providers residing within Kenya. Most of our IT system solutions are offered through local partners. In the real estate segment, we operate joint ventures with developers who deal directly with the relevant suppliers.

In 2020 we engaged 100 different suppliers, primarily in the areas of IT, HR, Premises and Real Estate, Card Center and Market Data. Our spend with these suppliers is estimated at Shs. 200 million. We cannot report any significant changes in our supply management structure, which follows a centralized procurement process. The Covid-19 pandemic however significantly affected our procurement through delays in order processing and delivery owing to travel restrictions and issues related to remote working. Despite these challenges we embraced a new supply approach to support women-owned small business, which is a pilot initiative to be mainstreamed into the company with a clear benchmarking system that will be set up in 2021.

We did not engage in any particular supplier surveys but continuously seek feedback from our partners many of whom we have enjoyed a long partnership.

Companies are required to pass our strict environmental and social criteria of doing business with HF Group by meeting our tender and procurement needs. Poor performance leads to contract termination in digital and physical business environment. Within our procurement of ICT we conduct background checks, verify certification and measure technical and financial competitiveness, which are evaluated by a department committee.

Sustainability Report (Continued)

Stakeholder Engagement Summary

We performed a stakeholder analysis for the 2019 report and identified five key stakeholder groups i.e., employees, shareholders, customers, regulators, and communities.

For the 2020 report we reviewed how the pandemic affected our engagement with communities as well as how our real-estate developments are done solely on a financing and joint-venture basis thus reducing our presence in project locations.

It is in this environment that we learned to appreciate the challenging tasks of ensuring supply in a disrupted context and thus elevating the importance of having a sustainable supply chain in our stakeholder dialogue. This dialogue is summarized below;

Stakeholders	Channel	Key concerns
Employees	Quarterly reviews Day to day interactions	Well-being Equity and fairness Ethics
Shareholders	Annual General Meetings Individual investor meetings	Financial performance Learning and sharing insight Industry development R&D to drive motivation
Customers	Customer surveys Day to day interactions Digital banking and feedback contact center Ratings and benchmarks	Convenient products and services Financial performance
Regulators Capital Markets Authority (CMA) Kenya Revenue Authority (KRA) Central Bank of Kenya (CBK) Kenya Bankers Association (KBA)	Compliance report Annual reports and financial statements	Compliance and engagement at group level
Suppliers	Contracts and contract reviews Day to day interactions	Compliance with social and environmental guidelines and code of ethics

Profit



Our main purpose is to create wealth and good returns for our shareholders. Sustainable finance means to us that we integrate sustainability into all our operations. We therefore need to make sure our financial situation is stable and resilient in the future.

Financial Stability

Financial stability is the most important thing that the board of directors along with the bank's management must develop. At the same time, a resilient company needs to adapt to change in a natural way.

Financial stability means having a platform for an agile company. While our net earnings for the year ended 31 December 2020 are substantially lower compared to the earnings reported for the same period in 2019, we hold a great responsibility towards our stakeholders, and we constantly strive

to make improvements in our productivity and operations.

By paying taxes responsibly, we are able to generate value to the Kenyan economy. We are committed to transparency in all operations, and we pay taxes according to the regulations.

NB: More information on our financial performance can be found in our 2020 Audited Annual Report and Financial Statements.

Good risk management and regulatory compliance are the cornerstones of a sound and sustainable business

Our risk management framework in 2020 focused on managing risks in an extra-ordinary situation, which forced us to adjust our risk appetite and redefine clear risk, liquidity and capital management frameworks. In this dynamic environment where we were faced with new regulatory requirements, changing customer behavior brought about by the impact of the pandemic, new competitors in the digital banking and finance technology, we continuously monitor our risk management framework to ensure that material risks are addressed. We have a

Sustainability Report (Continued)

'risk and compliance' champion in each of our 22 branches who oversees this framework and identifies specific customer needs, for example, putting in an enhanced due diligence process for PEP accounts (Politically Exposed Persons).

HF Group's whistleblowing function encourages employees to speak up if they have a concern about misconduct, unethical behavior or irregularities. To achieve this, we partner with financial advisory firm Deloitte who offer Halo, an established digital whistleblower solution. No legally relevant claims were put forward in 2020. HF Group follows a strict non-retaliation policy as per our disciplinary and non-harassment policy. The whistle blowing platform can be accessed from the HF Group website www.hfgroup.co.ke

Remote working arrangements as a result of the Covid-19 pandemic led to an increased need for risk compliance. Our response to this was two-fold: we adjusted our technology and systems to ensure we deliver fair outcomes for our customers and adjusted the terms and conditions for our products. This means that we enhanced our focus on putting the customer first, the design and development of products, our sales, and the services we provide. In line with this approach, our internal rules relating to product governance, handling customers in the provision of loan services, and advisors' knowledge and competence have been reviewed and is reflective of the particular challenge the pandemic put on our operational environment.

Risk Governance

Financial crime is a serious threat to the security and integrity of the global financial system. We are committed to complying with applicable laws and regulations concerning anti-money laundering, counter terrorist financing, sanctions and bribery and corruption to prevent HF Group from being used for any illegal activity. Adan Mohammed, a leading expert in anti-money laundering regulations and policies in Kenya, a non-executive director of the Group, was the lead in drafting the Proceeds of Crime and Anti-Money Laundering Act of Kenya, 2009. The Board has three committees namely Group Strategy Committee, Group Nomination and Governance Committee and the Group Audit and Risk Committee. Mr. Mohammed joins the Risk Committee and his contribution to the Board will further strengthen the Group's governance of issues related to financial crime.

Environmental Sustainability



It is both our collective and our individual responsibility to preserve and protect the environment. We are committed to improving the measuring and reporting of our environmental impact as well as working towards identifying environmental risks in our property investments.

Our core banking business is largely done electronically, and thus the environmental impacts of our core operations are indirect and challenging to measure. We do however aim to minimize our negative environmental impacts through responsible investing in real estate properties. Our aim is to measure the responsibility of investments on an annual basis, as our environmental impacts are still the least studied area of our sustainability.

The most significant environmental impacts of HF Group are caused indirectly by our real estate investments. Therefore, we are incorporating environmental issues into our investment strategy and are still in the process of evaluating the best way to disclose information on our indirect environmental impacts. We strive to minimize our indirect environmental impact through methods such as negative screening of investments analyzed with ESG (Environmental, Social and Governance) criteria.

We are committed to reducing our direct environmental footprint and plan to include the energy consumed within the company, calculated as an estimate of the total fuel consumed within our head office, in the next report. The data on our energy consumption will help us be more transparent and to compare numbers over time.

Sustainability Report (Continued)

Future Sustainability Goals



A Sustainable Value Chain

Supply chains are becoming increasingly complex and global, which makes it difficult to track the supply chains' accountability. However, getting to know our supply chain is important to gradually be able to make more informed and ethical decisions. By acquiring more information about our supply chain, we will be able to choose and promote sustainable suppliers.

In 2021, we will conduct a supplier survey to acquire more information about this stakeholder group that we know the least about. The survey will be sent to the largest suppliers of HF Group to help draw an outline of the suppliers for the first time. This survey will serve as a benchmark for future studies about the progress and changes in our supply chain.

We currently prioritize suppliers who have a good price-quality ratio. We will add to these criteria their ability to actively address environmental and social issues, and have a good image regarding sustainability. We will then work on creating a system for screening our suppliers in order to mitigate any possible negative impacts that may be caused by them.

An Integrated Risk Management Framework

One of our sustainability goals for 2020 was to further integrate environmental, social and governance (ESG) factors into HF Group's risk management framework, which currently includes credit risk, operational risk and market risk. Risks related to sustainability factors in general, and climate risks in particular, should not be treated in isolation as they can have a strong financial impact. Furthermore, ESG risk is linked to reputational risk and therefore we are keen on having an integrated approach all across our investment and financing activities. The pressures put on our business by the

Covid-19 pandemic however forced us to delay this goal, which we now hope to accelerate in 2021.

Developing Sustainable Working Processes

HF Group has set a mission to enable the transition to a sustainable future in our capacity as a provider of mortgage finance solutions and our operations in private and corporate banking, property development and Bancassurance.

As an important long-term goal, we would like to include sustainability considerations in our processes and in the way we work. Some of the ways we plan do to that is as follows:

- Social goals
Monitoring employee health and support systems
- Augmented Stakeholder relationship management.
- Financial Inclusion -
In 2020, we supported 2,158 first time mortgage customers despite the challenging macro-economic context. These now make up almost 25% of our mortgage portfolio.

1. Environmental goals

- Monitoring resource conservation and emission abatement opportunities.
- Engagement in initiatives towards resource conservation, emission reduction, and water use for meeting environment targets and goals.
- Incorporation of emission abatement opportunities identified through optimized travel and work from home.

2. Economic goals

- Ensure alignment with changing regulatory requirements.
- Review of financial health and revival strategy.
- Initiatives focused on supply chain recovery.

Conclusion

Our stakeholders continue to benefit from our use of the Global Reporting Initiative (GRI) standards and CMA Code of Corporate Governance recommendations. These frameworks enable us to provide reasonably comparable and useful information.

Sustainability Report (Continued)

Though COVID-19 has caused unprecedented disruption for many companies, we are committed to more integrated, comparable, and standardized reporting in order to help us “build back better.” Such reporting can both meet the new information needs brought to light by COVID-19 as well as strengthen our decision-making, risk management processes, and overall performance in the long term.

As we recover, we will continue to look for opportunities where our financial and sustainability reporting converges. We expect to be faced with increased scrutiny from our stakeholders who now look at the new possibilities for operational optimization and robustness. Sustainability reporting will be more vital than ever to bolster trust among all stakeholders.

GRI Index Disclosures

SECTION B: Company Profile, Governance and Ethics

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SECTION C: Economic impact

GRI 201		
GRI 202	Market Presence	
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SECTION D: Environmental Impact

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SECTION E: Social Impact

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Report of the Directors

The directors submit their report together with the audited financial statements of HF Group Plc (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2020.

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, HF Insurance Agency, HF Development and Investment (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 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.

Results and Recommended Dividend

No interim dividend was paid during the year (2019: Nil). The directors do not recommend payment of a final dividend (2019: Nil).

Business Review

During the year, the Group reported a loss after tax of Shs. 1,706,863,000 (2019: Shs. 110,108,000). Interest income earned during the year was Shs. 4,265,509,000 representing a 17% decline from Shs. 5,167,176,000 earned in 2019, while the interest expense incurred during the year declined by 24% to Shs. 2,399,249,000 from Shs. 3,148,869,000 in 2019. The net loan book at the end of year was Shs. 36,998,473,000 compared to Shs. 38,779,738,000 in 2019. The non-performing loans (NPL) reduced by Shs. 1,517,156,000 from Shs. 12,316,003,000 in 2019 to Shs. 10,798,847,000 in 2020. Deposits grew by Shs. 3,206,371,000 to Shs. 41,134,608,000 as at the end of the year.

The business environment has been challenging in 2020 mainly due to the unfavourable macroeconomic factors which have been largely affected by COVID 19 pandemic. As a result, market conditions continue to deteriorate due to the effects of the pandemic as it's negative impact on businesses and governments continue. The economic slowdown is expected to continue, even as progress is made in development and distribution of vaccines, which are expected to slow the spread of the virus.

In an endeavour to achieve the improved performance, the Board and management have formulated a turnaround strategy which will propel the Group to overcome the prevailing challenges. The implementation of this strategy is ongoing around all business areas in order to overcome the current issues such as liquidity, asset quality, house sales, funding and capital strains which will improve its performance moving forward.

Report of the Directors (Continued)

Principal risks and uncertainties

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

The principal risks and uncertainties facing the Group and Company as well as the risk management framework are outlined in Note 4 of the consolidated financial statements.

Future outlook

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

Environmental, social and employee matters

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

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

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

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

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

Report of the Directors (Continued)

Directors

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

Dr. Kaushik Manek	- Interim Chairman
Robert Kibaara	- Group Chief Executive Officer
Dr. Steve O. Mainda	- Retired as Chairman on 10 July 2020
Dr. Benson Wairegi	
Dr. Peter K. Munga	
Adan D. Mohamed	
Constance Gakonyo	
Felister Kembi	
Gladys Karuri	

Statement as to Disclosure to the Group's Auditor

The Directors confirm that with respect to each director at the time this report was approved:

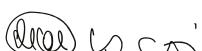
(a) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and
 (b) each director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Terms of Appointment of The Auditor

PricewaterhouseCoopers LLP were appointed in the year and continue in office in accordance with the Group's Articles of Association and Section 719 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.

By order of the Board



Company Secretary
 31st March 2021

Directors Remuneration Report

Information subject to audit

The directors' remuneration report has been prepared in compliance with the Group's remuneration policy, CMA Code of Corporate Governance Guidelines on Directors' remuneration and the Companies Act, 2015. The remuneration is reviewed regularly to ensure that it is within the existing market rates. This is done to ensure that individual 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 2020			Year ended 31 December 2019		
	Fees Shs'000	Sitting allowance Shs'000	Total Shs'000	Fees Shs'000	Sitting allowance Shs'000	Total Shs'000
Dr. S.O. Mainda	2,569	-	2,569	4,956	-	4,956
Dr. Benson Wairegi, EBS	488	1,404	1,892	488	1,560	2,048
Dr. Peter K Munga	488	624	1,112	488	1,028	1,516
Adan D Mohamed	648	1,560	2,208	648	1,664	2,312
Constance Gakonyo	487	900	1,387	488	1,196	1,684
Dr. Kaushik Manek	4,875	208	5,083	3,778	626	4,404
Felister Kembu	488	1,196	1,684	488	936	1,424
Gladys Karuri	488	1,040	1,528	488	988	1,476
	10,531	6,932	17,463	11,822	7,998	19,820

Executive director

	2020 Shs'000	2019 Shs'000
Robert Kibaara		
Salary	39,072	39,043
Non-cash benefits	3,072	3,072
Gratuity	9,000	9,000
Total	51,144	51,115

Directors Remuneration Report (Continued)

Information not subject to audit

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

Non-executive Directors' remuneration policy and framework

Non-Executive directors are engaged on the basis of a letter of appointment. It is the policy of the Board of directors that non-executive directors are paid directors' fees and sitting allowances but are not eligible to participate in any of the Group's bonus, share option or pension schemes.

Details of the policy on fees paid to our non-executive directors are set out in the table below:

Directors fees and sitting allowances	Policy framework
To attract and retain non-executive directors of the highest calibre and having the necessary skills and expertise to exercise independent judgement on issues that promote the Group's objectives.	The director's fees and sitting allowances paid to non-executive directors are determined by the Board of Directors, with recommendations from the Group Nomination and Governance Committee.
	Members of the various Committees are also eligible to receive an additional sitting allowance.
	The fees payable are reviewed periodically by the Group Nomination and Governance Committee to ensure that the fees remain competitive and in line with remuneration of other non-executive directors in the industry. Time commitment and responsibility are also taken into account when reviewing fees.
	Travel and expenses for non-executive Directors for Group related assignments are all met by the Group.

Approval of the directors' remuneration report

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

By order of the Board



Company Secretary

31st March 2021

Statement of Directors Responsibilities

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

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

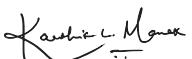
- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors have assessed the Group and Company's ability to continue as a going concern and disclosed in Note 2(a) of the financial statements matters relating to the use of going concern basis of preparation.

The directors are aware of the impact of the challenging macro-economic environment caused by the Covid-19 pandemic on the Group's and Company's financial performance. The directors have put in place strategic initiatives to return the Group and Company to profitable operations as disclosed in note 2(a). Based on the expected outcomes of the ongoing strategic initiatives, the directors believe that the Group and Company will remain a going concern for at least the next twelve months from the date of this report.

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 31st March 2021 and signed on its behalf by:



Kaushik Manek

Interim Chairman



Benson Wairegi

Director



Robert Kibaara

Director



Regina Anyika

Company Secretary

Independent Auditor's Report to the Shareholders of HF Group Plc

Report on the audit of 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 75 - 173, which comprise the consolidated statement of financial position at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 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.

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands

P O Box 43963 – 00100 Nairobi, Kenya

T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

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
Expected credit losses on loans and advances (continued) <p>In addition, the COVID-19 pandemic has resulted in a heightened risk of credit default and potential for significant increases in credit risk, increasing the uncertainty around the management judgements and estimation process.</p> <p>The policies for estimating ECL are explained in notes 2 (q) and 4 (a) of the financial statements.</p> <p>The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:</p> <ul style="list-style-type: none"> • 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 forward-looking information used in the models including the considerations for impact of COVID-19; 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. <p>Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.</p>	<p>We tested management's basis for segmenting the loan book as required by IFRS 9 by corroborating the segments allocated to a sample of loans to the supporting information.</p> <p>We validated management's basis for staging of loans and advances by testing the system's ageing of loans as well as reviewing the days past due reports on which the staging is based.</p> <p>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.</p> <p>We reviewed the suitability of forward-looking data used in estimating PDs together with the accuracy of its application in the PD computation process.</p> <p>For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios to reflect the impact of COVID-19.</p> <p>We tested, on a sample basis the computation of EAD for both on and off-balance sheet items.</p> <p>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.</p> <p>We recomputed, on a sample basis, expected credit losses for loans and advances to customers.</p> <p>We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.</p>

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
<p>Impairment of investments in subsidiaries and the HFDI Property Fund</p> <p>As described in Note 20 and Note 23 of the financial statements, the Group evaluates its investments in subsidiaries and the HFDI Property Fund for impairment annually and records an impairment loss when the carrying amount exceeds the recoverable amount. The assessment of the recoverable amounts is judgmental and requires estimation and the use of subjective assumptions.</p> <p>The Group measures the recoverable amount using projected discounted cash flows.</p> <p>The key assumptions include projected cash flows from property sales and the timing of these cashflows, and the discount rate applied in the model. Changes in these assumptions could result in material variations in the recoverable amount.</p>	<p>We evaluated the appropriateness of the methodology for identifying impairment of the investments and the use of the discounted cashflows approach in computing the recoverable amounts.</p> <p>We performed inquiries of management about the current market conditions and assessed the projections for evidence of management bias.</p> <p>We tested the reasonableness of the property sales values by comparing with the independent valuation reports and past property sales experience.</p> <p>We assessed the reasonableness of the timing of the projected cashflows and the discount rate applied in the projected cashflow.</p> <p>We tested the mathematical accuracy of the computations.</p> <p>We evaluated the adequacy and consistency of disclosures in the financial statements.</p>

Other information

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

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

Independent Auditor's Report to the Shareholders of HF Group Plc (Continued)

Other information (continued)

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 Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 or Company to cease to continue as a going concern.

Independent Auditor's Report to the Shareholders of HF Group PLC (Continued)

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

- Evaluate the 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, and where applicable, related safeguards.

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the Directors' report on pages 64 to 66 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 67 to 68 has been properly prepared in accordance with the Companies Act, 2015.



Certified Public Accountants

Nairobi
31st March 2021

CPA Kang'e Saiti, Practising certificate P/1652

Signing partner responsible for the independent audit

Consolidated statement of profit or loss and other comprehensive income

	Note	2020 Shs'000	2019 Shs'000
Interest income	6	4,265,509	5,167,176
Interest expense	6	(2,399,249)	(3,148,869)
Net interest income		1,866,260	2,018,307
Credit impairment losses	21	(405,069)	(298,969)
Net interest income after credit impairment losses		1,461,191	1,719,338
Fee and commission income	7	256,922	376,909
Other income	8	170,274	925,546
Net foreign exchange income		85,270	50,151
Net operating income		1,973,657	3,071,944
Employee benefits	10	(1,227,163)	(1,078,236)
Depreciation and amortisation	11	(500,392)	(457,922)
Other operating expenses	9	(1,925,851)	(1,675,716)
Share of (loss) / profit in joint ventures	20	(96,133)	2,128
Loss before income tax		(1,775,882)	(137,802)
Income tax credit	12	69,019	27,694
Loss after income tax		(1,706,863)	(110,108)
Other comprehensive income, net of income tax			
Items that may not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	137,076	-
Deferred income tax		(6,854)	-
		130,222	-
Items that may be reclassified to profit or loss			
Fair value (loss)/gain on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)	31	(75,772)	104,247
Deferred income tax		22,732	(31,274)
		(53,040)	72,973
Total comprehensive loss for the year		(1,629,681)	(37,135)
Annualised basic and diluted earnings per share – Shs	13	(4.44)	(0.29)

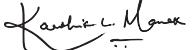
Company statement of profit or loss and other comprehensive income

	Note	2020 Shs'000	2019 Shs'000
Other income	8	126,183	177,945
Credit impairment losses	22	-	(4,612)
Employee benefits	10	(56,553)	(119,941)
Depreciation and amortisation	11	(132)	(144)
Other operating expenses	9	(308,833)	(97,815)
Loss before income tax		(239,335)	(44,567)
Income tax credit	12	11,097	10,253
Loss after income tax		(228,238)	(34,314)
Other comprehensive income		-	-
Total comprehensive loss for the year		(228,238)	(34,314)

Consolidated statement of financial position

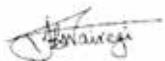
	Note	2020 Shs'000	2019 Shs'000
Assets			
Cash and balances with banks	15	2,284,217	2,982,324
Placements with other banks	16	202,435	803,923
Investment in government securities	17	7,105,617	4,602,869
Loans and advances to banks	21	201,509	227,770
Loans and advances to customers	21	36,796,964	38,551,968
Investment in joint ventures	20	1,635,079	1,731,214
Other assets	22	983,390	910,648
Investment in property fund	23	324,251	788,040
Investment property	28	1,263,268	1,256,768
Inventories	24	514,422	514,422
Property and equipment	18	1,237,680	1,218,406
Right of use asset	35	543,174	635,125
Intangible assets	19	703,254	863,505
Income tax recoverable	12	344,930	151,220
Deferred income tax	25	1,305,059	1,216,715
Total Assets		55,445,249	56,454,917
Liabilities			
Deposits from customers	26	39,944,490	37,399,987
Deposits from banks	26	1,190,118	528,250
Other liabilities	27	1,410,654	1,750,865
Dividends payable	14	6,361	13,023
Borrowings	29	3,628,227	5,803,723
Government of Kenya income notes	32	52,860	52,849
Lease liabilities	35	650,751	714,751
		46,883,461	46,263,448
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Statutory credit risk reserve	31	3,653,888	2,668,069
Revaluation reserves	31	1,012,125	881,903
Fair value reserves	31	13,972	67,012
(Accumulated losses) / Retained earnings		(2,384,780)	307,902
		8,561,788	10,191,469
Total Liabilities and Shareholders' Equity		55,445,249	56,454,917

The financial statements on pages 75 - 173 were approved for issue by the Board of directors on 31st March 2021 and signed on its behalf by:



Kaushik Manek

Interim Chairman



Benson Wairegi

Director



Robert Kibaara

Director



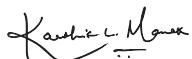
Regina Anyika

Company Secretary

Company statement of financial position

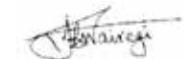
	Note	2020 Shs'000	2019 Shs'000
Assets			
Cash and balances with banks	15	20,196	31,156
Investment in subsidiaries	20	9,762,694	9,958,782
Other assets	22	1,645	70,479
Property and equipment	18	418	549
Current income tax	12	41,682	34,157
Deferred income tax	25	37,204	26,107
Total Assets		9,863,839	10,121,230
Liabilities			
Other liabilities	27	267,763	290,254
Dividends payable	14	6,361	13,023
		274,124	303,277
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Retained earnings		3,323,132	3,551,370
		9,589,715	9,817,953
Total Liabilities and Shareholders' Equity		9,863,839	10,121,230

The financial statements on pages 75 - 173 were approved for issue by the Board of directors on 31st March 2021 and signed on its behalf by:



Kaushik Manek

Interim Chairman



Benson Wairegi

Director



Robert Kibaara

Director



Regina Anyika

Company Secretary

Consolidated statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Revaluation reserves Shs' 000	Statutory credit risk reserve Shs' 000	Retained earnings Shs' 000	Fair value reserves Shs' 000	Total Shs' 000
Year ended 31 December 2019							
At start of year	1,923,071	4,343,512	881,903	1,885,489	1,292,467	(5,961)	10,320,481
Changes on initial application of IFRS 16, net of deferred income tax (Note 35)	-	-	-	-	(91,877)	-	(91,877)
Restated at start of year	1,923,071	4,343,512	881,903	1,885,489	1,200,590	(5,961)	10,228,604
Loss for the year	-	-	-	-	(110,108)	-	(110,108)
Other comprehensive income for the year	-	-	-	-	72,973	-	72,973
Transfer to statutory credit risk reserve	-	-	-	782,580	(782,580)	-	-
At end of year	1,923,071	4,343,512	881,903	2,668,069	307,902	67,012	10,191,469
Year ended 31 December 2020							
At start of year	1,923,071	4,343,512	881,903	2,668,069	307,902	67,012	10,191,469
Loss for the year	-	-	-	-	(1,706,863)	-	(1,706,863)
Other comprehensive income for the year	-	-	130,222	-	-	(53,040)	77,182
Transfer to statutory credit risk reserve	-	-	-	985,819	(985,819)	-	-
At end of year	1,923,071	4,343,512	1,012,125	3,653,888	(2,384,780)	13,972	8,561,788

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 2019				
At start of year	1,923,071	4,343,512	3,585,684	9,852,267
Loss for the year	-	-	(34,314)	(34,314)
Total comprehensive income	-	-	(34,314)	(34,314)
At end of year	1,923,071	4,343,512	3,551,370	9,817,953

Year ended 31 December 2020

At start of year	1,923,071	4,343,512	3,551,370	9,817,953
Loss for the year	-	-	(228,238)	(228,238)
Total comprehensive income	-	-	(228,238)	(228,238)
At end of year	1,923,071	4,343,512	3,323,132	9,589,715

Consolidated statement of cash flows

	Note	2020 Shs'000	2019 Shs'000
Net cash flows from operating activities	33	1,156,198	5,694,825
INVESTING ACTIVITIES			
Purchase of property and equipment	18	(32,409)	(39,220)
Purchase of investment property	28	(37,848)	(60,000)
Proceeds from sale of equipment		58	16,934
Purchase of intangible assets	19	(66,680)	(67,870)
Net cash flows used in investing activities		(136,879)	(150,156)
FINANCING ACTIVITIES			
Principle repayments of borrowings	29	(2,175,496)	(3,020,004)
Payment of corporate bond	30	-	(3,051,811)
Dividend paid	14	(6,662)	(15,032)
Principal lease payments	35	(130,488)	(129,872)
Net cash flows used in financing activities		(2,312,646)	(6,216,719)
Net decrease in cash and cash equivalents	33	(1,293,327)	(672,050)
Cash and cash equivalents at start of year		2,337,779	3,009,372
Effects of exchange rate differences		13,964	457
Cash and cash equivalents at end of year	33	1,058,416	2,337,779

Company statement of cash flows

	Note	2020 Shs' 000	2019 Shs' 000
Net cash flows (used in) / generated from operating activities	33	(4,298)	12,279
INVESTING ACTIVITIES			
Purchase of property and equipment	18	-	(258)
Net cash flows (used in) / generated from investing activities		(4,298)	12,021
FINANCING ACTIVITIES			
Dividend paid	14	(6,662)	(15,032)
Net cash flows used in financing activities		(6,662)	(15,032)
Net decrease in cash and cash equivalents	33	(10,960)	(3,011)
Cash and cash equivalents at start of year		31,156	34,167
Cash and cash equivalents at end of year	33	20,196	31,156

Notes

1. General information

HF Group Plc is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, and is domiciled in Kenya. The address of the Company's registered office is shown on Page 1. The consolidated financial statements comprise of the Company and its subsidiaries (together, the "Group" or "Consolidated" and individually referred to as "Group entities").

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

2. Significant accounting policies

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

(a) Basis of preparation

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

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

Going concern

The business environment was challenging in 2020 due to the unfavourable macroeconomic factors which were largely attributed to the COVID-19 pandemic. The uptake of properties during the year was at a slower pace compared to prior years and this affected the Bank's momentum to take out the non-performing loans. Credit supply to the market and especially to the real estate sector was impacted by the slowed economic activity. This resulted in a decline in interest income as a result of holding significant non-interest earning assets and lower disbursements, driving a reduction in the loan book. In addition, there was an increase in impairment losses on loans and advances to customers. The Group's also impaired its investment in HFDI Property Fund and there was an increase in operating expenses, arising from one-off costs incurred in the year in relation to staff re-organization and settlement of legal claims.

The Group has settled debt obligations (term loans and corporate bond) amounting to Shs 8 billion in the last 2 years which has impacted the overall liquidity position. The factors above contributed to depressed performance for the year.

The Group incurred a loss before income tax of Shs 1,776 million for the year ended 31 December 2020 (2019: Shs 138 million) and had accumulated losses of Shs 2,384 million as of that date (2019: retained earnings of Shs 308 million). In addition, the Group's banking subsidiary, HFC Limited (the "Bank"), had breached certain regulatory requirements, including the statutory core capital and total capital ratios which stood at 7.83% (statutory minimum - 10.5%) and 9.08% (statutory minimum - 14.5%), respectively. The liquidity ratio fell below the minimum requirement for some months during the year and stood at 20.90% at end of the year against a statutory minimum of 20%.

The Bank was also in breach of some of the financial covenants with various lenders at 31 December 2020. East African Development Bank and Shelter Afrique have granted waivers on 17 February 2021 and 26 February 2021 respectively, for the breached covenants and have not varied the terms of the lending agreements. As a result, accelerated repayment is not envisaged.

Notes (Continued)

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

Going concern (continued)

Actions to improve tier 2 capital

Subsequent to year end, the Bank received tier 2 capital injection from the Group's majority shareholder, of Shs 1 billion on 1 February 2021. The funding will support the Bank towards resolving the breach of total capital ratio.

In addition, the Bank is currently in discussions with one of the lenders for conversion of their loan balance into tier 2 capital. Both parties have agreed and appointed a legal advisor who will prepare legal documentation and provide advisory services regarding the conversion. The conversion is expected to be completed by October 2021. Upon conversion, the Bank's total capital to risk weighted assets ratio will improve to above the statutory minimum of 14.5%.

The Bank has implemented the initiatives below aimed at ensuring future sustainable business performance and strengthening of regulatory compliance.

Overall strategy

The Board and management have put in place a turnaround strategy aimed at improving the liquidity position, capital and loan asset quality. Towards this end, HFC Limited's business segments namely Retail, Small and Medium Enterprises (SMEs), Treasury (as a business) and Institutional Banking have been revamped and have become key strategic pillars in improving deposit mobilization and generation of revenue. The Bank has also introduced new business segments including Diaspora Banking and public sector. The new reorganized full-service proposition of the Bank is profitable at operating profit level (before provisions).

Non-performing loans (NPLs)

The Bank has instituted a robust NPL recovery strategy that includes negotiated settlements, realization of collateral held, and legal action for enforcement of security (where there is no cooperation from the borrower). As at 31 December 2020, the stock of non-performing loans that was considered realizable (uncontested) within the next 12 months amounted to Shs. 3.8 billion, broken down as follows:

- Private treaty settlements/sales – Shs 1.7 billion;
- Upcoming auctions – Shs 1.5 billion; and
- Other negotiated settlement arrangements – Shs 0.6 billion.

The above recoveries are projected to result in unwinding of statutory credit risk reserves amounting to at least Shs 1.6 billion with a projected net impact of Shs 600 million on the Bank's capital position. In 2020, the Bank made collections of Shs 2.1 billion (2019: Shs 2.3 billion) from the NPL portfolio.

Compliance with regulatory capital and other ratios

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

- as covered above, the tier 2 capital already received from the Group's majority shareholder and the conversion of a loan balance to tier 2 capital will improve the total capital ratio to above the regulatory requirement;
- also as covered above, NPL recovery will reduce the statutory credit risk reserve resulting in a transfer to retained earnings to improve the core capital;
- sale of Rehani House building by June 2021; and
- the Bank has appointed a transaction advisor to scout for potential investors to provide both tier 1 and tier 2 capital. The majority shareholder of the parent company, in conjunction with the Bank are in process of appointing a local transaction advisor to scout for additional tier 1 capital.

Notes (Continued)

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

Going concern (continued)

Compliance with regulatory capital and other ratios (continued)

Liquidity ratio - In 2020, the Bank collected Shs 11.8 billion (2019: Shs 15 billion) from the loan book which was applied to meet the Bank's cash flows needs and obligations. This trend is expected to continue in 2021 and with reduced debt obligations in 2021, there will be substantial upside on the liquidity position. In addition, the Bank is currently holding investments in treasury bills and bonds amounting to Shs 7.1 billion. These investments are actively traded in the Nairobi Securities Exchange and can be liquidated on short notice to cover for liquidity needs.

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

A significant shareholder of the Group has also provided a letter of support to the Directors indicating that they will continue providing business support to the Group for a period of at least 12 months from the date of approval of these financial statements.

Based on the above initiatives and performance in the first quarter of 2021, the directors are satisfied that the going concern assumption is appropriate in the preparation of these financial statements. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

Changes in accounting policy and disclosures

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

Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

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

(ii) New and amended standards adopted by the Group and Company

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

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

The Group and Company did not have any rent concessions during the year.

The amendments listed above did not have any impact on the financial statements.

Notes (Continued)

2. Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

New and interpretations not yet adopted by the Group and Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group and Company. These standards are not expected to have a material impact on the Group and Company in the current or future reporting periods and on foreseeable future transactions.

(b) 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.

(c) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded by the group entities at their respective functional currency prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot rate of exchange at the reporting date. All differences arising from non-trading activities are taken to other operating income in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of recognition.

Notes (Continued)

2. Significant accounting policies (continued)

(d) Consolidation

(a) *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.

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.

(b) *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.

(c) *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

Notes (Continued)

2. Significant accounting policies (continued)

(d) Consolidation (continued)

(c) Disposal of subsidiaries (continued)

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.

(e) Recognition of interest income, dividend and interest expense

Interest income and expense are recognised in profit or loss using the Effective Interest Rate (EIR) method. Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- Interest on financial assets and liabilities measured at amortised cost and debt instruments classified as FVOCI, calculated using the effective interest rate (EIR). The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
- Dividend income is recognised when the Company's right to receive that payment is established.

Revenue is recognised as control is passed, either over time or at a point in time. The Group recognises revenue over time after each performance obligation is fulfilled.

(f) Fee and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

(g) Net foreign exchange income

Net foreign exchange income arises from both the sales and purchases of investment securities, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates and other market variables.

Gains or losses on assets or liabilities are included in profit or loss under net foreign exchange income.

(h) Rental income

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

(i) Insurance commission income

Insurance commission income relates to the fees earned on underwriting business forwarded to insurance companies by the Company. Revenue recognized is the net amount of commission made by the Company. Commission income is recognized on an accrual basis when services are rendered.

(j) Sale of houses

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

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;

Notes (Continued)

2. Significant accounting policies (continued)

(i) Sale of houses (continued)

- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

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

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group acting as a lessee

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

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

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

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

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

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

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

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

Notes (Continued)

2. Significant accounting policies (continued)

(k) Leases (continued)

Group acting as a lessee (continued)

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.

Short-term leases and leases of low-value assets

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

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

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

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

Group acting as a lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss account on a straight-line basis over the lease term.

(l) Property and equipment

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

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

Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit or loss.

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the 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 recognized in the profit and loss.

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:

Notes (Continued)

2. Significant accounting policies (continued)

(l) Property and equipment (continued)

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. Freehold land is not depreciated.

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

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.

(m) Intangible assets

Where computer software is not an integral part of the related computer hardware it is recognised as an intangible asset. The software is stated on the statement of financial position at costs less accumulated amortisation and impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software costs are amortised over the estimated useful life, currently estimated at five (5) to (8) years, on a straight-line basis from the date the software is available for use.

(n) 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.

(o) Employee benefits

(i) Employee retirement benefits plan

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

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

(ii) Accrued leave

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

(iii) Termination benefits

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

Notes (Continued)

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(iv) *Short-term benefits*

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

(v) *Provisions for liability*

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

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

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

(p) Income tax

The income tax expense for the year 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 rates (and 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.

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 income tax assets against current income 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.

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities

(i) Recognition and measurement

The Group initially recognises loans and advances to customers, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including regular way purchases and sales of financial assets) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

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

(ii) Classification

Financial assets

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

- Measured at amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVTPL)

Amortised cost

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

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

The Group recognises cash, deposits and balances due from financial institutions including items in the course of collection, amounts due from related parties, loans and advances to customers, certain investment securities, and other assets at amortised cost.

Fair value through other comprehensive income (FVOCI) – Debt instruments

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

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

The Group classifies certain investments it has in government securities at FVOCI.

Fair value through other comprehensive income (FVOCI) – Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. The Group currently has no equity investments held at FVOCI.

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(ii) Classification (continued)

Fair value through profit or loss (FVTPL)

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

The Group currently has no financial assets classified at FVTPL.

A financial asset is classified into one of these categories on initial recognition. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding i.e. the SPPI test. A financial asset that does not meet the SPPI test is always measured at FVTPL, unless it is an equity instrument for which an entity applies the FVOCI election. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument.

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

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

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

Business model assessment

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

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

The information considered includes:

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

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

(iii) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:

- the consideration received (including any new asset obtained less any new liability assumed); and
- any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

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

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

Financial liabilities

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

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

Financial assets (continued)

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

Financial liabilities

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

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

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

(vi) Measurement of expected credit losses

Assets that are credit-impaired on initial recognition

According to IFRS 9 (7A.8.340) Purchased or Originated Credit Impaired (POCI) assets are assets that are credit-impaired on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

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

It may not be possible to identify a single discrete event that caused the asset to be credit-impaired. Instead, the combined effect of several events may cause financial assets to become credit-impaired.

Measurement on initial recognition

On initial recognition, POCI assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(vi) Measurement of expected credit losses (continued)

Subsequent measurement

The ECLs for POCI assets are always measured at an amount equal to lifetime ECLs. However, the amount recognised as a loss allowance for these assets is not the total amount of lifetime ECLs, but instead the changes in lifetime ECLs since initial recognition of the asset. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses.

Impairment – financial assets, loan commitments and financial guarantee contracts

The impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Group's loans and advances to customers, Investment in Government securities measured at amortised cost and FVOCI, balances due to group companies and other assets;
- lease and trade receivables – this applies to the Group's finance lease and trade receivables; and
- loan commitments and financial guarantee contracts issued this applies to the Group's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

The Group recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 are complex and require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

ECLs are a probability-weighted estimate of credit losses and have been measured as follows:

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

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract - e.g. a default or past-due event;

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(vi) Measurement of expected credit losses (continued)

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

For purposes of IFRS 9 there will generally be no difference between credit impaired and non-performing financial loans as defined by the Central Bank of Kenya (CBK).

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, an entity needs to follow one of the approaches below:

- The general approach
- The simplified approach

The simplified approach is applied for trade receivables or contract assets resulting from transactions in the scope of IFRS 15 Revenue from contracts with customers or lease receivables resulting from transactions in the scope of IFRS 16 Leases. The Group has therefore applied the general approach.

The general approach

Under the general approach, at each reporting date, an entity recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss. Essentially, an entity must make the following assessment at each reporting date:

Stage 1 - For credit exposures where there have not been significant increases in credit risk since initial recognition, an entity is required to provide for 12-month ECLs, i.e., the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date (12-month ECL as per formula below).

ECL12m = PD12m x LGD12m x EAD12m x D12m

Stage 2 - For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis, a loss allowance is required for lifetime (LT) ECLs, i.e., ECLs that result from all possible default events over the expected life of a financial instrument (ECL LT as per formula below).

ECL LT = LT $\sum_{t=1}^T$ PD t x LGD t x EAD t x D t

Stage 3 - For credit exposures that are credit impaired and in default, management has discounted the expected cashflows from realisation of collateral and sale of properties in determining the expected credit losses.

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(vi) Measurement of expected credit losses (continued)

The table below shows the link between the CBK risk classifications and the IFRS 9 stage allocation for assets.

CBK PG/04 Guidelines	Days past due	IFRS 9 Stage allocation
Normal	0-30	1
Watch	31-90	2
Substandard	91-180	3
Doubtful	181 - 360	3
Loss	Over 360 or considered uncollectible	3

Definition of default

The Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay their credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Group; or
- if it meets the definition of the local regulator of default, if in the future the local regulator prescribe the criteria of default for IFRS 9 purposes

This definition is largely consistent with the regulator definition that will be used for regulatory purposes. In assessing whether a borrower is in default, the Group will consider indicators that are:

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has not rebutted the 90 days past due (DPD) rule for identifying defaults.

Significant increase in credit risk (SICR)

The Group in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group identifies a significant increase in credit risk where:

- exposures have a regulatory risk rating of 'WATCH';
- an exposure is greater than 30 days past due – this is in line with the IFRS 9 30 DPD rebuttable presumption;

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(VII) Measurement of expected credit losses (continued)

- an exposure has been restructured in the past due to credit risk related factors or which was NPL and is now regular (subject to the regulatory cooling off period); or
- by comparing an exposure's credit risk quality at the date of reporting with the credit risk quality on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework has been aligned with the Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly varies by portfolio and will include a backstop based on delinquency (30 DPD presumption).

Quantitative factors

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition based on a loan being in arrears for a period of 31 to 90 days in accordance with IFRS 9. The Group has developed an internal rating model going forward and movement in rating grades between the reporting period and initial recognition date/ the date of initial application of IFRS 9 of the loan will form the basis of significant increase in credit risk.

Qualitative factors

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

Backward transitions

Backward transitions define the criteria for moving a financial asset back from Stage 2 to Stage 1 or Stage 3 to Stage 2. The Group applies the considerations of the CBK's prudential guidelines to determine whether a financial asset should be upgraded from Stage 3 to Stage 2 and then Stage 1. Where an account in Stage 3 is regularised (i.e. all past due principal and interest is repaid in full) it may be upgraded to Stage 2 subject to observation of the cooling off period as defined by prudential guidelines. A facility which meets the above condition and has been classified as Stage 2 may be reclassified to Stage 1 if a sustained record of performance is maintained for a period of six (6) months.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the borrower's initial credit risk assessment and the current assessment at the point of modification.

Notes (Continued)

2. Significant accounting policies (continued)

(q) Financial assets and liabilities (continued)

(vi) Measurement of expected credit losses (continued)

Restructuring

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

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

Segmentation

In order to determine the ECL by modelling the PD, LGD and EAD for different loan accounts, the Bank has segmented the loan book into six major segments namely mortgage, projects, commercial, overdrafts IPF and unsecured. Micro and mobile segments are not significant for the Group. The PDs are determined at segment level, LGD at customer level (based on collateral and collections) and EAD at account level.

Risk parameters in measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- PD;
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from internally developed statistical models and other historical data that leverage regulatory models. They have been adjusted to reflect forward-looking information as described below:

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

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

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation.

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)

2. Significant accounting policies (continued)

(r) 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.

(s) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(t) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(u) Contingent liabilities

Significant litigations and claims against the Group, letters of credit, acceptances, guarantees and performance bonds are accounted for and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is recognised in profit or loss.

(v) Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Group are not assets of the Group and have a nil effect in the statement of financial position.

(w) Earnings per share

Earnings per share is calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share is the same as the basic earnings per share. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year, there were no outstanding shares with dilutive potential.

(x) Investment property

Investment property comprises land, buildings and equipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation and are initially recorded at cost, including transaction costs on development. Additional expenditure on investment properties is capitalised when it is probable that the future economic benefits will flow to the Group. All other subsequent expenditure on the properties is expensed in the period in which it is incurred.

Notes (Continued)

2. Significant accounting policies (continued)

Items of investment property are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives.

Buildings on leasehold land are depreciated over the shorter of 50 years and the remaining period of the lease. Buildings on freehold land are depreciated over fifty years. Freehold land is not depreciated.

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

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.

(y) 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.
- 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.

(z) Comparatives

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

Notes (Continued)

2. Significant accounting policies (continued)

(aa) 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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Measurement of expected credit loss allowance

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 taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group'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 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.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are banked together for the purpose of determining the collective impairment in the Group.

Notes (Continued)

3. Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions (continued)

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenario for each type of product / market and associated ECL; and
- Establishing groups of similar financial assets/ appropriate segmentation for the purposes of measuring ECL.

The expected credit loss allowance on loans and advances is disclosed in more detail in Note 21.

Covid-19 impact on impairment losses on loans and advances

The Covid-19 pandemic has resulted in a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Group to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

The estimation of impairment losses on loans and advances include an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models have used the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Given the deteriorating macroeconomic environment, increases in PDs and LGDs were made to appropriately capture the Covid-19 environment.

(b) Income taxes

The Group is subject to income taxes in Kenya. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

In the process of applying the Group's accounting policies, management has made judgments in determining:

- Whether, and how much, to provide for the potential exposure of each litigation and/or claim, disclose or not disclose certain exposures;
- Whether the Group is reasonably certain to exercise extension of its leases;
- The classification of joint arrangements;
- Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding; and
- The classification of financial assets.

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)

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	2020 Shs' 000	2019 Shs' 000
Credit exposures			
On - balance sheet items			
Balances and deposits due from financial institutions*	15	1,725,892	3,227,306
Investment securities	17	7,105,617	4,602,869
Loans and advances to customers	21	36,796,964	38,551,968
Loans and advances to banks	21	201,509	227,770
Other assets**	22	477,283	419,516
		46,307,265	47,029,429
Off-balance sheet items			
Guarantees		685,516	82,351
Letters of credit, acceptances and other credits		136,209	9,591
		821,725	91,942
		47,128,990	47,121,371

*Balances and deposits due from financial institutions excludes cash at hand as disclosed under Note 15 as this does not pose a credit risk.

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

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments and foreclosed assets have been excluded from other assets balances as they do not bear any credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing and impairment of Shs 24,825,000 (2019: Shs 96,269,000) has been recognised against them at 31 December 2020.

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)

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

	2020			
	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Amortised cost				
Individually and collectively impaired				
Grade 3: Substandard	-	-	326,251	326,251
Grade 4: Doubtful	-	-	10,472,596	10,472,596
Grade 5: Loss	-	-	-	-
Gross amount	-	-	10,798,847	10,798,847
Provision for impairment losses	-	-	(3,203,354)	(3,203,354)
Carrying amount	-	-	7,595,493	7,595,493
Grade 1: Normal	23,272,585	-	-	23,272,585
Grade 2: Watch	-	6,558,292	-	6,558,292
Gross amount	23,272,585	6,558,292	-	29,830,877
Provision for impairment losses	(78,051)	(349,846)	-	(427,897)
Carrying amount	23,194,534	6,208,446	-	29,402,980
Total Carrying amount	23,194,534	6,208,446	7,595,493	36,998,473

Exposure to credit risk (loans and advances)

	2019			
	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Amortised cost				
Individually and collectively impaired				
Grade 3: Substandard	-	-	1,954,512	1,954,512
Grade 4: Doubtful	-	-	10,361,491	10,361,491
Grade 5: Loss	-	-	-	-
Gross amount	-	-	12,316,003	12,316,003
Provision for impairment losses	-	-	(3,477,370)	(3,477,370)
Carrying amount	-	-	8,838,633	8,838,633
Grade 1: Normal	26,351,198	-	-	26,351,198
Grade 2: Watch	-	3,719,574	-	3,719,574
Gross amount	26,351,198	3,719,574	-	30,070,772
Provision for impairment losses	(42,984)	(86,683)	-	(129,667)
Carrying amount	26,308,214	3,632,891	-	29,941,105
Total Carrying amount	26,308,214	3,632,891	8,838,633	38,779,738

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.

Collateral on loans and advances

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

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

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

Notes (Continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

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	
	2020 Shs' 000	2019 Shs' 000
Property	71,985,390	89,396,526
Cash	30,112	274,031
	72,015,502	89,670,557

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

	Group	
	2020 Shs' 000	2019 Shs' 000
Concentration by segment (Gross)		
Mortgage	26,397,651	27,115,552
Projects	10,780,834	8,685,684
Commercial	2,949,952	6,130,197
Unsecured	447,981	417,441
IPF	53,290	34,309
Micro	16	3,592
	40,629,724	42,386,775

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

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

Analysis of inputs to the ECL model under multiple economic scenarios:

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

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

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

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Notes (Continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

The economic scenarios used as at 31 December 2020 included the following ranges of key indicators;
2019 - Significant macroeconomic factors (based on the loans portfolio)

		Base	Upside	Downside
		Weighting		
Macro-economic variable	Co-efficient	90%	5%	5%
Inflation	-0.39970	6.65%	9.30%	4.01%
Lending	-0.34205	11.88%	14.31%	9.45%
GDP	-0.87942	0.79%	2.08%	0%
Public debt to GDP	0.21177	62.05%	69.58%	54.52%
Constant	0.07073	-	-	-

2020 - Significant macroeconomic factors (based on the loans segments)

		Base	Upside	Downside
		Weighting		
Mortgage				
Macro-economic variable	Co-efficient	74.50%	1%	24.5%
Inflation	-1.36239	3.00%	3.73%	2.27%
Deposit	2.87028	6.71%	6.43%	6.99%
Housing price index	-1.43816	-0.20%	0.15%	-0.55%
Constant	-0.00537	-	-	-
Commercial				
Macro-economic variable	Co-efficient	74.50%	17.00%	8.50%
182 Day T-Bills	-5.7901	7.35%	8.01%	6.70%
Deposit	17.8641	6.71%	6.43%	6.99%
Housing Price Index	-3.1182	-0.20%	0.15%	-0.55%
Constant	-0.5428	-	-	-
Projects				
Macro-economic variable	Co-efficient	64.00%	1.75%	34.25%
Central Bank Rate	-13.1961	6.83%	7.29%	6.37%
Housing Price Index	-3.38576	-0.20%	0.15%	-0.55%
Constant	1.6498	-	-	-
Micro				
Macro-economic variable	Co-efficient	74.50%	1.00%	24.50%
91 Day T-Bills	-43.0878	6.59%	7.02%	6.16%
364 Day T-Bills	23.6285	8.18%	7.35%	9.02%
Housing Price Index	-5.3858	-0.14%	0.22%	-0.49%
Constant	1.4656	-	-	-

Notes (Continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

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

2020 - Significant macroeconomic factors (based on the loans segments) (continued)

Unsecured		Base	Upside	Downside
	Weighting			
Macro-economic variable	Co-efficient	72.50%	9.58%	17.92%
REPO	-2.16755	5.05%	6.37%	3.74%
Inflation	-4.64038	3.00%	3.73%	2.27%
Saving	4.50855	3.94%	3.66%	4.21%
Constant	0.4592	-	-	-

IPF sector was not correlated with any of the range of macroeconomic factors. This is due to the fact that the sector is made up of short-term loans mostly lasting for a year or less. For this reason, the historical PDs were used.

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

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

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

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

Notes (Continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

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

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

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

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

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

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

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

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

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

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 taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

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

Significant increase in credit risk

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

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

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

Contingent liabilities and commitments

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

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

Notes (Continued)

4. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Contingent liabilities and commitments (continued)

The nominal values of such commitments are listed below:

	2020 Shs'000	2019 Shs'000
Undrawn overdrafts	44,718	3,221
Letters of credit	136,209	9,591
Guarantees	685,516	82,351
	866,443	95,163
Allowance for impairment losses	(7,662)	(622)
	858,781	94,541

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:

	2020 Shs'000	2019 Shs'000
Against impaired accounts	13,406,969	18,262,874
Against accounts not impaired	58,608,533	71,407,683
	72,015,502	89,670,557

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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.

Notes (Continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

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.

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:

	2020	2019
At 31 December	20.90%	20.80%
Average for the year	19.03%	19.07%
Maximum for the year	21.98%	21.24%
Minimum for the year	17.50%	15.53%

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 2020	Due on demand Shs'000			Due within 3 months Shs'000	Due between 3 and 12 months Shs'000	Due between 1 and 5 years Shs'000	Due after 5 years Shs'000	Total Shs'000
	Due on demand Shs'000	Due within 3 months Shs'000	Due between 3 and 12 months Shs'000	Due between 1 and 5 years Shs'000	Due after 5 years Shs'000			
<i>Financial assets</i>								
Balances and deposits due from financial institutions	2,486,652	-	-	-	-	-	-	2,486,652
Loans and advances	7,416,318	796,708	616,038	5,685,497	22,483,912	36,998,473	-	
Investment securities	262,286	242,110	453,956	-	6,147,265	7,105,617	-	
Other assets	-	-	-	983,390	-	-	983,390	
Total financial assets	10,165,256	1,038,818	1,069,994	6,668,887	28,631,177	47,574,132		
<i>Financial liabilities</i>								
Customer deposits	22,511,906	3,521,734	2,274,012	14,037	11,695,437	40,017,126	-	
Bank deposits	1,190,118	-	-	-	-	-	1,190,118	
Borrowings	-	167,358	654,423	2,412,760	415,336	3,649,875	-	
Government income notes *	-	-	-	-	53,175	53,175	-	
Total financial liabilities	23,702,024	3,689,092	2,928,434	2,426,797	12,163,948	44,910,295		
Net liquidity gap	(13,536,768)	(2,650,274)	(1,858,440)	4,242,090	16,467,230	2,663,838		
Letters of credit	-	136,209	-	-	-	-	136,209	
Guarantees	75,919	92,810	476,800	40,047	-	-	685,576	
Unrecognised loan commitments	-	-	1,284,318	-	-	-	1,284,318	
Total commitments and guarantees	75,919	229,019	1,761,118	40,047	-	2,106,103		

Notes (Continued)

4. Financial risk management (continued)

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2019	Due on demand Shs'000	Due within 3 months Shs'000	Due between 3 and 12 months Shs'000	Due between 1 and 5 years Shs'000	Due after 5 years Shs'000	Total Shs'000
<i>Financial assets</i>						
Balances and deposits due from financial institutions	3,786,246	-	-	-	-	3,786,246
Loans and advances to customers	2,830,974	4,253,984	1,217,810	4,445,738	26,031,232	38,779,738
Investment securities	500,000	5,000	220,000	1,070,000	2,807,869	4,602,869
Amounts due from related parties	-	-	-	-	-	-
Other assets	-	-	-	910,649	-	910,649
Total financial assets	7,117,220	4,258,984	1,437,810	6,426,387	28,839,101	48,079,502
<i>Financial liabilities</i>						
Customer deposits	4,629,577	15,531,336	5,994,684	137,882	11,262,441	37,555,920
Bank deposits	528,250	-	-	-	-	528,250
Borrowings	-	61,418	1,151,400	3,698,136	924,882	5,835,836
Government income notes *	-	-	-	-	53,141	53,141
Total financial liabilities	5,157,827	15,592,754	7,146,084	3,836,018	12,240,464	43,973,147
Net liquidity gap	1,959,393	(11,333,770)	(5,708,274)	2,590,369	16,598,637	4,106,355
Letters of credit	5,882	-	-	3,709	-	9,591
Guarantees	3,000	14,610	6,648	58,093	-	82,351
Unrecognised loan commitments	-	-	1,148,828	-	-	1,148,828
Total commitments and guarantees	8,882	14,610	1,155,476	61,802	-	1,240,770

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

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	2020 Shs'000	2020 Shs'000
Cash at hand	761,310	558,941
Balances with Commercial Banks	777,515	135,604
Balances with Central Bank of Kenya:	745,680	2,287,779
Placements with other banks	202,697	803,923
Government securities	7,105,617	4,602,869
Total liquidity reserves	9,592,819	8,389,116

(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 2020	US\$ Shs' 000	GBP Shs' 000	Euro Shs' 000	Total Shs' 000
<i>Assets</i>				
Cash and cash equivalents	1,804,078	-	-	1,804,078
Loans and advances to customers	3,313,402	41,091	49	3,354,542
Other assets	281,040	571	433	282,044
Total assets	5,398,520	41,662	482	5,440,664
<i>Liabilities</i>				
Customer deposits	1,470,702	5,753	14,151	1,490,607
Borrowed funds	3,628,227	-	-	3,628,227
Other liabilities	-	91,313	92,589	183,902
Total liabilities	5,098,929	97,066	106,740	5,302,736
Net financial position	299,591	(55,404)	(106,259)	137,928

31 December 2019

Assets

Cash and cash equivalents	1,233,351	7,489	68,548	1,309,388
Loans and advances to customers	4,289,690	42,003	22	4,331,715
Other assets	195,476	177	367	196,020
Total assets	5,718,516	49,669	68,937	5,837,123

Liabilities

Customer deposits	291,799	6,011	2,746	300,556
Borrowed funds	5,803,723	-	-	5,803,723
Other liabilities	-	46,402	24	46,426
Total liabilities	6,095,522	52,413	2,770	6,150,705
Net financial position	(377,005)	(2,774)	66,167	(313,582)

Notes (Continued)

4. Financial risk management (continued)

(c) Market risk (continued)

The following significant exchange rates applied during the period:

	Average rates 2020	Closing rates 2020	Average rates 2019	Closing rates 2019
US Dollar	106.54	109.20	101.24	101.35
EUR	121.71	134.28	113.24	113.64
GBP	136.79	149.24	132.79	133.23

Sensitivity analysis on exchange rates

The analysis below shows the effect of a reasonably possible movement of the foreign currency rates against the Kenya Shilling (all other variables being constant).

	2020			2019		
	Change in currency	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000	Change in currency Shs' 000	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000
US\$	10%	29,959	22,469	10%	(37,628)	(26,339)
GBP	10%	(5,540)	(4,155)	10%	6,614	4,630
EURO	10%	(10,626)	(7,969)	10%	(276)	(193)

(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	2020 Shs'000	2019 Shs'000
Loans and advances	10.28%	36,998,473	38,825,998
Government securities	10.58%	7,105,617	4,602,869
Placements with banks	5.97%	202,435	803,923
Total liquidity reserves		44,306,525	42,232,790
Liabilities			
Deposits	5%	41,134,608	37,928,237
Borrowings	7.16%	3,628,227	5,803,723
Total liquidity reserves		44,762,835	43,731,960
Interest rate sensitivity gap		(456,310)	500,830

At 31 December 2019, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax loss for the year would have been Shs 18,627,103 (2019: Shs 23,330,186) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 18,627,103 (2019: Shs 23,330,186) lower arising mainly as a result of lower interest income loans and advances.

Notes (Continued)

4. Financial risk management (continued)

(c) Market risk (continued)

(iii) *Other price risk*

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

(d) Operational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Group standards for the management of operational risks. Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit committee and senior management of the Group.

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by the Group's independent risk control to ensure compliance with the Group's risk limits. The Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions.

(e) Capital management

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

The Central Bank of Kenya sets and monitors capital requirements for banks and other non-bank financial institutions. In implementing the current capital requirements Central Bank of Kenya requires the Group to maintain a prescribed ratio of total risk weighted assets. This requirement is calculated for market risk in the banking portfolio of HFC Limited.

The regulatory capital is analysed in two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and non-controlling interest after deduction of goodwill and intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserves relating to unrealized gains on equity instruments classified as available for sale.

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

Notes (Continued)

4. Financial risk management (continued)

(e) Capital management (continued)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year except for core and total capital ratio. The Banking subsidiary, HFC Limited, received Shs 1 billion tier 2 capital injection from Britam Holdings Plc, the largest shareholder of HF Group Plc, on 1 February 2021. There has been no material change in the Bank's management of capital during the period. The regulatory capital position for HFC Limited, the Group's banking subsidiary, as at 31 December 2020 was as follows:

	2020 Shs'000	2019 Shs'000
Tier 1 capital		
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	(4,226,070)	(2,308,522)
Deferred income tax asset	(665,745)	(392,369)
Total tier 1 capital	3,621,847	5,812,771
Tier 2 capital		
Regulatory reserves	578,502	558,493
Total tier 2 capital	578,502	558,493
Total regulatory capital	4,200,349	6,371,264
Risk weighted assets	46,280,127	44,679,426
Capital ratios	2020	2019
Total regulatory capital expressed as a percentage of total risk-weighted assets	9.08%	14.26%
CBK minimum requirement	14.50%	14.5%
Total tier 1 capital expressed as a percentage of risk-weighted assets	7.83%	13.01%
CBK minimum requirement	10.50%	10.50%

The Group was in breach of the regulatory capital ratios as at 31 December 2020, which were communicated to the Central Bank of Kenya (CBK). No penalties or fines were imposed by the CBK. The Group submitted their capital restoration plan and Bank's turnaround strategy to the CBK. The details of the directors' plans for the future have been detailed under Note 2 (a).

Central Bank of Kenya required the Group to maintain a minimum core capital of Shs 1 billion as at 31 December 2020. The Group is compliant with this requirement. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may limit the amount of dividends paid to shareholders.

Notes (Continued)

5. Operating segments

Notes (Continued)

5. Operating segments (continued)

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

	2020 Shs'000	2019 Shs'000
Net interest income		
Total net interest income for reportable segments	1,931,984	2,252,968
Other interest income adjustments	(81,926)	(285,257)
Consolidated net interest income	1,850,058	1,967,711
Non-interest income		
Total non-interest income for reportable segments	466,843	1,704,797
Other non-interest income	61,825	(301,595)
Consolidated non-interest income	528,668	1,403,202
Profit or loss		
Total profit or loss for reportable segments	(1,757,257)	(98,283)
Other profit or loss	(18,625)	(39,519)
Consolidated profit before income tax	(1,775,882)	(137,802)
Assets		
Total assets for reportable segments	57,874,492	58,481,231
Other assets	(2,429,243)	(2,026,313)
Consolidated total assets	55,445,249	56,454,918
Liabilities		
Total liabilities for reportable segments	49,106,956	48,095,244
Other liabilities	(2,223,495)	(1,882,546)
Consolidated total liabilities	46,883,461	46,212,698

Notes (Continued)

6. Interest income and expense

(a) Interest income

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Loans and advances	3,668,778	4,729,285	-	-
Financial assets at amortised cost	41,409	18,517	-	-
Financial assets at FVOCI	555,322	419,374	-	-
	4,265,509	5,167,176	-	-

(b) Interest expense

Deposits from banks	154,219	99,171	-	-
Deposits from customers	1,799,430	1,682,231	-	-
Borrowings	379,112	1,303,500	-	-
Lease liabilities	66,488	63,967	-	-
	2,399,249	3,148,869	-	-

7. Fee and commission income

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

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Transactional banking	91,827	134,000	-	-
Lending	54,074	133,044	-	-
Custodial services	5,139	25,521	-	-
House sales commission	37,953	2,667	-	-
Insurance commission	67,929	81,677	-	-
	256,922	376,909	-	-

Notes (Continued)

8. Other income

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Rental income	104,422	105,194	-	-
Construction project related costs	-	(312,123)	-	-
Gain on sale of property	-	553,363	-	13
House sales income	-	517,782	-	-
Other income	65,852	57,198	126,183	177,910
Gain on disposal of equipment	-	4,132	-	22
	170,274	925,546	126,183	177,945

9. Other operating expenses

	2020	2019	2020	2019
	Shs'000	Shs'000	Shs'000	Shs'000
Occupancy expenses	59,382	115,495	-	-
Deposit Protection Fund payment	57,771	52,487	-	-
Cost of sold houses	-	510,327	-	-
Marketing expenses	69,373	111,170	6,613	907
Information technology expenses	401,079	317,865	-	-
Legal expenses	312,260	78,083	-	-
Office expenses	757,474	184,611	282,891	191
General administration expenses	268,512	305,678	19,329	96,717
	1,925,851	1,675,716	308,833	97,815

10. Employee benefits

The following items are included in salaries and employee benefits:

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Salaries and other staff costs	1,154,842	1,017,213	56,441	115,664
Compulsory social welfare contributions	1,102	951	5	10
Contributions to the defined contribution retirement scheme	71,219	60,072	107	4,267
	1,227,163	1,078,236	56,553	119,941
Average number of employees	456	479	1	4

Included in salaries and other staff costs above is Shs 83 million relating to voluntary early retirement and staff re-organisation expenses incurred in the year (2019: Nil).

Notes (Continued)

11. Depreciation and amortisation

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Depreciation of property and equipment (Note 18)	150,162	153,325	132	144
Depreciation of investment property (Note 28)	31,348	21,847	-	-
Amortisation of intangible assets (Note 19)	226,931	211,918	-	-
Amortisation of right-of-use asset (Note 35)	91,951	70,832	-	-
	500,392	457,922	132	144

12. Income tax

(a) Income tax credit

Current income tax at 25% (2019: 30%)	3,447	135,540	-	-
Prior year under provision of current tax	-	50,785	-	-
Deferred tax movement (Note 25)	(80,307)	(206,135)	(11,097)	(10,253)
Prior year deferred tax (under)/over provision (Note 25)	7,841	(7,884)	-	-
	(69,019)	(27,694)	(11,097)	(10,253)

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	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Loss before income tax	(1,775,882)	(137,802)	(239,335)	(44,567)
Tax at the applicable tax rate of 25% (2019: 30%)	(443,971)	(41,341)	(59,834)	(13,370)
Effect of changes in tax rates	(13,385)	-	(1,850)	-
Prior year under provision of current tax	-	50,785	-	-
Prior year (under)/over provision of deferred tax	7,841	(7,884)	-	-
Tax effect of non-deductible costs and tax-exempt income	380,496	(29,254)	50,587	3,117
Income tax credit	(69,019)	(27,694)	(11,097)	(10,253)

Notes (Continued)

12. Income tax (continued)

(b) Current income tax

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
At start of year	151,220	311,736	34,157	25,133
Charge for the year	(3,447)	(135,540)	-	-
Paid during the year	197,157	23,940	7,525	9,024
Reclassification from withholding tax	-	1,869	-	-
Prior year under provision	-	(50,785)	-	-
At end of year	344,930	151,220	41,682	34,157

13. 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:

	2020 Shs'000	2019 Shs'000
Net loss for the year attributable to shareholders	(1,706,863)	(110,108)
Number of ordinary shares in issue (000's)	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	384,614
Basic earnings per share	(4.44)	(0.29)
Weighted earnings per share	(4.44)	(0.29)

14. Dividends

(a) Proposed dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. No final dividend in respect of the year ended 31 December 2020 (2019: Nil) has been proposed. No interim dividend was paid during the year (2019: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2020 (2019: 384,614,168).

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

	2020 Shs'000	2019 Shs'000
At start of year	13,023	28,055
Proposed dividends (prior year)	-	-
Transfer from retained earnings	-	-
Dividends paid during the year	(6,662)	(15,032)
At end of year	6,361	13,023

Notes (Continued)

15. (a) Cash and balances with banks

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	Shs'000
Cash at hand	761,310	558,941	-	-
Balances with commercial banks	777,515	136,170	20,196	31,156
Placements with other banks (Note 16)	202,697	804,645	-	-
Balances with Central Bank of Kenya:				
- Unrestricted	(942,556)	338,023	-	-
- Restricted (Cash Reserve Ratio)	1,688,236	1,949,756	-	-
	2,487,202	3,787,535	20,196	31,156
Allowance for impairment losses	(550)	(1,288)	-	-
	2,486,652	3,786,247	20,196	31,156
Cash and balances with banks	2,284,217	2,982,324	20,196	31,156
Placement with other banks	202,435	803,923	-	-
	2,486,652	3,786,247	20,196	31,156
Movement in restricted balances:				
At start of year			1,949,756	1,813,348
Movement during the year			(261,520)	136,408
At end of year			1,688,236	1,949,756

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 2020, the Cash Reserve Ratio was 4.25% (2019: 5.25%) of all deposits. These funds are available for use by the Group in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%. The restricted balances above are not available for use in the Group's day to day operations.

Notes (Continued)

15. (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	2020 Shs' 000	2019 Shs' 000
Cash and cash equivalents (Note 15(a))	1,058,416	2,337,779
Liquid investments:		
Investment in government securities (Note 17)	6,845,617	4,102,869
Borrowings - repayable within one year (Note 29)	(2,151,996)	(1,769,578)
Borrowings - repayable after one year (Note 29)	(1,476,231)	(4,034,145)
Lease liabilities (Note 35)	(650,751)	(714,751)
Net cash	3,625,055	(77,826)
Cash and liquid investments	7,904,033	6,440,648
Gross debt - fixed interest rates	(3,318,673)	(4,214,255)
Gross debt - variable interest rates	(960,305)	(2,304,219)
	3,625,055	(77,826)

Notes (Continued)

	Liquid assets	Investment securities	Due within 1 year	Borrowings	Leases	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2020						
At start of year	2,337,779	4,102,869	(1,769,578)	(4,034,145)	(714,751)	(77,826)
Cash flows	(1,293,327)	2,819,800	(382,418)	2,557,914	130,488	3,832,457
Non-cash movements	-	(77,052)	-	-	(66,488)	(143,540)
Foreign exchange adjustments	13,964	-	-	-	-	13,964
At end of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055

Notes (Continued)

15 (b) Net debt reconciliation (continued)

	Cash and cash equivalents Shs' 000	Liquid assets Investment securities Shs' 000	Due within 1 year Shs' 000	Borrowings Due after 1 year Shs' 000	Corporate bond Shs' 000	Lease liabilities Shs' 000	Leases Total Shs' 000
Year ended							
31 December 2019							
At start of year	3,009,372	3,212,140	(2,974,247)	(7,442,691)	(3,051,811)	-	(7,247,237)
Cash flows	(672,050)	786,482	749,775	2,270,229	3,051,811	(129,872)	6,056,375
Non-cash movements	-	104,247	454,894	1,138,117	-	584,879	1,112,579
Foreign exchange	457	-	-	-	-	-	457
At end of year	2,337,779	4,102,869	(1,769,578)	(4,034,145)	-	(714,751)	(77,826)

Notes (Continued)

16. Placements with other banks

	Group	
	2020 Shs'000	2019 Shs'000
Placements with other banks	202,697	804,645
Less: Allowance for impairment losses	(262)	(722)
	202,435	803,923

The weighted average effective interest rate on placements with other banks was 5.97% (2019: 1.72%).

17. Investment in government securities

Held at amortised cost

	2020 Shs'000	2019 Shs'000
Treasury bills and bonds	1,941,696	628,621
FVOCI		
Treasury bonds held at FVOCI	5,163,921	3,974,248
	7,105,617	4,602,869

The weighted average effective interest rate on investment securities at 31 December was 10.58% (2019: 13.33%).

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

	Group	
	2020 Shs'000	2019 Shs'000
Amortised cost		
At start of year	628,621	515,801
Net purchases during the year	1,313,075	112,820
At end of year	1,941,696	628,621
Fair value through other comprehensive income (FVOCI)		
At start of year	3,974,248	2,696,339
Purchases during the year	2,850,000	3,170,000
Sales/maturities during the year	(1,584,555)	(1,996,338)
(Loss)/gains on fair valuation	(75,772)	104,247
At end of year	5,163,921	3,974,248
Total investment securities	7,105,617	4,602,869

Maturity analysis for the investments in government securities

Maturing within 90 days	260,000	500,000
Maturing after 90 days	6,845,617	4,102,869
Total	7,105,617	4,602,869

Notes (Continued)

18. Property and equipment

(a) Group	Freehold land Shs'000	Buildings Shs'000	Furniture, fixtures, equipment & motor vehicles Shs'000	Total Shs'000
Year ended 31 December 2020				
Cost or valuation				
At start of year	62,000	805,183	1,239,746	2,106,929
Additions	-	-	32,409	32,409
Disposals	-	-	(216)	(216)
Transfers	-	-	(4,488)	(4,488)
Revaluation	-	100,000	-	100,000
At end of year	62,000	905,183	1,267,451	2,234,634
Comprising:				
At cost	10,000	655,183	1,266,591	1,931,774
At valuation	52,000	250,000	860	302,860
	62,000	905,183	1,267,451	2,234,634
Accumulated depreciation				
At start of year	-	61,774	826,749	888,523
Charge for the year	-	12,258	137,904	150,162
Disposals	-	-	(166)	(166)
Transfers	-	-	(4,489)	(4,489)
Revaluation gain	-	(37,076)	-	(37,076)
At end of year	-	36,956	959,998	996,954
Net book value at end of year	62,000	868,227	307,453	1,237,680

Notes (Continued)

18. Property and equipment (continued)

(a) Group	Freehold land Shs'000	Buildings Shs'000	Furniture, fixtures, equipment & motor vehicles Shs'000	Total Shs'000
Year ended 31 December 2019				
Cost or valuation				
At start of year	62,000	805,183	1,232,130	2,099,313
Additions	-	-	39,220	39,220
Disposals	-	-	(31,604)	(31,604)
At end of year	62,000	805,183	1,239,746	2,106,929
Comprising:				
At cost	10,000	20,651	1,238,886	1,269,537
At valuation	52,000	784,532	860	837,392
	62,000	805,183	1,239,746	2,106,929
Accumulated depreciation				
At start of year	-	48,662	705,338	754,000
Charge for the year	-	13,112	140,213	153,325
Disposals	-	-	(18,802)	(18,802)
At end of year	-	61,774	826,749	888,523
Net book value at end of year	62,000	743,409	412,997	1,218,406

Notes (Continued)

18. Property and equipment (continued)

The land and buildings were revalued on 16 December 2020 by Tyson's Limited, a firm of independent professional valuers based on open market value approach. The resulting surplus was credited to revaluation reserve. The motor vehicle was revalued at 860,000 in year 2018 after being fully depreciated while still in use. The net book value of properties at their historical cost is as follows:

	2020 Shs'000	2019 Shs'000
Free hold land	52,000	52,000
Buildings	584,350	597,406
	636,350	649,406

The historical cost of free hold land is Shs 52,000,000 and buildings is Shs 655,290,000.

Included in equipment are assets with a gross value of Shs 323,926,246 (2019: Shs 357,901,335) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of Shs 64,785,249 (2019: Shs 71,580,267). Revaluation of the Bank's assets is done after every 3 years.

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

	2020 Shs'000	2019 Shs'000
Motor vehicle	516	688

(b) Company

	Furniture, fixtures, equipment & motor vehicles	
	2020 Shs'000	2019 Shs'000
Cost or valuation		
At start of year	801	923
Additions	-	258
Disposals	-	(380)
At end of year	801	801
Accumulated depreciation		
At start of year	251	227
Charge for the year	132	144
Disposals	-	(119)
At end of year	383	251
Net book value at end of year	418	549

Notes (Continued)

19. Intangible assets

	Group	
	2020 Shs'000	2019 Shs'000
Cost:		
At start of year	1,793,711	1,725,841
Additions during the year	66,680	67,870
At end of year	1,860,391	1,793,711
Accumulated amortisation		
At start of year	930,206	718,288
Amortisation during the year	226,931	211,918
At end of year	1,157,137	930,206
Net book value at end of year	703,254	863,505

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

20. Investments in subsidiary companies and joint ventures

(a) Subsidiaries

	Company	
	2020 Shs'000	2019 Shs'000
HFC Limited	100%	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020
HF Insurance Agency Limited (HFIA)	100%	100
	9,762,694	9,958,782

Notes (Continued)

20. Investments in subsidiary companies (continued)

(b) Investment in Joint ventures & associate

At start of year	Group	
	2020 Shs'000	2019 Shs'000
Kahawa Downs Limited	50%	151,474
Precious Heights Limited	50%	90,906
Richland Development Limited	50%	155,789
Claycity Limited	33%	490,604
Theta Dam Estate Limited	50%	842,441
	1,731,214	1,729,086

Group's share of (loss)/profit in joint ventures

Kahawa Downs Limited	50%	(31,503)	6,737
Precious Heights Limited	50%	(2,805)	(985)
Richland Development Limited	50%	(58,928)	(2,824)
Claycity Limited	33%	(1,274)	(721)
Theta Dam Estate Limited	50%	(1,623)	(79)
		(96,133)	2,128
At end of year		1,635,079	1,731,214

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

Notes (Continued)

20. 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.

Group	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
Year ended 31 December 2020	50%	50%	50%	33%	50%	50%
% Holding						
Revenue	7,462	401	(86,509)	500	-	(78,146)
Operating costs	(38,401)	(8,414)	(30,995)	(5,785)	(3,249)	(86,844)
Income tax expense	(32,066)	2,404	(353)	1,425	-	(28,590)
Loss and other comprehensive income	(63,005)	(5,609)	(117,857)	(3,860)	(3,249)	(193,580)
Group share of net profit/(loss)	(31,503)	(2,805)	(58,928)	(1,274)	(1,623)	(96,133)
Net assets	239,942	176,202	193,722	1,482,818	1,681,632	3,774,316
Groups share of net assets	119,971	88,101	96,861	489,330	840,816	1,635,079
Group's interest in net assets at the beginning of the year	151,474	90,906	155,789	490,604	842,441	1,731,214
Group share of current year total comprehensive income	(31,503)	(2,805)	(58,928)	(1,274)	(1,623)	(96,133)
	119,971	88,101	96,861	489,330	840,816	1,635,079

Notes (Continued)

20. Investments in subsidiary companies (continued)

(b) Joint ventures (continued)

Group	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
Year ended 31 December 2019						
% Holding	50%	50%	50%	33%	50%	
Revenue	132,126	3,125	1,216	1,717	-	138,184
Operating costs	(112,863)	(5,940)	(6,500)	(3,386)	(158)	(128,847)
Income tax expense	(5,789)	845	(365)	(515)	-	(5,824)
Profit/(loss) and other comprehensive income	13,474	(1,970)	(5,649)	(2,184)	(158)	3,513
Group share of net profit/(loss)	6,737	(985)	(2,824)	(721)	(79)	2,128
Current assets	466,197	882,414	2,084,399	1,824,696	1,685,284	6,942,990
Current liabilities	(163,249)	(700,604)	(1,772,821)	(338,014)	(402)	(2,975,090)
Net assets	302,948	181,810	311,578	1,486,682	1,684,882	3,967,900
Groups share of net assets	151,474	90,906	155,789	490,604	842,441	1,731,214
Group's interest in net assets at the beginning of the year	144,737	91,891	158,613	491,325	842,520	1,729,086
Group share of current year total comprehensive income	6,737	(985)	(2,824)	(721)	(79)	2,128
Carrying amount of interest in investee at end of the year	151,474	90,906	155,789	490,604	842,441	1,731,214

Notes (Continued)

21. Loans and advances at amortised cost

Group	2020 Shs'000	2019 Shs'000
Gross loans and advances to banks	201,650	227,962
Less: provision for impairment losses	(141)	(192)
Net loans and advances to banks	201,509	227,770
Gross loans and advances to customers	40,428,074	42,158,813
Less: Provision for impairment losses	(3,631,110)	(3,606,845)
Net loans and advances to customers	36,796,964	38,551,968
Maturing:		
Within five years	13,318,023	13,052,807
Over five years to ten years	13,126,505	13,614,047
Over ten years to fifteen years	8,848,199	9,569,239
Over fifteen years	5,336,997	6,150,682
Gross loans and advances	40,629,724	42,386,775

During the year, HFC Limited, the banking subsidiary of the Group, purchased properties worth Shs 31,500,000 from distressed borrowers in full realization of the debt owed to the Company. These properties have been classified as investment properties (Refer Note 28).

31 December 2020	Stage 1	Stage 2	Stage 3	Total Shs' 000
	12-month ECL Shs' 000	Lifetime ECL Shs' 000	Lifetime ECL Shs' 000	
Gross loans and advances	23,272,585	6,558,292	10,798,847	40,629,724
Loss allowance	(78,051)	(349,846)	(3,203,354)	(3,631,251)
Net loans and advances	23,194,534	6,208,446	7,595,493	36,998,473

31 December 2019

Gross loans and advances	26,351,198	3,719,574	12,316,003	42,386,775
Loss allowance	(42,984)	(86,683)	(3,477,370)	(3,607,037)
Net loans and advances	26,308,214	3,632,891	8,838,633	38,779,738

Notes (Continued)

21. Loans and advances (continued)

	Gross		Net	
	2020 Shs' 000	2019 Shs' 000	2020 Shs' 000	2019 Shs' 000
Current portion	8,763,992	8,435,101	8,110,768	7,717,289
Non-current portion	31,865,732	33,951,674	28,887,705	31,062,449
	40,629,724	42,386,775	36,998,473	38,779,738

Impairment of loans and advances

Year ended 31 December 2020	Stage 1		Stage 2		Stage 3	Total Shs' 000
	12-month ECL Shs' 000		Lifetime ECL Shs' 000	Lifetime ECL Shs' 000		
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	
Loss allowance at start of year	42,984		86,683	3,477,370		3,607,037
Movements during the year:						
Transfer to 12 months ECL	(5,996)		5,603	393		-
Transfer to lifetime ECL not credit impaired	23,949		(26,849)	2,900		-
Transfer to lifetime ECL credit impaired	32,647		111,247	-143,894		-
Net remeasurement of loss allowance	(51,516)		(86,035)	404,330		266,779
Net financial assets originated	44,208		263,935	83,783		391,926
Financial assets derecognised	(8,225)		(4,738)	-341,850		(354,813)
Write offs	-		-	(279,678)		(279,678)
Loss allowance as at end of year	78,051		349,846	3,203,354		3,631,251

Year ended 31 December 2019	Stage 1		Stage 2		Stage 3	Total Shs' 000
	12-month ECL Shs' 000		Lifetime ECL Shs' 000	Lifetime ECL Shs' 000	Lifetime ECL Shs' 000	
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	
Loss allowance at start of year	68,045		110,058	2,987,712		3,165,815
Transfer to 12 months ECL	(12,634)		3,278	9,356		-
Transfer to lifetime ECL not credit impaired	37,530		(76,113)	38,583		-
Transfer to lifetime ECL credit impaired	65,627		105,710	(171,337)		-
Net remeasurement	(122,907)		(37,695)	859,025		698,423
Net financial assets originated	16,253		2,559	22,530		41,342
Financial assets derecognised	(8,930)		(21,114)	(268,499)		(298,543)
Gross carrying amount at end of year	42,984		86,683	3,477,370		3,607,037

Notes (Continued)

21. Loans and advances at amortised cost (continued)

Year ended 31 December 2020	2020			
	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Gross carrying amount at start of year	26,351,198	3,719,574	12,316,003	42,386,775
Transfer to 12 months ECL	1,024,611	(576,987)	(447,624)	-
Transfer to lifetime ECL not credit impaired	(1,900,044)	1,900,044	-	-
Transfer to lifetime ECL credit impaired	(103,691)	(129,412)	233,103	-
Net remeasurement	(1,843,644)	219,589	51,941	(1,572,114)
Net financial assets originated	1,763,479	1,799,297	197,970	3,760,746
Financial assets derecognised	(2,019,324)	(373,813)	(1,552,546)	(3,945,683)
	(3,078,613)	2,838,718	(1,517,156)	(1,757,051)
Gross carrying amount at end of year	23,272,585	6,558,292	10,798,847	40,629,724
Year ended 31 December 2019	2019			
	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Gross carrying amount at start of year	28,026,927	5,244,224	13,334,356	46,605,507
Transfer to 12 months ECL	2,203,474	(1,790,413)	(413,061)	-
Transfer to lifetime ECL not credit impaired	(1,885,023)	2,595,966	(710,943)	-
Transfer to lifetime ECL credit impaired	(217,686)	(1,405,806)	1,623,492	-
Net remeasurement	(2,401,675)	(1,164,726)	321,004	(3,245,397)
Net financial assets originated	5,407,253	636,095	22,545	6,065,893
Financial assets derecognised	(4,782,072)	(395,766)	(1,861,390)	(7,039,228)
	(1,675,729)	(1,524,650)	(1,018,353)	(4,218,732)
Gross carrying amount at end of year	26,351,198	3,719,574	12,316,003	42,386,775

The weighted average effective interest rate on loan advances to customers as at 31 December 2020 was 10.28% (2019: 10.67%).

Notes (Continued)

21. 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

Year ended 31 December 2020	Loans and advances to banks Shs'000	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	Total Shs'000
Net re-measurement of loss allowance		127	266,779	7,040	(434)	26,918
Financial assets derecognized		-	(354,813)	-	-	(354,813)
New financial assets originated or purchased		-	435,205	-	-	435,205
Modification losses		-	24,247	-	-	24,247
	127	371,418		7,040	(434)	26,918
						405,069
Year ended 31 December 2019						
Net re-measurement of loss allowance	(14)	698,423	(9,629)	(498)	(45,520)	642,762
Financial assets de recognized	-	(389,265)	-	-	-	(389,265)
New financial assets originated or purchased	-	45,472	-	-	-	45,472
	(14)	354,630		(9,629)	(498)	(45,520)
						298,969

Notes (Continued)

21. Loans and advances at amortised cost (continued) Analysis of loans per segment

Segment	2020		2019		
	Gross Shs'000	Loss allowance Shs'000	Carrying amount Shs'000	Gross Shs'000	Loss allowance Shs'000
Commercial	2,949,952	(314,438)	2,635,514	6,130,197	(1,218,278)
IPF	53,290	(1,117)	52,174	34,309	(231)
Micro	16	(11)	5	3,592	(3,055)
Mortgage	26,397,651	(1,300,400)	25,097,251	27,115,552	(1,219,363)
Projects	10,780,834	(1,882,243)	8,898,591	8,685,684	(1,074,605)
Unsecured	447,981	(133,042)	314,939	417,441	(91,505)
	40,629,724	(3,631,252)	36,998,473	43,542,606	(3,607,037)
					38,779,738

Notes (Continued)

21. Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

	Mortgage Shs'000	Projects Shs'000	Commercial Shs'000	2020			Total Shs'000
				IPF Shs'000	Micro Shs'000	Unsecured Shs'000	
Stage 3							
At start of year	1,145,630	1,069,901	1,181,488	9	3,032	77,309	3,477,370
Remeasurement	(139,815)	785,121	(952,334)	655	(3,021)	35,377	(274,016)
At end of year	1,005,815	1,855,022	229,154	664	11	112,686	3,203,354
Stage 1 & 2							
At start of year	73,733	4,704	36,789	222	23	14,196	129,667
Remeasurement	220,852	22,515	57,476	231	(23)	6,160	298,230
At end of year	294,585	27,219	85,284	453	-	20,356	427,897

Notes (Continued)

21. Loans and advances at amortised cost (continued) Analysis of impairment of loans and advances per segment

	Mortgage Shs'000	Projects Shs'000	Commercial Shs'000	2019			Unsecured Shs'000	Total Shs'000
				IPF Shs'000	Micro Shs'000	2019		
Stage 3								
At start of year	1,174,212	637,834	1,128,952	8	2,368	44,338	2,987,712	
Remeasurement	(28,582)	432,067	52,536	1	664	32,971	489,658	
At end of year	1,145,630	1,069,901	1,181,488	9	3,032	77,309	3,477,370	
Stage 1 & 2								
At start of year	90,456	16,280	66,892	209	60	4,206	178,103	
Remeasurement	(16,724)	(11,576)	(29,350)	13	(37)	9,989	(48,436)	
At end of year	73,733	4,704	37,542	222	23	14,196	129,667	

Notes (Continued)

22. Other assets

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
Trade receivables	452,108	465,785	925	126,992
Less: Allowance for impairment losses	(24,825)	(96,269)	-	(57,259)
	427,283	369,516	925	69,733
Payment on deposits	-	44,983	-	-
Prepayments	168,338	193,936	720	746
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets	337,769	252,213	-	-
	983,390	910,648	1,645	70,479
12-month ECL:				
At start of year	(96,269)	(137,759)	(57,259)	(52,647)
Re-measurement during the year	71,444	41,490	57,259	(4,612)
At end of year	(24,825)	(96,269)	-	(57,259)

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

23. Investment in property fund

In June 2019, HFDI Limited, a subsidiary of HF Group Plc, formed a limited liability partnership property fund with Crescent Finco LLP named Housing Finance Development and Investment LLP. Crescent Finco had lent HFDI Limited Shs 1,593,211,353 which it converted into an investment in the property fund. HFDI Limited transferred the assets shown below into the partnership.

(a) Asset transfer

	Shs'000
Inventories (housing units) (Note 24)	1,767,901
Land	553,350
Cash	60,000
Total assets transferred	2,381,251
Borrowings transferred (Crescent Finco LLP's investment)	(1,593,211)
Investment in property fund	788,040

(b) Movement in property fund

	2020 Shs'000	2019 Shs'000
Assets as at start of the year	788,040	788,040
Impairment losses	(463,789)	-
As at end of the year	324,251	788,040

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

Notes (Continued)

24. Inventories

	Group	
	2020 Shs'000	2019 Shs'000
Inventories (housing units)	514,422	514,422

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

25. Deferred income tax

(a) Group

	Year ended 31 December 2020	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	(255,232)	43,160	-	-	1,177	(210,895)
Revaluation surplus	(46,376)	-	(6,854)	-	-	(53,230)
Financial assets at FVOCI	(29,138)	-	22,732	-	-	(6,406)
Other general provisions	13,062	(13,862)	-	-	(9,018)	(9,818)
Right of use asset	48,895	(81,710)	-	-	-	(32,815)
Unrealised exchange losses	1	-	-	-	1	-
Trading losses	334,222	234,637	-	-	-	568,859
General provision on loans and advances	1,151,281	(101,918)	-	-	-	1,049,363
Deferred income tax	1,216,715	80,307	15,878	(7,841)	1,305,059	

Notes (Continued)

25. Deferred income tax (continued)

(a) Group

Year ended 31 December 2019	Tax impact on initial application of IFRS 16					Prior year under provision Shs'000	At end of year Shs'000
	At start of year Shs'000	Shs'000	Shs'000	Shs'000	Recognized in other comprehensive income under prior year Shs'000		
<i>Arising from:</i>							
Property and equipment	(183,775)	-	(77,922)	-	-	6,465	(255,232)
Revaluation surplus	(46,376)	-	-	-	-	-	(46,376)
Financial assets at FVOCI	2,136	-	-	(31,274)	-	-	(29,138)
Other general provisions	21,056	-	(7,287)	-	(707)	13,062	48,895
Right of use asset	-	39,376	9,519	-	-	-	-
Unrealised exchange losses	1	-	-	-	-	-	1
Trading losses	204,061	-	128,035	-	-	2,126	334,222
Impairment allowances	997,491	-	153,790	-	-	-	1,151,281
Net deferred tax	994,594	39,376	206,135	(31,274)	7,884	1,216,715	
The aging of group tax losses as at the reporting date is as shown below:							
Year of origination	Loss brought forward	Taxable losses	Loss carried forward		Year of expiry		
2016	-	(50,110)	(50,110)		2025		
2017	(50,110)	(200,670)	(250,780)		2026		
2019	(250,780)	(436,510)	(687,290)		2027		
2019	(687,290)	(426,784)	(1,114,074)		2028		
2020	(1,114,074)	(782,123)	(1,896,197)		2029		

Notes (Continued)

25. Deferred income tax (continued)

(b) Company

Year ended 31 December 2020	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(43)	16	(27)
Trading losses	17,286	(6,308)	10,978
General provisions	8,864	17,389	26,253
Net deferred tax	26,107	11,097	37,204
Year ended 31 December 2019			
Property and equipment	(44)	1	(43)
Trading losses	-	17,286	17,286
General provisions	15,898	(7,034)	8,864
Net deferred tax	15,854	10,253	26,107

The aging of company tax losses as at the reporting date is as shown below:

Year of origination	Loss brought forward	Taxable Losses	Loss carried forward	Year of expiry
2020	(57,619)	(57,965)	(115,584)	2029

26. Deposits from customers

	Group	
	2020 Shs'000	2019 Shs'000
Government and parastatals:		
Payable within 90 days	2,658,898	2,190,730
Payable after 90 days and within one year	526	428,408
Payable after one year	4,892,233	4,438,377
Private sector and individuals:		
Payable within 90 days	20,554,622	19,451,307
Payable after 90 days and within one year	5,620,107	4,666,838
Payable after one year	6,218,104	6,224,327
	39,944,490	37,399,987

Notes (Continued)

26. Deposits from customers (continued)

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2020 was 7.5% (2019: 3.35%). 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.

Deposits from banks

	Group	
	2020 Shs'000	2019 Shs'000
Money market deposits	1,190,118	528,250

The weighted average interest rate on deposits from banks was 5.0% (2019: 3.35%).

Notes (Continued)

27. Other liabilities

	Group		Company	
	2020 Shs'000	2019 Shs'000	2020 Shs'000	2019 Shs'000
House sales deposits	318,413	265,690	-	-
Withholding tax payable	57,576	51,013	-	-
Sundry creditors	31,611	18,918	-	-
Trade creditors	272,306	254,154	-	-
Insurance premium payable	324,183	336,672	-	-
Deferred expenses	19,959	187,281	-	-
Contractors payables	225,529	107,428	-	-
Deposits due to the property fund	-	172,221	-	-
Asset retirement obligation – right of use asset	16,477	14,792	-	-
Other payables	144,600	342,696	267,763	290,254
	1,410,654	1,750,865	267,763	290,254

28. Investment property

	Group	
	2020 Shs'000	2019 Shs'000
Cost or valuation		
At start of year	1,293,499	748,549
Additions during the year	37,848	544,950
At end of year	1,331,347	1,293,499
Accumulated depreciation		
At start of year	36,731	14,884
Charge for the year	31,348	21,847
At end of year	68,079	36,731
Net book value at end of year	1,263,268	1,256,768

The investment property includes a commercial property that is leased to third parties and property acquired by the banking subsidiary through foreclosures. The open market value of these properties is Shs 1,817,100,000. The Bank acquired property worth Shs 31,500,000 during the year. Repairs and maintenance on the properties acquired by the Bank as at end of year, amounting to Shs 6,348,000 were capitalized.

Notes (Continued)

28. Investment property (continued)

Each of the leases contains an initial non-cancellable period, with annual rents indexed to consumer prices. No contingent rents are charged.

The commercial property was independently valued by Tyson's Limited in 2019. The valuer is registered and licensed by the Valuers Registration Board of Kenya and has the relevant experience and knowledge of valuing the various properties in the portfolio. The property was valued at Shs 1,100,000,000.

Additions during the year were as follows for the purposes of the statement of cash flows:

	2020 Shs'000	2019 Shs'000
Additions during the year	37,848	60,000

29. Borrowings

	Group	
	2020 Shs'000	2019 Shs'000
European Investment Bank (EIB)	2,012,722	2,688,377
Norwegian Investment Fund for Developing Countries	-	377,533
Shelter Afrique	726,714	802,722
Symbiotics SA	-	891,457
East African Development Bank	655,200	811,127
Arab Bank for Economic Development in Africa	233,991	232,507
	3,628,227	5,803,723
Current	2,151,996	1,687,946
Non-current portion	1,476,231	4,115,777
	3,628,227	5,803,723
Movement during the year		
At start of year	5,803,723	8,469,153
Interest expense charged during the year	377,649	604,316
Payments on interest	(377,649)	(249,742)
Payments on principal	(2,175,496)	(3,020,004)
At end of year	3,628,227	5,803,723

During the year, the Group did not default on any of the loan repayment obligations from all the existing lenders.

Notes (Continued)

29. Borrowings (continued)

During the year, HFC Limited, the banking subsidiary of the Group was in breach of loan covenants with the following institutions as described below:

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Capital Adequacy Ratio	Minimum of 14.5%	9.08%
	Cost to income ratio	Maximum of 60%	140.60%
East African Development Bank	Non-performing loans to total loans ratio	Maximum of 10%	25.81%
Arab Bank for Economic Development in Africa (BADEA)	Capital Adequacy Ratio	Minimum of 14.5%	9.08%
	Non-performing loans to total loans ratio	Maximum of 7%	25.81%

The Bank had notified the lenders of the breaches during the year and at year end, and the lenders have indicated that they will not be recalling the loans. However, given that the Bank had not obtained waivers from the lenders as at year end, the borrowings have been disclosed as current as at 31 December 2020, and the required liquidity disclosures have been included under Note 4(b) to these financial statements. Waivers from EADB and Shelter Afrique were received subsequent to year end. The details of the directors' plan to cure the breaches have been disclosed in Note 2(a).

In the year 2015, HF Development and Investment Limited, which is a 100% owned subsidiary of HF Group Plc entered into a financing arrangement with Shelter Afrique for development of housing units in Komarock Estate. The facility was secured by the land where the development was taking place. The loan was fully paid off in 2019.

In 2017, HF Development and Investment Limited entered into a financing arrangement with Crescent Finco LLP amounting to Shs 1.455 billion. The loan was fully paid off in 2019 as part of asset and liability transfer into a partnership between Crescent Finco and HF Development and Investment Limited as shown below;

	2020 Shs'000	2019 Shs'000
At start of year	-	1,493,741
Interest charge and repayments	-	99,470
Transfer to Property Fund (Note 23)	-	(1,593,211)
At end of year	-	-

Notes (Continued)

29. Borrowings (continued)

Lender	31 December 2020	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Currency	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	2,012,722	536,491	1,476,231	USD	4.321%	24 July 2017		1 October 2026
Shelter Afrique Limited	726,314	726,314	-	USD	6.66%	28 December 2015		31 January 2026
East African Development Bank (EADB)	655,200	655,200	-	USD	7.25%	23 December 2016		23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	233,991	233,991	-	USD	6.20%	5 March 2018		23 December 2028
	3,628,227	2,151,996	1,476,231					
31 December 2019								
European Investment Bank (EIB)	2,688,377	344,964	2,343,413	USD	4.32%	24 July 2017		1 October 2026
Shelter Afrique Ltd	802,722	119,765	682,957	USD	6.66%	28 December 2015		31 January 2026
East African Development Bank (EADB)	811,127	206,760	604,367	USD	7.25%	23 December 2016		23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	232,507	-	232,507	USD	6.20%	5 March 2018		23 December 2028
Norfund	377,533	125,000	252,533	KES	12.80%	31 March 2014		15 December 2020
Symbiotic Ltd	891,457	891,457	-	USD	7.18%	22 November 2017		7 November 2020
	5,803,723	1,687,946	4,115,777					

The interest rate for EIB and EADB loan is fixed whereas for the other loans, interest rate is based on Libor + margin. All borrowings are classified as senior debt.

There are no assets held as security for the borrowings.

Notes (Continued)

30. Corporate bond

	Group	
	2020 Shs'000	2019 Shs'000
At start of year	-	3,051,811
Interest accrual	-	308,775
Payments on interest	-	(308,775)
Principal repayment	-	(3,051,811)
At end of year	-	-

The corporate bond was transferred from HF Group Plc with effect from 3 August 2015. In 2010, HF Group Plc raised Shs 7,030,900,000 under the 7-year MTN whose programme size was Shs 10,000,000,000 and Shs 2,969,100,000 in 2012. The first tranche of Shs 7,030,900,000 was successfully redeemed on 2 October 2017 while the second tranche of Shs 2,969,100,000 was redeemed on 14 October 2019.

31. Capital and reserves

(a) Share capital

	Group		Company	
	2020 Shs' 000	2019 Shs' 000	2020 Shs' 000	2019 Shs' 000
Authorised – 500,000,000 (2019: 500,000,000) ordinary shares of Shs 5 each	2,500,000	2,500,000	2,500,000	2,500,000
Issued and fully paid - 384,614,168 (2019: 384,614,168) ordinary shares of Shs 5 each	1,923,071	1,923,071	1,923,071	1,923,071
Movement in ordinary shares				
At start and end of year (384,614,168)	384,614	384,614	384,614	384,614
In monetary terms:				
At start and end of year	1,923,071	1,923,071	1,923,071	1,923,071

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2020 (2019: 384,614,168). In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

Notes (Continued)

31. Capital and reserves (continued)

(b) Share premium

This reserve arises when the shares of the Company are issued at a price higher than the nominal (Par) value. In 2018, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

	2020 Shs' 000	2019 Shs' 000
At start of year	4,343,512	4,343,512
Issue of shares at a premium	-	-
At end of year	4,343,512	4,343,512

(c) Revaluation reserve

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

	2020 Shs'000	2019 Shs'000
At start of year	881,903	881,093
Change in fair value during the period:		
Revaluation gain on buildings	137,076	-
Deferred income tax	(6,854)	-
At end of year	1,012,125	881,093

(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:

	2020 Shs' 000	2019 Shs' 000
At start of year	2,668,069	1,885,489
Transfer	985,819	782,580
At end of year	3,653,888	2,668,069

Notes (Continued)

31. Capital and reserves (continued)

(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.

	2020 Shs'000	2019 Shs'000
At start of year	67,012	(5,961)
Change in fair value during the year:		
Fair value movement on treasury bonds classified as FVOCI	(75,772)	104,247
Less: Deferred income tax	22,732	(31,274)
At end of year	13,972	67,012

32. Government of Kenya income notes and loans

Government of Kenya – Income Notes	52,860	52,849
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The Government of Kenya income notes relate to a loan issued by the Government of Kenya and Commonwealth Development Corporation on 15 July 1981. The loan is not secured by the Group's assets and does not carry a redemption date. Interest is payable on the loan at a fixed rate of 8.25% per annum.

Notes (Continued)

33. Cash flows from operating activities

	Note	Group	
		2020 Shs'000	2019 Shs'000
Loss before income tax		(1,775,882)	(137,802)
Adjustments for:			
Group's share of loss/(profit) from investments in joint ventures	20	96,133	(2,128)
Interest expense on lease liabilities	35	66,488	63,967
Depreciation of property and equipment	18	150,162	153,325
Amortisation of right of use asset	35	91,951	70,832
Depreciation of investment property	28	31,348	21,847
Amortisation of intangible assets	19	226,931	211,918
Property fund impairment	23	463,789	-
Gain on land transferred to HFDI LLP	23	-	(553,350)
Loss on sale of property and equipment		(7)	(4,132)
Unrealised exchange gains on cash		(13,964)	(457)
Increase in customer and banks deposits	26	3,206,371	2,629,197
Increase/(decrease) in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	15	261,520	(136,408)
Movement in loans and advances to customers	21	1,781,265	4,115,004
Increase in investment in government securities	17	(2,819,800)	(786,482)
Decrease in housing projects	24	-	255,648
Increase in other assets	22	(72,742)	(499,238)
(Decrease)/increase in other liabilities	27	(340,208)	317,024
Net cash flows from operating activities before tax		1,353,355	5,718,765
Income tax paid		(197,157)	(23,940)
Net cash flows from operating activities		1,156,198	5,694,825

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

		Group	
		2020 Shs'000	2019 Shs'000
Cash in hand and bank		595,981	1,033,134
Balances due from banking institutions		202,435	804,645
Investments maturing within 90 days		260,000	500,000
		1,058,416	2,337,779

Notes (Continued)

33. Cash flows from operating activities (continued)

	Company	
	2020 Shs'000	2019 Shs'000
Loss before income tax	(239,335)	(44,567)
Depreciation on property and equipment	132	144
Impairment of investment in subsidiaries	196,088	-
Decrease in other assets	68,834	26,634
(Decrease) / Increase in other liabilities	(22,492)	38,832
Loss on sales of property and equipment	-	260
Net cash flows from operating activities before tax	3,227	21,203
Income tax paid	(7,525)	(9,024)
Net cash flows from operating activities	(4,298)	12,279

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	Company	
	2020 Shs'000	2019 Shs'000
Cash in hand and bank	20,196	31,156

34. Off-balance sheet contingencies and commitments

(a) *Guarantees, letters of credit and commitments*

As at 31 December 2020, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2020 Shs'000	2019 Shs'000
Guarantees	685,516	82,351
Letters of credit	136,209	9,591
	821,785	91,942

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

Notes (Continued)

34. Off-balance sheet contingencies and commitments (continued)

	2020 Shs'000	2019 Shs'000
Capital commitments	-	-
Loans approved but not yet disbursed	1,284,318	1,148,828
	1,284,318	1,148,828

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.

31 December 2020	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
Guarantees	75,959	92,810	476,800	40,047	685,616
Letters of credit	136,209	-	-	-	136,209
Loans approved but not yet disbursed	-	1,284,318	-	-	1,284,318
	212,168	1,377,128	476,800	40,047	2,106,143

31 December 2019	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
Guarantees	13,901	6,648	20,963	40,839	82,351
Letters of credit	9,591	-	-	-	9,591
Loans approved but not yet disbursed	-	1,148,828	-	-	1,148,828
	23,492	1,155,476	20,963	40,839	1,240,770

(b) Other contingent liabilities

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

The significant claims are described below:

ICEA LION Group (ICEA) sued HFC Limited and others for a loss of Shs 120 million which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stockbrokers. The Bank's advocates have filed a defence against ICEA.

Notes (Continued)

34. Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities (Continued)

Sharok Kher Mohamed sued HFC Limited for selling his property by public auction in 2000. In 2015, the High Court awarded the plaintiff Shs 20 million plus interest from January 2000. HFC appealed against the judgement to the Court of Appeal. The Court of Appeal in 2019 upheld the judgement of the High Court. The amount as at date of Court of Appeal ruling was Shs 1.2 billion. During the year contact was established with the Claimant (Sharok Kher) and negotiations resulted in an agreed settlement of Shs 239 million. When served with notification of the settlement, the Advocate representing the Principal Debtor filed an application in the Supreme court on the issue of Representation. On 4 September 2020, the Supreme Court dismissed the application on the issue of Representation for want of jurisdiction. Following dismissal of the application, HF filed a consent entering judgement in favour of Sharok Kher in the sum of Shs. 239 million to be paid in instalments as set out in the Settlement Agreement. On 25 September 2020, the Supreme court adopted the said consent as an order of the court. The Bank continues to comply with the settlement terms, subject to the conservatory orders issued by the High Court placing a lien of the sum of Shs 65 Million out of the settlement sum of Shs 239 million

35. Leases

The Group as a lessee

The Group leases a number of branch and office premises. The leases typically run for a period between 3 and 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Change on initial application of IFRS 16

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

	1 January 2019 Shs' 000
Right of use assets	442,770
Lease liabilities	(574,023)
	(131,253)
Deferred income tax	39,376
	(91,877)

Notes (Continued)

35. Leases (continued)

(a) Right-of-use assets

	2020 Shs' 000	2019 Shs' 000		
	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
At start of year	895,594	675,691		
Additions during the year	-	219,903		
Accumulated depreciation	(352,420)	(260,469)		
At end of year	543,174	635,125		
Year ended 31 December 2020				
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start of year	(11,971)	(237,045)	(11,453)	(260,469)
Charge for the year	(461)	(58,316)	(33,174)	(91,951)
At end of year	(12,432)	(295,361)	(44,627)	(352,420)
	42,180	325,718	175,276	543,174
Year ended 31 December 2019				
Cost				
At start of year	54,612	621,079	-	675,691
Additions during the year	-	-	219,903	219,903
At end of year	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start of year	(11,328)	(178,309)	-	(189,637)
Charge for the year	(643)	(58,736)	(11,453)	(70,832)
At end of year	(11,971)	(237,045)	(11,453)	(260,469)
	42,641	384,034	208,450	635,125

Notes (Continued)

35. Leases (continued)

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

At 31 December 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2020 Shs '000	2019 Shs '000
Less than one year	139,367	133,651
Between one and five years	720,861	739,535
More than five years	84,141	189,381
	944,369	1,062,567

(b) Amounts recognised in profit or loss

Leases under IFRS 16		
Interest on lease liabilities	66,488	63,967
Interest on asset retirement obligation	1,684	1,524
Depreciation of Right-of-use assets	91,951	70,832

(c) Amounts recognised in statement of cash flows

Total cash outflow for leases	2020 130,488	2019 129,872
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(d) Lease liabilities

Current	142,921	133,651
Non-current	507,830	581,100
	650,751	714,751

Movement in lease liabilities

At start of year	714,751	560,753
Additions	-	219,903
Interest expense charged	66,488	63,967
Principal elements of lease payments	(130,488)	(129,872)
At end of year	650,751	714,751

Notes (Continued)

35. Leases (continued)

(d) Lease liabilities (continued)

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 50,844,927 (2019: Shs 53,524,000).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

Operating leases under IFRS 16	2020 Shs'000	2019 Shs'000
Within one year	80,920	36,085
One to five years	198,332	113,528
After five years	378	9,820
	279,630	159,433

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

36. Related parties and related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. HF Group Plc is listed on the Nairobi Securities Exchange. The largest shareholder of HF Group Plc is Britam Holdings Plc, which has 48% shareholding. There are other companies which are related to HFC Limited through common shareholdings or common directorships.

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group (including subsidiaries) and its employees. The Group considers the Board of Directors, executive and non-executive directors, to be key management personnel for the purposes of IAS 24 - related party disclosures.

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business.

Notes (Continued)

36. Related parties and related party transactions (continued)

(a) Loans to key management personnel

	Group	
	2020 Shs' 000	2019 Shs' 000
At start of year	156,493	65,714
Loans disbursed	34,646	108,227
Repayments	(31,398)	(17,448)
At end of year	159,741	156,493
Current	31,716	27,935
Non - current	128,025	128,559
Total	159,741	156,493

(b) Loans to employees

	Group	
	2020 Shs'000	2019 Shs'000
At start of year	813,449	873,685
Loans advanced during the year	242,248	258,187
Loans repayments received	(262,084)	(318,423)
At end of year	793,613	813,449
Comprising:		
Mortgages and advances	591,323	647,167
Personal loans	191,686	158,899
Staff car loans	10,604	7,383
	793,613	813,449
Current	202,290	166,282
Non - current	591,323	647,167
Total	793,613	813,449

Interest income arising from these employees' facilities amounted to Shs 56,557,318 (2019: Shs 54,186,717).

Notes (Continued)

36. Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group	
	2020 Shs' 000	2019 Shs' 000
Remuneration to executive directors:		
Company*	51,144	51,115
Group**	15,027	-
Remuneration to key management	133,485	147,351
	199,656	198,466

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

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

	Group	
	2020 Shs' 000	2019 Shs' 000
Remuneration to key management:		
Salaries and short-term benefits	133,485	148,351
Pension	22,277	22,253
	155,762	170.604

Compensation to senior management including executive directors for the year ended 31 December 2020 amounted to Shs 155,762,104 (2019: Shs 170,604,203).

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

	Group	
	2020 Shs' 000	2019 Shs' 000
Bank balances held with HFC Limited	96,246	138,649

(e) Transactions with Britam Asset Managers Limited

Bank balances held with HFC Limited	-	1,208,330
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(f) Transactions with Housing Finance Development and Investment LLP

	Group	
	2020 Shs'000	2019 Shs'000
Bank balances held with HFC Limited	13,501	35,233
Loans and other receivables	2,093,121	1,694,668
	2,106,622	1,734,871

Notes (Continued)

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	4,865	1,329
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(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	62,366	84,570
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(i) Transactions with Housing Finance Development and Investment Property Fund

Bank balances held with HFC Limited	32,315	35,233
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(j) Transactions with Pioneer International College

Loans and advances held with HFC Limited	136,186	128,596
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(k) Transactions with Agricultural and Industrial Holdings Ltd

Loans and advances held with HFC Limited	113,137	127,060
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Notes (Continued)

37. Events after reporting period

Funding from a significant shareholder

HFC Limited requested debt financing from a significant shareholder of the Group and the shareholder declared its willingness to provide the Borrower an unsecured subordinated loan facility of USD 10,000,000 on terms and conditions set out in the facility agreement. The facility is to be repaid over a period of 7 years, with a 5-year moratorium on principal.

The terms of the agreement give the shareholder the right to convert the loan into equity upon occurrence of a change in control event. In absence of the change in control event the loan will be settled in cash according on the specified payment date and terms.

The convertible loan meets the definition of a financial liability due to the lack of unconditional right by the borrower to avoid delivering either cash or variable number of shares. In this case management will apply the requirements under IFRS 9 to account for the financial liability.

The loan was approved for disbursement by shareholder's Board on 20 January 2021 and subsequently received on 1 February 2021 by HFC Limited. Following management's application, CBK approved the inclusion of the subordinated debt as supplementary capital (Tier II) on 6 January 2021. The subordinated debt to be included for capital adequacy calculations will be limited to 50% of the core capital.

The Bank will be required to apply a cumulative discount factor of 20% each year during the loan's last five years to maturity, to reflect the diminishing value of the instrument as a continuing source of strength.

The directors have assessed this transaction as a non-adjusting subsequent event which does not impact on the financial statements of the Bank and Group as presented.

Proxy Form

HF GROUP PLC
 (the "Company")

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

FORM OF PROXY-2021 ANNUAL GENERAL MEETING(AGM)

Please complete in BLOCKS CAPITALS

I/We _____
 of _____

Being a shareholder /shareholders of HF Group Plc hereby appoint _____

Being a shareholder of the Company hereby appoint the Chairman of the meeting or (see) notes 1 and 6..... (Name of Proxy) in respect of my.....(Number of shares) as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the company to be held electronically on Friday 28th May 2021 at 12.00 Noon and at any adjournment thereof.

I/WE direct my/our proxy to vote on the following resolutions as I/WE have indicated by marking the appropriate box with 'X'. If no indication is given, my/our proxy will vote or withhold his or her discretion and I/WE authorise my/our proxy to vote (or withhold his or her vote) as he or she thinks fit in relation to any other matter which is properly put before the meeting.

Please clearly mark the box below to instruct your proxy how to vote

Item No.	Resolutions:	For	Against	Withheld
1)	To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2020, together with the Chairman's, the Directors' and Auditor's Reports thereon.			
2)	To consider, and if thought fit, to authorize the Directors to appoint Independent Directors to sit as members of the Group Board Audit & Risk Committee.			
3)	To approve the Directors Remuneration Report for the year ended 31 st December 2020.			
4)	To appoint PricewaterhouseCoopers (PWC) as the auditors of the Company in accordance with Sections 721 of the Companies Act, No. 17 of 2015 and to authorize the Directors to fix the remuneration of the auditors in terms of section 724 of the said Companies Act.			

Item No.	Resolutions:	For	Against	Withheld
5)	To consider, and if thought fit, to pass a Special Resolution pursuant to Section 22 of the Companies Act 2015, to amend the Articles of Association of the Company to be in line with the Companies Act No. 17 of 2015, with the Capital Markets Authority's Code of Corporate Governance Practices for Issuers to the Public and with good governance practice and to ratify and approve the publication of the full text of the proposed Special Resolution on the Company's website www.hfgroup.co.ke such that the said Special Resolution will be valid and effective as if the full text had been included in the notice of the annual general meeting.			
6)	To consider and, if thought fit, to pass a Special resolution pursuant to Section 22 of the Companies Act, 2015, to adopt the revised Articles of Association of the Company.			

HF GROUP PLC ELECTRONIC COMMUNICATION PREFERENCE FORM

Please complete in **BLOCK CAPITALS**

Full name of member(s) _____

Address _____

CDSC No (If known) _____

(This can be found on your CDSC Statement)

Mobile Number (of the proxy holder) _____

Date: _____

Please tick the boxes below and return to Image Registrar at P.O Box 92877, GPO 00100, 5th Floor, ABSA Towers (formerly Barclays Plaza), Loita Street.

Approval of Registration

I/WE approve to register to participate in the virtual AGM to be held on Friday 28th May 2021.

Consent for use of the Mobile Number provided

I/WE would give/our consent for the use of the mobile number provided for purposes of voting at the AGM.

Signature.....

HF GROUP PLC
 ("Kampuni")

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

FOMU YA UWAKALA – MKUTANO WA PAMOJA WA MWAKA 2021 (AGM)

Tafadhalii jaza kwa HERUFI KUBWA

Mimi /sisi _____

Kutoka _____

Kama mwandahisa / wanahisa wa HF Group Plc nateua _____

Kutoka _____

Kama mwandahisa wa kampuni namteua Mwenyekiti wa Mkutano au (ona) nukuu 1 na 6(jina la wakala) kwa mujibu wa(idadi ya hisa) kama wakala wangu wetu kuhudhuria, kuwakilisha na kupiga kura kwa niaba yangu/ yetu wakati wa mkutano wa pamoja wa mwaka wa kampuni utakaofanyika kwa mfumo wa kielektroniki siku ya ljumlahia Mei 28, 2021 kuanzia saa sita adhuhuri au kuahirishwa kwake.

MIMI/ SISI naamuru wakala wangu/ wetu kupiga kura kuhusu azimio lifuatalo kama nilivyo/ tulivyoonyesha kwa kuweka alama ya X kwenye sanduku linalofaa. Endapo hakutakuwa na ishara iliyotolewa, wakala wangu/ wetu atapiga kura au kuficha jina lake na MIMI/ SISI nampa uhuru wangu/ wakala wetu kupiga kura (au kuficha kura yake) kama atakavyoona inafaa kuhusiana na swala lingine lolote ambalo litakuwa limewasilishwa mbele ya mkutano.

Tafadhalitiavyemaalamakwenyesandukukumwamuruwakalawakojinsiyakupigakura

Item No.	Maazimio:	Kwa	napinga	Nanyamza
1)	Kupokea na endapo itakubaliwa, kupitisha mizania iliyofanyiwa ukaguzi na hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2020 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa Pesa			
2)	Kuzingatia na endapo itakubalika, kuwaamuru wakurugenzi kuteua wakurugenzi wa kujitegemea kuwa wanachama wa kamati ya kundi kuhusu uhasibu na athari			
3)	Kupitisha ripoti ya marupurupu ya wakurugenzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2020.			
4)	Kuwateua PricewaterhouseCoopers (PWC) kama wahasibu wa kampuni kwa mujibu wa sehemu ya 721 sheria za makampuni nambari 17 ya mwaka 2015 na kuwaamuru wakurugenzi kuamua marupurupu yao kufungamana na sehemu ya 724 ya sheria za kampuni iliyotajwa.			

Item No.	Maazimio:	Kwa	napinga	Nanyamza
5)	Kuzingatia, na endapo itaonekana kuwa sawa, kupitisha azimio maalum kwa mujibu wa sehemu ya 22 ya sheria za makampuni ya mwaka 2015, kufanya marekebisho hati ya ushirika ya kampuni ili kuwa sawa na sheria za kampuni kifungu nambari 17 ya mwaka 2015 pamoja na Halmashauri ya soko la hisa kuhusu taratibu za maadili bora ya usimamizi kwa utoaji dhamana za hisa kwa umma na utekelezaji wa uongozi bora na kuthibitisha na kupitisha uchapishaji wa nakala nzima ya azimio lililopendekezwa kwenye wavuti wa kampuni www.hfgroup.co.ke ili kwamba azimio hilo maalum liweze kuanza kutumika kana kwamba nukuu nzima ilikuwa imewekwa kwenye notisi ya m Kutano mkuu wa pamoja wa mwaka..			
6)	Kuzingatia na endapo itaoneka kuwa sawa, kukubali azimio maalumu kufungamana na sehemu ya 22 ya sheria za kampuni ya mwaka 2015 ili kupitisha hati ya ushirika wa kampuni iliyofanyiwa marekebisho.			

FOMU YA MAWASILIANO YA KIELEKTRONIKI YA HF GROUP Plc

Tafadhalii jaza kwa kutumia **HERUFI KUBWA**

Majina kamili ya mwanachama/ wanachama _____

Anwani _____

Namba CDSC (endapo inajulikana _____)

(Hii inaweza kupatikana kupitia taarifa (statement) yako ya CDSC)

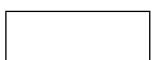
Nambari ya simu ya mkono (ya anayewakilishwa na wakala) _____

tarehe: _____

tafadhalii weka alama kwenye sanduku lililoko hapa chini na kurejesha kwa Image Registrar Slp 92877, GPO 00100,Orofa ya 5, ABSA Towers (zamani iki jilikana kama Barclays Plaza), Loita Street.

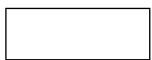
Kuidhinishwa kwa usajili

MIMI/ SISI twaidhinisha kusajiliwa ili kushiriki kwenye m Kutano usio wa kukutana pamoja utakaofanyika siku ya Ijumaa Mei 28, 2021



Ruhusa kwa matumizi ya nambari ya simu iliyotolewa

MIMI/ SISI tumetoa/ nimetoa ruhusa kwa matumizi ya nambari ya simu iliyotolewa kwa madhumuni ya kupiga kura wakati wa m Kutano wa pamoja wa Mwaka



Sahihi.....

Notes

HF WHIZZ MONEY TRANSFER



Introducing **HF Whizz Money Transfer**, a cutting edge solution that enables you to make instant money transfers from the diaspora directly into your HF Account.

Access the HF Whizz Money Transfer services on the HF Group website, fill in the details required and proceed to make the transfer in minutes.

*Terms and conditions apply.

   **HFGroupKE**  www.hfgroup.co.ke

 **Help line: 0800 721400**

HFC Limited is regulated by the Central Bank of Kenya.

 **HF GROUP**
Dreams Made Possible



HF Group

- Tel: 0709 438 800 • Toll Free: 0800 721 400
- Email: housing@hfgroup.co.ke • www.hfgroup.co.ke