HF Group Plc

RIGHTS ISSUE INFORMATION MEMORANDUM

25TH OCTOBER 2025

ENRICHING LIVES

IMPACT AND OPPORTUNITY

HF GROUP

Dreams Made Possible

HF GROUP
Dreams Made Possible

Incorporated as a public company in Kenya under the Companies Act, Number 17 of 2015 of the Laws of Kenya

Registration Number C.21/97

INFORMATION MEMORANDUM

ISSUED IN RELATION TO THE RIGHTS ISSUE OF 1,153,842,504 NEW ORDINARY SHARES (WITH A PAR VALUE OF KES 5.00 PER SHARE) AND AN OFFER PRICE OF KES 4.00 PER SHARE IN THE RATIO OF 2 NEW ORDINARY SHARES FOR EVERY 1 ORDINARY SHARE HELD (RATIO OF 2:1) WITH AN OPTION TO APPLY FOR ONE OR MORE ADDITIONAL SHARES FOR EVERY 1 ORDINARY SHARE HELD). THERE IS A GREENSHOE OPTION OF UP TO 30% OF THE RIGHTS ISSUE (EQUIVALENT TO 346,152,751 NEW ORDINARY SHARES) TO CATER FOR OVERSUBSCRIPTION

Strictly Private and Confidential

THIS INFORMATION MEMORANDUM IS ONLY MEANT FOR THE PERSON TO WHOM IT HAS BEEN ADDRESSED AND IS STRICTLY NOT FOR THE USE OR CONSIDERATION OF ANY OTHER PERSON

THE DATE OF THIS INFORMATION MEMORANDUM IS 25TH OCTOBER 2024

1. IMPORTANT NOTICE AND STATEMENTS

THIS DOCUMENT CONTAINS IMPORTANT INFORMATION FOR CONSIDERATION WHICH REQUIRES YOUR CAREFUL ATTENTION. THE INFORMATION CONTAINED IN THIS DOCUMENT INCLUDES MARKET, LEGAL AS WELL AS HISTORIC, CURRENT AND FUTURE FINANCIAL INFORMATION.

This document (including the documents incorporated by reference herein (the "Information Memorandum" or "IM") relates to the offering by HF Group PLC ("HF Group" or "HF" or the "Group") of One Billion, One Hundred and Fifty-Three Million, Eight Hundred and Forty-Two Thousand, Five Hundred and Four (1,153,842,504) ordinary shares of a par value of KES 5.00 each (the "New Shares") and a green shoe option of up to 30% (the "Green Shoe Option Shares") at an issue price of KES 4.00 per share (the "Offer Price"). Subject to applicable regulations and terms and conditions set out in this IM, the holders of ordinary shares in the Group (the "Shareholders") at 3pm on 1st November 2024 ("Record Date") are being granted renounceable rights to subscribe for the New Shares pro rata to their shareholding in the Group.

The offer ("Offer") comprises:

(1) the entitlement issue (the "Entitlement") in which Shareholders as of the Record Date (the "Eligible Shareholders") will be granted 2 new ordinary shares for every 1 ordinary share held at the Record Date to subscribe for shares at the Offer Price amounting to 769,228,336 ordinary shares (the "Entitlement Shares"); and

(2) the additional issue (the "Additional Issue"), in which Eligible Shareholders will have an option to apply for one or more additional shares for every 1 ordinary share held amounting to 384,614,168 ordinary shares ("Additional Shares"). The Additional Shares will further include the portion of the Entitlement Shares for which the Entitlement has not been validly exercised or which are untaken ("Untaken Shares") during the Offer Period (as defined in Section 2). The Additional Shares will be sold at the Offer Price. The Entitlement and the Additional Issue are together herein referred to as the "Rights".

There will also be a green shoe option of up to 30% of the New Shares (equivalent to 346,152,751 ordinary shares) (the "Green Shoe Option Shares") at the Offer Price to cater for oversubscription of the New Shares.

This Information Memorandum is issued by the Group and has been prepared with respect to an invitation to Eligible Shareholders to subscribe for New Shares in the Group under the terms herein being issued under the Group's Offer and subsequent trading of the New Shares on the Nairobi Securities Exchange (the "NSE"). This follows approval of the Offer by the Directors and the Shareholders of the Group through resolutions dated 12th August 2024 and 4th September 2024 respectively.

If you have sold or transferred all or some of your Existing Shares in the Group, please forward this Information Memorandum and the Provisional Allotment Letter (the "PAL") to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

The additional up to 1,499,995,255 new ordinary shares (assuming 100% subscription New Shares and the Green Shoe Option Shares) will carry the right to participate in all future dividends to be declared and paid on the ordinary share capital of the Group. The new ordinary shares rank pari passu with the existing ordinary shares and each ordinary share carries one vote at a general meeting of the Group. After the closing of the Offer and assuming full subscription of all the additional shares up to 1,499,995,255 new ordinary shares, the ordinary share capital of the Group will comprise of 1,884,609,423[1] issued and fully paid up ordinary shares with a par value of KES 5 each. These shares will be freely transferable.

The Capital Markets Authority (the "CMA") has approved the Offer. As a matter of policy, the CMA does not assume responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Approval of the Offer and/or listing is not to be taken as an indication of the merits of the Group or the securities.

The NSE has given permission for the listing of the New Shares. It is expected that the admission of the trading of the New Shares on the NSE will commence on 24th December 2024. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this IM. Admission of the New Shares to the official list of the NSE is not to be taken as an indication of the merits of the Group or of the New Shares.

Prospective investors should carefully consider the matters set forth under Section 15 called the "**Key Risk Factors**". If you are in doubt as to the meaning of the contents of this IM or as to what action to take, please consult your investment bank, financial advisor, stockbroker, or other professional advisor, duly authorized by the CMA, who specializes in advising on the purchase of shares and other securities.

This Information Memorandum and the accompanying PAL are presented to you to enable you make an informed decision on the Offer. The procedure for acceptance and payment is set out in this Information Memorandum and the PAL. Enquiries concerning this Information Memorandum or the PAL may be made to the Group or the Transaction Adviser whose contact details are set out above.

[1] The Group has an existing Employee Share Options Plan which periodically issues options to employees to purchase shares of the Group. The vesting date will be in September 2024 with employees exercising their options to purchase 937,883 new ordinary shares. Therefore, total issued shares of the Group will increase once the ESOP issuance process is complete.

Responsibility Statements

The IM has been seen and approved by the Board of Directors of the Group (the "Directors"). The Directors being the persons named in Section 3 and 13.2.3 of this Information Memorandum have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are true and accurate in all material respects, and there are no other material facts the omission of which would make any statement herein, whether of fact or opinion, misleading. All the Directors of the Group collectively and individually accept full responsibility for the accuracy of the information given in this IM.

Dyer and Blair Investment Bank Limited ("Dyer & Blair"), the Transaction Advisor, has relied on information provided by the Group and accordingly accepts no responsibility for the contents of the information provided for purposes of this Information Memorandum. Directors of the Group have given their assurances that to the greatest extent possible and to the best of their knowledge all information in this Information Memorandum is correct.

Walker Kontos Advocates, the Legal Advisor, has given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter in Section 16 – Legal Opinion, and the references to their names, in the form and context in which they appear and have authorised the contents of the said letter.

PricewaterhouseCoopers ("PwC"), the Reporting Accountant, has given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter in Section 17 – Reporting Accountant's Report, and the references to their names, in the form and context in which they appear and have authorised the contents of this said letter.

Selling Restrictions

Shareholders should not assume that the information in this Information Memorandum is accurate as at any date other than its date of publication. No person is or has been authorised to give any information or make any representation in connection with the Offer, other than as contained in this Information Memorandum. Delivery of this Information Memorandum at any time after the date hereof will not under any circumstances, create any implication that there has been no change or that the information set out in this Information Memorandum is correct at any time since its date. This Information Memorandum does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or purchase, any shares to any person in any jurisdiction where it would be unlawful to make such offer or solicitation in such jurisdiction.

No shares have been marketed to, nor are they available for purchase in whole or in part by, the public in any jurisdiction other than Kenya in conjunction with the Offer. In particular, shares do not qualify for distribution under any of the relevant laws of Canada, Australia or Japan, nor has any prospectus in relation to the shares been lodged with or registered by the Canadian Securities Administrators, Australian Securities and Investments Commission or the Japanese Ministry of Finance. Accordingly, subject to certain exceptions, the shares may not be, directly or indirectly, offered, sold, taken up, delivered or transferred in or into or within Canada, Australia or Japan.

The Offer consists of an offering outside the United States of America, its territories and possessions, any state of the United States, and the District of Columbia (the "United States") of Shares pursuant to Regulation S ("Regulation S") under the US Securities Act 1933, as amended (the "Securities Act"). The shares have not been and will not be registered under the Securities Act or under the securities laws of any state of the United States. Accordingly, subject to certain exceptions, the shares may not be, directly or indirectly, offered, sold, pledged, taken up, delivered or otherwise transferred in or into or within the United States absent registration or an exemption from registration under the Securities Act.

This Information Memorandum must not be acted on or relied on (i) in the United Kingdom, by persons who are not qualified investors ("Qualified Investors") within the meaning of Article 2(e) of Regulation (EU) No. 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "Prospectus Regulation") and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this Offering Memorandum relates is available only to Relevant Persons in the United Kingdom and Qualified Investors in any member state of the EEA other than the United Kingdom and will be engaged in only with such persons.

This Offer does not constitute a public offer or the solicitation of a public offer in the United Kingdom to subscribe for or purchase any shares nor a marketing in the United Kingdom or the EU under the Alternative Investment Fund Managers (the "AIFM Directive") or under the applicable implementing legislation (if any) of the United Kingdom or any EEA member state. To the extent that any shares are made available for purchase to persons in the United Kingdom, they shall only be made available to Qualified Investors: (i) who are persons who have professional experience in matters relating to investments falling within the definition of "investment professionals" in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "FPO"); (ii) who are high net worth bodies corporate, unincorporated associations and partnerships or the trustees of high value trusts falling within article 49(2)(a) to (d) of the FPO, or (iii) who are other persons to whom it may otherwise lawfully be communicated.

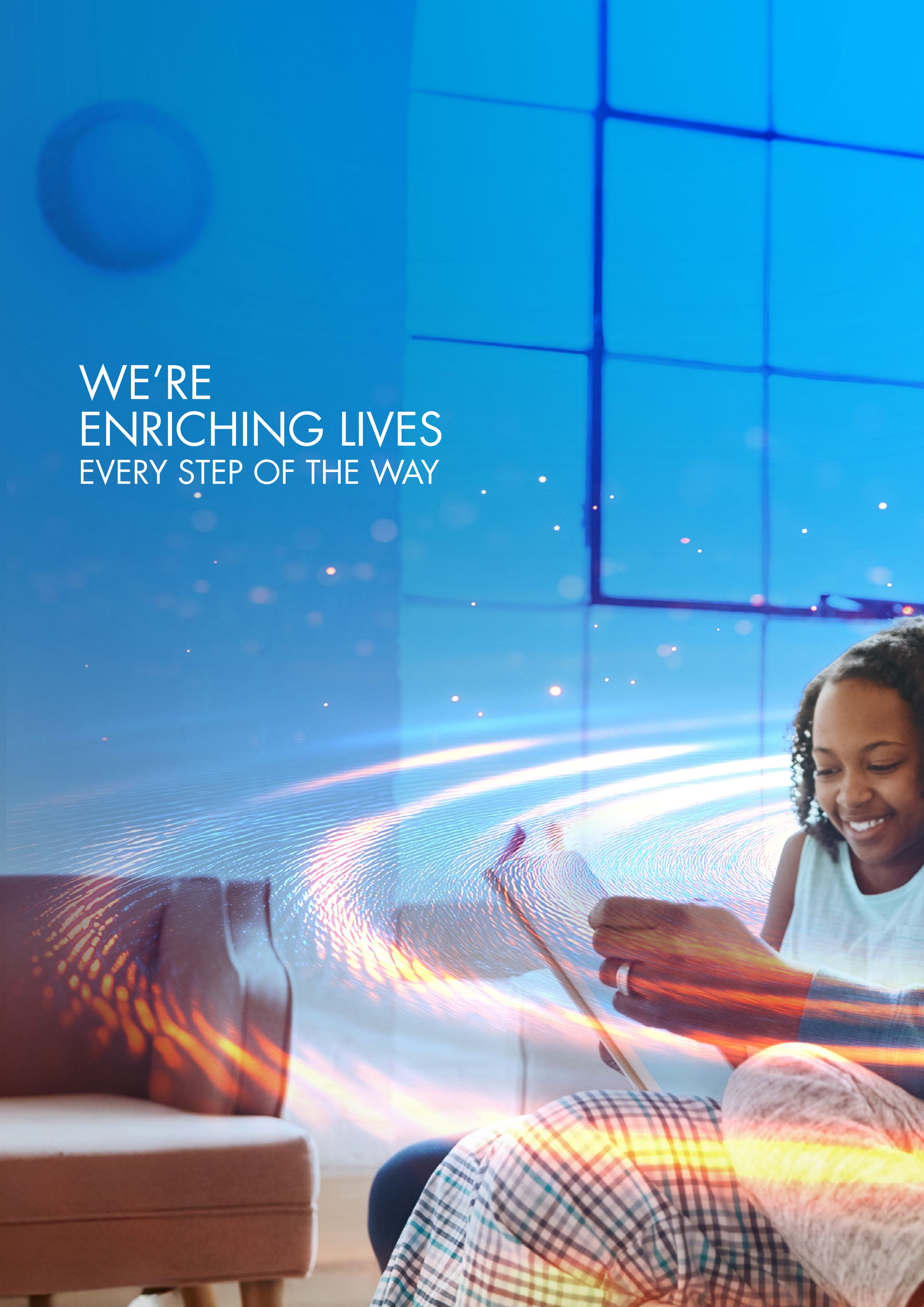
The Offer does not constitute an "offer to the public" (as such expression is defined in the South African Companies Act and this Offering Memorandum does not, nor is it intended to, constitute a "registered prospectus" (as that term is defined in the South African Companies Act) prepared and registered under the South African Companies Act. Accordingly, to the extent that the shares are offered for subscription or sale in South Africa, such Offer is made: (i) only to selected persons falling within one of the specified categories listed in Section 96(1)(a) of the South African Companies Act; and/or (ii) selected persons, acting as principal, acquiring Offer Shares for a total acquisition cost of ZAR1,000,000 or more, as contemplated in terms of Section 96(1)(b) of the South African Companies Act, and to whom the Offer will specifically be addressed, and only by whom the Offer will be capable of acceptance ("Appropriate Persons").

Supplementary Information Memorandum

If, prior to the Listing of the New Shares a significant new development occurs in relations to the information contained in the Information Memorandum or a material mistake or inaccuracy is found that may affect the assessment of the Group, a supplement to the Information Memorandum may be published with the approval of the regulators.

Forward Looking Statements

This Information Memorandum contains "forward-looking statements" relating to the Group's business. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "would be", "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements reflect the current views of the Group with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Group to be materially different from the future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Information Memorandum as anticipated, believed, estimated or expected.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EVERY STEP OF THE WAY

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2. DEFINITIONS AND ABBREVIATIONS

In this Information Memorandum and related documentation, unless otherwise stated, the following expressions shall have the following definitions and abbreviations:

SUBJECT	DEFINITION
Additional Issue	The option granted to Eligible Shareholders to subscribe for the Additional Shares
Additional Shares	Shares applied for by Eligible Shareholders in excess of their Entitlement, including any Untaken Shares
AKI	Association of Kenya Insurers
ALCO	Assets and Liabilities Management Committee
AML/CFT/CPF	Anti-Money Laundering, Combating the Financing of Terrorism and Combatting Proliferation Financing
Application Money	Monies paid by Shareholders in respect of the New Shares they apply for
Application Portal	Portal through which Eligible Shareholders apply to take up their Entitlements and apply for Additional Shares via the web or USSD
Authorised Selling Agents	Licensed stockbroker and investment banks listed in Appendix VII (Authorised Selling Agents) of this IM
Bank or HFC	HFC Limited, a mortgage finance company licensed to carry on banking business under the Banking Act and is more particularly described in Section 9.8
Banking Act	The Banking Act (Chapter 488 of the Laws of Kenya)
Board of Directors or the Board or the Directors	Board of Directors of HF Group PLC
Britam Group	Britam Holdings PLC and its subsidiaries
Business Day	A day (other than a Saturday or a Sunday or a Gazetted Public Holiday) on which commercial banks are open for business in Kenya
CAGR	Compound Annual Growth Rate
CBK	Central Bank of Kenya
Central Bank of Kenya Act	Central Bank of Kenya Act (Chapter 491 of the Laws of Kenya)
Closing Date	9th December 2024, the last day for receipt of Applications and Application Money
CMA	Capital Markets Authority
Companies Act	The Companies Act (Number 17 of 2015 of the Laws of Kenya)
CPA	Certified Public Accountant
Dyer & Blair	Dyer and Blair Investment Bank Limited acting as the Transaction Advisor and Sponsoring Broker
Eligible Shareholder	A Shareholder of the Group as at the Record Date
Eligible Person	An Eligible Shareholder or a subsequent transferee of Rights via renunciation by an Eligible Shareholder
Entitlement	The entitlement of an Eligible Shareholder to the Entitlement Shares at the Entitlement Ratio

SUBJECT	DEFINITION
Entitlement Ratio	The entitlement to 2 new ordinary shares for every 1 ordinary shares held by an Eligible Shareholder
Entitlement Shares	2 new ordinary shares for every 1 ordinary share held by an Eligible Shareholder amounting to 769,228,336 new ordinary shares.
ESOP	Employee Share Ownership Plan
Existing Shares	The Ordinary Shares of par value KES 5.00 each of the Group and held by an Eligible Shareholder
HF Group or HF or the Group	HF Group Plc
HFBI	HF Bancassurance Intermediary Limited, licensed by the Insurance Regulatory Authority
HFDI	HF Development and Investments Limited, the property development division
ICPAK	Institute of Certified Public Accountants of Kenya
IM	Information Memorandum. This document dated and issued on 25th October 2024
Image Registrars	Image Registrars Ltd acting as the Data Processing Agent
IRA	Insurance Regulatory Authority
KES or KSHS or Kshs or Ksh or Shs	Kenya Shillings
KGFT	Kenya Green Finance Taxonomy
KNBS	Kenya National Bureau of Statistics
MFB	Microfinance Bank
MFI	Micro Finance Institutions
MRP	Money Remittance Providers
New Shares	1,153,842,504 new ordinary shares of the Group to be issued pursuant to the Offer
NFI	Non Funded Income
NGO	Non-Governmental Organisation
No	Number
NSE	Nairobi Securities Exchange
Offer	The offer to raise up to KES 4,615,370,016 through the issuance of the New Shares and in accordance with this Information Memorandum at the Offer Price. More particulars of the Offer are set out in Section 8.1 (the Offer) of this IM.
Offer Period	The period between the Opening and Closing Date
Offer Price	KES 4.00 per share
Ordinary Shares	The 384,614,168 ordinary shares of par value KES 5 each in the capital of HF Group
PAL	The Provisional Allotment Letter, which indicates the Shareholders' Entitlement and Application Form
PAR	Portfolio at Risk
PwC	PricewaterhouseCoopers Kenya acting as the Reporting Accountant
POCAMLA	Proceeds of Crime and Anti-Money Laundering Act

SUBJECT	DEFINITION
RBA	Retirement Benefits Authority
Renounce	The act of giving up or abandoning your Rights
Rights	The right to subscribe for New Shares under the terms of this IM and the PAL
Rights Issue	The issue of the Rights under the terms of this IM and the PAL
RTGS	Real Time Gross Settlement, a payment system used by commercial banks to effect electronic payment of funds
Shareholder	The holder of an Ordinary Share in the Group
Shareholder Register	The register of shareholders of the Group as at the Record Date
SME	Small and Medium Enterprise
SOL	Single Obligor Limit otherwise known as Single Borrower Limit. CBK limits this to 25% of a Bank's core capital.
Take-over Regulations	Capital Markets (Take-over and Mergers) Regulations, 2002
TASK	The Actuarial Society of Kenya
Untaken Rights or Untaken Shares	The aggregate of New Shares not subscribed for, howsoever they may occur
Walker Kontos Advocates	Walker Kontos Advocates acting as the Legal Advisor

Except where the context otherwise requires (i) words denoting the singular include the plural and vice versa; (ii) words denoting any one gender include all genders; (iii) words denoting persons include firms and corporations and vice versa and (iv) capitalized terms used in the accompanying forms will be construed and interpreted in accordance with this Information Memorandum.

ENRICHING LIVES ACROSS CONTINENTS

At the pulse of realizing dreams from near & far

3. CORPORATE INFORMATION

	DESCRIPTION		
Name of Issuer	HF Group Plc		
Company Number	C.21/97		
Date of Incorporation	18th November 1965		
Place of Incorporation	Kenya		
Head Office	Plot No. LR 209/9054 Rehani House, Kenyatta Avenue/Koinange Street P.O. Box 30088 – 00100 Nairobi Kenya Tel: +254 (0)709 438000, (0)709, 438888 Email: customer.service@hfgroup.co.ke or mybank@hfgroup.co.ke		
Website	www.hfgroup.co.ke (The information on the website and any other digital platform of the Issuer does not form part of the IM unless that information is incorporated by reference into the IM)		
Share Capital	The nominal share capital of HF Group PLC is KES 2,500,000,000 comprised of 500,000,000 ordinary shares at par value KES 5. The issued and fully paid up share capital of HF Group PLC as at 31st August 2024 is KES 1,923,070,840 comprising of 384,614,168 ordinary shares at par value KES 5.		
Shareholders	**Name**	**Number of Shares as at 31st August 2024**	**Shareholding (%)**
	Britam Holdings PLC	74,666,146	19.41%
	Equity Nominees Limited A/C 00104	48,828,477	12.70%
	Britam Life Assurance Company (Kenya) Ltd	35,891,083	9.33%
	Britam Life Assurance Company (Kenya) Ltd	25,597,000	6.66%
	Permanent Secretary Treasury	9,265,135	2.41%
	Lopokoiyit Sitoyo	8,908,500	2.32%
	Kerai, Ramila Harji Mavji & Harji Mavji	7,224,500	1.88%
	Mwangi Peter Kingori	6,138,072	1.60%
	Bid Management Consultancy Limited	5,298,500	1.38%
	Kibuwa Enterprises Limited	5,012,575	1.30%
	Total 10 Shareholders	**226,829,988**	**58.98%**
	Other Shareholders	157,784,180	41.02%
	Total	**384,614,168**	**100.00%**

	DESCRIPTION		
	Names	**Designation**	**Nationality**
Directors	Prof. Olive Mwihaki Mugenda PhD	Chairperson	Kenyan
	Dr Benson Irungu Wairegi	Non-Executive Director	Kenyan
	Mr Robert Ngugi Kibaara	Group Chief Executive Officer	Kenyan
	Dr Peter Kahara Munga	Non-Executive Director	Kenyan
	Dr Anne Helen Wairimu Nganga-Kimari	Non-Executive Director	Kenyan
	Dr Anthony Opare Omerikwa	Non-Executive Director	Kenyan
	Ms Felister Wangari Kembi	Non-Executive Director	Kenyan
	Mr Tom Mbuthia Gitogo	Non-Executive Director	Kenyan
Company Secretary	Ms Regina Anyika (CPS 880) Rehani House Kenyatta Avenue/Koinange Street P.O.Box 30088 – 00100 Nairobi, Kenya		
Main Correspondent Banks	FirstRand Bank Crown Agents Bank London		
Legal Advisor	Walker Kontos Advocates Hakika House Bishops Road P.O.Box 60680 – 00200 Nairobi,Kenya Tel: +254 20 3953000 Email: walkerkontos@walkerkontos.com		
Auditor	PricewaterhouseCoopers LLP PwC Tower Waiyaki Way/Chiromo Road P.O.Box 43963 – 00100 Nairobi Kenya Tel: +254 (020) 2855000 Email: www.pwc.com/ke		
Financial Calendar	Financial Year End – 31 December Half Year End – 30 June		

4. ADVISORS

ROLE	FIRM
Transaction Advisor	Dyer and Blair Investment Bank Limited 7th Floor, Goodman Tower, Off Waiyaki Way P.O. Box 45396 – 00100 Nairobi, Kenya Email: corporate@dyerandblair.com Tel: +254 (0)709930000
Legal Advisor	Walker Kontos Advocates Hakika House Bishops Road P.O.Box 60680 – 00200 Nairobi,Kenya Tel: 254 20 3953000 Email: walkerkontos@walkerkontos.com
Reporting Accountant	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road, Westlands P.O. Box 43963 – 00100 Nairobi, Kenya Email: www.pwc.com/ke Tel: +254 (020) 2855000
Share Registrar	Comp-rite Kenya Limited 2nd Floor, Muthaiga Mini Market, Limuru Road P.O. Box 63428 – 00619 Nairobi, Kenya Email: info@comp-rite.com Tel: +254 (020) 2690955 / (0)723 611786
Data Processing Agent	Image Registrars Ltd 5th Floor, Absa Towers, Loita Street P.O.Box 9287 - 00100 Nairobi, Kenya Email: info@image.co.ke Tel: +254 (0) 709 170000/735 565666
Receiving Bank	HFC Limited Rehani House Kenyatta Avenue/Koinange Street P.O.Box 30088 – 00100 Nairobi, Kenya Tel: +254 (0)709 438000, (0)709, 438888 Email: customer.service@hfgroup.co.ke or mybank@hfgroup.co.ke
Company Secretary	Ms Regina Anyika (CPS 880) Rehani House Kenyatta Avenue/Koinange Street P.O.Box 30088 – 00100 Nairobi, Kenya Email: regina.anyika@hfgroup.co.ke Tel: +254 (0)20 2240221

ENRICHING LIVES THROUGH PROPERTY FINANCING

At the pulse of making home ownership possible

5. LETTER FROM THE CHAIRPERSON

Chairperson's Message to Shareholders

Dear Esteemed Shareholders,

On behalf of the HF Group Plc (the "Group") Board of Directors, I would like to take this opportunity to sincerely thank you for your unwavering support and for the confidence you continue to place in our Group. Your trust drives our commitment to excellence and fuels our ambition to achieve greater success together. For the past five years, the Group has been on a journey of transformation, and the milestones we have achieved are a direct result of your commitment to the Group.

On 12th August 2024, the Directors of HF Group PLC resolved to offer by way of a Rights Issue of up to **1,499,995,255** new ordinary shares of par value **KES 5.00 (inclusive of a green shoe option of 30%** to cater for an oversubscription**)** to Eligible Shareholders. On 4th September 2024, our esteemed shareholders passed this resolution at a General Meeting with 95.0651% of the shareholders in attendance being in favour of the Rights Issue.

Pursuant to the said resolutions and having received the requisite regulatory approvals, the Group is now offering by way of a Rights Issue, 1,153,842,504 new ordinary shares (the "New Shares") at the Offer Price of KES 4.00 per New Share. The Offer comprises of: (1) Two (2) New Shares for every one ordinary share held (the **Entitlement Shares); and**

(2) The option to apply for one or more additional shares for every 1 ordinary share held (the "**Additional Shares**"). The members approved a green shoe option of up to 30% of the

Rights Issue (equivalent of 384,614,168 shares) to cover for an oversubscription. The Rights Issue is expected to raise the sum of KES 4,615,370,016.

Rationale for the Proposed Rights Issue (Rights Offer)

In the last five years, the Group has successfully diversified into full-service banking, establishing strong business units in personal banking, business banking, diaspora banking, insurance, and treasury and custodial services. This has enabled the Group to reduce the concentration risk of focusing on the real estate sector. Indeed, we have moved from offering a single product i.e. mortgages to 13 key business units with a diversified product offering. Furthermore, we have innovated our property business model from capital-intensive property development/construction to a focus on wealth creation for landowners. Thirdly, the Bancassurance Intermediary has moved from offering mortgage insurance to offering multiple general insurance and life assurance solutions.

I am pleased to share that this transformation is paying off, as evidenced by the profitable results we have achieved over the last two and a half years. This growth has been delivered with limited capital, and I am confident that with this upcoming capital injection, alongside the strength of our Board of Directors and Management team who were at the helm of the successful turnaround strategy, we will accelerate further growth and deliver long term value to all stakeholders.

In this regard, I wish to highlight that the Rights Issue is a strategic move, intended to power and accelerate the growth of your company, and ensure that we are well positioned to capitalize on the opportunities ahead. This move aligns perfectly with our ***vision to become a top-ten banking group, by being the most dependable and loved financial services provider.***

The Rights Issue offers you the opportunity to increase your stake in the Group and to participate in the growth of your company.

Our Strategy Highlights

We are operating in a dynamic and rapidly evolving market environment. To thrive, we must be agile, innovative, and bold in our strategies. Our strategy moving forward is underpinned by six thrusts as highlighted below

1. **Brand Repositioning:** Reposition the Group as a full-service bank in the minds of people so that they appreciate that we are not just a mortgage company.
2. **Scale up the engines of growth**: So far, we have achieved significant milestones including the set-up of new full-service bank business units. We believe that with additional investments, we can accelerate this growth.
3. **Drive efficiency through technology**: Leverage technology to enable delivery of the brand promise to customers in a fast, simple and efficient manner.
4. **Beyond Service Excellence**: Deliver service excellence via an omni channel experience with an "all under one roof" product & service suite for our chosen segments.
5. **Solidify the capital base** to accelerate the business grow.
6. **Elevate the capabilities** of our teams to equip them in delivering on our brand promise.

The funds raised through this rights issue will be instrumental in enabling us to:

- Accelerate Return on investment to shareholders
- Accelerate business Growth
- Invest in enhanced systems and customer value propositions
- Achieve Significant improvements in efficiency
- Regulatory compliance
- Invest in our communities through our Foundation
- Improve our employee value proposition to attract and retain talent

I am confident that these initiatives will enhance our compelling proposition and create sustainable value for you, our shareholders.

Your Vote of Confidence

Esteemed shareholders, I encourage each of you to carefully consider this Rights Issue and the potential benefits it offers. Please ensure that you read through this Information Memorandum and consult your Stockbroker, Investment Bank or Investment Advisor accordingly. Your participation is not only an investment in the Group but also a vote of confidence in our strategic direction. Together, we can achieve our vision and continue to build a Group that is true to our ***brand's Purpose; Enriching Lives.***

I want to re-affirm my gratitude for your continued trust and support. Your Board of Directors and Management are excited about the opportunities ahead and remain committed to delivering on our strategy. As we embark on this next chapter, your involvement will be crucial to our collective success.

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

Group Chairperson

6. DIRECTORS' DECLARATION

In accordance with paragraph 5.1.2 of the Twelfth Schedule of the Capital Markets (Public Offers, Listing and Disclosure) Regulations,2023, the Board of Directors of HF Group Plc declares that all the information stated in this application and the statements contained in the report are correct, and neither the Board of Directors' minutes, audit reports or any other internal documents contain information which could distort the interpretation of the report.

Signature	Signature
Name: Prof. Olive Mugenda	Name: Dr. Benson Wairegi
Role: Chairperson, HF Group Plc	Role: Director, HF Group Plc
Date: 25th October 2024	Date: 25th October 2024

7. TRANSACTION TIMETABLE

ACTION	DATE
Shareholder Approval for the Rights Issue at the Extra-Ordinary General Meeting	4th September 2024
CMA approval of the Information Memorandum	25th October 2024
Record Date	1st November 2024, 3pm
Upload of entitlement to CDS accounts	12th November 2024
Rights Issue Opens	12th November 2024, 9am
Commencement of trading of Rights on the NSE	12th November 2024
Last day of renunciation by way of private transfer/Last day for splitting (Private Transfer Renunciation Date)	2nd December 2024, 3pm
Last day for trading of nil paid Rights on the NSE	2nd December 2024, 3pm
Offer Close	9th December 2024, 5pm
Allocation	18th December 2024
Last date of payment of irrevocable bank guarantees	20th December 2024
Announcement of results	20th December 2024
Electronic crediting of CDS accounts with the New Shares	23rd December 2024
Dispatch of payment of refunds	23rd December 2024
Listing date and commencement of trading of New Shares on the NSE	24th December 2024

These dates have been approved by the CMA but are subject to change and are indicative only. HF Group reserves the right to amend this indicative timetable subject to the approval of the CMA. In particular, the Group reserves the right, subject to CMA's approval to close the Offer early, to extend the Closing Date or to withdraw the Offer. Any extension of the Closing Date will have a consequential effect on the date of the issue of New Shares. Any changes or amendments shall be publicly announced.

8. TERMS AND CONDITIONS OF THE OFFER

This section contains a summary of the offer for New Shares. You should reach this Information Memorandum in full along with other documents available for inspection.

8.1 The Offer

The Group is offering 1,153,842,504 new ordinary shares (the "New Shares") at the Offer Price to raise KES 4,615,370,016. The Offer comprises of:

(1) the Entitlement in which Eligible Shareholders will be granted 2 new ordinary shares for 1 ordinary share held to subscribe for shares at the Offer Price amounting to 769,228,336 ordinary shares (the "Entitlement Shares"); and

(2) the Additional Issue in which Eligible Shareholders will have an option to apply for one or more additional shares for every 1 ordinary share held amounting to 384,614,168 ordinary shares (the "Additional Shares"). The Additional Shares will be sold at the Offer Price. The Entitlement and the Additional Issue are together herein referred to as the "Rights".

The Entitlement Shares are renounceable, which means that shareholders who do not wish to take up all or part of their Entitlement Shares can abandon them. These shares will be known as the Untaken Shares. The Untaken Shares will be added to the Additional Shares available for subscription.

There will also be a green shoe option of up to 30% of the New Shares (equivalent to 346,152,751 ordinary shares) (the "Green Shoe Option Shares") at the Offer Price to cater for oversubscription of the New Shares.

The number of New Shares that you are entitled to is shown on the PAL or through a link sent to you for the Application Portal. The Entitlement Ratio, once declared, will not be altered.

Shareholders will be allowed to apply to take up any Untaken Shares which will form part of the Additional Shares available to Shareholders. Eligible Shareholders will be able to apply for the Additional Shares through the Application Portal or via their PAL.

8.2 Rights Issue Statistics

DATA	STATISTIC
Par value	KES 5 each
Offer Price	KES 4.00 per share
Number of issued and paid up shares prior to the Rights Issue	384,614,168[2]
Number of Entitlement Shares	769,228,336
Number of Additional Shares	384,614,168
Number of New Shares	1,153,842,504
Number of Green Shoe Option Shares	346,152,751
Number of New Shares plus Green Shoe Option shares	1,499,995,255
Number of issued and fully paid up shares post-Rights Issue assuming full subscription	1,538,456,672
Number of issued and fully paid up shares post-Rights Issue assuming full subscription and 100% uptake of the green shoe option	1,884,609,423
Gross proceeds of Rights Issue assuming full subscription	KES 4,615,370,016
Gross proceeds of Rights Issue assuming full subscription and 100% uptake of the green shoe option	KES 5,999,981,020
Estimated expenses of the Offer assuming full subscription (ex VAT)	KES 222,240,675
Estimated expenses of the Offer assuming full subscription and 100% uptake of the green shoe option	KES 260,317,478
Net proceeds of Rights Issue assuming full subscription	KES 4,393,129,341
Net proceeds of Rights Issue assuming full subscription and 100% uptake of the green shoe option	KES 5,739,663,542
Market Capitalisation of HF Group as at 30th September 2024	KES 1,630,764,072
Profit after tax and exceptional items for financial year ended 31st December 2023	KES 338,156,000
Profit after tax for six months to 30th June 2024	KES 266,269,000
Total dividends declared and paid for the year ended 31st December 2023	Nil
Earnings per share ("EPS") for the year ended 31st December 2023	1.01
Dividend per share ("DPS") for the year ended 31st December 2023	Nil
Net Asset Value per share for the year ended 31st December 2023	KES 23.05
Theoretical Value of the Right	KES 0.16[3]

[2] Employees who are eligible members of the HF Group ESOP are due to exercise their options to purchase HF Group shares in line with the scheme rules. These options vested in September 2024 with 937,883 new ordinary shares to be issued to employees in the following months.

[3] This is calculated using the theoretical ex-rights price and the share price as at 24th October 2024.

8.3 Reasons for the Offer and Use of Proceeds

HF Group is raising capital as part of its strategy to increase its investment in HFC's expanded business segments and to shore up its capital base and ensure it is sufficiently capitalised. The capital injection will also allow HF Group to continue to implement its growth strategy through its investments in growing business segments and enhancing its digital proposition.

Table 1: HF Group's Use of Proceeds

Beneficiary	Approximate Amount (KES '000)	% of proceeds	Description
HFC	4,250,000	~85%	To invest across several business segments including Mortgage business,Personal banking, Ultimate banking, Diaspora banking, Business banking, Commercial banking, Institutional banking,Treasury Business, Banking for financial institutions, Custodial services. This will include: • Resourcing and continuous capacity development; • Enhancement of our physical distribution channels to select strategic locations; and • Enhancement of the business propositions to ensure that our customers can benefit from our integrated business solutions regardless of their segment.
HFC	750,000	~15%	Investment in the enhancement of its digital proposition in line with the company's strategy. This will include: • Enhancement of the digital market place; • Enhancement of data processing and storage capacity; and • Synchronization of our customer interfaces to ensure a seamless omnichannel experience.

The bancassurance business (HF Bancassurance Intermediary Limited ("HFBI")) and the property business (HF Development & Investment Limited ("HFDI")) are sufficiently funded and thus would not need any additional capital.

The Rights Issue will have the following benefits to stakeholders:

- Capitalisation of HFC in line with capital adequacy requirements which will fund the growth of the business and generate returns for shareholders;
- Increase the liquidity of the HF Group's shares on the NSE through the issuance of new shares; and
- Encourage increased local share ownership as the transaction structure allows for investors to acquire additional shares beyond their Rights entitlement.

8.4 Intention of the Major Shareholders

Britam Group has confirmed that it will be taking up its full Rights. Other principal shareholders are supportive of the Transaction.

8.5 Impact on Share Capital

The impact of the Rights Issue on share capital is outlined below.

Table 2: Share Capital pre Rights Issue

	Par Value (KES)	Number of shares	Share Capital (KES)
Authorised Capital	5	500,000,000	2,500,000,000
Issued and fully paid up capital	5	384,614,168	1,923,070,840

Table 3: Share Capital post Rights Issue (with no green shoe option)

	Par Value (KES)	Number of shares	Share Capital (KES)
Issued and fully paid up capital	5	1,538,456,672	7,692,283,360

Table 4: Share Capital post Rights Issue (with a green shoe option)

	Par Value (KES)	Number of shares	Share Capital (KES)
Issued and fully paid up capital	5	1,884,609,423	9,423,047,115

8.6 Potential dilutive impact of the Offer on Shareholders who renounce their Rights

Shareholders who transfer, or who do not timely or validly, or are not permitted to, exercise any of their Rights granted under the Rights Issue will suffer dilution of their proportionate ownership and voting rights of approximately 75% as a result of the issue of the New Shares. However, such Shareholders may receive consideration for their Rights during the Offer Period by trading their Rights on the NSE (see Section 8.21).

8.7 Basis of the Offer Price

The Offer Price has been arrived at after taking into consideration several factors including, but not limited to:

a) The Group's positive growth prospects;
b) Prevailing macroeconomic conditions;
c) Banking sector environment in Kenya;
d) Group's recent financial results; and
e) The performance of the Group's share price on the NSE over the past six months.

The Directors' of the Group approved the Transaction structure on 12th August 2024 and the prevailing market price was KES 4.15. The Offer Price is a discount of 3.61% to the market price on 12th August 2024.

As at 30th September 2024, the six-month VWAP of the Group's shares was KES 4.19. The Offer Price represents a discount of 4.44% to the six-month VWAP.

Table 5: Share Price Performance on the NSE

	Daily High (KES)	Daily Low (KES)	Volume Weighted Average Price (KES)	Percentage premium /(discount) of Offer Price to VWAP
April 2024	4.63	3.64	3.99	0.38%
May 2024	4.50	3.73	4.24	-5.75%
June 2024	4.55	3.81	4.22	-5.14%
July 2024	4.90	4.00	4.29	-6.71%
August 2024	4.66	3.70	4.21	-5.04%
September 2024	4.50	3.57	4.15	-3.63%
Six Month period VWAP as at 30th September 2024	4.79[4]	3.73[5]	4.19	-4.44%
Last day of trading before announcement of the Rights Issue (12th August 2024)	4.15	4.05	4.15	-3.61%
Last practicable day of trading before approval of the Information Memorandum (24th October 2024)	4.48	4.34	4.39	-8.88%

8.8 Share Price Performance

Figure 1: HF Group Share Price Performance 2020 - 2024 YTD

Source: NSE Data/Bloomberg

8.9 Employee Share Ownership Plan

HF Group established an Employee Share Ownership Plan ("ESOP") on 2nd July 2008 by trust deed ("2008 HF Group ESOP") which is operational to date after receiving approval from Shareholders by an ordinary resolution during the 40th Annual General Meeting held on 26th July 2006. The ESOP is set up as an options plan where eligible staff can elect to exercise their options to purchase the Group's shares at a predetermined price. Employees have elected to exercise their options which vested in September 2024 to purchase the Group's shares amounting to 937,883 new shares. These shares are unlikely to be issued by the Record Date of the Transaction, the shares will therefore not qualify to be part of the Transaction.

[4] Calculated as the highest daily VWAP during the six month period
[5] Calculated as the lowest daily VWAP during the six month period

8.10 Minimum Subscription

The Transaction is subject to a minimum subscription of 40% of the New Shares (excluding the green shoe option) with full payment in order for the Transaction to be declared as successful. This implies that a minimum of 461,537,002 New Shares (KES 1,846,148,008) need to be taken up and fully paid for by the Closing Date of the Offer.

The Directors reserve the right not to proceed with the final allotment of the New Shares unless the minimum threshold is achieved. Should there be an under-subscription on the offer but one above the minimum threshold, the Directors have a right to utilise the funds raised in a manner that will still achieve the objectives set out in the IM.

8.11 Green shoe and Oversubscription

The Transaction includes a "green shoe" option of 30% which equates to 346,152,751 Green Shoe Option Shares to cater for oversubscription. These shares will be allocated in accordance with the Allocation Policy outlined in Section 8.20.

In the event of an oversubscription, the Group shall make refunds in accordance with the Refund Policy outlined in Section 8.24.

8.12 Underwriting

The Transaction is not underwritten.

8.13 Rights Issue Documents

The following documents will be used for the Transaction. These documents can be accessed through the Application Portal or hard copies can be requested via your Stockbroker.

Table 6: Transaction Documents

Document	Description
Information Memorandum	This is the document that contains information on the Group, the Rights Issue Offer, terms and conditions of the Offer, financial statement, legal opinion, reporting accountant's report, statutory and general information to assist Shareholders to make an informed decision.
Provisional Allotment Letter ("PAL")	This is the renounceable (nil paid) provisional allotment letter issued to Eligible Shareholders and includes the Entitlement in the form or substantially in the form set out in APPENDIX I.
Form A	Form of Power of Attorney: This is the form to be completed by Eligible Shareholders wishing to appoint third parties as their lawful attorney or agent to act on their behalf in connection with the Rights Issue. The form is set out in APPENDIX IV.
Form E	Form of Entitlement: This is the form to be used by any person and issued in favour of such person, in the case of Rights purchased on the NSE or balance Rights in the CDS account as set out in APPENDIX II.
Form R	Form of Renunciation: This is the form to be used by Eligible Shareholders renouncing or transferring their Rights, by way of private transfer and by Renouncees to take up their New Shares as set out in APPENDIX III.
CDS Form 1	Standard form by CDSC to be used to open a CDS Account in CDS through a CDA.
CDS Form 2	Standard form by CDSC to be used for immobilisation of Rights and Existing Shares into the CDS through a CDA.
CDS Form 5	Standard form by CDSC to be used for pledged shares.
CDS Form 7	Standard form by the CDSC that is used in connection with a private transfer.
Irrevocable Bank Guarantee ("IBG")	Issued by a commercial bank licensed by the Central Bank of Kenya. A sample letter is contained in APPENDIX V and can only be used by any Eligible Person
Irrevocable Letter of Undertaking ("ILU")	Issued by an institution approved by the Transaction Advisor which includes an Authorised Custodian or Qualified Institutional Investor. A sample letter is contained in APPENDIX VI and can only be used after the allocation policy has been announced

Shareholders will be able to apply for Additional Shares using the PAL, Form E and Form R by indicating the number they wish to apply for in the appropriate section. The process is set out in Section 8.20.

Eligible Shareholders can download a copy of the Information Memorandum from the Group's website and Application Portal. Eligible Shareholders can also request an electronic copy from the Authorised Selling Agents outlined in APPENDIX VII.

A sample of Forms A can be downloaded from the Application Portal or obtained from the Authorised Selling Agents. Form E and R can be obtained from the Authorised Selling Agents or the Data Processing Agent.

The IBG and ILU sample formats are available in the Appendices of the Information Memorandum.

8.14 Acceptance and Application Process

Eligible Shareholders may take up all, some or none of their Rights. Shareholders wishing to take up all their Rights are required to observe the procedures set out in Section 8.19 (Acceptance Procedure).

Shareholders wishing to renounce some or all of the Rights are invited to follow the steps set out in Section 8.21 (Renunciation of Rights).

Shareholders wishing to apply for Additional Shares must do so in the manner set out in Section 8.20 (Application for Additional Shares and Allocation Policy).

The table below sets out the possible actions that may be taken by Eligible Shareholders.

Table 7: Table of Possible Actions by Eligible Shareholders

Action	Section Reference
Take up their entitlement in **Full**	Section 8.19
Renounce all the Rights (private transfer) to a close relation	Section 8.21
Renounce all (Sell All) of their entitlement on the NSE	Section 8.21
Accept part of their entitlement and sell balance on the NSE	Section 8.19 and 8.21
Accept part of their entitlement and **renounce** balance to a close relation	Section 8.19 and 8.21
Accept part of their entitlement and **allow balance to lapse**	Section 8.19 and 8.21
Do nothing and allow entitlement to lapse	Section 8.21
Apply for **Additional** shares	Section 8.20

Table 8: Table of Other Actions by Eligible Shareholders

Action	Section Reference
Purchase Rights on the NSE and take up the entitlement	Section 8.21
Purchase and **Sell all** the Rights on the NSE	Section 8.21
Purchase and **Sell** some rights on the NSE and take up the balance of the entitlement	Section 8.21

8.15 Offer for Subscription

a) HF Group hereby offers to Shareholders by way of renounceable rights, a total of 769,228,336 ordinary shares (the "Entitlement Shares") at the Offer Price of KES 4.00 per share payable in full on acceptance of the terms set out below.

b) HF Group also offers to Shareholders the option to subscribe for additional shares without restriction to their initial entitlement amounting to 384,614,168 ordinary shares (the "Additional Shares"). There will also be a green shoe option capped at 30% of the New Shares comprising 346,152,751 ordinary shares (the "Green Shoe Option Shares") at the Offer Price to cater for oversubscription of the New Shares.

c) Persons who are not on the Shareholder Register as at Record Date will not be entitled to participate in the offer except as stipulated below.

d) The Rights Issue is on a basis of a ratio of 2 New Shares for every 1 Existing Share being the Entitlement Ratio. The Entitlement Ratio once declared, will not be altered.

e) The information on the number of New Shares that a Shareholder is entitled to (i.e. your entitlement or your number of Rights) is shown on your PAL which will be available via a link to the Application Portal or as a physical copy obtained from the Data Processing Agent or your stockbroker.

f) Rights are renounceable and may be sold or transferred to third parties subject to the provisions of this IM. Information on how Rights may be sold or transferred is set out in Section 8.21. Any Untaken Shares will be offered to Shareholders as per Section 8.20.

g) Shareholders may also, at their option, choose not to take any action at all and untaken Rights will be allocated by the Directors in accordance with the Allocation Policy in Section 8.20.

8.16 Status of the New Shares

The New Shares will rank pari passu in all respects with the Existing Shares including the right to vote in general meetings and to receive in full all dividends and other distributions declared, made or paid in respect of the Ordinary Shares, for the financial year ending 31st December 2024.

8.17 Opening and Closing Date of the Rights Issue

The Rights Issue will open at 9.00am on the Offer Opening Date and close at 5.00pm on the Closing Date. The Rights Issue remains open for the Offer Period.

8.18 Entitlement

a) Eligible Shareholders as at the Record Date are being granted Rights to subscribe for the New Shares at the Offer Price;

b) The Entitlement to the Rights for each Eligible Shareholder is shown on the PAL available via the Application Portal. A physical PAL will be serialised and customised with the Eligible Shareholders' personal details. The PAL will inform the Eligible Shareholder of the number of Rights to which it is entitled and of the procedures that it must follow to exercise or trade its Rights;

c) The number of New Shares offered to Eligible Shareholders has been calculated pro rata on the basis of the Entitlement Ratio on the Record Date;

d) Subject to Capital Markets Regulations and the terms set out in this IM, Eligible Persons will be entitled to subscribe for 2 New Shares for every 1 share hold until the end of the Offer Period;

e) No restrictions have been placed on the number of Existing Shares that can be held before the Entitlement accrues (except for the CBK's single shareholder limit of 5% of the Group's issued capital). However, mathematically, this might result in fractional entitlements to New Shares, and in such an event, fractions will be rounded downwards to the nearest whole number. Please note that where this occurs, Shareholders will be allotted the number of New Shares after rounding down. No fractional Offer Shares will be issued and fractions of the New Shares that result from applying the Entitlement Ratio will form part of the Untaken Rights;

f) Eligible Shareholders with CDS Accounts at the Record Date will have their CDS Accounts credited with the applicable Entitlement. Shareholders will be notified of their Rights via their PAL; and

g) Eligible Shareholders will receive their entire allocation of their Entitlement that they have applied and paid for.

8.19 Acceptance Procedure

a) Subject to the restrictions set out below, an Eligible Person, whether a Shareholder at the Record Date or a subsequent transferee of Rights, may subscribe for New Shares before the Offer Period expires;

b) If an Eligible Person has not exercised its Rights by the end of the Offer Period, these can no longer be exercised by the Eligible Person;

c) Once an Eligible Person has validly exercised its Rights, it cannot revoke or modify that exercise. Accordingly, once a holder of Rights has validly exercised its Rights, it must pay the Offer Price for the Offer Shares subscribed for, even if the market price of the Ordinary Shares fluctuates below the Offer Price;

d) An Eligible Person exercises his Rights by either:
   i) Filling out and submitting a completed Entitlement and Acceptance form on the Application Portal, together with remitting the Application Money for the number of New Shares (including where applicable any Additional Shares); or
   ii) Submitting the physical Entitlement and Acceptance form to the Authorised Selling Agents, together with remitting the Application Money for the number of New Shares (including where applicable any Additional Shares);

   On the terms set out in this IM by 5.00pm on the Closing Date.

e) The Entitlement and Acceptance forms are the PAL, Form R and Form E which will be available via the Application Portal or as physical copies;
f) The relevant Entitlement and Acceptance forms must be correctly executed so as to be binding, while the Application Money must be cleared funds;
g) PAL: Eligible Shareholders who wish to take up their full Entitlement are required to:
   i) Click "Acceptance in Full" and fill out the other relevant sections on the PAL on the Application Portal; or
   ii) Duly complete the "Acceptance in Full" section on the physical form.
h) Eligible Shareholders wishing to accept only part of their Entitlement are required to:
   i) Click "Partial Acceptance of New Shares", add the number of New Shares to be applied for and fill out the other relevant sections on the PAL on the Application Portal; or
   ii) Duly complete the "Partial Acceptance of New Shares" section on the physical form.

   Note that partial acceptance will not be permitted for less than 100 New Shares.

i) If the Entitlement and Acceptance Form is not completed correctly on the Application Portal or as a physical form, the Group may in its sole and absolute discretion reject it or treat it as valid, and the Group's decision as to whether to accept or reject, or how to construe, amend or complete and Entitlement and Acceptance Form shall be final;
j) Entitlement and Acceptance Forms can be rejected as per Section 8.23 ("Rejection Policy");
k) Acceptance is subject to regulatory restrictions and obligations as per Section 8.20.

8.20 Application for Additional Shares and Allocation Policy

a) Eligible Shareholders who have taken up all their Entitlement may apply for Additional Shares by either:
   i) Clicking on "Apply for Additional Shares", inputting the number of New Shares on and completing the submission process on the Application Portal; or
   ii) Completing the section called "Apply for Additional Shares" on the physical PAL, signing and returning the duly completed and signed PAL to the Authorised Selling Agent.

   Applications for additional shares should be accompanied with the Application Money.

b) Additional Shares applied for by Shareholders will be allocated by the Board of HF Group in accordance with the Allocation Policy to the extent only of any Additional Shares which will include any Untaken Rights. Please note that payment in respect of the Additional Shares applied for and not allocated will be refunded in accordance with Section 8.24 (Refund Policy) and will be free of interest. There will be no changes once the basis of allocation has been announced.
c) Subject to Section 8.20 d) of this section, the Additional Shares will be allocated at the discretion of the Board.
d) If any person applies for Additional Shares which might trigger the regulatory restrictions and obligations set out in Section 8.28 (Regulatory Restrictions) of this Section, the Directors reserve the right, at their sole discretion, not to allocate any Additional Shares to any such person.

8.21 Renunciation of Rights

The Rights are renounceable. Accordingly, Eligible Shareholders may elect to give up their Rights in full or in part. Shareholders who wish to decline their Rights do not need to do anything. Any Rights not taken up by Eligible Shareholders will form part of the Untaken Rights which will go into the pool of Additional Shares.

8.21.1 Renunciation of Rights by Trading on the NSE

a) The Rights of the Eligible Shareholders with CDS Accounts will be credited to their CDS accounts and shall constitute a security tradeable on the NSE;

b) Eligible Shareholders may sell their Rights on the NSE. A buyer of the Rights must ensure that the Form E is duly completed and signed as this will be *prima facie* proof of purchase of the Rights;

c) Eligible Shareholders and third parties with CDS Accounts will be permitted to trade the Rights. In such an event, Eligible Shareholders who wish to sell their Rights in this way may instruct any Authorised Selling Agent to dispose any or all of such Rights by way of sale on the NSE;

d) Rights may be traded on the NSE before 2nd December 2024 at 3pm,, the last day for trading of the Rights which will be 7 working days before the Closing Date. Following the last day for trading of the Rights, any buyer of such Rights shall be entitled to take up the Rights to the New Shares including the ability to apply for Additional Shares;

e) Once the trade in Rights on the NSE is completed, the buyer or transferee of such Rights is required to submit the duly completed and signed Entitlement Form (Form E) together with proof of payment of the applicable Application Money to the Group or the relevant Authorised Selling Agent not later than 5.00 p.m. on the Closing Date. Failure to do so shall result in such Rights lapsing and the associated New Shares shall be treated as Untaken Rights; and

f) The trading of the Rights on the NSE may attract a brokerage commission plus other statutory costs payable by the seller and buyer of such Rights.

8.21.2 Renunciation of Rights by Declining

a) Eligible Shareholders who wish to decline their Rights need not take any further action. Any Rights not taken up by such Eligible Shareholders will as of the Closing Date will automatically be treated as Untaken Rights and will contribute to the pool of Additional Shares.

8.21.3 Renunciation by Private Transfer

a) Eligible Shareholders are advised to contact an Authorised Selling Agent for the purposes of effecting the renunciation by private transfer;

b) Eligible Shareholders wishing to transfer their Nil Paid Rights to a close relative or to an entity with the same beneficial ownership, may do so by way of private transfer, as per NSE rules;

c) A close relative means a relationship supported by documentary evidence of a spouse, parent, sibling, child, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandchild or spouse of a grandchild;

d) In order to effect a private transfer, both the Eligible Shareholder and the person to whom the Rights are being transferred to must have a CDS account and must duly complete a CDS Form 7 (Private Transfer Form);

e) An Eligible Shareholder may split their Rights when renouncing via private transfer and Renouncees must comply with the criteria set out in Section 8.21.3 b);

f) If an Eligible Shareholder accepts some Rights and renounces the remainder by way of private transfer in the manner specified above, and where such renunciation is done via CDS Form 7, such Eligible Shareholder shall be required to submit the PAL Form, in addition to the resulting Form R, both duly completed and executed and accompanied with the Application Money in connection with the accepted Rights to the relevant Authorised Selling Agent or Receiving Agent, not later than on the Closing Date; and

g) The last date and time for renunciation by way of private transfer is 2nd December 2024 at 3 p.m. on the Private Transfer Renunciation Date.

8.22 Application Money

a) All payments shall be made in Kenya Shillings ("KES");

b) Any fees payable in securing any of the payments shall be borne by the Eligible Shareholder, Entitlee or Renouncee but not the Group or its Advisors/Authorised Selling Agents;

c) All payments have to be made to the Receiving Bank (or via the Authorised Selling Agents) and shall upon receipt of the relevant amount in cleared funds, constitute acceptance of the Rights Issue on the terms and conditions set out in the IM and on the Form, but subject to Section 8.24 ("Refund Policy");

d) No interest shall be payable by the Group, its Advisors nor the Authorised Selling Agents on any Application Money received for the Rights Issue;

e) If a Financier is involved where the New Shares are to be used as security, payment can be made by the Financier as in Section 8.22 f);

i) Eligible Shareholders may approach a financier for loan facilities to facilitate its participation and payment of the full amount due in respect of the Rights;

ii) The extension of loan facilities by any financier is a decision to be made by such financier, at its sole and absolute discretion and risk;

iii) The applicant and Financing Bank must complete a CDS Securities Pledge form (CDS 5 form) and record the pledge details on the PAL form;

iv) This Bank Guarantee will be submitted together with the CDS Securities Pledge form (CDS 5 form) and the PAL; and

v) Neither the Group nor the Board offers any advice, recommendation or guarantee in respect of an Eligible Shareholder seeking to approach or secure such financing.

f) Payment of an Eligible Shareholders' Application Money for the New Shares shall be made in Kenya Shillings ("KES") by:

Payment Mode	Description	Proof of Payment
Mobile Money Transfer (M-PESA)	• Payment to be sent to the Paybill Number 100400 which will be provided by the Authorised Selling Agent with the account number being the unique PAL No that will appear on the Application Portal or the physical form for amounts up to KES 150,000 in one go, multiple payments can be made to reach the total amount due if above KES 150,000	• Input the MPESA Payment Reference Codes on the PAL on the Application Portal or on the physical form
Funds Transfer	• Payment via EFT or RTGS to the Receiving Bank account (Name: HF GROUP RIGHTS ISSUE TRUST ACCOUNT, Account No: 9783903324) or to the Authorised Selling Agent's account for onward transmission	• Upload of payment remittance receipt to the Application Portal • Attachment of payment remittance receipt to the physical form
IBG	• IBGs shall be used in the format provided in APPENDIX V and should be authenticated by the guaranteeing bank via a Swift message forwarded to the Receiving Bank on or before 5.00pm on the Closing Date • The IBG shall be drawn down at the sole discretion of the Group	• The original IBG should be attached to the physical PAL • If applying through the Application Portal, please upload a scanned copy and send the original to the Authorised Selling Agent
ILU	• ILUs shall be used in the format provided in APPENDIX VI and forwarded to the Authorised Selling Agents on or before 5.00pm on the Closing Date	• The original ILU should be attached to the physical PAL • If applying through the Application Portal, please upload a scanned copy and send the original to the Authorised Selling Agent

g) Authorised Selling Agents on behalf of Eligible Shareholders may also make payment through a global payment;

h) Payments made in accordance with Section 8.22 constitute acceptance of the Rights Issue upon the terms and conditions set out in the IM and in the PAL; and

i) Eligible Shareholders with CDS Accounts are required to pay the Application Money in accordance with the PAL

8.23 Rejection Policy

Application will be rejected for the following reasons:

a) The physical PAL is missing or has not been completed on the Application Portal;
b) Missing financing bank details in case of financed application;
c) Missing or illegible name of primary applicant/ joint applicant/corporate applicant in any physical application;
d) Missing or illegible copy of identification document, including company registration number, certificate of corporate shareholders;
e) Missing account number or name for nominee applications;
f) Insufficient documentation;
g) Missing or illegible postal address and postal code;
h) Missing bank details and verification documents where mode of refund is indicated as electronic fund transfer and the bank mandate details are not provided on the Register;
i) Missing or inappropriately signed physical Application Form including:
   - Primary signature missing from signature box;
   - Joint signature missing from signature box;
   - One or more required signatories has/have not signed in the case of a corporate application;
   - Application bears stamps from two different Agents.
j) Applications submitted on the Application will be rejected if:
   - Missing identification information;
   - Missing proof of payment;
k) Issues relating to Payment
   - The payments is less than the value of the shares applied for; and
   - Cheques are used to make payment.

8.24 Refund Policy

a) No interest shall be paid on any Application Monday to any Eligible Shareholder or other person taking the Rights. Any interest earned, if any, on any Application Money is payable to the CMA Investor Compensation Fund on the basis of the prevailing Central Bank Rate for the period between the Closing Date and the date of crediting of accounts or issuing refund payments;

b) Refunds in respect of applications for Additional Shares, where the allotted value is less than that applied for shall be in the form of MPESA or by way of Electronic Funds Transfer (EFT) by the Receiving Bank (where an Eligible Shareholder has valid EFT details in the PAL or has provided accurate EFT details to the Authorised Selling Agents);

c) In the event an Eligible Shareholder has no valid EFT details on the PAL, the Data Processing Agent will reach out to the Eligible Shareholder to get updated payment details. The Group will begin refunds to Eligible Shareholders from 23rd December 2024;

d) Eligible Shareholders are required to choose their preferred option of refund: (a) by EFT, against confirmation of bank details if such details are not mandated in the register or (b) MPESA against registered mobile number in the name of the Eligible Shareholder against proof of identity;

e) Where a financier has advanced money to an Eligible Shareholder to subscribe for New Shares, refunds will be made to or for the account of such financier; and

f) Neither Receiving Bank nor any Authorized Selling Agent will be responsible for any refund not received using the chosen method and account details provided by the Eligible Shareholder.

8.25 New Shares

a) Eligible Shareholders with CDS Accounts who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in electronic form by way of credit to their respective CDS Accounts. It is the responsibility of Eligible Shareholders to ensure that their CDS Account details set out in the PAL are correct.

b) New Shares will be admitted on the NSE on 24th December 2024 with dealings of New Shares commencing on the same date.

8.26 Untaken Rights and Allocation Policy

a) All Shareholders who apply for their New Shares in full shall receive the full number of New Shares as indicated in their PAL. New Shares not taken up shall form the Untaken Rights. The Untaken Rights may be allocated as Additional Shares in accordance with the Allocation Policy set out in Section 8.20 to Shareholders who duly submit applications for Additional Shares in accordance with Section 8.20;

b) Any residual Untaken Rights not taken up even after the allocation in Section 8.20 may be allocated by the Board in their sole discretion subject to Section 8.28 (Regulatory Restrictions) and if not so allotted, will lapse; and

c) If the result for the subscription makes the above Allocation Policy impractical, then an amendment to the Allocation Policy shall be made by the Board of Directors and such amendment will be announced within 24 hours of Board Approval.

8.27 Foreign Investors

a) The Capital Markets (Foreign Investors) Regulations, 2002 (the **Foreign Investor Regulations**) provide that a foreign investor (**Foreign Investor**) is any person who is not a local investor. A local investor is defined to mean:

   i) an individual being a natural person who is a citizen of an East African Community Partner State; or

   ii) body corporate being a company incorporated under the Companies Act or such other similar statute or an East African Community Partner State in which the citizen or the Government of an East African Community Partner State have beneficial interest in 100% of its ordinary shares or any other body corporate established or incorporated in an East African Community Partner State under the provisions of any written law. An East African Community Partner State means States that are members of the East African Community.

b) Foreign investors wishing to apply for the New Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to, and pay any issue, transfer or other taxes due in such territory. Before applying for and purchasing the New Shares, Foreign Investors are advised to consult their own professional advisers as to whether they require any governmental or other approvals or need to observe any applicable legal or regulatory requirements;

c) This Information Memorandum and accompanying PAL do not, and are not intended to, constitute an offer for the New Shares in any place outside Kenya or in any circumstances where such offer or solicitation is not authorised or is unlawful. In that regard, this Information Memorandum and accompanying PAL may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction (other than Kenya) or in any circumstances where such offer or solicitation is not authorized or is unlawful. The distribution of this Information Memorandum and the accompanying PAL outside of Kenya may be restricted by law and persons who come into possession of this Information Memorandum and the accompanying PAL should seek advice on and observe those restrictions. Any failure to comply with those restrictions may constitute a violation of applicable securities laws of any jurisdiction. Any such recipient must not treat this Information Memorandum and PAL as constituting an offer to him, unless in the relevant jurisdiction, such invitation or offer could be made lawfully to him without contravention of any unfulfilled registration or legal requirements;

d) In particular, the Rights Issue has not been, and will not be, registered under the United States' Securities Act, 1933 or under any other applicable securities laws of any state in the United States of America and, subject to certain exceptions, is not being made in the United States of America or to persons resident in the United States of America. The New Shares will be offered or sold only in an offshore transaction outside the United States of America within the meaning of and in compliance with Regulation S under the United States' Securities Act, 19332. In addition, an offer of New Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the United States' Securities Act, 1933 if such offer or sale is made otherwise than in accordance with Rule 144A under the United States' Securities Act, 1933;

e) Each person who initially acquires New Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Transaction Advisor and the Group that:

  i) It and any person for whose account it is subscribing for New Shares are outside the United States and is acquiring such New Shares in an offshore transaction within the meaning of and in compliance with Regulation S under the United States' Securities Act, 1933;

  ii) it did not become aware of nor is it making any investment decision with respect to the New Shares as a result of any "directed selling efforts" within the meaning of Rule 902(c) of Regulation S under the United States' Securities Act, 1933; and

  iii) it will not reoffer, re-sell, pledge or otherwise transfer or deliver any New Shares, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the United States' Securities Act, 1933 and all applicable securities laws of the states and other jurisdictions of the United States.

  The Group and the Transaction Advisors, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

f) Eligible Shareholders with a registered address in Kenya holding the Existing Shares on behalf of persons who are resident in a jurisdiction outside Kenya are responsible for ensuring that taking up the New Shares under the Rights Issue does not breach securities laws in that other jurisdiction. The return of a duly completed PAL in accordance with this Information Memorandum will not be deemed as a representation that there has been no breach of such laws.

8.28 Regulatory Restrictions

a) Eligible Shareholders are requested to note that the Group is subject to the provisions of the Capital Markets Act, which, for the purposes of the Rights Issue are the provisions summarised below. Eligible Shareholders are required to seek their own advice in connection with these matters. The Board may take the said provisions into account when determining the allocation of any Additional and Untaken Rights to applicants for New Shares;

b) HF Group is subject to the Capital Markets (Take-overs and Mergers) Regulations, 2002 ("Take-over Regulations"), which state that any shareholder seeking to acquire shares in excess of 25% must apply to the CMA to seek exemption from making a takeover offer if they do not desire to do so;

c) HF Group is also subject to the provisions of the Banking Act. Notable, for purposes of the Rights Issue are the provisions summarized below. Shareholders are required to seek their own advice in connection with these matters. The Board of Directors may take the said provisions into account when determining the allocation of any Untaken Rights to applications for Additional Shares.

  i) Sections 9A (2) and (4)(b) of the Banking Act preclude any person from becoming a "significant shareholder", being a person, other than the Government of Kenya or a public entity who holds directly or indirectly or otherwise has a beneficial interest in more than 5% of the share capital of a bank, financial institution or mortgage finance company, unless such person has been certified by the Central Bank of Kenya as a fit and proper person.

  ii) Section 13(1) of the Banking Act prohibits particular classes of persons from owning, directly or indirectly, or otherwise having a beneficial interest in more than 25% of the share capital in a bank, financial institution or mortgage finance company.

8.29 Taxation Implications

a) Shareholders interested in participating in the Rights Issue should consult their tax advisors of any possible tax implications connected with the Rights Issue. Therefore, HF Group and the Directors consider it inappropriate to provide detailed advice in respect of taxation consequences in connection with the Rights Issue save for what is expressly set out in this IM.

b) Neither HF Group nor any of its Directors, officers or advisors accepts any liability for any tax implications of Shareholders in connection with the Rights Issue.

c) Kenyan shareholders are subject to withholding tax on dividends at a rate of 5%. Foreign Shareholders will be subject to a withholding tax rate of 15%.

8.30 Governing Law

The Rights Issue documents and any contract resulting from the acceptance of an application to purchase the Offer Shares shall be governed by and construed in accordance with the Laws of Kenya and its shall be a term of each such contract that the parties thereto and all other interested parties submit to the exclusive jurisdiction of the Courts of Kenya.

8.31 Expenses of the Offer

The table below captures the expenses of the Offer assuming there is no greenshoe option.

Table 9: Expenses of the Offer

Expense	Total (KES)[6]
Transaction Advisor and Sponsoring Broker*	46,153,700
Placement Commission*	69,230,550
Legal Advisor	3,045,000
Reporting Accountant	5,223,000
Data Processing Agent and Portal Fee	6,550,000
Marketing and Public Relations	80,000,000
CMA Approval Fees	11,538,425
NSE Approval Fees	500,000
Total	222,240,675

*Placement commission computed at 1.5% for NSE Trading Participants for successfully allotted applications

The Transaction costs account for Kenya Shillings 4.82% of the Offer amount.

[6] These figures are exclusive of VAT (where applicable) and may be subject to change

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9. STATUTORY AND GENERAL INFORMATION

9.1 Capital Markets Authority Approval

The Capital Markets Authority approved the Transaction and the Information Memorandum on 25th October 2024 in line with the requirements in the Capital Markets (Public Offers, Listing and Disclosures) Regulations, 2023.

Following an exemption request dated 29th August 2024 for HFC Limited to act as the Receiving Bank for the Rights Issue, the CMA issued a no objection letter dated 9th September 2024 subject to the following conditions:

(a) HFC Limited maintaining an independent custodial trust account for the transaction, ensuring segregation of funds from its other accounts;
(b) Interest accrued on the funds held in the custodial trust account during the period from the close of the offer until settlement will be paid at the Central Bank Rate (CBR) and remitted to the Investor Compensation Fund; and
(c) This disclosure on the Receiving Bank being made in this IM.

9.2 Nairobi Securities Exchange Approval

The Nairobi Securities Exchange granted approval for the listing of the New Shares on 25th October 2024.

9.3 No Objection from the Central Bank of Kenya

The Central Bank of Kenya granted a "No Objection" to the Group for the Transaction on 24th October 2024.

9.4 Certificate of Incorporation

HF Group is a public company limited by shares and bearing Registration Number C.21/97.

9.5 Principal Objects (as contained in the Articles of Association)

The objects for which HF Group Plc is established are:

- To carry on the business of a non-operating holding company as defined under the Banking Act (Chapter 488, Laws of Kenya);
- To co-ordinate the administration of and to provide advisory, administrative, management and other services in connection with the activities of any company which are for the time being subsidiaries of HF Group;
- To acquire by purchase, lease, exchange, hire or otherwise, lands and property situate in Kenya of any tenure, or any estate or interest in the same or any rights over or connected with such lands and property, and to develop the same by preparing building sites and by constructing, altering, improving, decorating, furnishing and maintaining cottages, houses, offices, flats, shops, schools, hotels, buildings, works and convenience of all kinds; and
- To manage land, buildings and other property situate in Kenya whether belonging to the Company or not, and to collect rents and income.

9.6 Provisions of the Articles

9.6.1 Share Capital and Variation of Rights

Article 9: Without prejudice to any special rights previously conferred on the holders of any shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company by ordinary resolution determines, or if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine.

Article 13: The rights or privileges attached to any shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered, abrogated or varied by the creation or issue of any new shares ranking pari passu in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of capital' paid 'up on such shares.

9.6.2 Central Depositories Act 2000

Article 20: The provisions of the Central Depositories Act, 2000 (the "CD Act") as amended or modified from time to time shall apply to the Company to the extent that any securities (as such term is defined in section 2(1) of the CD Act) of the Company are in part or in whole immobilised or dematerialised or are required by the regulations or rules issued under the CD Act to be immobilised or dematerialised in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the CD Act or any rules or regulations issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to' such securities. For the purposes of these Articles, immobilisation and dematerialisation shall be construed in the same way as they are construed in the CD Act.

Article 21: Where any securities of the Company are forfeited pursuant to these Articles after being immobilised or dematerialised, the Company shall be entitled to transfer such securities to a securities account designated by the Board for this purpose.

9.6.3 Transfer of Shares

Article 34: Subject to the Statutes, the registration of transfers may be suspended at such time and for such periods as the Board may from time to time determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year.

9.6.4 Increase of Capital

Article 56: The Company may from time to time, by ordinary resolution, increase its share capital by allotting new shares of such amount as the resolution shall prescribe.

9.6.5 General Meetings

Article 59: The Company shall, in each year, hold a general meeting as its annual general meeting in addition to any other meetings in that year and shall specify the meeting as such in the notices calling it. Not more than fifteen (15) months shall elapse between the date of one annual general meeting of the Company and that of the next. Annual and other general meetings shall be held at such times and places as the Board shall appoint.

All general meetings, other than annual general meetings, shall be called extraordinary general meetings. The Company may hold annual general meetings virtually and the voting at such virtual annual general meeting will be carried out by electronic means.

Article 59A: The Board may determine in relation to each general meeting the means of attendance at and participation in the meeting, including whether the persons entitled to attend and participate in the meeting shall be enabled to do so:

(a) physically at the same venue; or
(b) exclusively by means of electronic or other communication facility or facilities that permits all those entitled to be present to participate in the meeting ("virtual meetings"); or
(c) simultaneously by physical and electronic means such that some participants are at the same physical location while other participants attend the meeting through electronic or other communication facility or facilities ("hybrid meetings"),

and for the avoidance of doubt, the Board shall be under no obligation to offer or provide any electronic or communication facility or facilities for virtual meetings or hybrid meetings, whatever the circumstances.

The provisions of these Articles relating to proceedings at general meetings will apply to virtual meetings and hybrid meetings in so far as they are capable.

Article 60: The Board may convene an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings shall also be convened on such requisition or, in default, may be convened by such requisitionists as provided by section 132 of the Act. At any meeting convened on such requisition or by such requisitionists, no business shall be transacted except that stated by the requisition or proposed by the Board. The Company may hold an extraordinary general meeting virtually and the voting at such virtual extraordinary general meeting will be carried out by electronic means.

9.6.6 Proceedings at General Meetings

Article 65: All business shall be deemed special that is transacted at an extraordinary general meeting and also all business that is transacted at an annual general meeting with the exception of the declaration of dividends, the consideration of the accounts and balance sheets, and any other documents accompanying or annexed thereto, the reports of the Directors and auditors, the election of Directors, the appointment of auditors and the fixing of the remuneration of the Directors and auditors.

Article 66: No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Save as otherwise provided by these Articles, twenty-five (25) members present in person or by proxy or, in the case of a corporation, represented in accordance with Article 93, and entitled to vote at the meeting and holding together not less than thirty-five per cent (35%) of the issued shares in the capital of the Company carrying the right to vote for the time being shall be a quorum, provided that one member holding the proxy of one or more other members or one person holding the proxies of two or more members shall not constitute a quorum.

Article 66A: Pursuant to Article 59A, the Board may resolve to enable persons entitled to attend and participate in a general meeting to do so partly or wholly by simultaneous attendance and participation by means of electronic or other communication facility or facilities, and may determine the means, or all different means of attendance and participation used in relation to the general meeting. The members present in person or by proxy by means of electronic or other communication facility or facilities (as so determined by the Board) shall be counted in the quorum for, and be entitled to participate in, the general meeting in question. That meeting shall be duly constituted and its proceedings valid if the chair is satisfied that adequate facilities are available throughout the meeting to ensure that members attending the meeting by all means (including the means of an electronic or other communication facility or facilities) are able to:

(a) participate in the business for which the meeting has been convened;
(b) hear all persons who speak at the meeting; and
(c) be heard by all other persons attending and participating in the meeting.

9.6.7 Votes of Members

Article 81: Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every member who is present in person or (being a corporation) is present by a representative appointed in accordance with Article 93 shall have one vote. A proxy shall not be entitled to vote except on a poll. On a poll every member present in person or by proxy, or present by a representative appointed in accordance with Article 93, shall have one vote for each share of which he is the holder.

9.6.8 Directors

Article 94: The number of Directors shall be not less than five and, unless and until otherwise determined by ordinary resolution of the Company in general meeting, shall not exceed nine.

Article 97: A Director need not be a shareholder, but shall be entitled to receive notice of and to attend and speak at all general meetings of the Company or at any separate meeting of the holders of any class of shares of the Company.

9.6.9 Dividends and Reserves

Article 144: The Company may, in general meeting, declare dividends but without prejudice to the powers of the Company to pay interest on share capital, no dividend shall be payable except out of the profits of the Company, or in excess of the amount recommended by the Board and the payment of dividends shall be subject to the conditions from time to time imposed by the Banking Act.

Article 145: The Board may, from time to time, declare or pay to the members interim dividends as appear to the Board to be justified by the profits of the Company.

Article 146: Subject to the rights of any persons entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividends are declared but no amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this Article as paid up o~ the share. A dividend shall be' apportioned and paid proportionately to the amounts paid or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but, if any share is issued on terms providing that it shall rank for dividend or be entitled to dividends declared as from a particular date, such share shall rank for or be entitled to dividend accordingly.

Article 147: The Board may deduct from any dividend payable on a share any sums of money presently payable by the person to whom the dividend is payable, to the Company on account of calls or otherwise.

Article 148: The Board may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

Article 149: No dividend or other monies payable in respect of a share shall bear interest against the Company.

Article 150: With the sanction of a general meeting, any dividend may be paid wholly or in part by the distribution of specific assets and, in particular, of paid-up shares or debentures of any other company or in anyone or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle the same as it deems expedient and, in particular, may issue fractional certificates and fix the value for distribution of such specific assets or any part of them and may determine that cash payments shall be made to any member upon the footing of the value fixed in order to adjust the rights of those entitled to participate in the dividend, and may vest any such specific assets in trustees upon trust for the members entitled to the dividend as may seem expedient to the Board.

Article 151:

a) Method of payments of dividends;

i) Any dividend or other money payable in cash or in respect of shares may be paid by direct debit, bank transfer or other automated system of bank transfer, electronic or mobile money transfer system (for example and not by way of limitation via mobile money transfer system) transmitted to such bank or electronic or mobile telephone address as shown in the share register of the Company; or

ii) by cheque or warrant payable at such place of business as the Company shall specify in writing sent by post to the address of the member or person entitled to it as shown in the share register of the Company or if two or more persons are registered as joint holder who is first named in the share register of the Company or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one such person at such address as the persons being entitled to receive payment may in writing direct.

b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 151 (a) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or enfaced, by the addressee or as the case may be, confirmation of the payment having been made by the transmitting entity to the address of a direct debit, bank transfer or other automated system of the bank transfer or via a mobile money transfer system shall in each case be a cheque or warrant or electronic fund transfer or mobile money payment system shall be sent at the risk of the person entitles to the money represented by it.

Article 152: In addition to any reserves provided for in compliance with the requirements of the Banking Act, the Board may, before recommending any dividend, set aside out of the profits of the Company such sum as it thinks proper as a reserve which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied. Pending such application such sums may, at the like discretion either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as the Board may from time to time think fit. The Board may divide the reserve into such special funds as they think fit, and may consolidate into one fund any special funds or any parts of any special fund into which the reserve may have been divided. The Board may also, without placing the same to reserve, carry forward any profits which it may think prudent not to divide.

Article 153A: The Company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets.

9.7 Authorised and Issued Share Capital

The authorised share capital of the Group is Kenya Shillings Two billion Five Hundred Million (KES 2,500,000,000.00) divided into five hundred million (500,000,000) ordinary shares of Kenya Shillings Five (KES 5.00) each.

The issued share capital of the Group is Kenya Shillings One Billion Nine Hundred and Twenty-Three Million Seventy Thousand Eight Hundred and Forty (KES 1,923,070,840.00) made up of Three Hundred and Eighty-Four Million Six Hundred and Fourteen Thousand One Hundred and Sixty-Eight (384,614,168) ordinary shares of Kenya Shillings Five (KES 5.00) each as at 31st August 2024.

The shareholders of the Group at the general meeting held on 4th September 2024 authorised the creation and allotment of additional shares not exceeding one billion five hundred million (1,500,000,000) ordinary shares of Kenya Shillings Five (KES 5.00) each to rank *pari passu* with the Existing Shares, as may be necessary to facilitate the issue of shares subscribed for pursuant to the Rights Issue.

9.8 Subsidiaries

The Group has the following subsidiary within the meaning set out in Section 3 of the Companies Act:

- HFC Limited – Licensed as a mortgage finance company, with a license to carry on commercial banking business under the Banking Act;
- HF Bancassurance Intermediary Limited (HFBI) – Licensed in 2011 to provide bancassurance services
- HF Development & Investment Limited (HFDI) – A property company
- HF Foundation Limited – Set up as a foundation in 2013 with a vision to deliver, facilitate and catalyse industry relevant and sustainable practical skills required by the building and construction industry; and
- First Permanent (EA) Limited – A dormant company

9.9 Material Agreements

Apart from contracts entered into by HF Group and its subsidiaries in the ordinary course of business and the contracts outlined in the sections below, HF Group and its subsidiaries have not entered into:

a) Any material contracts with third parties which have onerous or illegal covenants;

b) Any contracts that restrict HF Group's freedom to carry on its business as it deems fit or restrict the ability of HF Group to transfer the whole or part of its business;

c) Any transaction otherwise than at arm's length;

d) Any contracts of material capital commitments; and

e) Any contracts with subsidiaries of other group companies.

9.9.1 Material Agreements with restrictive covenants

a) **Loan Agreement between HFC Limited (as Borrower), HF Group PLC (as Parent) and Britam Holdings PLC (as Lender) dated 20th January 2021** – In consideration of the Lender providing the Facility to the Borrower and the commercial benefit that will be derived by the Parent from the provision of the Facility, the Parent grants to the Lender the option to subscribe to the Option Shares (the ordinary shares in the capital of the Parent that is equal to the Loan Outstandings). The Option may be exercised by the Lender upon the occurrence of a Change in Control Event (where a person has the power to control the casting of more than 50% of the voting rights, or appoint or remove all or the majority of the directors, or holds beneficially more than 50% of the issued share capital).

b) **Loan Agreement between The Company For Habitat And Housing In Africa (Shelter-Afrique) and HFC Limited (as Borrower) dated 17th December 2015** – Clause 10.4 (i) of the agreement provides that HFC Limited should report any material change in the ownership of HFC Limited as the Borrower, its statutes and/or legal structure.

   Additionally, Clause 10.6(e) stipulates that the Borrower, except as Shelter-Afrique may from time to time otherwise agree in writing, shall not undergo any change of control or other reorganisation, merger or other transaction that would result in any person (i) holding (whether directly or indirectly) at least 50% of any class of equity securities or other ownership interests of the Borrower, or (ii) having the right to appoint a majority of the Board of Directors of the Borrower.

c) **East & Central Africa PEFF II HFC LTD (Cotonou Investment Facility Resources) Finance Contract between the European Investment Bank (as the Bank) and HFC Limited (as the Borrower) dated 23rd December 2016** – Article 4.03A(3) stipulates that the Borrower shall inform the Bank if a Change of Control Event has occurred or is likely to occur. A Change of Control Event occurs if any person or group of persons acting in concert gains control of the Borrower; or HF Group ceases to control the Borrower or be the beneficial owner in aggregate of more than 50% of the issued share capital of the Borrower.

Article 8.02 (b) (i) requires HFC Limited to inform the European Investment Bank of any material alteration to its memorandum and articles of association, shareholding structure, and any change of ownership and at top management level (board members and chief officers).

d) **Private Enterprise Financing Facility (PEFF) III Kenya Deed of Novation and Amendment between European Investment Bank (as EIB), HF Group Limited (as HF Group) and HFC Limited (as HFC) dated 22nd December 2016** – A Change of Control Event occurs if HF Group ceases to control or be the beneficial owner of 100% of the issued share capital of HFC; any person or group of persons acting in concert gains control of HF Group; the shareholders of HF Group as at 22nd December 2016 together cease to control HF Group or be the beneficial owner, in aggregate, of more than 50% of the issued share capital of HF Group; or Britam Holdings Limited ceases to control or be the beneficial owner of at least 48.56% of the issued share capital of HF Group.

e) **Line of Credit Agreement for Financing Private Sector Projects between The Arab Bank for Economic Development in Africa (as Lender) and HFC Limited (as Borrower) dated 5th March 2018** – Section 9.02 mandates that unless the Lender otherwise agrees, the Borrower shall not permit any merger, spin-off, consolidation or reorganisation that would result in any person (i) holding (whether directly or indirectly) at least 50% of any class of equity securities or other ownership interests of the Borrower, or (ii) having the right to appoint a majority of the Board of Directors of the Borrower or otherwise control the affairs of the Borrower (means holding of more than 30% of the voting rights attached to the shares of the Borrower).

f) **Master Servicing and Refinancing Agreement between Kenya Mortgage Refinance Company Limited (as KMRC) and HFC Limited (as Customer)** – KMRC has issued a refinance facility which is secured by inter alia, an exclusive assignment by way of security over a mortgage loan portfolio of the Customer.

9.10 Related Party Agreements

a) **Loan Agreement between HFC Limited (as Borrower), HF Group PLC (as Parent) and Britam Holdings PLC (as Lender) dated 20th January 2021** – As above.

b) **Letter of Offer dated 2nd August 2024 from HFC Limited (as HFC) to HFDI (as Borrower) in relation to a mortgage finance facility for KES. 810,000,000.00** – The purpose of the facility is refinancing and formalising the obligation already owed to HFC by the Borrower, currently classified as payables by the Borrower. The facility is to be secured by a legal charge over property Title Number Nairobi/Block 121/256 (currently known as K-Mall) (the **Property**) as well as a deed of assignment of rental income over the Property.

9.11 Licenses and Permits

HF Group was duly authorised by the CBK to operate as a non-operating holding company on 3rd June 2015 and is regulated by CBK. The Group is also licensed by the CMA to conduct the business of a REIT Trustee vide licence number 088 issued on 26th June 2014.

The HFC is duly licensed by CBK as a mortgage finance company to conduct banking business, as its primary business. The license covers the Head Office and branches for the year 2024. Additionally, HFC was duly licensed to conduct the business of an authorised depository by the CMA on 20th March 2018 under licence number 113. The Bank is also registered and authorised by the RBA to act as a custodian of retirement benefits schemes funds vide registration number RBA/1/13/028 issued on 10th February 2023.

HFBI is licensed to provide bancassurance services by Insurance Regulatory Authority ("IRA") under licence number IRA/14/009/2024.

9.12 Material Litigation

HF Group is not involved in any material litigation.

HFC is involved in the following material litigation or dispute resolution proceedings:

Table 10: Major Suits with HFC as Defendant

PARTIES	ESTIMATED VALUE OF SUIT (KES)	NATURE OF MATTER
Milimani HCCC No. 474 of 2012 ICEA Lion v. HFC Ltd, CFC Stanbic Bank Ltd and Another	120,000,000.00	ICEA has sued Housing Finance, CFC Stanbic and another for loss of 120 million which funds were withdrawn by the third defendant their former Assistant General Manager from one of their accounts held at Rehani Branch The authorized signatory of ICEA has since been charged with stealing and this development should buttress the Bank's case of no liability for the loss. Hearing on 17th February,2025
KIAMBU HCCC NO. 1 OF 2020 Kigio Group Company Limited Vs Hfc Limited & Garam Civil Appeal (Application) No. E193/2022 Kigio Group Company Limited & Another.	540,740,693	This is a suit by a customer seeking an order for rent of Kes. 78,735,000 for the 7 floors locked by the contractor for a period of 18 months, Exemplary Damages, General damages, Permanent Injunction, cost and interest at commercial rates. The Ruling was delivered on 29th April, 2021 and the injunction application dismissed. The Borrower's Appeal (CA. E193/2022) has been certified ready and will be heard once the application for contempt that had been filed by Kigio is dealt with.
HCCC No. 250 of 2008 Faith Wanjiru Kimeriah/Estate of late Harrison Charles Kimeriah	150,000,000	The wife to the late borrower filed suit challenging the realization process. She alleges that the loan was fully paid up, statutory notices were not served and that the suit property was undervalued. Judgment was delivered on 27/11/2023 against the bank. The bank was ordered to pay KES. 150,000,000.00 plus costs and interest of the suit. The bank has filed a notice of appeal, directions on submissions have been issued.

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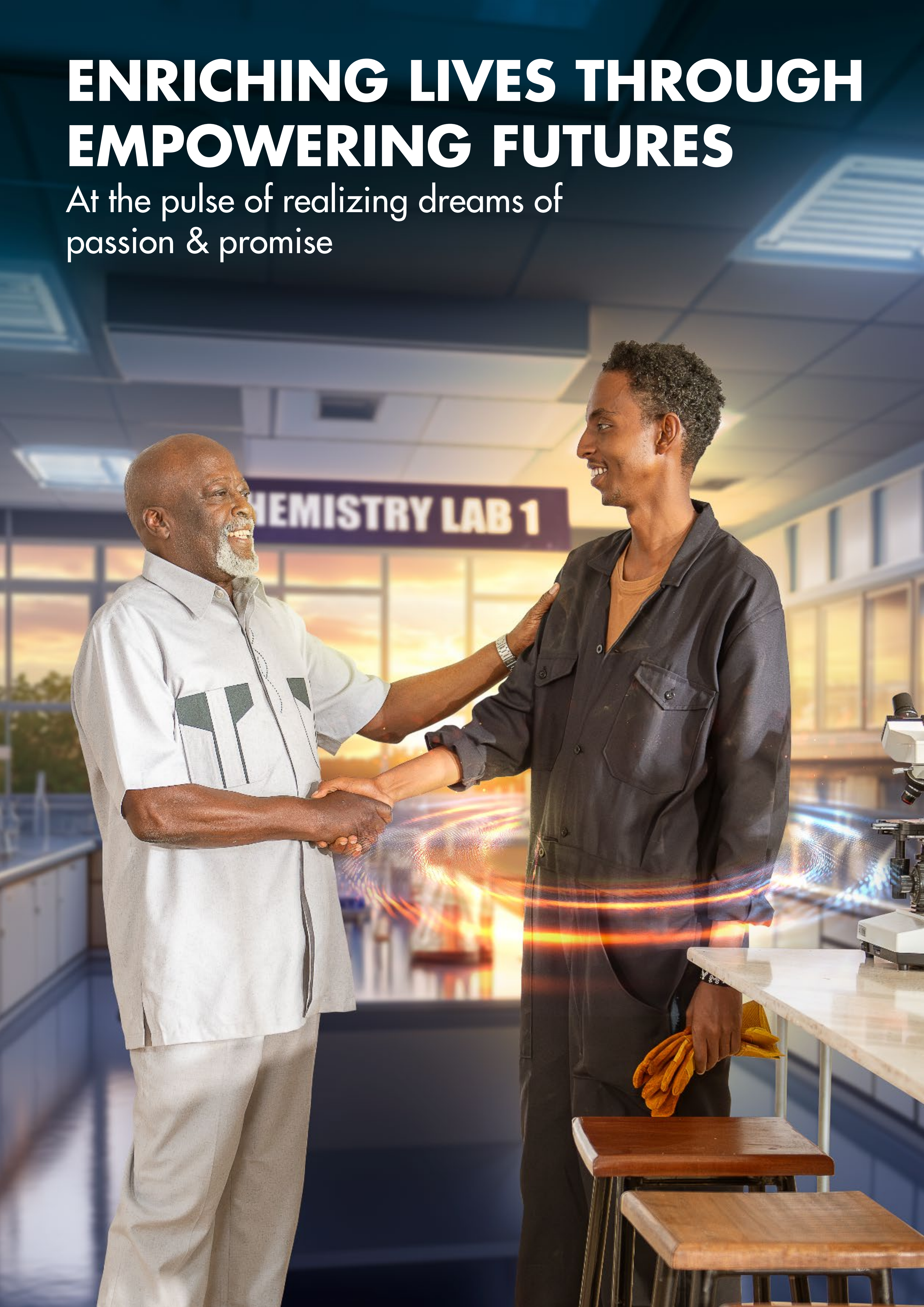


9.13 Borrowings

The table below outlines the current borrowings by HF Group and its subsidiaries as at 23rd August 2024.

Table 11: Borrowings of HF Group and its subsidiaries

Entity	Lender	Amount (KES)	Issue Date	Maturity Date	Interest Rate	Issue Price	Amount Redeemed	Amount Outstanding	Date of payment of interest	Date and terms of redemption
HFC	Government of Kenya	50,750,000	Jul-81		8.25	250,000	-	50,750,000	1st January and 1st July every year	
HFC	Britam	1,000,000,000	Jan-21	Feb-28	20	1,000,000,000	-	1,000,000,000	30th April,31st Jul,31st October,31st Jan	Feb-28
HFC	Kenya Mortgage Refinance Company	297,866,808	Mar-21	Apr-28	5	514,573,818	210,700,211	303,873,607	1st of every month	Apr-28
HFC	Kenya Mortgage Refinance Company	547,049,667	Feb-22	May-31	5	700,000,000	152,950,333	547,049,667	1st of every month	May-31
HFC	Shelter Afrique	303,529,419	Dec-15	Dec-25	11.5	USD 10,000,000	USD 7,647,058.77	USD 2,352,941.23	31st January and 31st July every year	Apr-28
HFC	European Investment Bank	804,535,239	Apr-12	Oct-26	4.321	USD 20,000,000	USD 13,761,292.72	USD 6,236,707.28	1st October and 1st April every year	Oct-26

Source: HF Group

9.14 Properties

HF Group has immoveable assets registered in its name or in the name of its subsidiaries as follows:

a) Grant Number I.R. 34513 in respect of Land Reference Number 209/9054 (Original Number 209/972 & 209/973) - Rehani House, Koinange/Banda Street/Kenyatta Avenue Junction. Its registered owner being HFC Limited with leasehold interest for a term of Ninety-Nine (99) years from 1st January 1978;

b) Certificate of Lease for Nairobi/Block 121/256 in the name of HFDI, being the proprietor of the leasehold interest for a term of Ninety-Nine (99) years from 1st January 1992;

c) Certificate of Lease for Nairobi/Block 121/257 in the name of HFDI, being the proprietor of the leasehold interest for a term of Ninety-Nine (99) years from 1st January 1992;

d) Title Number Mombasa/Block XXI/217 in the name of HFC Limited, being the registered absolute proprietor;

e) Certificate of Lease for Mombasa/Block/XXI/580 in the name of HFBI, being the registered proprietor of a leasehold interest for a term of Ninety-Nine (99) years from 1st May 1994;

f) Certificate of Lease for Mombasa/Block XXI/581 in the name of HFBI, being the registered proprietor of the leasehold interest for a term of Ninety-Nine (99) years from 1st May 1994;

g) Certificate of Lease for Mombasa/Block XXI/582 in the name of HFBI, being the registered proprietor of the leasehold interest for a term of Ninety-Nine (99) years from 1st May 1994;

h) Certificate of Lease for Mombasa/Block XVII/1585 in the name of HFC, being the registered proprietor of the leasehold interest for a term of Ninety-Nine (99) years from 1st December 1998;

i) Certificate of Lease for Kiambu/Municipality Block 2/243 in the name of HFC Limited being the proprietor of a leasehold interest for a term of Ninety-Nine (99) years from 1st March 1998;

j) Certificate of Title Number I.R. 113647 in respect of Land Reference Number 8226/103 (Original Number 8226/15/15) in the name of HFC, being the registered proprietor of a leasehold interest for a term of Nine Hundred and Fifty-One (951) years from 1st January 1953;

k) Certificate of Title Number I.R. 12055 in respect of Land Reference Number 27820/51 in the name of HFC, being the registered proprietor of a leasehold interest for a term of Ninety-Nine (99) years from 1st August 2009; and

l) Certificate of Title Number I.R. 12628 in respect of Land Reference Number 37/254/31 in the name of HFC, being the registered proprietor of a leasehold interest for a term of Ninety-Nine (99) years from 1st May 1955.

9.15 Directors Declaration

The Directors of HF Group PLC accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with facts and does not omit anything likely to affect the import of such information.

9.16 Directors' Statement as to Liquidity Requirement of HFC

The Directors of the HF Group confirm that as at the date of this Information Memorandum, HFC is in compliance with the liquidity ratios requirements under the Prudential Guidelines as at 31st August 2024.

9.17 General Information

9.17.1 Changes in Senior Management

There are no planned or expected changes in the Bank's senior management during the twenty four months following this Transaction.

9.17.2 Voting Rights and Control

All shareholders have equal voting rights and no preferential voting rights attach to any shares.

9.17.3 No Payments to Promoters

No amount or benefit has been paid or given within the three years preceding the date of this Information Memorandum or is intended to be paid or given to any promoter.

9.17.4 **Single Class of Shares**

The share capital of the Group is not divided into different classes of shares.

9.17.5 **Consents**

Messers. Dyer and Blair Investment Bank, the Transaction Advisor, Messrs. PricewaterhouseCoopers, the Reporting Accountants, and Messrs. Walker Kontos Advocates the Legal Advisors to the Transaction have given and have not withdrawn their respective consents to the issue of this Information Memorandum with the inclusion herein of their reports, the references to those reports, their names and the references to their names, as applicable, in the form and context in which the same, respectively, appear.

9.17.6 **Directors' interest**

There are no directors of the Group who hold in excess of 3% (directly or indirectly) of the share capital of the Group as at the date of this Information Memorandum.

The following directors of the Group hold less than 3% (directly or indirectly) of the share capital of the Group as at the date of this Information Memorandum.

a) Olive Mwihaki Mugenda – 0.05%
b) Robert Ngugi Kibaara – 0.08%
c) Benson Irungu Wairegi – 0.47%

The following directors of HFC hold less than 3% (directly or indirectly) of the share capital of the Group as at the date of this Information Memorandum.

a) Kaushik Liladhar Manek – 0.000858%

9.17.7 **Material Changes in the Business**

There have been no interruptions in the Group's business or its subsidiaries, which may have or have had during the recent past (covering at least the previous four months prior to the issuance of this Information Memorandum) a significant effect on the Group's financial position.

9.17.8 **Documents available for Inspection**

The following documents, or copies thereof, may be inspected at the registered office of the Group during normal working hours on Monday to Friday, during the Offer Period:

a) the Memorandum and Articles of Association of the Group;

b) the audited financial statements of the Group in respect of the financial years ended 31st December 2023;

c) The Reporting Accountants' report as reproduced in this Information Memorandum and their written consent to the issue of this Information Memorandum with their report included herein in the form and context in which it is so included;

d) The legal opinion of Legal Advisor as reproduced in this Information Memorandum and their written consent to the issue of this Information Memorandum with their opinion included herein in the form and context in which it is so included;

e) Shareholder Approval for the Rights Issue;

f) Board Resolution approving the Rights Issue; and

g) A copy of this Information Memorandum.

10. ECONOMIC OVERVIEW

10.1 GDP Growth

According to the IMF's April 2024 World Economic Outlook (WEO) report, global growth is projected to remain constant at 3.2% in 2024 and 2025 (2023: 3.2%). This will be steered by growth expectations in advanced economies (2024: 1.8%, 2023: 1.7%) but offset by a slowdown in emerging markets and developing economies (2024: 4.2%, 2023: 4.3%). Global growth numbers bottomed-out in 2022 at 2.3% following supply-chain disruptions post-COVID, Russia-Ukraine war that triggered a global energy and food crisis, and a surge in inflation (global inflation hit a high of 9.4% in 2022) that led to monetary policy tightening across the world.

Figure 2: World GDP Growth

Source: IMF WEO April 2024

Table 12: IMF WEO Growth Projections

IMF WEO Growth Projections	2023e	2024e	2025e
World economy	3.2%	3.2%	3.2%
Advanced economies	1.6%	1.7%	1.8%
Emerging market and developing economies	4.3%	4.2%	4.2%

Source: IMF WEO April 2024

In advanced economies, growth is projected to rise consistently over 2024-2025 primarily owing to an expectation of the easing of monetary policies in 2024. This is due to easing inflation levels, carryover effects from a stronger-than-expected growth outcome in the fourth quarter of 2023 (US) and stronger household consumption, as the effects of the shock to energy prices subside and a fall in inflation supports growth in real income (Euro area).

In emerging markets and developing economies, growth is forecast to decline marginally, largely impacted by declining growth levels in emerging and developing Asia (2024: 5.2%, 2023: 5.6%). This decline is expected to be on account of China's growth projections: growth in China is projected to decline from 5.2% in 2023 to 4.6% in 2024 as the positive effects of one-off factors – including the post-pandemic boost to consumption and fiscal stimulus – ease and weakness in the property sector persists.

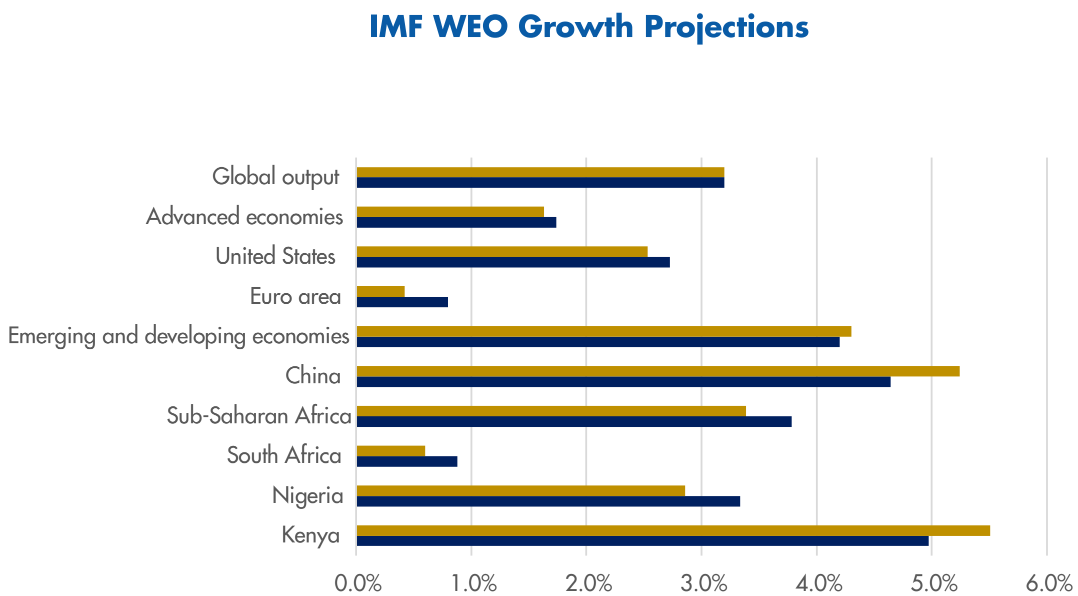
Table 13: Emerging Markets and Developing Economies Growth Projections

IMF WEO Growth Projections	2023e	2024e	2025e
Emerging and Developing Asia	5.6%	5.2%	4.9%
Emerging and Developing Europe	3.2%	3.1%	2.8%
Latin America and the Caribbean	2.3%	2.0%	2.5%
Middle East and Central Asia	2.0%	2.8%	4.2%
Sub – Saharan Africa	3.4%	3.8%	4.0%

Source: IMF WEO April 2024

A moderate growth of 3.8% is projected for sub-Saharan Africa in 2024 (up from 3.4% in 2023) predicated on easing supply chain constraints and the subsiding of negative effects of weather shocks.

Table 14: IMF WEO Growth Projections

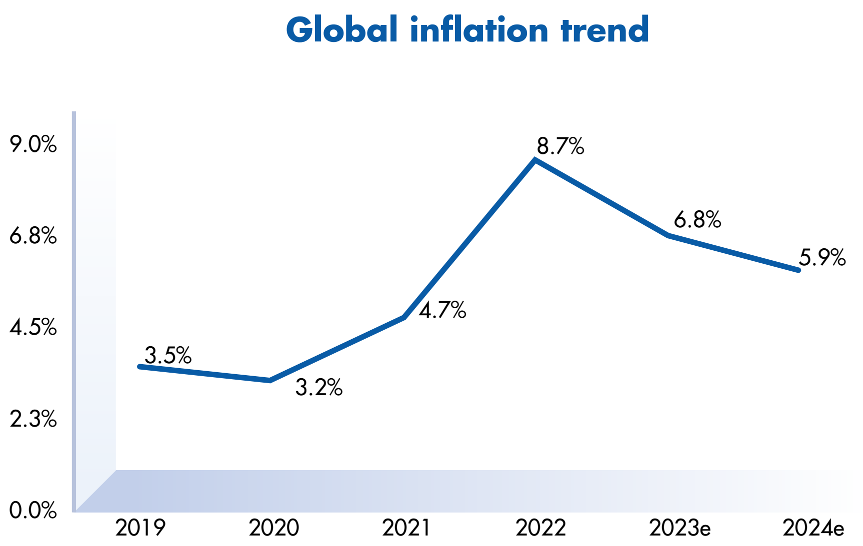


Source: IMF WEO April 2024

10.2 Global Inflation

The IMF's April 2024 World Economic Outlook (WEO) report projects global inflation to ease from 6.8% in 2023 to 5.9% in 2024. Despite this expectation of global disinflation, inflation is still forecast to remain higher than pre-pandemic levels of 3.5% (2017 to 2019). Advanced economies are expected to return sooner to rates near their pre-pandemic (2017–19) average, with inflation averaging 2.0% in 2025, about a year before emerging market and developing economies are expected to return to their pre-pandemic average of 5.0%. The receding inflation level is expected to be driven by the lower energy prices, easing of supply chain disruptions and positive effects of monetary policy actions taken by governments and improved monetary policy frameworks.

Figure 3: Global Inflation Trend



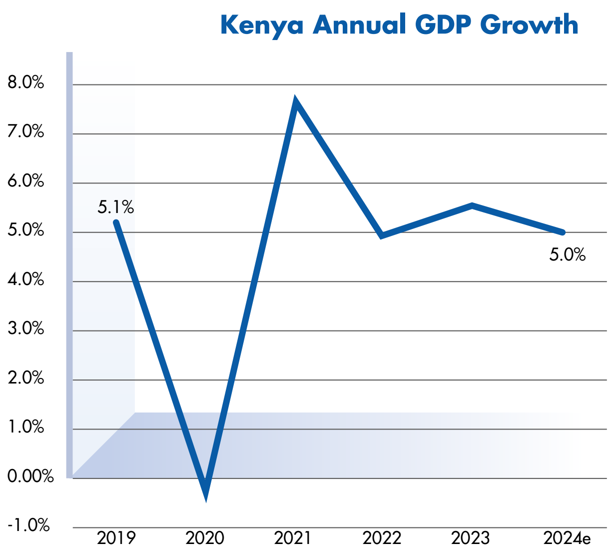
Source: IMF WEO April 2024

Risks to Global Economic Outlook

- **Geo-political tensions**: This encompasses the Russia-Ukraine conflict and Iran-Israel conflict and has the potential to worsen supply chain constraints thereby leading to new price spikes.
- **Divergence in disinflation speeds**: Faster inflation decline in advanced economies compared to emerging markets and developing economies could cause currency movements that put financial sectors under pressure.
- **China's troubled property sector**: China's growth projection is expected to slow down significantly owing to the prevailing challenges in the country's property sector. The persistence of this will continue to impact trading partners, hence impacting global growth expectations.
- **US elections:** Economic policy uncertainty could impact financial markets globally.

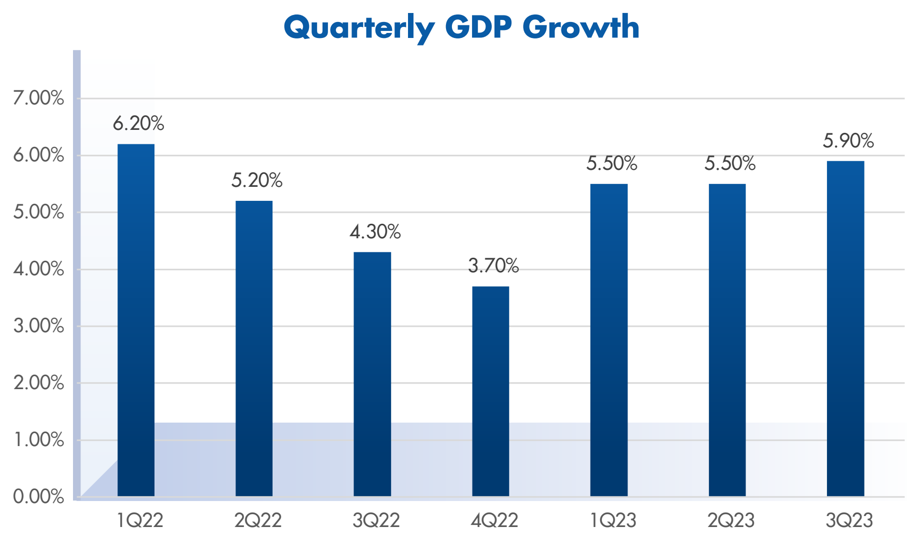
10.3 Kenyan Economic Growth

Figure 4: Kenyan Annual GDP Growth



Source: IMF WEO April 2024

Figure 5: Kenyan Quarterly GDP Growth



Source: KNBS, CBK & DBIB Analysis

According to the Kenya National Bureau of Statistics 2024 Economic Survey published in May 2024, Kenya's GDP growth stood at 5.6% in 2023 compared to 4.9% in 2022. This was largely driven by growth across most of the economic sectors. The Agriculture, Forestry and Fishing sector grew by 6.5% supported by improved rainfall conditions, the Transport and Storage sector grew by 6.2% and the Real Estate sector grew by 7.3%. The recovery in these sectors was driven by favorable weather conditions (coming after a prolonged drought), lower energy prices and lower input costs on account of easing supply chain constraints.

Table 15: Kenyan GDP Growth by Sector (2023)

2023	%Change	% Contribution to GDP
Agriculture	6.5%	21.8%
Transport & Storage	6.2%	13.6%
Real Estate	7.3%	8.4%
Financial & Insurance	10.1%	7.8%
Manufacturing	2.0%	7.6%
Wholesale & Retail Trade	2.7%	7.5%
Construction	3.0%	6.6%
Public Administration	4.6%	4.8%
Education	3.1%	4.7%
Information & Communication	9.3%	2.2%
Electricity & Water Supply	2.9%	1.9%
Health	4.9%	1.7%
Accommodation & Restaurant	33.6%	1.3%
Mining & Quarrying	-6.5%	0.7%
Others		9.4%

Source: KNBS 2024 Economic Survey

In 2024, we expect Kenya's GDP growth to be moderate, supported by the Agriculture, Transport, Real Estate and Financial Services sectors. Our projections for GDP growth in 2024 range between 5.5% and 6.5% supported by the strengthening of the KES, robust growth of private sector lending, above-average rainfall levels and growing diaspora remittances.

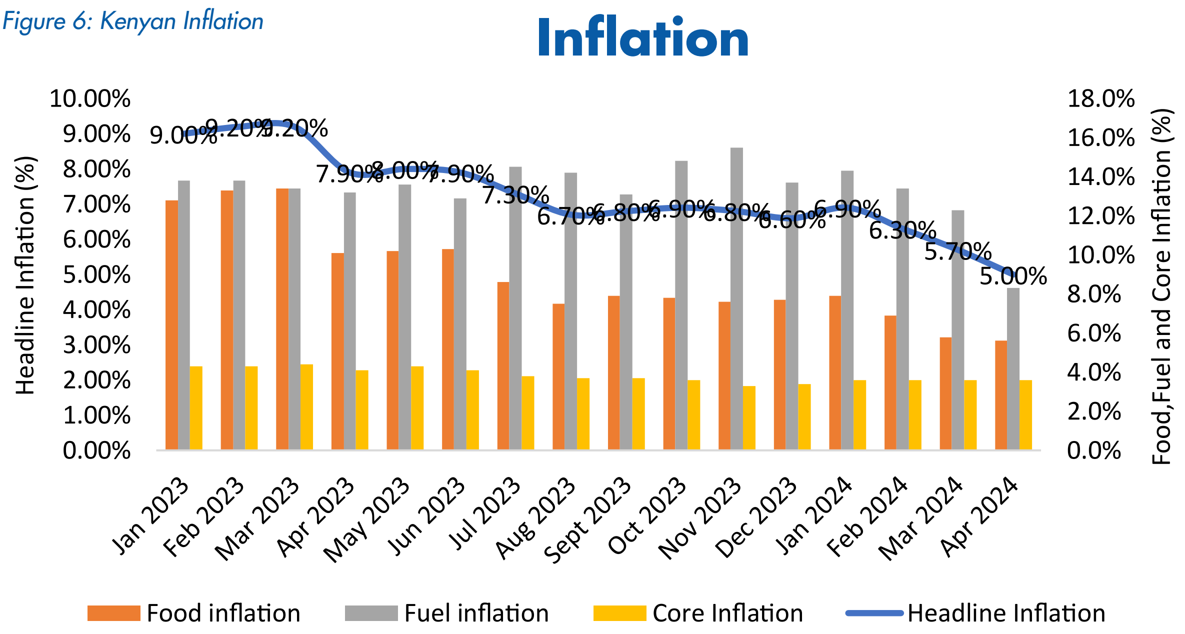
The Agriculture sector is expected to benefit from the improved rainfall conditions, bearing a contrast against the previous five consecutive seasons of below-normal rainfall levels (spanning 2020-2023). The Kenya Meteorological Department in its February 2024 issue states that it expects above-average rainfall across most of the country's climatic regions, in turn driving the production of agricultural food items. The Government's subsidy on fertilizer and seeds has also seen increased activity in the sector.

The Transport sector has seen reduced fuel prices amidst a global decline in energy prices and the KES strengthening against the US Dollar, in turn boosting the sector's performance. The Energy and Petroleum Regulatory Authority has reviewed fuel prices downwards over the past five consecutive monthly reviews.

The Financial Services sector is expected to benefit from the growth in credit to the private sector, which has been on an upward trajectory since September 2023. Private sector credit growth stood at 13.8% in January 2024 compared to 11.5% in January 2023, highlighting the increasing channeling of funds to SMEs. Banks' lending has especially seen a boost following most banks' approval of risk-based pricing models.

10.4 Kenyan Inflation Overview

Figure 6: Kenyan Inflation



Source: KNBS, CBK and DBIB Analysis

We expect continued inflation easing into 2024 as has been the case from January to April 2024. This is expected to be driven by:

- Above-average rainfall levels: the March-April-May rainfall levels have been above-average, thus expected to boost agricultural production, in turn driving prices of food items down
- Fertilizer and seed subsidy programmes: these are expected to lead to increased agricultural activity. Fertilizer imports notably

increased by 62.9% in 2023. Budget allocation to this end stands at KES 5.0 BN. Subsidized fertilizer costs farmers KES 3,500 per 50kg bag compared to the retail price of KES 6,500.

- Lower electricity prices (due to improved rainfall and currency appreciation): Kenya Electricity Generating Company PLC ("KenGen") in February reported increased generation of hydropower following increased rainfall, expected to lead to reduced prices of electricity. Notably, Kenya Power and Lighting Company ("Kenya Power") announced a 13.7% month-on-month reduction in the cost of power in April 2024 for domestic users.

We expect average inflation to remain within the CBK's target range of 2.5%-7.5%. Volatility of crude oil prices remains a key risk to inflation levels. Oil prices notably increased in April 2024 due to a decline in inventories and geo-political tensions, but took a downward turn in May 2024 due to demand concerns.

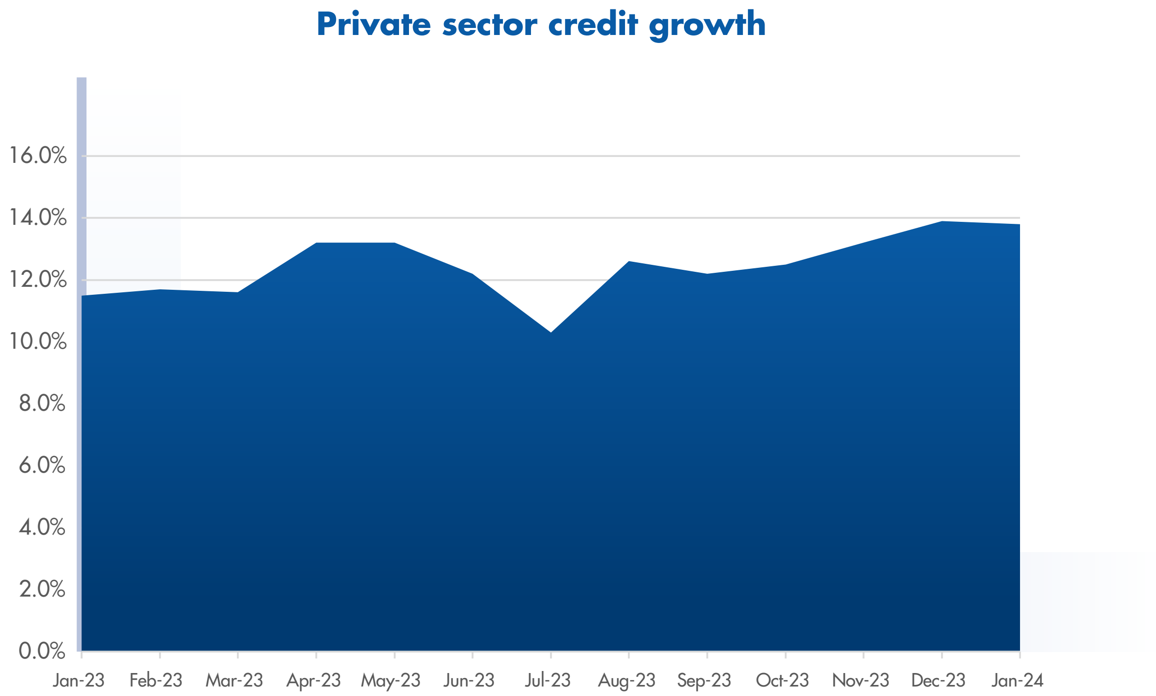
10.5 Private Sector Credit Growth

With private sector credit growth at an 18-month high as at January 2024, we see this growth being influenced by banks' preference for lending to the private sector as opposed to the government on account of the high interest rate environment. This further highlights the impact of the approvals for risk-based lending by the CBK.

The sectors that recorded the highest lending were manufacturing (23.0%), trade (16.1%) and finance and insurance (14.9%). Private sector lending has remained undeterred by Central Bank Rate adjustments – which stood at 12.5% as at December 2023 compared to 8.75% as at December 2022 - necessitated by inflationary pressures occasioned by the depreciation of the KES and high input costs.

There is expected pressure on private sector lending in light of deteriorating asset quality. Industry NPL ratio stood at 12.7% in 2023 compared to 11.9% in 2022. This however compared favorably to the June 2022 NPL ratio of 14.7%.

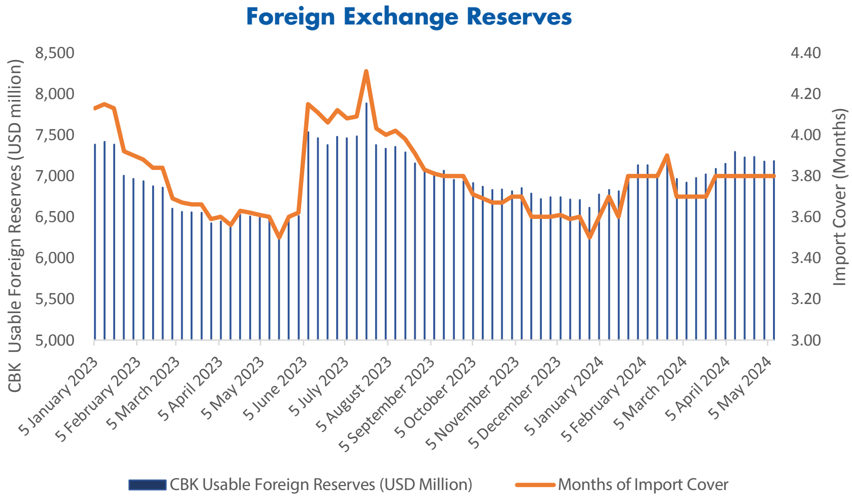
Table 16: Private Sector Credit Growth



Source: CBK & DBIB Analysis

10.6 Foreign Exchange Reserves

Figure 7: Kenya's Foreign Exchange Reserves



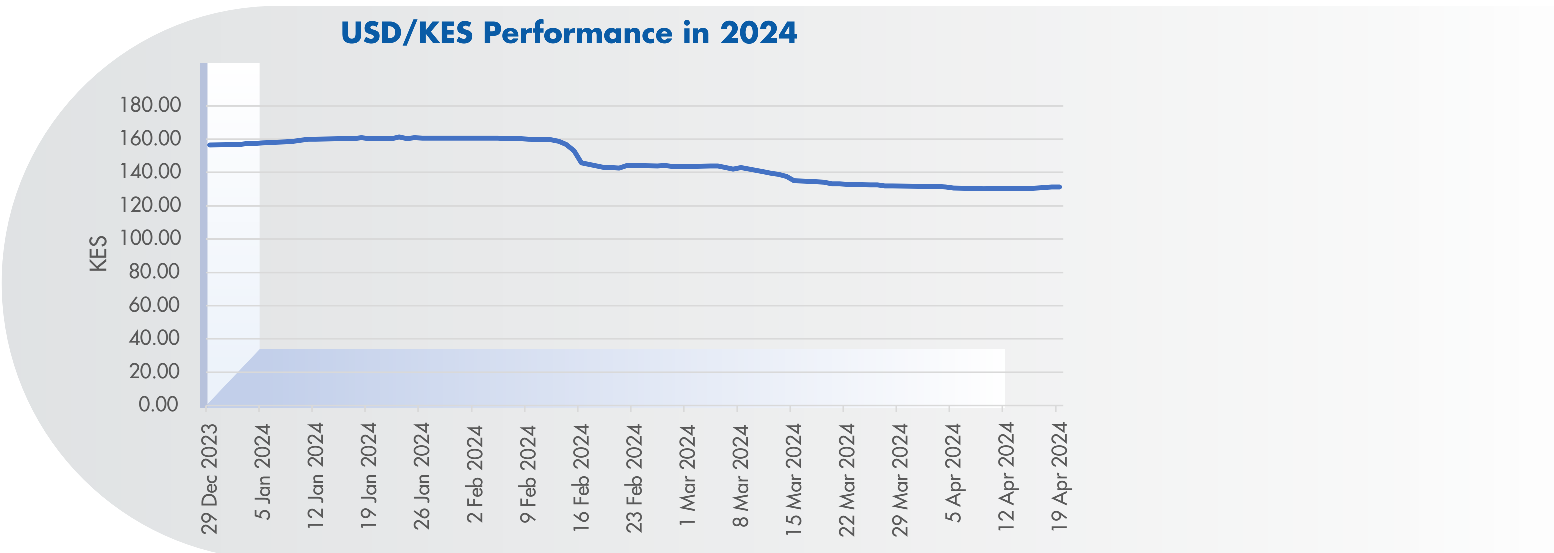
Source: CBK

Foreign exchange reserves have recorded a fairly consistent increase since March 2024 to stand at USD 7.2 BN (as at 9th May 2024) compared to USD 6.9 BN (as at 7th March 2024) and USD 6.6 BN as at December 2023. In January 2024, the IMF's disbursement of USD 682.3 MN and the Trade and Development Bank's disbursement of USD 210.0 MN boosted forex levels, following which the CBK utilized part of the forex reserves to mitigate currency weakening, causing a reversal in forex accumulation.

IMF's disbursement of c. USD 1.0 BN slated for June 2024 is expected to further boost the foreign exchange reserves level. This is part of the country's Special Drawing Rights under the Extended Fund Facility/ Extended Credit Facility. It is expected that this disbursement will push the foreign exchange reserves level to the CBK's target of 4.0 months of import cover, up from the current 3.8 months. We expect the subsequent disbursement scheduled for October 2024 to further sustain the reserves level.

10.7 Exchange Rate

Figure 8: USD/KES Exchange Rate



Source: CBK

Indications of a possibility of interest rate cuts by the European Central Bank are expected to stir emerging markets and result in relative strengthening of the KES. The Federal Reserve is however seen as unlikely to cut rates in 2024 on account of inflation remaining elevated, partly stifling the KES strengthening. The ECB's dovish stance is expected to reverberate across developed economies.

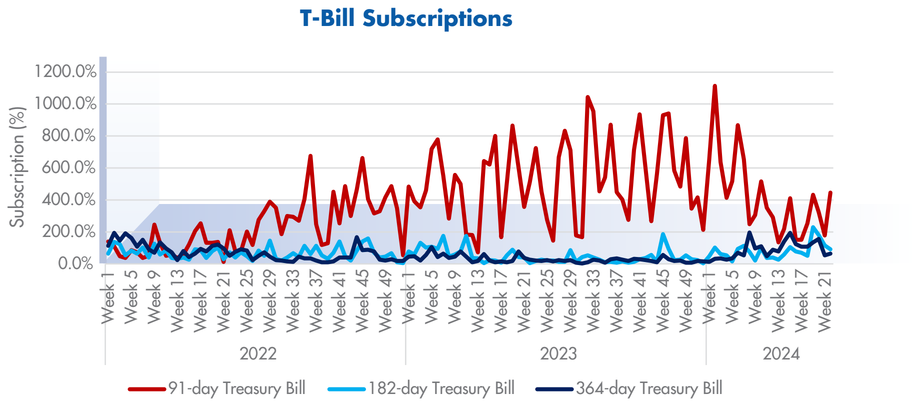
It is expected that USD/KES will remain in the range of KES 125-140 over 2H24, with strengthening expected on the back of a dovish outlook on interest rates and moderating inflation. The inter-bank rate has been on a steady decline to stand at 13.33% as at June 2024 compared to 14.01% in January 2024. Easing liquidity constraints have seen reduced pressure on the KES, further supported by the tapering of interest rates locally.

10.8 **Interest Rate and Fixed Income Securities**

Interest rates are expected to taper in 2H24, moderating on account of easing liquidity constraints and indications of a global dovish stance that is expected to be echoed locally on account of easing inflation levels.

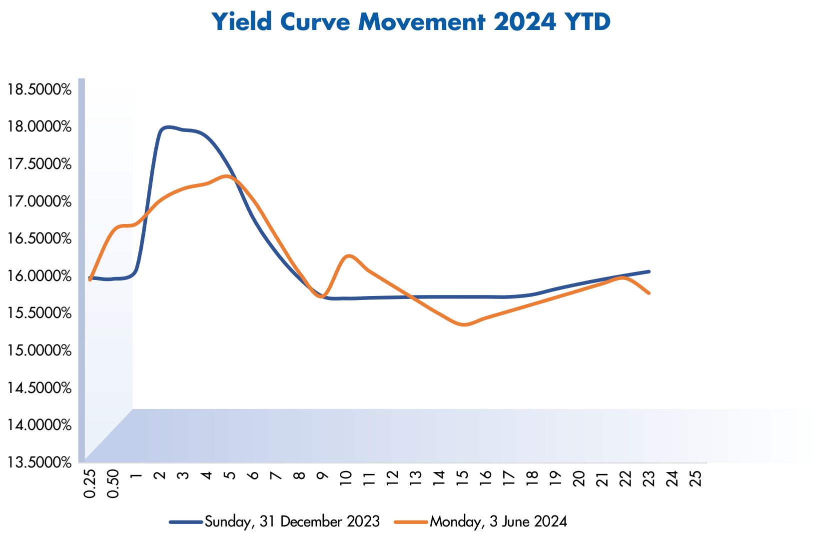
By the end of May 2024, the yield curve had declined by 6 bps on average across all maturities on a year-to-date basis. However in 2023, the yield curve rose by 293 bps on average across all maturities. The 2024 YTD change indicates a tapering of interest rates, with the short-to-medium end recording a significant decline in yields as below.

Figure 9: Treasury Bill Subscription Rates



Source: CBK

Figure 10: Yield Curve Movement 2024 YTD



Source: CBK

There is less of a likelihood of an upward Central Bank Rate adjustment by the Central Bank of Kenya on account of a downward trajectory of inflation levels, currency strengthening and easing liquidity constraints as indicated by a tapering inter-bank rate and growing foreign exchange reserves.

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11. BANKING SECTOR OVERVIEW

11.1 Industry Structure

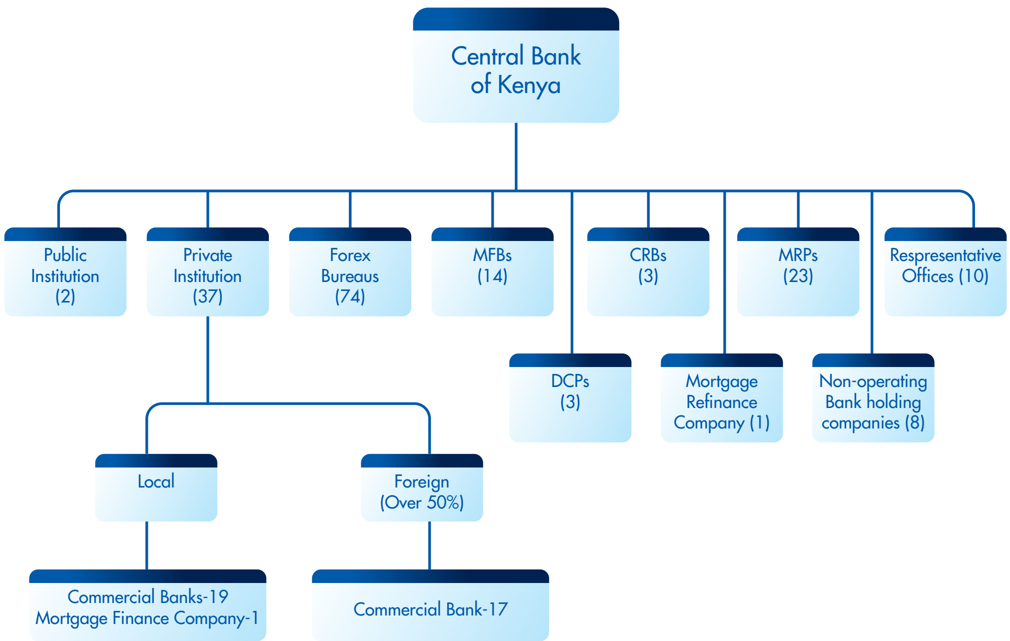
According to the *"Bank Supervision Report 2023"* published by the CBK, the Kenyan banking sector comprised of the following as at 31st December 2023:

- the Central Bank of Kenya (CBK) as the Regulatory Authority;
- 38 Commercial Banks;
- 1 Mortgage Finance Company;
- 1 Mortgage Refinance Company;
- 10 Representative Offices of Foreign Banks;
- 14 Microfinance Banks (MFBs);
- 3 Credit Reference Bureaus (CRBs);
- 23 Money Remittance Providers (MRPs);
- 8 Non-Operating Bank Holding Companies;
- 32 Digital Credit Providers (DCPs); and
- 74 foreign exchange (forex) bureaus.

Out of the 39 banking institutions, 37 were privately owned while the Government of Kenya[3] had majority ownership in 2 institutions. Of the 37 privately owned banks, 20 were locally owned (the controlling shareholders are domiciled in Kenya) while 17 were foreign owned.

The number of commercial bank branches in the country stood at 1,511 at December 2023, up from 1,475 in December 2022. Nairobi country remains the region with the highest proportion of bank branches totalling 588, followed by Mombasa County with 111 branches.

Figure 11: Structure of the Banking Sector as at 31st December 2023



Source: Bank Supervision Annual Report 2023

[7] Government of Kenya' shareholding includes the shareholding of State Corporations

Kenyan commercial banks are classified into three groups using a weighted composite index based on a composite of net assets, total deposits, capital and reserves, number of deposit and loan accounts. A bank with a weighted composite index of 5 percent and above is categorized as a large bank, a medium bank has an index of between 1 and 5 percent while a small bank has an index of less than 1 percent. As at 31st December 2023, there were 9 large banks with a combined market share of 76.6 percent, 11 medium banks with a combined market share of 15.0% and 22 small banks with a combined market share of 8.4% per cent.

12.1.1 **Asset Base**

The banking sector's total net assets stood at KES 7.7 trillion as at December 2023. The 20 local private commercial banks accounted for 69.2% of the market share of net assets. The 17 foreign owned commercial banks accounted for 30.3% while the 2 local public commercial banks accounted for 0.4% of the sector's total net assets.

Details of ownership and asset base among commercial bank are shown in the table below**:**

Table 17: Ownership Structure and Asset Base of Commercial Banks

Ownership	Number of Operating Banks	Total Net Assets (KES Million)	% market share
Local Public Commercial Banks	2	34,050	0.4%
Local private Commercial Banks	20	5,326,011	69.3%
Foreign Commercial Banks	17	2,330,597	30.3%
Total	**39**	**7,690,658**	**100.0%**

Source: CBK Bank Supervision Report 2023

12.1.2 **Customer Deposits**

The banking sector's total customer deposits stood at KES 5.9 trillion as at December 2023 accounting for 18.0% increase from KES 5.0 trillion recorded in 2022. The growth was attributed to increased deposit mobilization by banks through digital platforms.

The large banks controlled 77.4% of the deposits market share, followed by medium banks which controlled 14.8% while small banks controlled the remaining stake as shown below.

Table 18: Deposit Base of Commercial Banks

Tier	Deposits (KES Billion)	% market share
Large Banks	4,566	77.4%
Medium Bank	875	14.8%
Small Banks	457	7.8%
Total	5,898	100.0%

Source: CBK Bank Supervision Report 2023

12.1.3 **Capital and Reserves**

The banking sector's capital and reserves was KES 980.2 billion as at December 2023 accounting for 6.8% increase from KES 917.6 billion recorded in 2022. The increase in capital and reserves was attributed to additional capital injections by commercial banks as well as retained earnings from the profits realised in the year.

Table 19: Capital and Reserves of Commercial Banks

Tier	Capital and Reserves (KES Billion)	% market share
Large Banks	732	74.7%
Medium Bank	158	16.1%
Small Banks	90	9.2%
Total	981	100.0%

Source: CBK Bank Supervision Report 2023

12.1.4 **Profit Before Tax**

The banking sector's profitability decreased in the year 2023 by 8.8% from KES 240.4 billion in 2022 to KES 219.2 billion in 2023. The decrease in profitability was attributed to a higher increase in total expenses compared to the increase in total income. The large banks accounted for 84.7% of the total pre-tax profit in 2023, a decrease of 2.0% from 86.7% recorded in 2022. The small banks' share of total pre-tax profit increased from 1.2% in 2022 to 1.7% in 2023.The medium banks' share of total pre-tax profit increased from 12.1% in 2022 to 13.6% in 2023.

Table 20: Profit Before Tax of Commercial Banks

Tier	Profit Before Tax (KES Billion)	% market share
Large Banks	186	84.9%
Medium Bank	30	13.6%
Small Banks	4	1.7%
Total	219	100.0

Source: CBK Bank Supervision Report 2023

11.2 **Regulation**

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya, governs the banking sector in Kenya. Central Bank of Kenya, which falls under the National Treasury, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

Consistent with the second principal objective of the Central Bank of Kenya specified under Section 4 (2) of the Central Bank of Kenya Act, the Bank Supervision Department is mandated to promote and maintain the safety, soundness and integrity of the banking system. This responsibility is undertaken through the implementation of policies and standards that are in line with the international best practice for bank supervision and regulation.

In March 2022, the Central of Kenya (Digital Credit Providers) Regulations, 2022 were gazetted. The Regulations were put in place to bring digital lenders under the ambit of the CBK to improve their supervision and customer protection particularly with respect to predatory lending and debt collection practices. As at the end of 2023, the CBK has received over 500 applications and issued 32 licenses.

In 2023, CBK participated in the drafting of the AML/CFT (Amendment) Act, 2023, which received Presidential assent on 1st September 2023. The Act amended the CBK Act, Banking Act, Microfinance Act and National Payment System Act to entrench the AML/CFT/CPF legal

and regulatory regime. In particular, CBK was given express power to supervise and enforce compliance with Proceeds of Crime and Anti-Money-Laundering Act ("POCAMLA").

11.3 Prudential Ratios

The Central Bank of Kenya sets and monitors capital requirements for banks and other non-bank financial institutions. In implementing the capital requirements, Central Bank of Kenya requires all banks to maintain the prescribed ratios of core capital to total deposits, core capital to total risk weighted assets, total capital to total risk weighted assets and the liquidity ratio.

The capital requirements for commercial banks are outlined below including the trend from 2018 to 2023. The banking sector has been fully compliant with the capital adequacy ratios.

Table 21: Central Bank of Kenya Prudential Ratios in the Banking Sector

Prudential Guidelines	2018	2019	2020	2021	2022	2023	Minimum Statutory Ratios
Core Capital / Total Deposits	16.6%	16.6%	16.6%	16.6%	16.0%	15.4%	10.50%
Core Capital/ Total Weighted Assets	19.5%	18.8%	19.0%	19.5%	18.9%	18.6%	10.50%
Total Capital/ Total Risk Weighted Assets	17.9%	17.9%	17.1%	16.9%	17.1%	16.0%	14.50%

Other Ratios		Minimum Statutory Ratio
Liquidity Ratio		20%

Source: CBK prudential guidelines

In 2024, the CBK proposed to the National Treasury an increase in core capital for commercial banks from KES 1 billion to KES 10 billion over a 3 year period. Whilst this regulation has not been put into place, the sector should witness increased mergers and acquisitions and investments as banks seek to meet the proposed threshold.

In 2023, the average liquidity ratio was 51.0% which was significantly higher that the statutory minimum of 20%. This was a slight increase from 50.8% registered in 2022 and attributed to a higher growth in total liquid assets as compared to short-term liabilities.

11.4 Sector Performance

2023 was a challenging economic environment in Kenya and the banking sector felt the effects of it with a decrease in Profit Before Tax of 8.8% from KES 240.4 billion to KES 219.2 billion. Rising inflation, rising interest rates and an extremely volatile foreign exchange rate meant that businesses and individuals alike were affected which impacted their ability to repay loans. Total Non Performing Loans for the sector increased by 31.5% from KES 423.7 billion in 2022 to KES 557.1 billion in 2023.

11.4.1 Commercial Bank Balance Sheet Overview

Table 22: Banking Sector Balance Sheet

	December 2022 (KES million)	December 2023 (KES million)	% of Total Assets/ Total Liabilities
Cash	88,443	95,760	1.2%
Balances at CBK	233,642	310,699	4.0%
Placements	272,059	577,453	7.5%
Government Securities	1,884.116	1,882,868	24.5%
Investments	154,649	179,280	2.3%
Loans and Advances (Net)	3,349,400	3,801,723	49.4%
Other Assets	607,509	842,875	11.0%
Total Assets	**6,589,818**	**7,690,658**	**100.0%**
Liabilities and Shareholders' Funds			
Customer Deposits	4,998,658	5,595,754	72.8%
Other Liabilities	673,576	1,113,991	14.4%
Capital and Reserves	917,584	980,913	12.8%
Total Liabilities and Shareholders' Funds	**6,589,818**	**7,690,658**	**100.0%**

Source: CBK Bank Supervision Report 2023

Total net assets for the sector increased 16.7% from KES 6.59 trillion in 2022 to KES 7.69 trillion. Net loans and advances, government securities and other assets accounted for 49.4%, 24.5% and 11.0% of the total net assets respectively. Customer deposits increased by 17.5% from KES 4.99 trillion in 2022 to KES 5.59 trillion in 2023. Capital and Reserves increased by 6.9% from KES 917.6 billion in 2022 to KES 980.9 billion in 2023. Proposed Dividends grew by KES 3.4 billion from KES 47.4 billion in 2022 to KES 50.8 billion in 2023.

11.4.2 **Commercial Bank Income Statement Overview**

Table 23: Banking Sector Income and Expenditure Items

		December 2022		December 2023
	KES million	% of Total Income/ Total Expenses	KES million	% of Total Income/ Total Expenses
Interest on Advance	336,107	45.1%	436,094	48.5%
Fees and Commissions for Loans and Advances	41,731	5.6%	46,237	5.1%
Other Fees and Commission Income	52,201	7.0%	64,139	7.1%
Interest on Government Securities	207,322	27.8%	231,125	25.7%
Other Income	9,984	1.3%	26,587	3.0%
Total Income	**744,804**	**100.0%**	**899,326**	**100.0%**
Expenses				
Interest Expense	183,985	36.5%	218,358	32.1%
Bad Debts Charge	69,844	13.8%	109,649	16.1%
Salaries and Wages	117,582	23.3%	134,453	19.8%
Other Expenses	133,008	26.4%	217,567	32.0%
Total Expenses	**504,419**	**100.0%**	**680,027**	**100.0%**
Profit Before Tax	**240,384**		**219,299**	

Source: CBK Bank Supervision Report 2023

The profitability of the banking sector decreased in 2023 by 8.8% from KES 240.4 billion in 2022 to KES 219.2 billion in 2023 due to increased expenses. Total income increased by 20.7% to KES 899.3 billion in 2023 from KES 744.8 billion in 2022. This was due to an increase in interest earned on placement, interest on advances, other fees and commissions and interest on government securities. However, total expenses also increased by 34.8% from KES 504.4 billion in 2022 to KES 679.7 billion in 2023. This was mainly due to increased interest expense, bad debt charges and salaries and wages.

11.4.3 **Sectoral Distribution of Gross Loans, Loan Accounts and Gross Non Performing Loans**

The Personal and Household, Trade, Manufacturing and Real Estate sectors made up to the largest share of the banking sector's gross loans and advances. The four sectors accounted for 71.3% of gross loans by FY 2023. These sectors also resulted in the highest value of non-performing loans, accounting of 73.0% of total non-performing loans. These sectors have faced the brunt of the challenging economic environment including delayed payments from public and private sectors, slow uptake of housing units and the deteriorating business environment.

Table 24: Sectoral Distribution of Loan Accounts, Gross Loans and NPLs as at 31st December 2023

	No of Loan Accounts	% of Total	Gross Loans (KES million)	% of Total	Gross NPLs (KES million)	% of Total
Trade	500,683	3.9%	762,218.5	18.2%	137,024.7	21.0%
Manufacturing	30,220	0.2%	633,461.6	15.1%	135,167.5	20.7%
Real Estate	30,931	0.2%	505,770.0	12.1%	111,504.3	17.1%
Personal and Household	12,146,217	94.0%	1,082,241.2	25.9%	92,034.0	14.1%
Transport and Communication	48,658	0.4%	362,341.9	8.7%	44,482.2	6.8%
Building and Construction	14,910	0.1%	167,404.1	4.0%	43,191.2	6.6%
Agriculture	114,794	0.9%	145,711.5	3.5%	32,132.0	4.9%
Energy and Water	4,287	0.0%	156,130.7	3.7%	18,703.6	2.9%
Tourism, Restaurant and Hotels	8,355	0.1%	123,139.4	2.9%	18,300.6	2.8%
Financial Services	15,565	0.1%	197,068.5	4.7%	10,797.5	1.7%
Mining and Quarrying	3,821	0.0%	47,959.1	1.1%	8,475.9	1.3%
Total	**12,918,441**	**100.0%**	**4,183,446.5**	**100.0%**	**651,813.4**	**100.0%**

Source: CBK Bank Supervision Report 2023

ENRICHING LIVES ACROSS BUSINESSES

At the pulse of realizing dreams
of growth & prosperity

12. HF GROUP PLC OVERVIEW

12.1 **Historical Background**

HF Group PLC (the "Group") is an integrated financial solutions provider that is registered as a non-operating holding company (under the Banking Act Cap.488) and regulated by the Central Bank of Kenya ("CBK"). The Group, previously known as Housing Finance, commenced operations on November 18th 1965, and has transitioned from being a mortgage financier to a provider of integrated financial solutions with interests in Personal Banking, SME and Commercial Banking, Trade Finance, Diaspora Banking, Treasury as a business, Property Finance and Insurance. HF Group is a public limited company and has been listed on the Nairobi Securities Exchange since 1992.

Our Purpose – Enriching Lives

Our Mission – Enriching Lives through Financial Empowerment

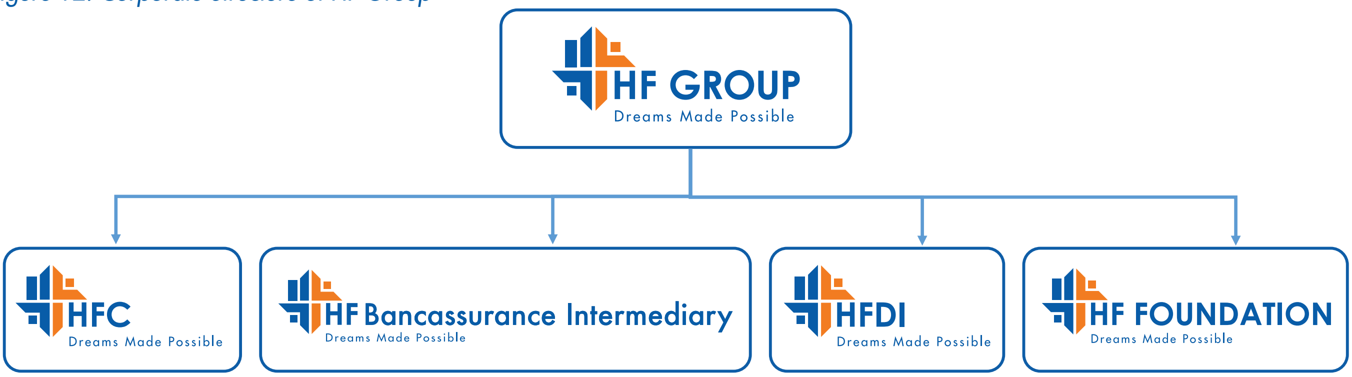
Our Vision – To be a top ten banking group by being the most dependable and loved financial services provider

Our Values – Stewardship, Teamwork, Innovative, Customer Centric, Integrity

12.2 **Corporate Structure**

The Group restructured its business and rebranded in August 2015, transforming from the single entity - Housing Finance, to the non-operating holding company, HF Group with four subsidiaries outlined below which they own 100%.

Figure 12: Corporate Structure of HF Group



- HFC Limited – Licensed as a mortgage finance company, with approval to carry on commercial banking business under the Banking Act;
- HF Bancassurance Intermediary Limited (HFBI) – Licensed in 2011 to provide bancassurance services;
- HF Development & Investment Limited (HFDI) – A property company;
- HF Foundation Limited – Set up as a foundation in 2013 with a vision to deliver, facilitate and catalyse industry relevant and sustainable practical skills required by the building and construction industry; and
- First Permanent (EA) Limited – This is a dormant company.

12.2.1 HFC Limited

HFC Limited is the full service banking arm of the Group, delivering one stop banking and investment solutions, offering complete full banking solutions customised to meet the unique needs of our customers. These include Personal Banking, SME and Commercial Banking, Institutional Banking, Trade Finance and Digital Banking financial products and services.

HFC has 22 branches across the country and robust digital banking platforms, accessible via mobile App, WhatsApp, USSD, online banking and online portals to ensure enhanced accessibility and user experience.

12.2.1.1 Geographic Coverage

HFC has 22 branches in the locations outlined below.

Branch	Location	County
Westlands Branch	Sky Park Plaza, Waiyaki Way	Nairobi
Sameer Branch	Sameer Business Park, Mombasa Road	Nairobi
Rehani Branch	Kenyatta Avenue/Koinange Street	Nairobi
Komarock Branch	K-Mall, Komarock	Nairobi
River Road Branch	Weaverbird Building, River Road	Nairobi
Harambee Avenue Branch	Jeevan Bharati House, Harambee Avenue	Nairobi
Nyeri Branch	Meghirutshi Building, Kimathi Way	Nyeri
Hurlingham Branch	Kose Heights, Argwings Kodhek Road	Nairobi
Ongata Rongai Branch	Nafrom Building, Magadi Road	Kajiado
Embu Branch	Beekay Building, Kubu Kubu Road	Embu
TRM Branch	TRM Mall, Kiambu Road	Nairobi
Thika Branch	Wangu Boots, Uhuru Street	Kiambu
Machakos Branch	Kivuvo Building, Machakos Town	Machakos
Buruburu Branch	Epren Centre, Mumias Road	Nairobi
Kitengela Branch	Newton Place	Kajiado
Kisumu Branch	Tivoli Centre, Court Road	Kisumu
Naivasha Branch	Buffalo Mall, Moi South Lake Road	Nakuru
Nakuru Branch	Parana House, Kenyatta Avenue	Nakuru
Mombasa Branch	Permanent House, Moi Avenue	Mombasa
Meru Branch	Westwind Annex, Tom Mboya Street	Meru
Nanyuki Branch	Kiangima Building, Kenyatta Avenue	Laikipia
Eldoret Branch	KVDA Plaza, Oloo/Utalii Street	Uasin Gishu

12.2.1.2 **Products and Services**

Table 25: HFC's Products and Services

Product Category	For Individuals	For Businesses	For Diaspora	For Government & Institutions
Save & Invest	• Current Account • Nyumba Yangu Savings Account • Crossover Savings Account • Target Savings • Junior Treasure Account • Youth Account • Housing Development Bond • Fixed Term Deposit • Call Account • Hybrid Fixed Term	• SME Biz Account • Corporate Bank Account • Fixed Term Deposit • Call Account • Easy-Collect Account • Hybrid Fixed Term Deposit	• Crossover Savings Account • Nyumba Yangu Savings Account • Diaspora Current Account • Housing Development Bond • Call Account • Hybrid Fixed Term Deposit • Fixed Term Deposit	• Fixed Term Deposit • Call Account • Corporate Institutional Bank Account
Borrow	• Personal Loan • Mobile Loans • Equity Release • Asset Finance • Car Loan • Property Financing • Logbook Loans • Insurance Premium Finance	• Trade Finance Solutions • SME Loans • Overdrafts • Property Financing • Asset Finance • Logbook Loans • Insurance Premium Finance	• Personal Loan • Property Financing • Asset Finance • Equity Release	
Move Money & Trade	• Foreign Exchange Solutions • Money Transfer Solutions	• Foreign Exchange Solutions • Money Transfer Solutions	Foreign Exchange Solutions	Foreign Exchange Solutions

HFC is also licensed by the CBK, CMA and RBA as an authorised depository and custodian. HFC has also been appointed by the Central Depository and Settlement Corporation ("CDSC") as a Central Depository Agent ("CDA"). HFC enables customers to invest in capital market products such as Equities, Fixed Income and other securities.

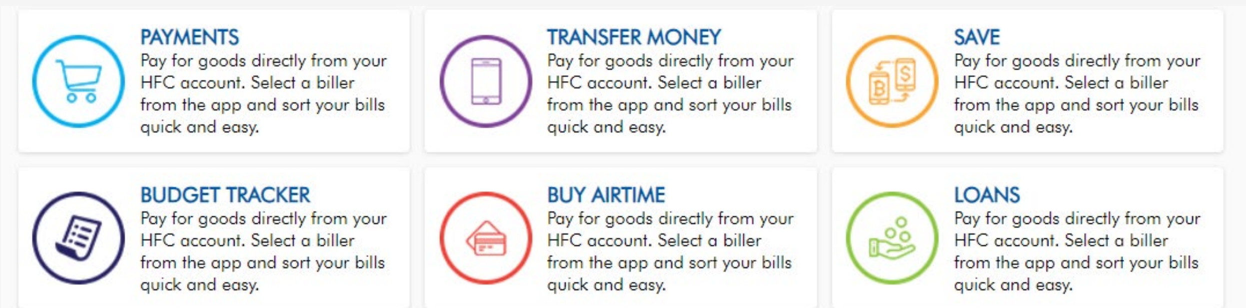
Table 26: Custodial Services available at HFC

Product	Description
Safekeeping and Asset Protection	We protect our clients' assets by employing state-of-art security measures for securities such as Bonds and Shares for our clients in a fiduciary capacity
Asset Servicing	We handle all aspects of asset servicing including income collection, corporate actions and proxy voting
Central Depository Agency Services	As a CDA, we carry out CDS account opening and maintenance, immobilization of share certificates, inter CDA and private transfers, creation of liens and placement agents during IPOs and other public offers
Settlement of Investment Instructions	Prompt execution of instructions received on equities, government securities and corporate debts within the applicable timelines
Trade Settlement	We ensure accurate and timely trade settlements
Reporting	Provision of comprehensive reporting detailing insights of asset allocation, cash statements and compliance to enable informed investment decisions for ultimate growth.
Capital and Income Collection	Prompt collection and crediting of client accounts with investment proceeds such as dividends, coupon payments, interest and redemptions
CBK CDS Account Opening and Maintenance	CBK CDS accounts opening and maintenance and facilitation of investment in government securities i.e. Bonds and Treasury Bills both on primary and secondary markets
Payment Processing	Fast processing of funds transfer instructions

12.2.1.3 **Digital Offering Products and Services**

HFC customers have access to web and mobile banking applications. The digital banking application called HFC Whizz which allows customers to deposit, save and transfer their funds securely.

Figure 13: HFC Whizz Features



12.2.2 HF Development & Investment Limited

HF Development & Investment Limited ("HFDI"), formerly known as Kenya Building Society Limited ("KBSL") is a property company. Over the years, HFDI has been involved in the development of landmark estates including Buruburu and Komarock. On 9th May 2012, HFDI made a return to property supply after a 13 year hiatus, with the objective of spearheading the supply of quality and affordable housing to urban populations in Kenya. Presently, HFDI's portfolio includes apartment buildings and comprehensive single-dwelling developments. HFDI partners with public and private sector stakeholders to address the acute shortage of supply of affordable housing in Kenya in line with the Government of Kenya's affordable housing pillar.

12.2.2.1 Products and Services

Table 27: HFDI Products and Services

Product	Description
Land owner wealth management solutions	We provide land value addition through concept development, project execution and management We act as sales agents. The client leverages on our brand heritage and legacy We offer investment products and services e.g. Custodial services, Fixed deposits, Money markets services
Affordable Housing Partnerships	Conceptualization of development on affordable housing We partner with developers where there is institutional offtake guarantees. e.g. the National Housing Development Fund. We partner with institutions to provide Affordable financing to end users We also act as demand aggregators for developers in AHP
Property advisory services	We offer advisory to diaspora market on investments back home, to developers on fundraising , to end users and land owners. We link trusted professionals to developers and end users We advise on Capital allocation strategies and provide rent collection solutions
Mortgage Origination and Fulfilment	We originate mortgages for Prequalification and approval by HFC

12.2.3 HF Bancassurance Intermediary Limited

HF Bancassurance Intermediary Limited ("HFBI") was incorporate on 29th November 2011 and licensed by the insurance regulator to transact business on 21st December 2011. The initial focus of the subsidiary was the captive HF customer base, but with its growth, it is now reaching out to the general public and partnering with underwriters on different banc assurance solutions including general and life insurance.

13.2.3.1 Products and Services

HFBI, in partnership with Britam Holdings Limited ("Britam") launched a retail medical cover dubbed AfyaMed, with an age limit of 75 years. The medical cover is expected to open up health coverage to more Kenyans as current medical covers in the country have an age limit of 65 years. The cover offers flexible limit options and a wide scope of cover including pre-existing and chronic diseases. Other products are outlined below.

Table 28: HFBI Product Range

Product Category	For Individuals	For Businesses	For Diaspora	For Government & Institutions
Insure	• Motor Insurance • Health Insurance • Personal Accident • Domestic Package Insurance • HF Elimu • Last Expense • Travel Insurance	• Corporate Medical Insurance • SME Business Protection Insurance • Commercial Vehicle Insurance • Loan Guard • Contractors All Risk Insurance (CARIC) • Professional Indemnity • Marine • Trade Insurance	• Last Expense • Travel Insurance	• SME Institution Protection Insurance • Health Insurance • School Comprehensive Insurance

12.2.4 **HF Foundation Limited**

HF Foundation Limited ("HF Foundation") was incorporated on 21st March 2012. It was launched with a vision to deliver, facilitate and catalyse industry relevant and sustainable practical skills required by the building and construction industry through the creation of an "Army of One Million Artisans" for Kenya. The initiative is an essential response to the acute shortage of formally trained artisans in the Building and Construction industry in Kenya. This costs the industry heavily in terms of lower quality of workmanship, delays in the completion of property development and high cost of importation of manpower.

12.3 **Achievements**

12.3.1 **Group's Profitability**

The Group has made notable achievements including from making losses to a sustainable Year on Year ("YoY") profitability.

Figure 14: Overview of Group and Subsidiary Profitability

Source: HF Group Analysis/Audited Accounts

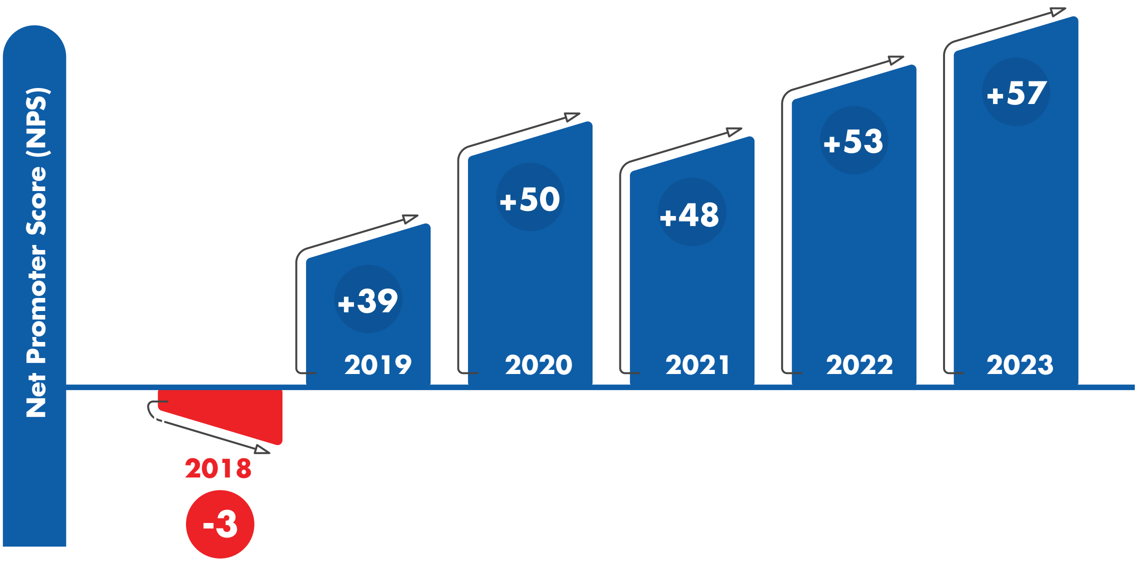
12.3.2 **New Business Segments at HFC**

New business segments at HFC were set up to complement the existing mortgage offering. These segments include:

12.3.3 **Net Promoter Score**

The Group has sustained good customer relations with our Net Promoter Score ("NPS") growing year on year.

Figure 15: Evolution of the Group's Net Promoter Score



Source: HF Group

12.3.4 **Outstanding Obligations and Settlement Schedule**

Using internally generated revenues, the Group has settled all the business obligations as they fell due for the respective subsidiaries.

Table 29: HFC's Outstanding Obligations and Settlement Schedule

	TOTAL PAYMENTS : 2019 to 2023 (KES M)							
DFI	Loan Currency	2019	2020	2021	2022	2023	TOTAL	Balance As at Dec 2023
GOK	KES	4.2	4.2	4.2	4.2	4.2	21.0	52.9
NIC	KES	537.1					537.1	
Corporate Bond	KES	3,162.1					3,162.1	
Norfund	KES	320.8	415.6				736.4	
EIB	KES	349.2	260.9	5.6			615.7	
BRITAM	KES			64.5	129.1	155.5	349.2	1,029.4
KMRC	KES			58.2	144.3	181.9	384.4	929.1
EIB	USD	391.5	718.6	367.3	397.9	456.9	2,332.2	1,214.8
Shelter Afrique	USD	197.1	195.8	179.5	169.4	209.0	950.7	485
GHIB	USD	521.6					521.6	
EADB	USD	271.4	276.8	270.0	266.8	301.5	1,386.3	0
BADEA	USD	17.7	32.7	45.2	89.2	106.9	291.7	82.0
SYMBIOTICS	USD	547.9	1,013.8				1,561.7	
	TOTALS	6,320.3	2,918.3	922.5	1,146.9	1,318.9	12,627.0	3,276.3

Source: HF Group

Table 30: HFDI's Outstanding Obligations and Settlement Schedule

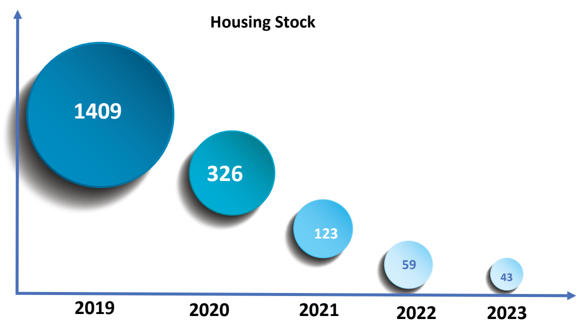
Lender	Balance in 2019	2019	2020	2021	2022	2023	TOTAL PAID
Family Bank	132	132					132
Shelter Afrique	1,000.00	1,000.00		9.4			1,009.40
Crescent Finco	1,568.57	60	435	320	648	152	1,615.00
HFC	2,080.00				828	662	1,490
Total	4,780.57	1,192.00	435	329	1,476	814	4,246.00

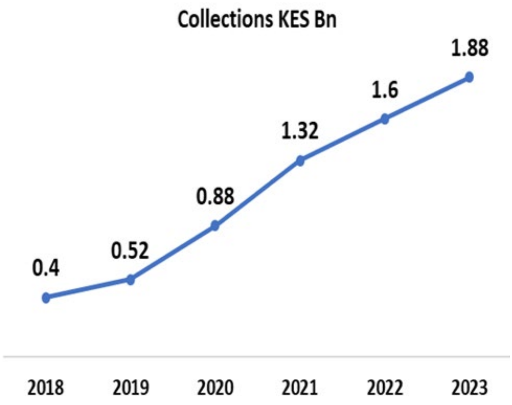
Source: HF Group

12.3.5 **HFDI's Inventory and Collections**

The Group through HFDI has managed to sell more than 1,400 houses and unlocked the value previously stuck in those investments as unsold inventory.

Figure 16: HFDI's Inventory and Collections



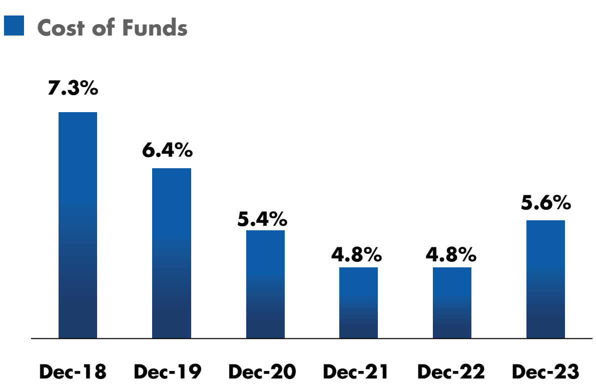


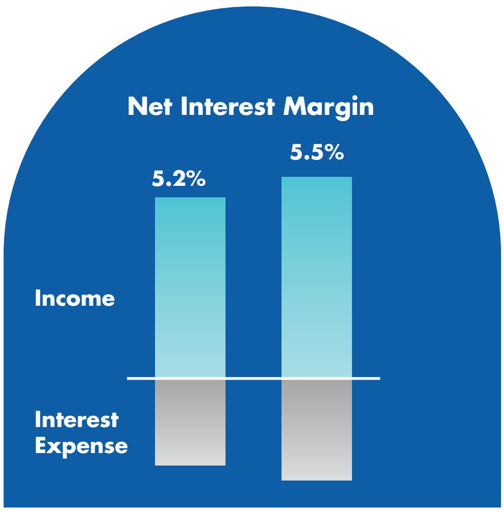
Source: HF Group

HFC's conscious management of cost of funds has paid off with the overall cost of funds reducing from a high of 7.3% in 2018 to 5.6% in 2023.

12.3.6 **HFC's Cost of Funds**

Figure 17: HFC's Cost of Funds and Net Interest Margin



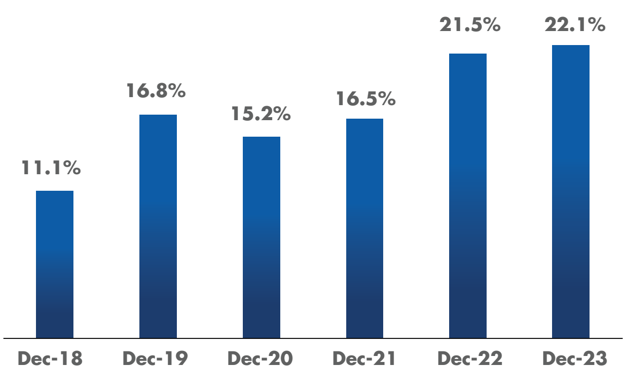


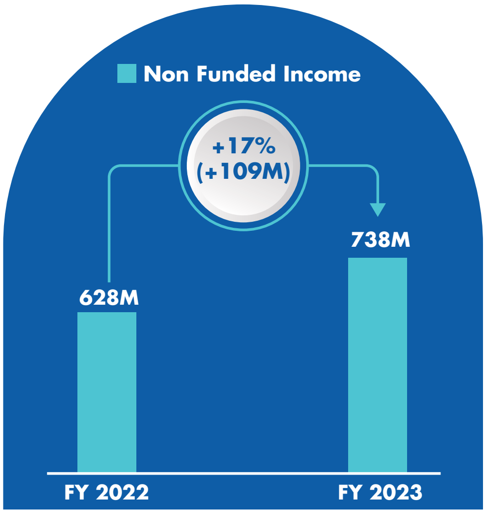
Source: HF Group Analysis

12.3.7 **HFC's Non Funded Income Growth**

HFC has made considerable progress with revenue diversification. Non Funded Income ("NFI") as a percentage to total income has been steadily growing from 11.1% in 2028 to 22.1% in 2023. This has reduced reliance on interest income.

Figure 18: HFC's Non Funded Income as a % of Total Income



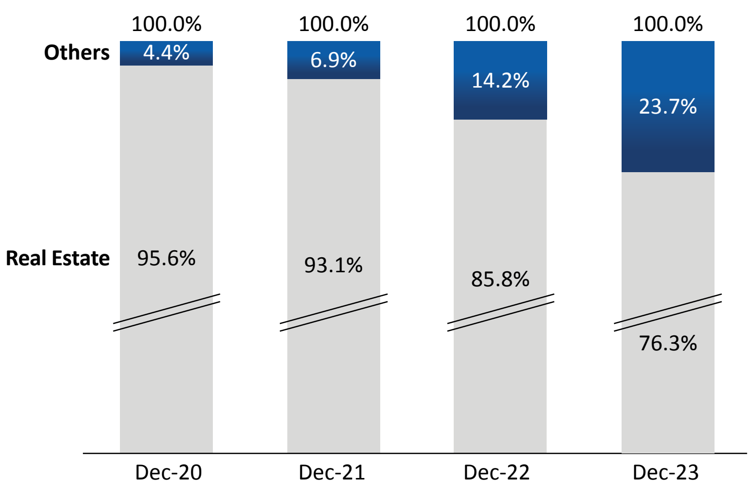


Source: HF Group Analysis

12.3.8 **HFC's Revenue Diversification**

The Group's strategy to de-risk the HFC's business from the single sector concentration in real estate through diversification has made good traction with the concentration in real estate dropping from a high of 96% in 2020 to 76% in 2023. While HFC continues to book new mortgages in its portfolio, the strategy to grow other lending businesses is paying off.

Figure 19: HFC's Loan Book Sector Concentration

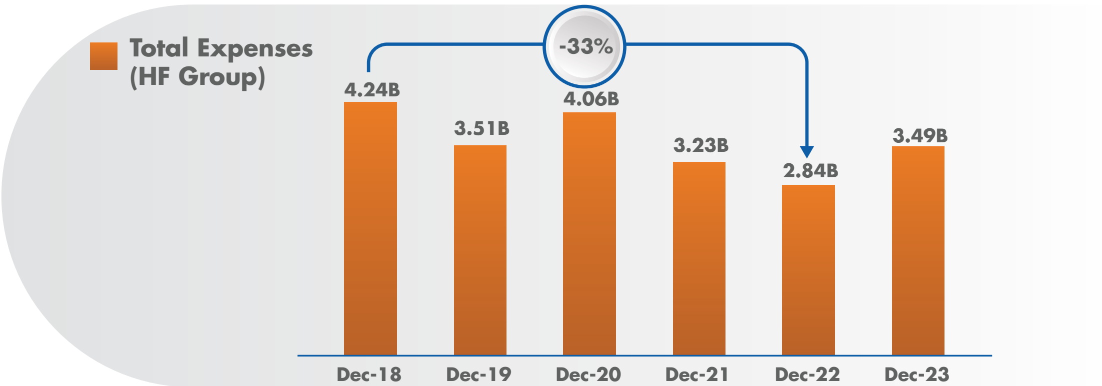


Source: HF Group Analysis

12.3.9 **Group's Expense Management**

Expense optimization and shifting of costs from non-productive areas to productive areas has seen the business achieve an overall year on year reduction of its operating expenses. In 2023, the increase was due to an increase in staff costs and other operating expenses.

Figure 20: HF Group's Expense Management



Source: HF Group Analysis

12.4 **Business Strategy**

The Group is currently mid-way through the implementation of its 2022 – 2026 strategy. This strategy encompasses 6 key themes outlined below.

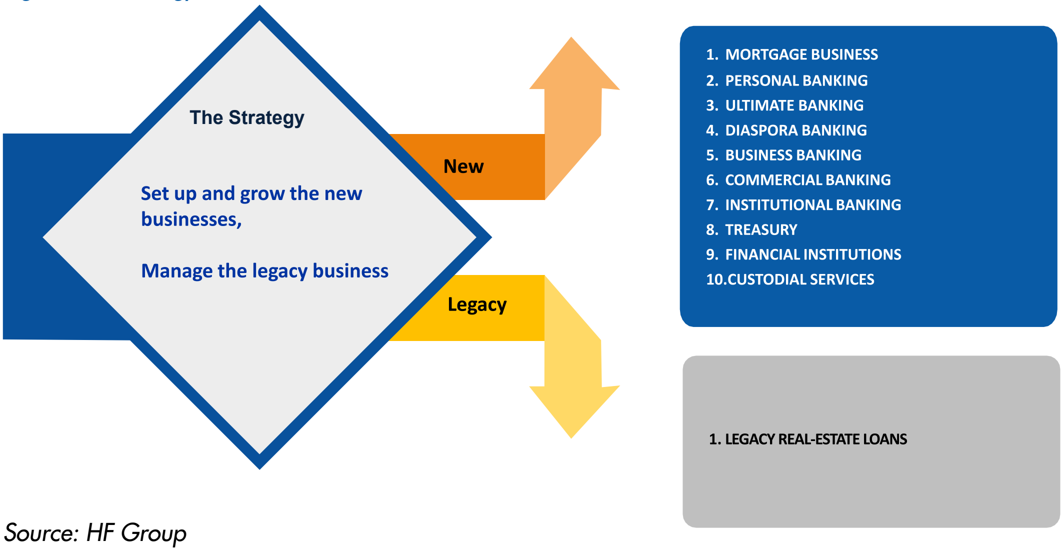
Figure 21: Key Strategic Themes

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

Source: HF Group

The execution of the strategy focussed on separating the legacy business from the new business in order to boost the growth of the Group. This has involved the diversification away from the real estate sector and focusing on growing HFC's revenue after widening its bank product offering.

Figure 22: Strategy Execution



Source: HF Group

A key element of the strategy has been the exit from the property development space. The focus now is on providing real estate development solutions to support land owners

Figure 23: Evolution of HF Group's Property Development Strategy

Source: HF Group

Some of the solutions that HFDI provides includes working with land owners to generate value from their vacant land through a service called Land Owner Wealth Management solutions. HFDI also provides Affordable Housing Partnership solutions, Property Advisory services and Mortgage Origination and Fulfilment.

Figure 24: HFDI's New Business Model for the Real Estate Sector

A

Land Owner Wealth Management Solutions

i. Land value addition: Concept development, project execution and management
ii. Sales: leveraging on Brand and legacy
iii. Investment: Custodial services, Fixed deposits, money marketsts

B

Affordable Housing Partnerships

i. Concept development of affordable housing
ii. Advisory on effective entry and exit.
iii. Advisory on financing models
iv. Demand Aggregation for developers in AHPP

C

Property Advisory Services

i. Advisory to diaspora market on investments back home
ii. Advisory to developers on Fundraising
iii. Advisory to end users and land owners
iv. Link to trusted professionals to developers and end users
v. Capital allocation strategies

D

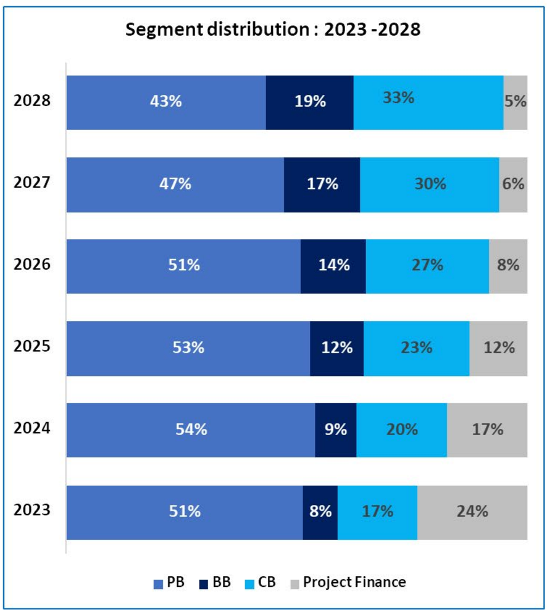
Mortgage Origination & Fulfilment

i. Mortgage Origination
ii. Prequalification for approval by HFC

Source: HF Group

The implementation of the strategy will result in a change in the mix of the business segments as outlined in the figure below.

Figure 25: Projected evolution of business segments



Segment	Sectors/ Sub segment	2024	2025	2026	2027	2028
PB	Ultimate	27.5%	29.0%	30.5%	32.0%	33.5%
	Diaspora	4.7%	5.4%	6.0%	6.7%	7.3%
	Others	67.7%	65.6%	63.4%	61.3%	59.1%
BB	Education	5.0%	10.0%	11.0%	12.0%	13.0%
	Agric Value Addition	1.0%	3.5%	4.5%	4.9%	5.2%
	Health	4.2%	10.0%	11.2%	12.4%	14.6%
	Real Estate Value Chains	18.1%	17.4%	16.8%	16.2%	15.6%
	Others	71.7%	59.1%	56.5%	54.6%	51.6%
CB	Trade	5.0%	7.5%	8.6%	9.7%	10.8%
	Manufacturing	1.9%	4.0%	4.5%	5.1%	5.6%
	Agric Value Addition	8.1%	9.6%	11.1%	12.6%	14.1%
	Real Estate Value Chains	7.5%	9.0%	10.5%	12.0%	13.5%
	Others	77.5%	70.0%	65.3%	60.7%	56.1%

Source: HF Group

12.5 ESG Sustainability

The Group's strategy is to build a sustainable business and anchors its Environment, Social and Governance ("ESG") agenda on "enriching lives". To embed ESG into the strategy, the Group has ensured that they have the right people and structures in place.

The Board has received training on ESG from the leading experts in the country. ESG is also now embedded into the Board structure through the Board Group, Strategy & Investment Committee with clearly defined ESG Terms of Reference. The Board was strengthened through the addition of Mr John Mwendwa who joined on January 3rd 2024 as an Independent Non-Executive Director and has a wealth of knowledge in the ESG space. His other role includes being responsible for agenda of the Coca Cola Beverages Africa - Nairobi Bottlers Limited ("CCBA Kenya").

As the global landscape on Sustainability and Climate Change evolves, the Group is paying close attention to IFRS S1 and IFRS S2, two standards issued on 26th June 2023. These standards set out the requirements for a company to disclose information about its sustainability strategy, impact and climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

Further, on 11th April 2024, the CBK issued the draft Kenya Green Finance Taxonomy ("KGFT") which is intended to serve as a tool to classify whether particular economic activities are 'green' or environmentally sustainable. It is also intended to serve as a guide for both the banking sector participants and other market participants in making informed investment or financing decisions.

The Group is working closely with organisation and regulators including Kenya Bankers Association, Nairobi Securities Exchange, Central Bank of Kenya and Capital Markets Authority amongst others, as well as the Kenya Private Sector Alliance and Kenya Association of Manufacturers, to determine the direction the industry will take with regards to standardised and regulated ESG Reporting.

As the Group's inaugural ESG strategy is currently in development, the Group will bear in mind the aforementioned standards as the sustainability agenda starts to take prominence in the strategy. The ESG strategy will lay the foundation for the revamp of the HF Foundation.

12.6 Key Investment Considerations

	Description
Stable Banking Sector	• A stable, liquid and well-capitalised sector with a strong regulatory framework
Strong Corporate Governance	• Diverse Board with strong leadership and sector specific experience • The leadership has been rated under the CMA corporate governance code of conduct • The Board undertakes regular audits to ensure adhere to the corporate governance framework
Strong & Professional Management Team	• Strong and cohesive Management Team with diverse local and international experience • The team also has a demonstrated track record
Strong Risk Management	• Robust Risk management framework covering all tiers of risks • Robust systems and processes are in place
Sustainable Growth Path	• The Group has delivered sustainable returns in 2022 and 2023 • The capital injection will further boost the growth strategy in the medium term

13. BOARD OF DIRECTORS, CORPORATE GOVERNANCE AND MANAGEMENT

13.1 The Board of Directors and Responsibilities

The overall control over the activities, affairs, operations, business, and property of the Group is vested in the Group's Board of Directors. The Board and Management have ensured compliance with the Central Bank Guidelines on Corporate Governance (CBK/PG/02), Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the public, 2015 and internationally accepted principles and best practices in corporate governance. These practices are consistently to ensure that the best interests of our stakeholders are always acted upon.

The Group's Board has approved a corporate governance policy detailing the key corporate governance practices applicable to the Group as well as all the subsidiaries. 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.

13.2 Board of Directors of HF Group PLC

The Board has ultimate accountability and responsibility for the performance and affairs of the Group by providing leadership and strategic guidance in order to sustainably safeguard stakeholders' value. The Group's Board has the following responsibilities:

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

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

13.2.1 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 Chairperson. The Directors have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board's discussions.

On appointment, each Director is taken through a comprehensive and tailored induction process covering the Group's business and operations and is provided with information relating to their legal and regulatory obligations. Non-Executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

13.2.2 Conflict of Interest

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

13.2.3 **Board Members**

Table 31: Members of the Board of Directors of HF Group PLC

Name	Biography
Prof Olive M. Mugenda, PhD, EBS, CBS, MGH **Group Chairperson** Date of Appointment: 21st October 2021 	PROFESSOR OLIVE M. MUGENDA, is currently the Chairperson Board of Directors Kenyatta University Teaching, Referral and Research Hospital (KUTRRH). She is also the Chancellor KCA University. She served as a Hon. Commissioner, Judicial Service Commission (JSC) Kenya between 2018 and 2023. Prof. Olive Mugenda was appointed Vice-Chancellor Kenyatta University (2006-2016) and she was the first woman to serve as a VC in a public University not only in Kenya but in East Africa. Professor spearheaded the transformation of the Institution in many ways including growth in students' enrolment, infrastructure development and expansion, staff welfare and introduced market driven programmes. She holds a Bachelor of Education Degree in Home Economics (first class honours) from The University of Nairobi (UoN), a Master of Science Degree and Ph.D. from Iowa State University (USA). Professor is also a holder of a Master of Business Administration (MBA) from the Eastern and Southern Africa Management Institute (ESAMI), Arusha Tanzania. Professor Mugenda has also contributed greatly in the academic arena where she has published in scholarly journals and has authored several books two of which she co-authored with Prof Abel Mugenda. These include. 1. Research Methods (2019), Quantitative, Qualitative & Mixed Methods Approaches, Third edition. 2. Research Methods Dictionary, (2012)
Dr. Peter K. Munga, EGH **Non-Independent &** **Non-Executive Director** Date of Appointment: 1st July 2008 	Dr. Peter K. Munga, EGH, is a Certified Public Secretary with vast experience in both public and private sector 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. He is the current Chancellor of Pioneer International University. He is also a Director at Britam Holdings Plc. He has chaired many Boards among them Equity Bank Ltd, Murang'a Water and Sewerage Company Ltd, National Oil Corporation of Kenya, Micro Enterprise Support Programme Trust, Kenya Animal Genetic Resource Centre and Freshco Seeds. 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.

Name	Biography
Dr. Benson I. Wairegi, EBS **Non-Independent &** **Non-Executive Director** Date of Appointment: 1st April 2008 	Dr Wairegi worked for Britam Holdings Plc in various capacities and held the position of Chief Executive Officer and Group Managing Director before retiring in January 2021. He had previously worked with PricewaterhouseCoopers before joining Britam. He has significant insurance, banking and investment and financial services industry experience. Dr. Wairegi is the immediate past Chancellor of Kenyatta University and Chairman of Endeavor Kenya, a US based organization headquartered in New York City that is pioneering the concept of high-impact entrepreneurship in growth markets around the world. He is a former Chairman of the Association of Kenya Insurers (AKI) and former Board Member of the Board of Trustees of the Insurance Training and Education Trust (ITET). Dr. Wairegi holds an Honorary Doctorate Degree (Honoris Causa) from Kenyatta University, Bachelor of Commerce and Master of Business Administration degrees from the University of Nairobi. He is a Certified Public Accountant (CPA-K) and a Fellow of the Kenya Institute of Management.
Dr. Anthony O. Omerikwa, MBS **Independent & Non-Executive Director** Date of Appointment: 18th January 2022 	Dr. Omerikwa, MBS is the CEO of NACADA. Prior to his current position, he worked for the World Bank as a Technical Consultant after serving as the CEO/ Managing Trustee of the National Social Security Fund. He is also a Council Member at the KCA University and an Adjunct Faculty at The Eastern and Southern African Management Institute (ESAMI). He holds a Doctoral Degree from the University of Georgia, a Specialist Advanced Degree in Labour, Workforce Development and Education and a Master of Science Degree in Human Resource Development both from Pittsburgh State University, a Bachelor of Arts Degree in Economics from Kenyatta University and a Diploma in Data Processing and Management from Strathmore College. Dr. Omerikwa is an associate member of the Institute of Human Resource Management, Institute of Directors and Kenya Institute of Management.
Mr. Tom Gitogo **Non-Independent &** **Non-Executive Director** Date of Appointment: 1st August 2023 	Tom Gitogo is the Group MD and CEO of Britam Holdings Plc, a leading diversified financial services group, present in seven African countries: Kenya, Uganda, Tanzania, Rwanda, South Sudan, Mozambique, and Malawi. Tom joined Britam on 1st September 2022. He is an accomplished Financial Services Professional and Board level leader, skilled in General Management, Commercial and Business Strategy, Sales, and Finance Operations, and Talent Management, having spent over 30 years in various roles in the financial services industry in Africa and Europe. Previously, Tom was responsible for CIC insurance Group operations in four African countries including, Kenya, Uganda, South Sudan, and Malawi, where across five years, he oversaw the growth and profitable performance of the listed financial services company. Tom holds a Master of Business Administration (Strategic Management) from Moi University and a Bachelor of Science in Civil Engineering from the University of Nairobi. He is also a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), a Fellow of the Institute of Certified Public Accountants of Kenya (ICPAK), a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and a member of the Institute of Directors of Kenya (IOD).

Name	Biography
Ms. Felister W. Kembi **Independent &** **Non-Executive Director** Date of Appointment: 26th September 2016 	Ms. Felister W. Kembi joined the board on 26th September 2016. 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. 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).
Dr. Anne Kimari **Independent & Non-Executive Director** Date of Appointment: 24th June 2022 	Dr. Anne Kimari is a committed and dedicated professional with over 27 years' experience in Micro and SME Banking, Mobile Money Services -Fintech, Finance, Strategic Management, Tax, Audit and Risk Management. She also has Corporate Governance and Board experience. She is the founder director of Finebridge Associates Limited, providing Finance and Business Advisory Consultancy services. She began her career in PriceWaterhouseCoopers, before proceeding through various Senior Finance and Corporate roles in amongst others, in Micro and SME Banking, Non-Profit, and Mobile Money Services in the region. She holds a Doctorate and MBA in Finance from United States International University – Africa (USIU), Bachelor of Commerce Finance option – University of Nairobi. She is a Certified Public Accountant (CPA), a member of ICPAK and a Fellow of ACCA. She also holds an Executive Certificate in SME Banking – Frankfurt School – Germany and a Microfinance Trainer of Trainers (MFTOT) Certificate from Asian Development Bank (Tokyo, Japan) in collaboration with the World Bank and UNCTAD.
Robert Kibaara **Group Chief Executive Officer -** **Executive & Non Independent** Date of Appointment: 1st March 2019 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, a Bachelor's Degree in Banking and Finance from the University of Sunderland (UK) and a Post Graduate Diploma from the Chartered Institute of Marketing (CIM) UK.
Regina Anyika **Group Company Secretary** 	Regina Anyika is a seasoned legal professional with over 25 years' experience in the Financial services sector. She has hands on expertise in leadership, governance, commercial law, labour relations and dispute resolution, deal structuring for capital raising including corporate bonds, rights issues, mergers and acquisitions. She is an astute risk manager, with many years' experience in balance sheet restructures, and alternative dispute resolutions including without prejudice negotiations, mediation and arbitration. She joined HF Group Plc in September 2013 and is currently the Director – Legal and Group Company Secretary. She is passionate about governance and sustainability, in particular SDG 5 on gender equality and empowerment of women and SDG 13 on climate action. Prior to joining the HF Group Plc, 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).

13.2.4 **Board Committees**

The Group's Board has constituted three committees to assist in the discharge of its duties and responsibilities. Each Board Committee has formal written terms of reference that are reviewed periodically. The committees include the Group Nomination and Governance, Audit & Risk and Strategy. As part of the Corporate Governance Policy, the Group has a co-option policy to ensure proper representation of the subsidiary Boards in the Group Committees.

A summary of the role of the current committees, current members and terms of reference are outlined below.

Table 32: Board Committees of HF Group PLC

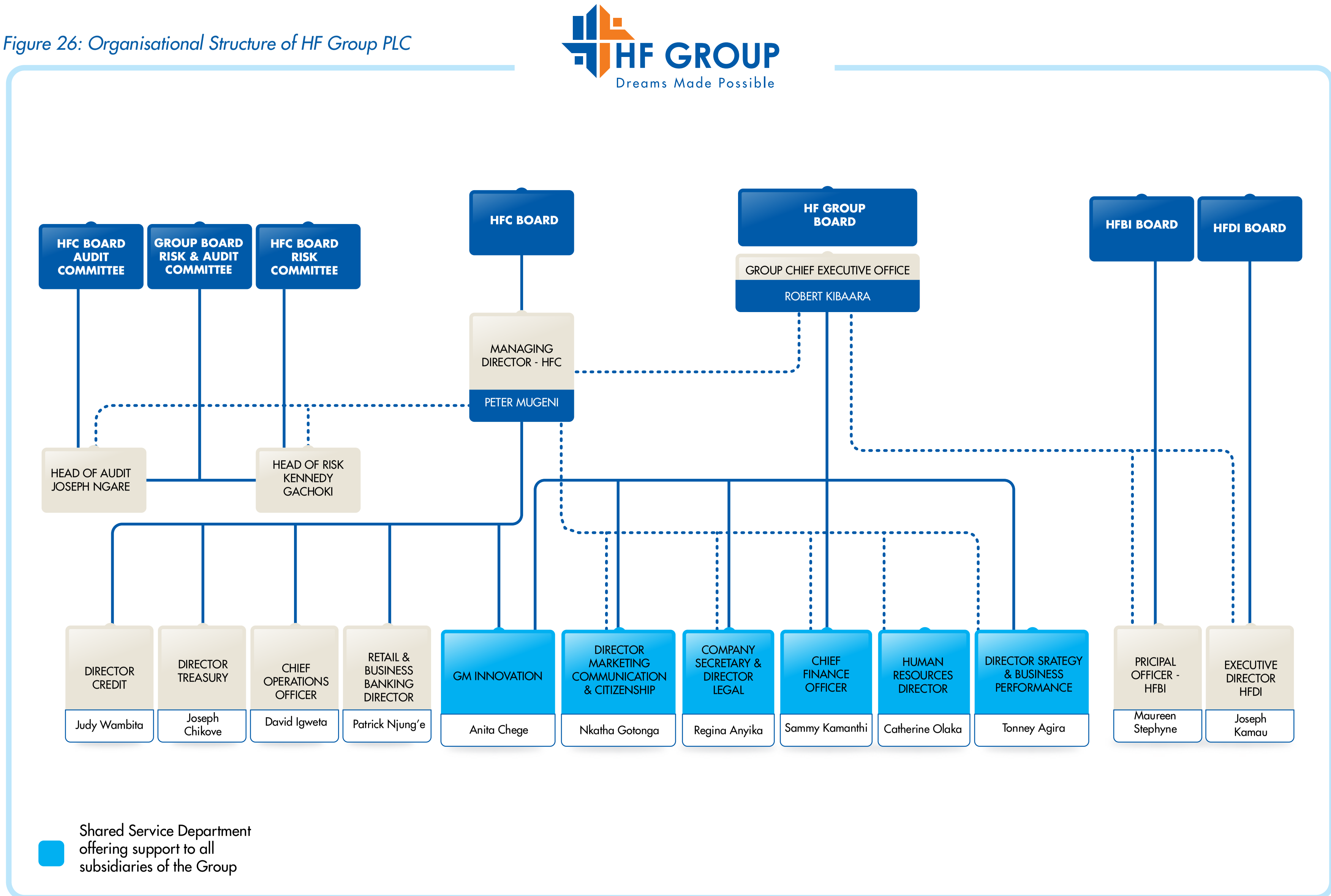
Board Committee	Terms of Reference	Members
Group Board Audit and Risk Committee (BARC)	The principal roles of the Committee are to: • Ensure that accounts are prepared in a timely and accurate manner to facilitate prompt publication of annual accounts; • Review the internal controls, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management; • To review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed; • Monitor compliance with applicable law, statutory and regulatory requirements; • Nominate an external auditor for appointment by the shareholders; • Review of any related party transactions that may arise within the group; and • Monitor the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements.	The members consist of three Independent and Non-Executive Directors: • Felister W. Kembi – Chairperson; • Dr. Anthony O. Omerikwa; and • Dr. Anne W. Kimari
Group Nomination and Governance Committee	The Committee's responsibilities include: • Reviewing the structure, size and composition of the Board to ensure the optimum balance of skills, knowledge and experience considering 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; and • 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.	The members mainly consist of Non-Executive Directors with the Chair being an Independent Non-Executive. The members are: • Prof Olive Mugenda (Chairperson); • Dr. Peter Munga; • Mr. Tom Gitogo; • Mr. John Mwendwa - Co-opted HFC Limited; and • Mr. Robert Kibaara Group Chief Executive Officer

Board Committee	Terms of Reference	Members
Group Board Strategy Committee	The Committee's responsibilities include to: • Oversee the implementation of the Group's strategy; • Approve and participate in the annual strategy review process; and • Approve all key strategic initiatives including but not limited to; appointment of consultants, capital & revenue expenditure and investments.	The members consist of five Non-Executive Directors and the Group Chief Executive Officer: • Dr. Benson Wairegi – Chairperson; • Dr. Peter Munga; • Dr. Dorcas Muthoni – Co-opted HFC; • Mr. Tom Gitogo; • Mr. John Mwendwa - Co-opted HFC; and • Mr. Robert Kibaara Group Chief Executive Officer
CBS Project Board Committee	The role of the Committee is to: • Recommend for approval by the Group Board the appointment of Consultants, including but not limited to the Project Manager and the Quality Assurance Professional; • Evaluate the level of governance required to effectively undertake the core banking system upgrade and to decide on the appropriate governance model to enable the Project Consultants; • Monitor the progress of projects with a focus on adherence to overall high-level objectives/milestones; • Ensure realistic, honest reporting of progress and issues, to enable well-informed decisions around projects; • Resolve any competing priorities or other areas of disagreement that may arise from time to time and escalate issues as appropriate; • Work with, support and guide project teams to ensure delivery of stated objectives; • Provide oversight and advice to the board on matters relating to the core banking system upgrade project, the technology investment, strategic architectural direction, cyber security and strategy on change management. This includes oversight of the delivery and performance in respect of each of these matters; • Steer implementation of project recommendations and in this regard review the risks associated with the core banking system upgrade and ensure appropriate mitigation actions are developed and acted upon in response to those risks and escalate risks of concern to the Board where appropriate; • Receive reports from management and the project consultants concerning the progress of the core banking system upgrade project. The Committee shall ensure appropriate action is taken in the event of significant underperformance or adverse trends, considering escalation to the Board, where required; • Approve the budget for core banking system upgrade project. In this regard, any request for funding which exceeds the budget by 10% must be referred to the Board for consideration and approval; and • Monitor and evaluate existing and future trends in technology that may affect the Company's strategic plans, including monitoring of overall industry trends.	The members consist of: • Dr. Benson Wairegi – Chairman; • Dr. Anthony Omerikwa; • Mr. Tom Gitogo; • Dr. Dorcas Muthoni; • Ms. Shilpa Haria; • Mr. Robert Kibaara Group Chief Executive Officer; • Mr. Peter Mugeni - Managing Director HFC; and • Mr. David Igweta – Chief Operations Officer

13.3 Management of HF Group PLC

13.3.1 Organisational Structure

Figure 26: Organisational Structure of HF Group PLC



Source: HF Group

13.3.2 **Management Team**

Table 33: Members of the Management of HF Group Plc

Name	Biography
Robert Kibaara **Group Chief Executive Officer - Executive & Non Independent** 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, 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 **Managing Director, HFC Limited** 	Peter is a seasoned Banker, with over 20 years experience in Banking, covering Retail & Business Banking and Risk Management 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.
Sammy Kamanthi **Group Chief Finance Officer** 	Sammy Kamanthi is a finance professional and a seasoned banker with over 21 years track record in the banking industry. His role includes providing leadership in financial forecasting & budgets, overseeing the preparation of financial reports as well as advisory on long term business and financial planning. Prior to joining HF Group Plc, he held the position of General Manager and Head of Finance for the Kenya operations at Equity Bank. He has also served as the Finance Manager & Head of Financial Reporting at the same institution. Sammy has also held other positions including Accountant at Kenya Airways; Graduate Management Trainee, Senior Bank Officer and Assistant Finance Manager at the Central Bank of Kenya. Sammy holds a Bachelor of Commerce Degree in Accounting from Kenyatta University, Master's Degree in International Development Studies, Development Economics from National Graduate Institute of Policy Studies – Tokyo, Japan and Master in Business Administration (MBA) – Finance, from Edinburgh Business School (EBS), Heriot -Watt Univ – Edinburgh. He is a Certified Public Accountant CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Name	Biography
David Igweta **Chief Operations Officer** 	David Igweta is an astute ICT and operations expert with over 25 years of experience in Information Technology and Banking. Before joining HF Group Plc, he worked as the Head of Technology and Operations at Spire Bank, GM ICT at NIC Bank, Soluziona (an entity affiliated to the Spanish Power company as a systems consultant) and Car and General. He has expertise in policy formulation and best practice in ICT governance standards implementation, project and program management, IT Security and key strategic road map formulation and roll-out. He is well versed with IT and operational trends in banking and payment systems with deep involvement in Fintech engagements and partnerships. David holds a Degree in Mathematics and Computer Studies from Kenyatta University and various accreditation and certifications.
Catherine Olaka **Director, Human Resources & Administration** 	Catherine Olaka has extensive HR experience and has achieved success in designing & implementing scalable HR initiatives with a key focus on business transformation at executive level. She has a wealth of Sub-Saharan Africa work experience having served in various assignments in Tanzania, Rwanda, Chad, Gabon, Ghana, Nigeria, Congo Brazzaville, DRC, Madagascar and RSA, and industry experience within the ICT and Financial services. Her career highlights include roles as the overall HR leader at Stanbic Bank Uganda, Tigo Tanzania, and Telkom Kenya. Catherine holds a Bachelor of Arts Degree (University of Nairobi), an MBA (Maastricht school of Management), Post-Graduate Diploma in HR and is a licensed Executive Coach and a member of AoEC (Association of Executive Coaches – UK) and ICF (International Coaching Federation).
Regina Anyika **Group Company Secretary & Director, Legal** 	Regina Anyika is a seasoned legal professional with over 25 years' experience in the Financial services sector. She has hands on expertise in leadership, governance, commercial law, labour relations and dispute resolution, deal structuring for capital raising including corporate bonds, rights issues, mergers and acquisitions. She is an astute risk manager, with many years' experience in balance sheet restructures, and alternative dispute resolutions including without prejudice negotiations, mediation and arbitration. She joined HF Group Plc in September 2013 and is currently the Director – Legal and Group Company Secretary. Prior to joining the HF Group Plc, Regina worked with the Co-operative Bank of Kenya Limited and Senator Cards Limited. She is passionate about governance and sustainability, in particular SDG 5 on gender equality and empowerment of women and SDG 13 on climate action. 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).

<table>
<tr><th>Name</th><th>Biography</th></tr>
<tr><td>Joseph Chikove
Director, Treasury
</td><td>Joseph Chikove is a seasoned treasury professional, with over 15 years' experience in the banking industry across the East African Region. He has had an excellent track record orchestrating high team performance in the treasury business. Prior to joining HF Group Plc in 2019, Joseph held various positions including Head of Treasury at NIC Bank Uganda, Senior Treasury Dealer at NIC Bank Tanzania and Treasury Dealer at NIC Bank Kenya and Fina Bank Kenya Limited.

Joseph holds a Master's Degree 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.</td></tr>
<tr><td>Patrick Njunge
Director, Retail & Business Banking
</td><td>Patrick Njunge is a seasoned results-driven banker with 16 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.</td></tr>
<tr><td>Juddy Wambita
Director, Credit
</td><td>Juddy Wambita is a credit professional with vast experience in Credit Policies formulation, Evaluation as well as Portfolio Management. She has held various positions in Credit with the immediate former being Head of Credit, Consumer and High Net worth Clients and Acting Head of Credit, Business Banking & Commercial Clients. She has previously served as Senior Credit Manager, Business and Corporate Banking at Absa Kenya Plc and Credit Manager at NIC Bank.

Juddy holds a Bachelor of Education Science degree from Kenyatta University, Advanced Management Programme from IMD Business School -Switzerland, Credit Skills Development Certificate by Omega Performance Corporation (UK) and a Certificate in Agricultural Financing from ECAF. She is currently pursuing an MBA in Finance from the University of Nairobi.</td></tr>
<tr><td>Tonney Agira
Director, Strategy & Business Performance
</td><td>Tonney Agira is a seasoned banker, with over 16 years' experience in strategy development & execution, business intelligence and analytics, retail banking and products management. Through his experience, he has been able to achieve business results which have made significant turnaround impacts to the organizations he has worked for, including growth in revenue and profitability; process improvements; development of business scorecards and frameworks that created excellence in market execution.

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

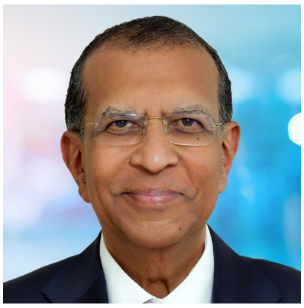
Tonney holds a Bachelor's of Science degree (Biomedical Science & Technology - Pharmacology option) and is currently undertaking his MBA.</td></tr>
</table>

Name	Biography
Nkatha Gitonga **Director, Marketing, Corporate Affairs & Citizenship** 	Nkatha Gitonga is a seasoned marketer with 25 years' experience spanning the entertainment, advertising & media, aviation, ICT & financial sectors. She is passionate about leadership, brand, coaching, culture and sustainability. Nkatha has led innovative strategic project teams to successfully realize the business objectives of leading organizations in Africa. She honed her skills at various organisations including Ayton Young & Rubicam (AY&R), Kenya Airways, ScanGroup & AccessKenya (Internet Solutions/Dimension Data). Prior to joining HF Group, she served as the Group Manager, Marketing and Communications for ICEA LION Group across Kenya, Uganda & Tanzania. Nkatha holds a BA in Political Science & Sociology (Hons) from the University of Nairobi and an MBA in Leadership & Sustainability from the University of Cumbria, U.K. She is a Certified Engagement & Productivity Coach (CEPC) from the International Coach Federation (ICF), and a 2024 Alumni of the Women Directors Leadership Programme from Strathmore University Business School. She is currently concluding Certification of Accredited Practitioner in Organizational Culture from The Culture Factor.
Joseph Kamau **Executive Director** 	Joseph Kamau is a seasoned banker with over 12 years' experience in corporate banking. Before Joining HF Group Plc in April 2019, he was a senior Corporate Banker with NIC Bank. Joseph is responsible for providing leadership for the Group's Property Development and Investment subsidiary. He has a deep understanding of structured finance transactions which is critical in execution and delivery of the projects and investments undertaken by the Group. He is currently undertaking an MBA, Strategic Management from Strathmore Business School. He holds a Bachelor of Commerce Degree from the University of Nairobi, a CPA-K and is a Certified Investments and Securities Analyst of East Africa.
Kennedy Gachoki **General Manager, Risk** 	Kennedy Gachoki joined HF Group Plc in November 2015 to oversee the Enterprise Risk Management Division with functional reporting responsibilities to Board Risk Committee. He joined the Group from Central Bank of Kenya (CBK) where he had served since June 2008, in the Bank Supervision Department. He has vast experience in banking risk management processes including risk identification, risk measurement, risk control and risk monitoring. He has also participated in several international and local forums on banking risk management including compliance related trainings. Kennedy holds a Master's Degree in Business Administration (MBA-Finance) from the University of Nairobi and a Bachelor of Commerce Degree in Accounting. He is also a Certified Public Accountant CPA (K).
Joseph Ngare **General Manager, Audit** 	Joseph Ngare joined HF Group Plc on 19th April, 2010 as the Head of Audit. Prior to joining the Company, he worked with Gulf African Bank and Cooperative Bank of Kenya Limited. Joseph holds a Bachelor of Commerce Degree (Finance Option) and is a qualified Certified Public Accountant (Kenya), Certified Internal Auditor (CIA) and a Certified Quality Assessor (QA).

13.4 Board of Directors of HFC Limited

13.4.1 Board Members

Table 34: Members of the Board of HFC Limited

Name	Biography
Dr. Kaushik Manek, EBS **Board Chairperson, Independent & Non-Executive Director** Date of Appointment: 27th March 2019 	Dr. Kaushik Manek, EBS was appointed as a Non-Executive Director of HFC Limited effective 27th March 2019. 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.
Ms. Shilpa Prabhulal Shah **Independent &** **Non-Executive Director** Date of Appointment: 15th April 2016 	Shilpa Prabhulal Shah joined the Board on 15th April 2016. She has vast experience in the finance sector having worked with Pricewaterhouse Coopers Nairobi, as a Financial Controller Aga Khan Hospital Nairobi, Group Chief Finance Officer Kensta Group, Head of Finance Eveready East Africa Limited and Group Financial Controller Access Kenya Group Limited She is currently an Independent director at Unga Group Limited where she chairs the Audit and Risk Committee), Independent Director at Compulynx Limited and a Finance Consultant for Flame Tree Group. She is also the Country Coordinator of Bhakti Marga Kenya Limited, a spiritual organisation and a Board Member of the United Asian Network Limited. She chaired the Faraja Medical Support Fund up to January 2024 and was a Board member of Jalaram Medical Services up to August 2024. She is a Certified Accountant. She is a Fellow of the Chartered Association of Certified Accountants (FCCA) and a practicing member of the Institute of Certified Accountants (ICPAK). She is also a certified Coach (AoEC) and a Member of the Association of Accounting Technicians (AAT).

Name	Biography
Dr. Dorcas Muthoni **Independent &** **Non-Executive Director** Date of Appointment: 26th May 2020 	Dr. Dorcas Muthoni joined the Board on 26th May 2020. She is an entrepreneur and computer scientist. She is the CEO and founder of OpenBusiness Africa, a startup operating an MSME omnichannel retail trade platform, and OPENWORLD LTD, a software company she started at the age of 24 years. OPENWORLD is now a leading e-Government and Business Software Services firm in the Eastern Africa region. Dr. Muthoni is a Technology consultant and innovator with over 22 years of experience and demonstrated ability to use technology to solve business problems and deliver bottom-line results. She is a Computer Scientist with expert hands-on knowledge in designing and delivering cost-effective, high-performance information technology infrastructure and applications to address complex business problems. Her current work involves new technologies such as Cloud Computing, Big Data, Artificial Intelligence, and Machine Learning for retail trade and fintech, as well as mission-critical data centers. Muthoni is also the founder of a mentorship and capacity-building initiative for women in computing across Africa, AFCHIX.
Ms. Jane Kilonzo **Independent &** **Non-Executive Director** Date of Appointment: 3rd March 2022 	Jane Kilonzo joined the Board on 3rd March 2022. She is a career banker with over 26 years' experience in the banking sector cutting across all banking operations. Her last role was at Bank of Africa Kenya Limited where she worked for over 14 years, rising through the management ranks to the position of Deputy Managing Director. Prior to that she worked as the Chief Internal Auditor at Credit Agricole Indosuez Bank. Jane has hands on experience in general banking operations, internal control design and implementation, internal audit and management of enterprise-wide risk. She has extensive experience leading and managing change. She holds an Executive MBA, ACIB/BSc Financial Services and is a Certified Public Accountant of Kenya, CPA (K).
Mr. John Mwendwa **Independent &** **Non-Executive Director** Date of Appointment: 3rd January 2024 	John Mwendwa is a seasoned business leader with extensive cross-functional and industry experience, having worked in the aviation, banking, telecommunications, and FMCG sectors. He possesses over 15 years of senior leadership experience in Human Resources, Leadership Development, Sustainability, and Strategic Communication. Currently, he serves as the Director of Public Affairs, Communications & Sustainability at Coca-Cola Beverages Africa. Prior to this role, he held the position of Human Resource Director within the same organization. John holds a Master of Business Administration (MBA) from the United States International University – Africa, Bachelors in Education (B.Ed. Arts) from the University of Nairobi. Additionally, he has a Diploma in Human Resource Management from the Kenya Institute of Management.

Name	Biography
Robert Kibaara **Group Chief Executive Officer - Executive & Non Independent** Date of Appointment: 1st March 2019 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, 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 **Managing Director Executive & Non Independent** Date of Appointment: 16th November 2021 	Peter is a seasoned Banker, with over 20 years experience in Banking, covering Retail & Business Banking and Risk Management 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.

13.4.2 **Board Committees**

Table 35: Board Committees of HFC Limited

Board Committee	Terms of Reference	Members
Audit Committee	The principal roles of the Committee are to: • Improve the quality of financial reporting by ensuring that the accounts are prepared in a timely and accurate manner to facilitate prompt publication of annual accounts; • Strengthen the effectiveness of the internal and external auditing functions by ensuring the establishment of a permanent internal audit function. In fulfilling its duties and responsibilities, the board and senior management should take all the necessary measures to ensure that the institution has a permanent internal audit function commensurate with its size, nature and complexity of its operations; • Review and monitor the external auditors' independence and objectivity, taking into consideration relevant professional and regulatory requirements. In fulfilling its duties, the AC will review with the external auditors, the scope of their audit plan, system of internal audit reports, assistance given by management and its staff to the auditors and any findings and actions to be taken; • Strengthen the control environment; • Increase the stakeholder's confidence in the credibility and stability of the Company; and • Monitor instances of non-compliance with Central Bank of Kenya Act, Banking Act, Central Bank of Kenya Prudential Regulations and other legislation, and advising the Board, on best practice.	The members consist of three Independent & Non-Executive Directors: • Ms. Shilpa Haria – Chairperson; • Ms. Jane Kilonzo; • Dr. Dorcas Muthoni.
Risk Committee	The principal roles of the Committee are to: • Ensure the quality, integrity and reliability of the institution's risk management; • Assist the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting; • Ensure that the Company operates within the set risk appetite levels and that any deviations are corrected within a given time frame; and • Ensure compliance with applicable risk management policies as approved by the Board from time to time.	The members consist of: • Ms. Jane Kilonzo – Interim Chairperson; • Dr. Dorcas Muthoni; • Mr. Robert Kibaara; • Mr. Peter Mugeni MD HFC.

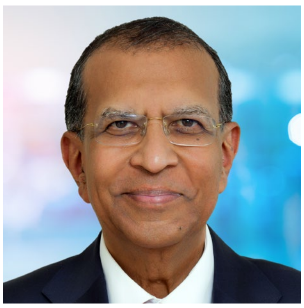
Board Committee	Terms of Reference	Members
Credit Committee	The role of the Committee is to: • Review and oversee the overall lending policy of the banking institution; • Deliberate and consider loan applications beyond the discretionary limits of the Management Lending Committee; • Review lending by the Management Lending Committee; • Ensure that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries; • Review any related party transactions that may arise within the banking institution; • Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the institution's credit risk management; • Delegate and review lending limits to sanctioning arms of the institution; • Assist the Board with discharging its responsibility to review the quality of the banking institution's loan portfolio, and ensuring adequate provisions for bad and doubtful debts in compliance with requirements of the prudential guidelines; • Conduct loan reviews independent of any person or committee responsible for sanctioning credit; and • Ensure that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.	The members consist of: • Ms. Jane Kilonzo – Chairperson; • Dr. Kaushik Manek; • Ms. Shilpa Haria; • Mr. Robert Kibaara; • Mr. Peter Mugeni MD HFC.

Board Committee	Terms of Reference	Members
ICT Committee	The role of the Committee is to: • Ensure that an IT governance charter and policies are established and implemented. The charter and policies should outline the decision-making rights and accountability framework for IT governance that will enable the desirable culture in the use of IT within the Company; • Oversee the cultivation and promotion of an ethical IT governance and management culture and awareness. The ICT Committee should provide the required leadership to achieve the institution's strategic objective; • Ensure that an IT internal control framework is adopted and implemented and that the board receives independent assurance on the effectiveness thereof. The necessary steps should be taken to ensure that there are processes in place to ensure complete, timely, relevant, accurate and accessible IT reporting. • Ensure that the IT strategy is integrated with the institution's strategic and business processes. IT should be seen to add value by enabling the improvement of the institution's performance and sustainability; • Consider the suitable strategy, structure and size of the IT function, considering what is appropriate for the adequate management of the IT function and associated risk of the institution and having regard to any legislative requirements that apply to the IT function. The structure of the IT function, its role and its position in terms of reporting lines, should reflect the company's decision on how IT is integrated with its operations; • Oversee the proper value delivery of IT and ensure that the expected return on investment from significant IT investments and projects is delivered and that the information and intellectual property contained in the information systems are protected; • Where the responsibility for the provision of IT goods or services has been delegated to another party (or division), the ICT Committee to remain accountable for enforcing and monitoring effective IT governance; and • Ensure that Management regularly demonstrates to the board that the institution has adequate business resilience arrangements in place for disaster recovery and business continuity.	The members consist of: • Dr. Dorcas Muthoni – Chairperson; • Ms. Shilpa Haria; • Mr. John Mwendwa; • Mr. Robert Kibaara; • Mr. Peter Mugeni MD HFC.

13.5 Board of Directors of HF Development and Investments Limited

13.5.1 Board Members

Table 36: Members of the Board of HF Development and Investments Limited

Name	Biography
Dr. Benson I. Wairegi, EBS **Chairperson** Date of Appointment: 1st April 2008 	Dr Wairegi worked for Britam Holdings Plc in various capacities and held the position of Chief Executive Officer and Group Managing Director before retiring in January 2021. He had previously worked with PricewaterhouseCoopers before joining Britam. He has significant insurance, banking and investment and financial services industry experience. Dr. Wairegi is the immediate past Chancellor of Kenyatta University and Chairman of Endeavor Kenya, a US based organization headquartered in New York City that is pioneering the concept of high-impact entrepreneurship in growth markets around the world. He is a former Chairman of the Association of Kenya Insurers (AKI) and former Board Member of the Board of Trustees of the Insurance Training and Education Trust (ITET). Dr. Wairegi holds an Honorary Doctorate Degree (Honoris Causa) from Kenyatta University, Bachelor of Commerce and Master of Business Administration degrees from the University of Nairobi. He is a Certified Public Accountant (CPA-K) and a Fellow of the Kenya Institute of Management.
Dr. Peter K. Munga, EGH **Non-Independent &** **Non-Executive Director** Date of Appointment: 1st July 2008 	Dr. Peter K. Munga, EGH, is a Certified Public Secretary with vast experience in both public and private sector 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. He is the current Chancellor of Pioneer International University. He is also a Director at Britam Holdings Plc. He has chaired many Boards among them Equity Bank Ltd, Murang'a Water and Sewerage Company Ltd, National Oil Corporation of Kenya, Micro Enterprise Support Programme Trust, Kenya Animal Genetic Resource Centre and Freshco Seeds. 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.
Dr. Kaushik Manek, EBS **Independent & Non-Executive Director** Date of Appointment: 27th February 2017 	Dr. Kaushik Manek, EBS was appointed as a Non-Executive Director of HFDI effective 27th February 2017. 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.

Name	Biography
Robert Kibaara **Group Chief Executive Officer - Non Executive & Non Independent** Date of Appointment: 1st March 2019 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, 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.
Joseph Kamau **Executive Director** Date of Appointment: 2nd August 2021 	Joseph Kamau is a seasoned banker with over 12 years experience in corporate banking. Before Joining HF Group Plc in April 2019, he was a senior Corporate Banker with NIC Bank. Joseph is responsible for providing leadership for the Group's Property Development and Investment subsidiary. He has a deep understanding of structured finance transactions which is critical in execution and delivery of the projects and investments undertaken by the Group. He is currently undertaking an MBA, Strategic Management from Strathmore Business School. He holds a Bachelor of Commerce Degree from the University of Nairobi, a CPA-K and is a Certified Investments and Securities Analyst of East Africa.

13.6 Board of Directors of HF Bancassurance Intermediary Limited

13.6.1 Board Members

Table 37: Members of the Board of HF Bancassurance Intermediary Limited

Name	Biography
Dr. Benson I. Wairegi, EBS Chairman Date of Appointment: 1st April 2008 	Dr Wairegi worked for Britam Holdings Plc in various capacities and held the position of Chief Executive Officer and Group Managing Director before retiring in January 2021. He had previously worked with PricewaterhouseCoopers before joining Britam. He has significant insurance, banking and investment and financial services industry experience. Dr. Wairegi is the immediate past Chancellor of Kenyatta University and Chairman of Endeavor Kenya, a US based organization headquartered in New York City that is pioneering the concept of high-impact entrepreneurship in growth markets around the world. He is a former Chairman of the Association of Kenya Insurers (AKI) and former Board Member of the Board of Trustees of the Insurance Training and Education Trust (ITET). Dr. Wairegi holds an Honorary Doctorate Degree (Honoris Causa) from Kenyatta University, Bachelor of Commerce and Master of Business Administration degrees from the University of Nairobi. He is a Certified Public Accountant (CPA-K) and a Fellow of the Kenya Institute of Management.
Ms Constance Gakonyo Non-Independent & Non-Executive Director Date of Appointment: 23rd August 2019 	Constance 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. 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). 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.
Robert Kibaara Group Chief Executive Officer - Non Executive & Non Independent Date of Appointment: 1st March 2019 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, 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.

Name	Biography
Patrick Njunge **Non Executive Director** Date of Appointment: 24th July 2019 	Patrick Njunge is a seasoned results-driven banker with 16 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.
Tonney Agira **Non Executive Director** Date of Appointment: 24th July 2019 	Tonney Agira is a seasoned banker, with over 16 years' experience in strategy development & execution, business intelligence and analytics, retail banking and products management. Through his experience, he has been able to achieve business results which have made significant turnaround impacts to the organizations he has worked for, including growth in revenue and profitability; process improvements; development of business scorecards and frameworks that created excellence in market execution. He has previously held several senior roles including Head of Products, Head of Retail Strategy & Analytics at NIC Bank; Head of Retail Lending, and Manager Business Intelligence & Analytics at National Bank of Kenya; and a Business Analyst among other roles at Barclays Bank of Kenya. 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. Tonney holds a Bachelor's of Science degree (Biomedical Science & Technology - Pharmacology option) and is currently undertaking his MBA.
Maureen Stephyne **Principal Officer** Date of Appointment: 28th April 2022 	Maureen Stephne is a seasoned Bancassurance professional with expertise in developing and implementing Bancassurance Strategies, Relationship Management, product customization, leading teams and driving business growth. She has successfully set up bancassurance business units, formulated and implemented Bancassurance strategies which have made significant impact to the Organizations she has worked for in both revenue growth and business diversification. She is responsible for providing leadership to the Group's Bancassurance Subsidiary as an independent strategic business unit contributing to the overall objectives of the HF Group. She has worked for both banking and insurance institutions and has over 15 years working experience. She previously worked for Pioneer Assurance Company, Britam Assurance, Equity Bank, Pacis Insurance and most recently Kenya Orient Insurance Limited where she held various Sales, Underwriting and Business development leadership roles. Maureen holds a Bachelor of Science Degree in Actuarial Science from Jomo Kenyatta University of Agriculture and Technology and is currently pursuing her Masters Degree. She has several certifications including Certificate of Proficiency from College of Insurance, A post graduate Diploma in Insurance from the Chartered Insurance Institute of London, an Award in Bancassurance from Lloyds Africa Markets, Claims & underwriting, Re-insurance, Customer Service, Leadership and Board Dynamics. She is also member of the Insurance Institute of Kenya (I.I.K), The Actuarial Society of Kenya (T.A.S.K), Kenya Women In Insurance (K.W.I.I.N), Bancassurance Association of Kenya and Chartered Insurance Institute of London (C.I.I)

13.7 Board of Directors of HF Foundation Limited

13.7.1 Board Members

Table 38: Members of the Board of HF Foundation Limited

Name	Biography
Dr. Peter K. Munga, EGH **Chairman** Date of Appointment: 1st July 2008 	Dr. Peter K. Munga, EGH, is a Certified Public Secretary with vast experience in both public and private sector 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. He is the current Chancellor of Pioneer International University. He is also a Director at Britam Holdings Plc. He has chaired many Boards among them Equity Bank Ltd, Murang'a Water and Sewerage Company Ltd, National Oil Corporation of Kenya, Micro Enterprise Support Programme Trust, Kenya Animal Genetic Resource Centre and Freshco Seeds. 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.
Robert Kibaara **Group Chief Executive Officer** Date of Appointment: 1st March 2019 	Robert Kibaara is a renowned banker, with over 25 years' experience and an excellent record of accomplishment in successfully driving change, revenue mobilization and delivering outstanding business results. He has previously held several leadership positions including Retail Director at NIC Bank; Executive Director - Retail and Business Banking at National Bank of Kenya; Standard Chartered Bank; among other executive positions at Barclays Bank of Kenya. He holds an MBA Degree from Strathmore University, 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.

14. SUMMARY OF FINANCIAL INFORMATION[8]

The Group's audited accounts for the past five years have been audited in compliance with the International Standards of Accounting and Reporting ("ISAR") and IFRS. This summary financial statement should be read along with the Reporting Accountant's Report as set out in Section 17.

14.1 Consolidated Financial Statements

Below is the Group's five-year financial information for the years ending December 2019 to December 2023 based on the audited financial statements.

14.1.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

Table 39: Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2019 Audited KES '000	2020 Audited KES '000	2021 Audited KES '000	2022 Audited KES '000	2023 Audited KES '000	30 June 2024 Unaudited KES '000
Interest Income						
Loans and advances	4,729,285	3,668,778	3,237,689	3,321,592	4,020,677	2,321,979
Government securities	419,374	555,322	663,636	937,884	1,145,637	675,995
Deposits and placements with banking institutions	18,517	41,409	21,768	10,522	38,096	43,651
Other interest income	-	-	-	-	-	-
Total interest income	**5,167,176**	**4,265,509**	**3,923,093**	**4,269,998**	**5,204,410**	**3,041,624**
Interest Expenses						
Customer deposits	1,787,622	1,805,618	1,529,199	1,588,292	2,013,449	1,325,981
Deposits and placement from banking institutions	99,171	154,219	168,375	148,740	255,476	200,814
Other interest expenses	1,262,076	439,412	397,664	373,337	385,900	181,982
Total interest expenses	**3,148,869**	**2,399,249**	**2,095,238**	**2,110,369**	**2,654,825**	**1,708,777**
Net interest income/(loss)	**2,018,307**	**1,866,260**	**1,827,855**	**2,159,629**	**2,549,585**	**1,332,847**
Other Operating Income						
Fees and commissions on loans and advances	133,044	54,074	130,434	171,073	222,214	119,234
Other fees and commissions	226,856	200,313	177,912	131,311	192,255	175,890
Foreign exchange trading income/(loss)	50,151	85,270	48,350	136,332	174,407	91,508

[8] The summary financial statements of the Group's audited accounts herein may differ from the Reporting Accountant's Report due to adjustments for accounting changes over the period of review.

Dividend income	-	-	-	-	-	-
Other income	942,555	172,809	181,430	440,978	653,930	329,679
Total Non-interest income	**1,352,606**	**512,466**	**538,126**	**879,693**	**1,242,806**	**716,310**
Total Operating Income	**3,370,913**	**2,378,726**	**2,365,981**	**3,039,322**	**3,792,391**	2,049,157
Operating Expenses						
Loan loss provision	350,441	405,069	280,645	194,130	309,299	167,375
Staff costs	1,078,236	1,227,163	1,182,536	1,330,440	1,625,812	876,979
Directors' emoluments	12,174	29,602	30,041	38,801	38,684	19,352
Rental charges	135,680	146,221	147,377	53,957	65,047	33,034
Depreciation charge on property and equipment	174,869	182,711	224,829	148,105	156,085	77,929
Amortisation charges	211,918	226,894	231,139	239,973	213,093	45,555
Other operating expenses	1,547,525	1,840,816	1,129,426	837,256	1,081,833	545,979
Total Other Operating Expenses	**3,510,843**	**4,058,476**	**3,225,993**	**2,842,662**	**3,489,852**	**1,766,202**
Profit/(Loss) before tax and exceptional items	**(139,930)**	**(1,679,750)**	**(860,012)**	**196,660**	**302,538**	**282,955**
Exceptional items	2,128	(96,133)	(15,740)	(6,265)	31,946	-
Profit/(loss) after exceptional items	**(137,802)**	**(1,775,883)**	**(875,753)**	**190,394**	**334,484**	**282,955**
Current tax	(186,325)	(6,772)	(24,992)	(25,582)	(29,687)	(16,686)
Deferred tax	214019	75,791	307,454	100,758	83,359	-
Profit/(loss) after tax and exceptional items	**(110,108)**	**(1,706,864)**	**(593,290)**	**265,570**	**388,156**	**266,269**
Other comprehensive income						
Gains/(losses) from translating the financial statements of foreign operations	-	-	-	-	-	-
Fair value changes in available for sale financial assets	104,247	(75,772)	(299)	(77,337)	(378,578)	256,354
Revaluation surplus on property, plant and equipment	-	137,076	-	404,292	20,000	-
Share of other comprehensive income of associates	-	-	-	-	-	-
Income tax relating to components of other comprehensive income	(31,274)	15,878	90	(98,087)	110,573	(76,906)
Other comprehensive income for the year net of tax	**72,973**	**77,182**	**(209)**	**228,869**	**(248,005)**	**179,448**
Total comprehensive income for the year	**37,134**	**(1,629,682)**	**(593,499)**	**494,439**	**140,152**	**445,717**
Basic and diluted earnings per share	(0.29)	(4.44)	(1.54)	0.69	1.01	0.95

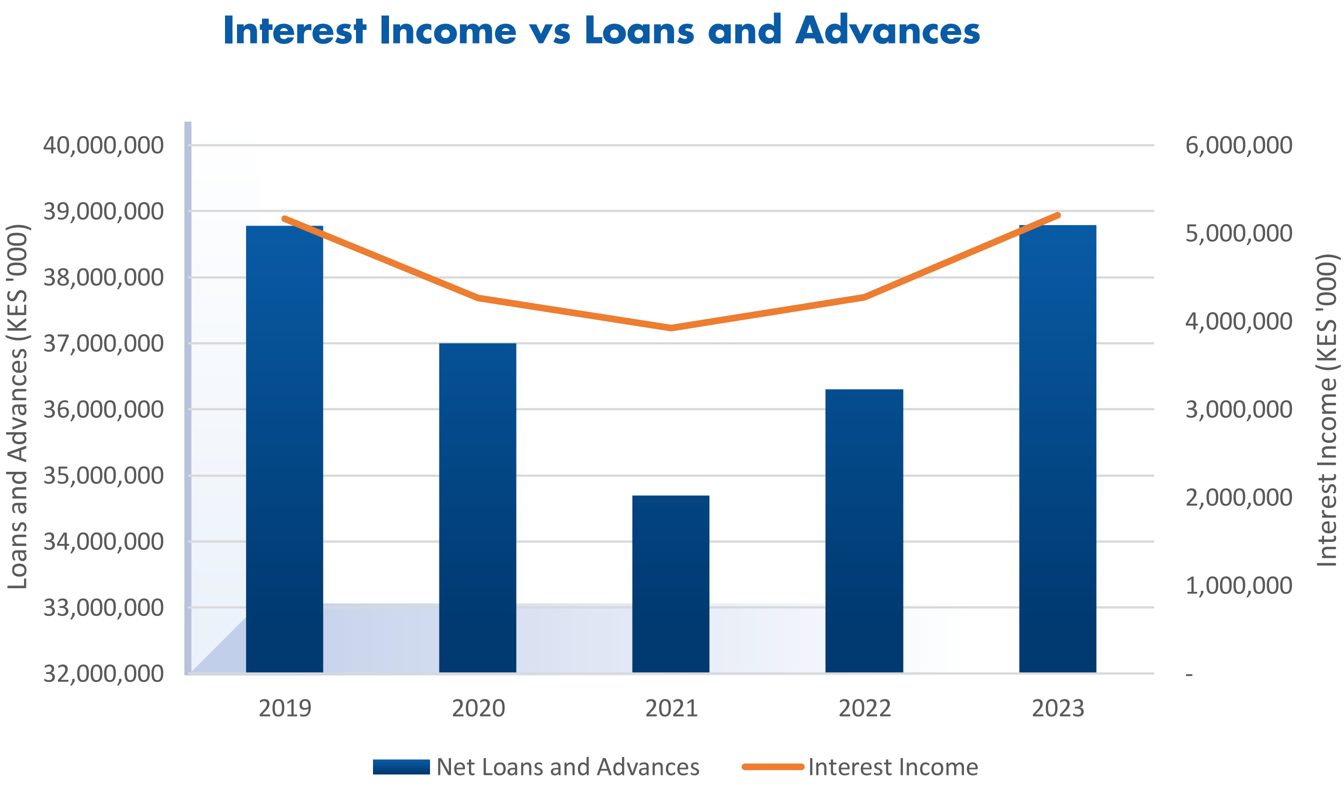
Source: HF Group Audited Accounts

Interest Income

Interest income growth has been relatively flat at a CAGR of 0.18% over the five year period with the Group reaching approximately KES 5.2 billion in 2023. This is also reflected in the zero growth of Net Loans and Advances over the same period. In 2023, interest income from loans and advances accounted for 77.3% of the total interest income. Government securities account for 22.0% of interest income. A low single obligator limit due to a low core capital has been one of the major restrictions to the growth of loans and advances and subsequently interest income.

The graph below shows a dip in 2021 which is attributed to the impact of Covid-19 which emerged in 2020 with the knock on effect being felt in the subsequent years. Efforts have been made to reach pre Covid levels of 2019 with a KES 1 billion increase in interest income experienced from 2022 to 2023.

Figure 27: Group Interest Income vs Group Loans and Advances

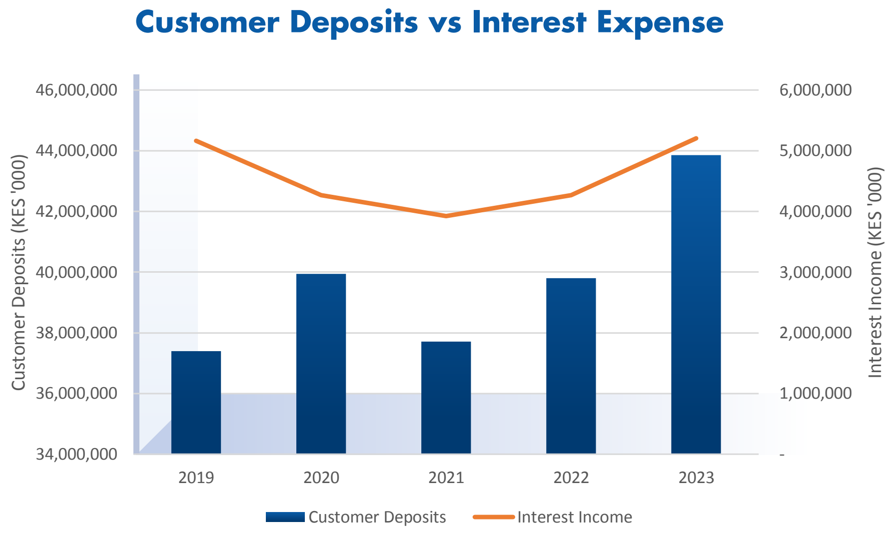


Source: HF Group Audited Accounts

Interest Expense

Interest expense declined at a CAGR of -4.48% over the five-year period vis a vis a CAGR of 4.06% in Customer Deposits. In 2023, interest expense from customer deposits accounted for 75.8% of the overall interest expense.

Figure 28: Group Customer Deposits vs Interest Expense

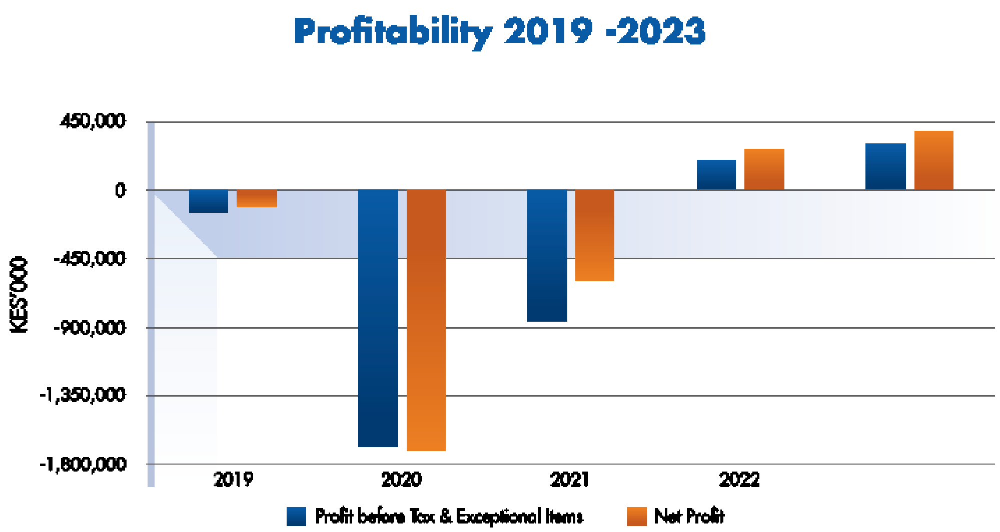


Source: HF Group Audited Accounts

Profitability

The Group registered losses in 2019 up to 2021 which was due to increasing Non-Performing Loans attributed to the high exposure to the real estate sector which was already on a downward trend before Covid 19 hit in 2020. The Group returned to profitability in 2022 and 2023 due to aggressive NPL management as well as diversification away from offering mortgage and real estate development.

Figure 29: Group Profitability 2019 - 2023



Source: HF Group Audited Accounts

14.1.2 Consolidated Statement of Financial Position

Table 40: Consolidated Statement of Financial Position

	2019 Audited KES '000	2020 Audited KES '000	2021 Audited KES '000	2022 Audited KES '000	2023 Audited KES '000	30 June 2024 Unaudited KES '000
Assets						
Cash balances (both local and foreign)	558,941	761,310	538,629	544,451	367,507	399,858
Balances due from Central Bank of Kenya	2,287,778	756,604	1,805,104	1,563,593	1,475,340	2,257,873
Kenya Government and other securities held for dealing purposes	-	-	-	-	-	-
Financing Assets at fair value through profit and loss	-	-	-	-	-	-
Investment Securities						
a) Held to Maturity	**427,125**	**1,941,696**	**1,825,422**	**3,779,143**	**4,036,868**	**3,225,683**
i) Kenya Government securities	427,125	1,941,696	1,825,422	3,779,143	4,036,868	3,225,683
ii) Other securities	-	-	-	-	-	-
b) Available for sale	**4,175,744**	**5,163,921**	**4,724,746**	**4,760,994**	**5,645,273**	**8,968,631**
i) Kenya Government securities	4,175,744	5,163,921	4,724,746	4,760,994	5,645,273	8,968,631
ii) Other securities	-	-	-	-	-	-
Deposits and balances due from local banking institutions	870,481	205,010	90,256	41,914	547,903	175,019
Deposits and balances due from foreign banking institutions	69,046	763,728	307,396	47,326	361,791	335,309
Tax recoverable	151,220	344,930	342,746	365,267	367,255	362,184
Loans and advances to customers (net)	38,779,738	36,998,473	34,692,625	36,299,175	38,787,793	37,916,739
Balances due from banking institutions in the Group	-	-	-	-	-	-
Investments in associates	-	-	-	-	-	-
Investments in subsidiary companies	-	-	-	-	-	-
Investments in joint ventures	1,731,214	1,635,079	1,544,339	1,613,173	1,645,120	1,751,749
Investment properties	1,256,768	1,263,268	1,391,875	1,849,000	1,885,000	1,885,000
Property and equipment	1,853,530	1,780,854	1,590,454	579,410	792,635	874,269
Prepaid operating lease rentals	-	-	-	-	-	-
Intangible assets	863,505	703,254	519,873	332,592	277,897	280,786
Deferred tax asset	1,216,715	1,305,059	1,612,447	1,614,992	1,764,469	1,689,627
Retirement benefit asset	-	-	-	-	-	-

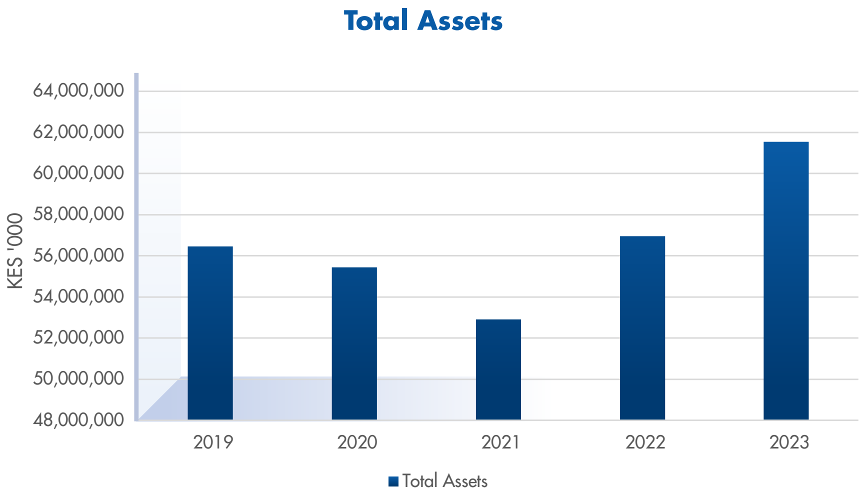
Other assets	2,213,113	1,822,064	1,917,606	3,604,823	3,595,579	3,622,498
Total Assets	**56,454,918**	**55,445,251**	**52,903,518**	**56,951,400**	**61,550,430**	**63,745,224**
Liabilities						
Balances due to Central Bank of Kenya	-	-	-	499,777	1,500,000	2,005,939
Customer Deposits	37,399,987	39,944,490	37,714,914	39,796,941	43,847,644	45,028,280
Deposits and balances due to local banking institutions	528,250	1,190,118	601,606	24,317	3,193	607,841
Deposits and balances due to foreign banking institutions	-	-	-	-	-	-
Other money market deposits	-	-	-	-	-	-
Borrowed funds	5,803,723	3,681,087	4,351,209	4,370,617	3,793,292	3,077,916
Balances due to banking institutions in the Group	-	-	-	-	-	-
Tax Payable	-	-	-	-	-	-
Dividends Payable	13,023	6,361	246	246	246	246
Deferred tax liability	-	-	-	-	487	486
Retirement benefit liability	-	-	-	-	-	-
Other liabilities	2,467,715	2,061,408	2,267,255	3,534,326	3,540,238	3,708,142
Total Liabilities	**46,212,698**	**46,883,465**	**44,935,230**	**48,226,224**	**52,685,100**	**54,428,851**
Shareholders' Equity						
Paid up/Assigned capital	1,923,071	1,923,071	1,923,071	1,923,071	1,923,071	1,923,071
Share premium/(discount)	4,343,512	4,343,512	4,343,512	4,343,512	4,343,512	4,343,512
Revaluation reserve	881,903	1,012,125	1,012,124	1,295,129	1,312,129	1,312,129
Retained earnings/ Accumulated losses	307,903	(2,384,781)	(2,737,700)	(2,492,735)	(3,262,477)	(3,309,254)
Statutory loan reserves	2,668,069	3,653,888	3,413,517	3,696,575	4,854,473	5,167,523
Other reserves	67,012	13,971	13,763	(40,373)	(305,378)	(120,608)
Proposed Dividends	-	-	-	-	-	-
Capital Grants	50,750	-	-	-	-	-
Total Shareholders' Funds	**10,242,220**	**8,561,786**	**7,968,288**	**8,769,630**	**8,865,330**	**9,316,373**
Total Liabilities and Shareholders' Equity	**56,454,918**	**55,445,251**	**52,903,518**	**56,951,400**	**61,550,430**	**63,745,224**

Source: HF Group Audited Accounts

Total Assets

The Group's total assets grew by a CAGR of 2.18% over the five-year period to stand at approximately KES 61.6 billion in December 2023 from a base of approximately KES 56.5 billion in 2019. Part of the increase is attributed to an increase in investment securities which grew at a CAGR of 20.43% from KES 4.6 billion in 2019 to KES 9.68 billion. The decline in total assets in 2021 was attributed to the impact of Covid 19 but the diversification of the Group's strategy away from real estate has contributed to the asset growth in the recent years.

Figure 30: Group Total Assets

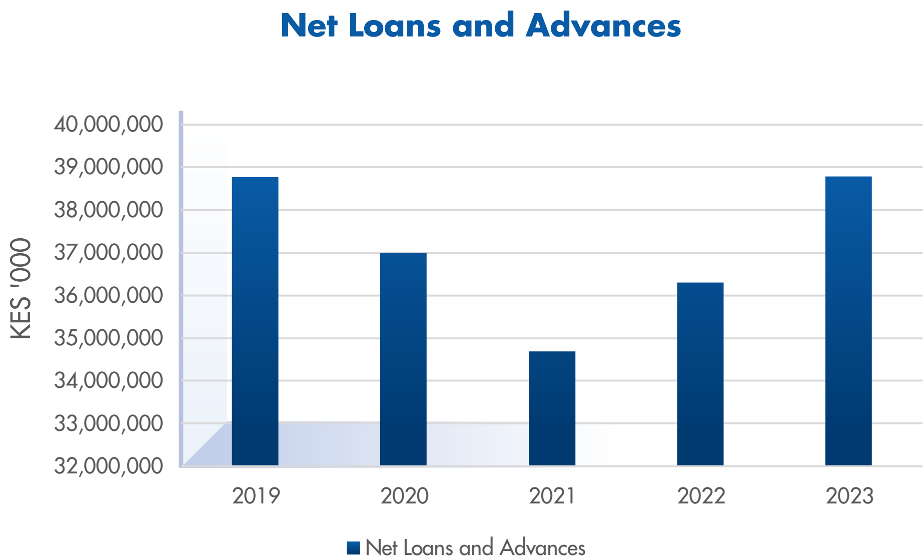


Source: HF Group Audited Accounts

Loans and Advances

There has been zero growth in the loans and advances with KES 38.78 billion in 2019 vis a vis KES 38.79 billion in 2023. There was a dip in the loans and advances issued in 2021 at KES 34.69 billion.

Figure 31: Group Net Loans and Advances

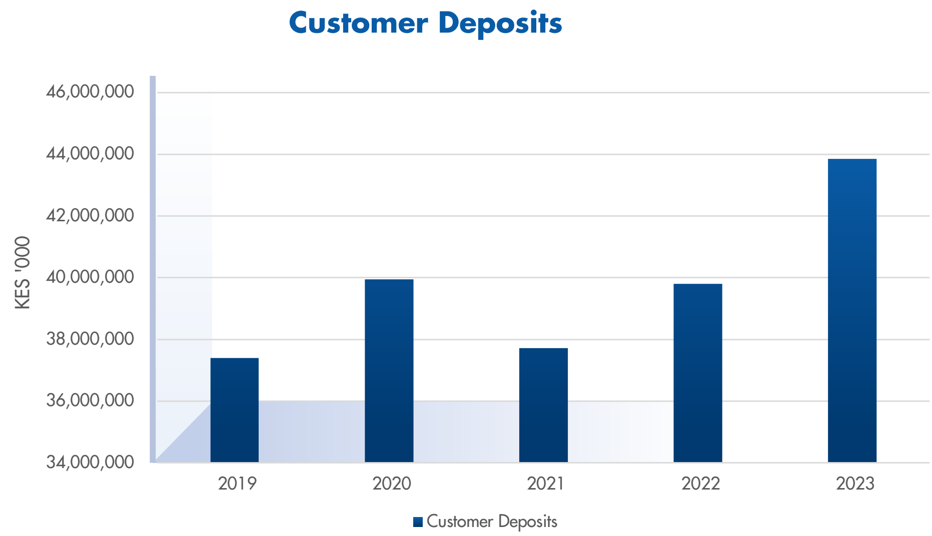


Source: HF Group Audited Accounts

Customer Deposits

The Group's customer deposits have increased from KES 37.4 billion in 2019 to KES 43.8 billion in 2023, a CAGR growth of 4.06%. The growth in deposits has supported the Bank's ability to increase loans and advances.

Figure 32: Group's Customer Deposits



Source: HF Group Audited Accounts

Shareholders' Equity

The Group's Shareholders' Equity has decreased at a CAGR of -3.54% from KES 10.24 billion in 2019 to KES 8.87 billion in 2023. The decrease is attributed to the accumulated losses from 2020 to 2023. The Group's diversification strategy away from a real estate focus has resulted in profitability in 2022 and 2023 whilst the capital raise will seek to fund the growth strategy going forward.

Figure 33: Group's Shareholders' Equity

Source: HF Group Audited Accounts

14.1.3 **Additional Disclosures**

Table 41: Additional Disclosures

	2019 Audited KES '000	2020 Audited KES '000	2021 Audited KES '000	2022 Audited KES '000	2023 Audited KES '000	30th June 2024 Unaudited KES '000
1. Non-Performing Loans and Advances						
a) Gross non-performing loans and advances	12,316,003	10,798,847	8,672,760	8,486,934	10,819,714	11,205,402
b) Less: Interest in suspense	3,231,455	3,287,599	2,817,043	2,780,355	3,102,377	3,353,588
c) Total non-performing loans and advances (a-b)	9,084,548	7,511,248	5,855,716	5,706,580	7,717,337	7,851,814
d) Less: Loan loss provisions	2,655,962	3,563,855	3,567,006	3,910,868	4,997,717	5,116,512
e) Net non-performing loans and advances (c-d)	**6,428,586**	**3,947,393**	**2,288,710**	**1,795,712**	**2,719,620**	**2,735,301**
f) Discounted value of securities	6,428,586	3,947,393	288,710	1,795,712	2,719,620	2,735,301
g) Net exposure (e-f)	**-**	**-**	**-**	**-**	**-**	**-**
2. Insider loans and advances						
a) Directors, shareholders and associates	1,411,487	2,211,600	2,322,805	1,784,069	1,009,689	916,969
b) Employees	814,148	794,142	772,400	1,049,491	1,252,502	1,249,238
c) Total insider loans and advances	**2,225,635**	**3,005,742**	**3,095,205**	**2,833,560**	**2,262,191**	**2,166,207**
3. Off-Balance Sheet Items						
a) Letters of credit, guarantee and acceptances	91,942	821,725	1,145,634	1,935,097	2,468,039	1,460,409
b) Forwards, swaps and options	1,237,700	664,950	2,507,776	1,815,854	289,511	688,763
c) Other contingent liabilities	-	-	-	-	-	-
d) Total contingent liabilities	**1,329,642**	**1,486,675**	**3,653,410**	**3,750,951**	**2,757,550**	**2,149,172**

Source: HF Group Audited Accounts

14.2 Company Financial Statements

14.2.1 Company Statement of Profit or Loss and Other Comprehensive Income

Table 42: Company Statement of Profit or Loss and Other Comprehensive

	2019 Audited KES '000	2020 Audited KES '000	2021 Audited KES '000	2022 Audited KES '000	2023 Audited KES '000	June 2024 Unaudited KES '000
Other Income	177,945	126,183	131,752	204,120	98,600	46,865
Credit Impairment losses	(4,612)					
Employee Benefits	(119,941)	(56,553)	(56,019)	(78,738)	(73,640)	(38,624)
Depreciation and Amortisation	(144)	(132)	(134)	(210)	(273)	(115)
Other Operating Expenses	(97,815)	(308,833)	(109,669)	(75,230)	(20,808)	(14,400)
Profit/(Loss) before income tax	**(44,567)**	**(239,335)**	**(34,070)**	**49,942**	**3,879**	**(6,274)**
Income tax (expense)/credit	10,253	11,097	12,573	63	(463)	88
Profit/(Loss) for the year	**(34,314)**	**(228,238)**	**(21,497)**	**50,005**	**3,416**	**(6,186)**
Other comprehensive income net of tax	-	-	-	-	-	
Total comprehensive income for the year	**(34,314)**	**(228,238)**	**(21,497)**	**50,005**	**3,416**	**(6,186)**

Source: HF Group Audited Accounts

14.2.2 **Company Statement of Financial Position**

Table 43: Company Statement of Financial Position

	2019 Audited KES '000	2020 Audited KES '000	2021 Audited KES '000	2022 Audited KES '000	2023 Audited KES '000	June 2024 Unaudited KES '000
Assets						
Cash and balances with banks	31,156	20,196	2,317	15,387	1,107	1,906
Other assets	70,479	1,645	10,355	36,692	3,033	18,313
Property and equipment	549	418	402	998	727	858
Investment in subsidiaries	9,958,782	9,762,694	9,767,594	9,857,594	9,857,594	9,857,594
Current income tax	34,157	41,682	46,947	52,016	57,486	52,016
Deferred income tax	26,107	37,204	49,777	49,840	49,377	49,840
Total Assets	**10,121,230**	**9,863,839**	**9,877,392**	**10,012,527**	**9,969,324**	**9,980,527**
Liabilities						
Other liabilities	290,254	267,763	308,928	394,058	347,439	364,916
Dividends payable	13,023	6,361	246	246	246	246
Total Liabilities	**303,277**	**274,124**	**309,174**	**394,304**	**347,685**	**365,162**
Shareholders' Equity						
Share capital	1,923,071	1,923,071	1,923,071	1,923,071	1,923,071	1,923,071
Share premium	4,343,512	4,343,512	4,343,512	4,343,512	4,343,512	4,343,512
Retained earnings	3,551,370	3,323,132	3,301,635	3,351,640	3,355,056	3,348,782
Total Shareholders' Equity	**9,817,953**	**9,589,715**	**9,568,218**	**9,618,223**	**9,621,639**	**9,615,365**
Total Liabilities and Shareholders' Equity	**10,121,230**	**9,863,839**	**9,877,392**	**10,012,527**	**9,969,324**	**9,980,527**

Source: HF Group Audited Accounts

14.3 Key Ratios for HFC Limited

Over the past five year period, HFC has consistently complied with CBK's liquidity ratio requirements. However, HFC has been non-compliant with CBK's capital adequacy ratios from 2020 to date. The deterioration was attributed to exposure to real estate through mortgages and development projects which was exacerbated by Covid 19 which led to increased NPLs and bank losses. The capital raise will remedy this non-compliance as well as funding HFC's growth strategy which is already bearing fruit.

Table 44: Capital Adequacy and Liquidity Ratios for HFC Limited

Ratio	Minimum Statutory Requirement	2019	2020	2021	2022	2023
Core Capital/Total Deposit Liabilities	8.0%	15.30%	8.79%	8.26%	8.00%	4.70%
Core Capital/ Risk Weighted Assets	10.5%	13.01%	7.83%	8.25%	8.30%	5.30%
Total Capital/Risk Weighted Assets	14.5%	14.26%	9.08%	12.10%	12.20%	9.00%
Liquidity Ratio	20.0%	20.80%	20.90%	22.87%	25.20%	24.50%

15. KEY RISK FACTORS

Shareholders should read the entire Information Memorandum and reach their own views prior to making any investment decision. They should ensure that they fully understand all the risks relating to the shares prior to taking up their rights and where they deem it necessary should seek independent financial advice prior to purchasing the shares.

HF Group believes that the factors described below represent the principal risks inherent in investing in shares issued under this Information Memorandum, but additional risks and uncertainties not presently known to the Group or that the Group currently believes to be immaterial could also have a material impact on its respective business operations or the shares.

Shareholders should seek independent financial advice prior to investing in the shares.

15.1 Risk Management Principles

HF Group faces various types of risks which arise from its day to day operations as a financial institution including its subsidiaries. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The main aim of risk management is to ensure that all risks assumed in the course of the Group's business are recognised early on and mitigated by effective risk management practices. Successful risk management is recognised as a pre-condition for the sustained growth and success of the Group. Risk management and monitoring is implemented via the Group's risk management and risk control process. These processes are filtered down to the respective subsidiaries to ensure that they correspond with the appropriate Risk Management Guidelines from CBK for HFC and IRA for HFBI.

15.2 Core Risks of the Group

15.2.1 Political Risk

Potential political unrest is a risk to the operations of any business operating in Kenya and the wider East African region as it could adversely impact the economy and the demand for financial services. Kenya continues to experience overall political stability with minimal business interruption. This was evidenced by the peaceful transition during the last elections held in August 2022. However, in the past two years, Kenya has experienced protests occasioned by the rising costs of living and increased taxation. Whilst these protests are generally peaceful, it is likely that these protests will remain a feature of Kenya's political environment going forward.

15.2.2 Economic Risk

The stability of Kenya's economy has a significant impact on the income and growth of HF Group. All of the Group's subsidiaries operate within Kenya and thus are exposed to the macro-economic risks of Kenya. In the past few years, the biggest risks to the economy have been the performance of the exchange rate and the high interest rate environment. The availability of credit to key sectors becomes negatively impacted due to the higher rates which has resulted in the financial services sector reporting record high non-performing from individuals and businesses. The Group's management team has put in place a robust business strategy, systems and procedures to minimise the Group's exposure to adverse economic conditions. However, this cannot provide an assurance that the adverse economic conditions will not hamper the Group's performance.

15.3 Risk Factors Relating to the Business

The Board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk, market risk, liquidity risk and operational risk.

15.3.1 Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the fair value or future cash flows of its holdings of financial instruments.

The Board of Directors has delegated responsibility for management of Market Risk to the Board Risk Committee and Assets and Liabilities Management Committee ("ALCO") of HFC but the Overall management of market risk rests with ALCO. The Risk department is responsible for the development of detailed risk management policies, subject to review and approval by the Board of Directors, and for the day to day implementation of these policies.

15.3.2 **Credit Risk**

The Group takes on exposure to credit risk, which is the risk of financial loss to HFC if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the HFC's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, HFC considers and consolidates all elements of credit risk exposure. Credit risk is the most important risk for the business.

The Board of Directors has delegated responsibility of the management of credit risk to the Board Risk Committee and Board Credit Committee of HFC. The credit risk management and control are centralised, and monitored on an on-going basis, in the Risk Management departments of the HFC and reporting to HFC's Board Risk Committee. The measurement of these risks are thus embedded in HFC's daily operational management. These include:

a) Ensuring compliance with the approved policies and procedures as per the credit policy. This will be done through self-assessments as well as compliance checks;
b) Through monitoring of the portfolio against the approved assets quality tolerance limits;
c) Through setting of exposure limits per loan product and segment limit;
d) Conducting independent loan reviews;
e) Review of the product mix of the loan portfolio;
f) New loan products shall conform to the liquidity and interest rate policies of the Bank. New products shall be pilot tested before roll out. They shall also be taken through process mapping to develop mitigations;
g) The Credit Policy shall be used together with the Central Bank Prudential Guidelines and credit information sharing bureaus regulations and laws that will be in force from time to time;
h) HFC may from time to time make specific provisioning according to the CBK guidelines to specific loans, advances and contracts or make a specific provision to a particular segment or sector on the basis of new information gathered through monitoring and follow up; and
i) The Senior Management, Management Credit Committee shall ensure review of monthly credit reports that include but not limited to the total overdraft position with limits, temporary overdraft position with and without limits, arrears reports in portfolio at risk percentage ("PAR"), excess over limit reports, facilities that are cash covered, rates of interest rates maintained, local purchase order discounted report, off the balance sheet reports status, recovery report, portfolio allocation reports PAR per sector/segment and per officer, securities status reports.

15.3.3 **Liquidity Risk**

Liquidity risk includes the risk of being unable to meet the Group's financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Group and HFC continually assess liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall HFC's strategy. Liquidity risk is managed closely and proactively by the HFC's Assets and Liabilities Management Committee ("ALCO") strictly within the standards of the approved Assets and Liabilities Management Policy with reporting to the Board on key risk elements.

15.3.4 **Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group and subsidiaries' internal processes, personnel, technology and infrastructure, and external events, other than credit, market or liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour.

The overall responsibility of managing Operational Risks is vested with the Board of Directors. The key responsibility for development of policies and programs to implement the subsidiaries' operational risk management is with senior management of the Group. The Group strives to ensure that its internal processes, check and balances are in place through the following key measures:

a) Documentation of procedures and controls, regular review and updates to reflect changes in the dynamic business environment;
b) Appropriate segregation of duties, including the independent authorization of transactions;
c) Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence;
d) Development and implementation of Business Continuity and Disaster Recovery Plans;
e) Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner;
f) Establishment of ethical practices at business and individual employee's level; and
g) Implementation of Risk mitigation parameters, including insurance where this is considered effective.

15.3.5 **Currency Risk**

The Group through HFC undertakes transactions in foreign currencies and is therefore exposed to currency fluctuations which may impact the financial position of HFC. The responsibility for managing foreign currency risks rests with HFC's ALCO.

15.3.6 Interest Rate Risk

The Group through HFC holds a considerable portfolio of fixed income instruments for liquidity, trading and investment purposes. When interest rates rise, the value of these instruments is likely to fall resulting in a loss. In addition, a hike in interest rates implies that the cost of funds will also increase which may result in lower margins.

15.3.7 Legal and Regulatory Risk

Regulatory risk relates to the risk of non-compliance with laws, rules, regulations, prescribed practice or ethical standards issued from time to time. In order to comply at all time with the regulations and guidelines, the Group and its subsidiaries have established appropriate structures such as Risk & Compliance and Internal Audit functions which report to the respective Board Committees.

The Group is regulated by the CMA as a listed entity. HFC's core regulatory risk arises from compliance to the Central Bank of Kenya's banking regulations. HFC ensures that 100% compliance is enforced through independent monitoring by the Internal Audit team. HFBI is regulated by the IRA.

15.3.8 Reputational Risk

Reputational risk is the risk of damaging the Group and its subsidiaries' image, or the potential that negative publicity regarding a Group and its subsidiaries' business practices, whether true or false, which may impair its ability to retain and generate business. The ultimate accountability for reputational risk management rests with the Board of Directors. The Board of Directors explicitly addresses reputational risk as distinct and controllable risk through a versatile and robust risk management framework for reputational risk.

The Group continuously uses proactive means to limit the effects of reputational events, thereby averting the likelihood of major reputational crises, with the view of ultimately ensuring the survival of the organization.

15.3.9 Technology Risk

The Group and its subsidiaries' operations rely heavily on the functionality of its information technology systems. Proper functioning of the systems at all times is critical for the performance of the Group and its subsidiaries. Any disruption to the functionality of the IT system, e.g. during a system upgrade or normal maintenance routines, may lead to important business decisions being delayed or business opportunities forgone. Such a disruption may impact directly on the financial performance of the Group and therefore its market price. The Group makes every effort to ensure that its IT system is always fully functional and will continue to invest in the latest technology to enhance reliability, efficiency and customer experience.

15.4 Risks Relating to the Transaction

15.4.1 Suitability of the Investment

Each Shareholder must determine the suitability of the New Shares to be offered during the Transaction with respect to their investment goals and circumstances. In particular, each Shareholder should:

a) Have sufficient knowledge and experience to make a meaningful evaluation of the New Shares, the merits and risks of investing in the shares and the information contained or incorporated by reference in this IM;
b) Have access to, and knowledge of, appropriate analytical tools to evaluation, in the context of their overall investment portfolio;
c) Have sufficient financial resources and liquidity to bear all of the risks of an investment in the New Shares;
d) Understand thoroughly and be familiar with the performance of any relevant financial markets; and
e) Be able to evaluate possible scenarios for economic, interest rate and other factors that may affect their investment in the Group and their ability to bear the applicable risks.

15.4.2 **Volatility of Price**

The market price of the Group's shares could be subject to significant fluctuations in response to actual, anticipated, or perceived variations in the Group's operating results, adverse business developments, changes in the regulatory environment in Kenya or adverse market movements.

15.4.3 **Dividend Risk**

The Group has not paid a dividend in the past few years. However, it is the intention of the Group to start paying dividends in line with the Group's Dividend Policy.

15.4.4 **Dilution Risk**

By way of this Rights Issue, the Group is seeking to raise additional capital from its current shareholders, and potentially new shareholders. Those shareholders that chose not to take up their Rights, risk their shareholding in the Group being diluted. Further, the Group may in the future require to raise capital again by issuing additional shares. This may be through a Rights Issue, a secondary offer or by way of inviting a strategic or a financial investor. Such corporate actions may result in the dilution of existing shareholders if they do not participate in the equity issuances.

In order to reduce the chances of the Group's shareholders being diluted, the Group will in future always endeavour to raise capital in such a manner that it gives the existing shareholders an opportunity to defend their shareholding. However, the Group cannot guarantee that the current shareholders will not be diluted in the event that the Group cannot obtain financing on desirable terms.

16. LEGAL OPINION

WALKER KONTOS
ADVOCATES • NOTARIES PUBLIC • COMMISSIONERS FOR OATHS

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25th October 2024

The Directors,

HF Group PLC

Rehani House

Kenyatta Avenue/ Koinange Street,

NAIROBI

Dear Sirs,

LEGAL OPINION IN RESPECT OF THE RIGHTS ISSUE OF UP TO 1,499,995,255 NEW ORDINARY SHARES IN HF GROUP PLC

We have acted as legal advisors for HF Group PLC (the "**Issuer**") in relation to the Rights Issue, the terms and conditions of which are contained in the Information Memorandum issued by the Issuer and dated 25th October 2024 ("the **Information Memorandum**").

Walker Kontos Advocates are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advise on the laws of the Republic of Kenya.

Unless otherwise stated, or the context otherwise requires, the words and terms used in this opinion bear the same meaning as those defined in the Information Memorandum.

1. Preliminary Matters

1.1 This opinion is addressed to the Directors of HF Group PLC.

1.2 This opinion is limited to Kenyan Law as applied in the Courts of Kenya and as of the date of this opinion and to matters of fact prevailing as of the date of this opinion.

2. Assumptions and Documents Reviewed

2.1 For the purposes of this opinion, we have assumed that:-

2.1.1 all information contained in the Information Memorandum and all information provided to us by the Issuer, and its officers and advisers is true, accurate and up to date;

2.1.2 all copies of and the signatures and seals on documents supplied to us are genuine and the copies of the documents we have examined conform to the original documents and no alteration, variation or modification has been made to them;

2.1.3 all agreements and other relevant documents have been duly authorized, executed and delivered by the parties to such documents other than the Issuer; and

2.1.4 with respect to matters of fact, we have relied on the representations contained in the documents supplied to us and the representations of the Issuer its officers and other advisers.

2.2 In rendering this opinion, we have relied upon documents and information provided to us by the Issuer comprising copies of:

(a) the certificate of incorporation of the Issuer together with the relevant certificates of change of name;

(b) the Memorandum and Articles of Association of the Issuer and amendments thereto to date;

(c) approval from the Central Bank of Kenya dated 3rd June 2015 in relation to the non-operating holding company structure;

(d) licence to transact the business of a mortgage finance company dated 16th June 2016 issued to HFC Limited by the Central Bank of Kenya which remains valid unless revoked;

(e) licence to conduct business of authorised depository dated 20th March 2018 issued to HFC Limited by the Capital Markets Authority;

(f) licence to conduct business of REIT trustee dated 26th June 2014 issued to HFC Limited by the Capital Markets Authority;

(g) certificate of registration dated 10th February 2023 issued by the Retirement Benefits Authority to HFC Limited authorising HFC Limited to act as a custodian of retirement benefits schemes;

(h) resolution of the shareholders of the Issuer passed at the General Meeting held on 4th September 2024 approving inter alia, the Rights Issue;

(i) extract of the minutes of the directors of the Issuer of the meeting held on 13th September 2024 pursuant to which the directors approved the Information Memorandum;

(j) resolution of the board of directors of the Issuer dated 14th October 2024 approving the offer price;

(k) the documents of title relating to various properties registered in the name of the subsidiaries of the Issuer as more particularly listed in Schedule 1 of this opinion;

(l) the Certificate of Registration dated 6th February 2017 respect of the Staff Retirement Benefit Scheme;

(m) the Annual Returns filed on behalf of the Issuer made up to 11th June 2024;

(n) letter dated 2nd September 2024 from the Company Secretary of the Issuer setting out the existing share capital of the Issuer and the names of the Issuer's current directors;

(o) letters signed by each director of the Issuer confirming that they are not involved in any material litigation, prosecution or other civil or criminal action;

(p) letters dated 4th October 2024 and 25th October 2024 from the Capital Markets Authority approving the Rights Issue and the public announcement pertaining to the Rights Issue; and

(q) letter dated 25th October 2024 from the Nairobi Securities Exchange PLC approving the admission to listing of the additional 1,499,995,255 ordinary shares of the Issuer to the official list of the Exchange under the Main Investment Market Segment.

3. Opinion

Subject to the foregoing and to the reservations expressed below we opine as follows:-

3.1 Status of the Issuer

3.1.1 The Issuer is a limited liability company, duly registered under the Companies Act (Chapter 486 of the Laws of Kenya) with company number C.21/97. The Issuer's registered offices are situated on Land Reference Number 209/9054 Nairobi, Rehani House, Nairobi and its postal address is P O Box 30088-00100 Nairobi.

3.1.2 The Issuer is listed at the Nairobi Securities Exchange with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Rights Issue and such execution delivery and performance have been duly authorized by the requisite corporate action.

3.1.3 All rights and obligations of the Issuer contemplated by the Rights Issue constitute valid and binding rights and obligations.

3.1.4 The transactions contemplated by the Rights Issue and the performance by the Issuer of its obligations thereunder will not violate any laws of Kenya.

3.2 The Issuer's subsidiaries

The Issuer has the following key subsidiaries:

Name	Company Number	Share Capital	Issuer's shareholding
HFC Limited	CPR/2014/170416	KES 5,090,000,000.00 divided into 5,090,000 ordinary shares of KES 1,000 each	5,089,999 ordinary shares
HF Bancassurance Intermediary Limited	CPR/2011/62077	KES 5,000,000.00 divided into 50,000 ordinary shares of KES 100 each	50,000 ordinary shares
HF Development & Investment Limited	C.98428	KES 1,500,000,000.00 divided into 75,000,000 ordinary shares of KES 20 each	57,599,997 ordinary shares

3.3 Licenses and Consents

3.3.1 The Central Bank of Kenya has, pursuant to the provisions of the Banking Act (Chapter 488 of the Laws of Kenya), approved the Issuer as a non-operating holding company and accordingly, the Issuer is mandated to undertake holding and investment activities in accordance with the provisions of the Banking Act and the Prudential Guidelines.

3.3.2 HFC Limited is licensed by the Central Bank of Kenya to conduct the business of a mortgage finance company. HFC is also licensed by the Capital Markets Authority as a REIT Trustee and by the Retirement Benefits Authority as a custodian of retirement benefits schemes.

3.3.3 HF Bancassurance Intermediary Limited is licensed by the Insurance Regulatory Authority to operate as a bancassurance intermediary.

3.4 **Ownership of Assets**

3.4.1 The Issuer holds the shares in the subsidiaries as set out in paragraph 3. 2 above.

3.4.2 The subsidiaries of the Issuer are registered proprietors of the immovable properties particulars of which are listed in Schedule 1 hereto.

3.5 **Contracts**

Save for the contracts disclosed in the Information Memorandum at section 9.9 (Material Agreements), the Issuer has not entered into any material contracts other than contracts entered into in the ordinary course of the business carried on by the Issuer. No opinion is expressed as to the validity or enforceability thereof or as to the rights of the parties thereto.

3.6 **Material Litigation**

3.6.1 Upon due inquiry, we are not aware of any litigation against the Issuer.

3.6.2 HFC Limited is engaged in various litigation matters in the ordinary course of its business and we have set out in Schedule 2 of this opinion, the material litigation disclosed to us. We express no opinion as to the merits of the claims or the probability of success of any of the suits.

3.7 **Share Capital**

3.7.1 Pursuant to the shareholders resolution passed on 25th April 2014, the Issuer has an authorised share capital of KES 2,500,000,000.00 divided into 500,000,000.00 ordinary shares of KES 5.00 each of which 384,614,168 ordinary shares of KES 5.00 are issued and paid up.

3.7.2 On 4th September 2024 the shareholders of the Issuer authorised the creation and allotment of additional shares not exceeding 1,500,000,000 ordinary shares of KES.5.00 to rank *pari passu* with the existing ordinary shares of the Issuer, as may be necessary to facilitate the issue of shares subscribed for pursuant to the Rights Issue.

4. Consent

We have given and have not prior to the date of this Information Memorandum withdrawn our consent to the issue of the Information Memorandum containing this legal opinion.

5. Effective Date

This letter and the opinions in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date.

Yours faithfully,

Walker Kontos

WALKER KONTOS

Schedule 1

Particulars of immovable property registered in the name of the subsidiaries

Property Reference	Brief Particulars	Registered proprietor
Land Reference Number 209/9054 Nairobi	Grant No. I.R 34513/1 0.1394 of a hectare Term 99 years from 1/1/1978	HFC Limited
Title Number Nairobi/Block 121/256	1.431 hectares Lease from the County Government of Nairobi Term 99 years from 1/1/ 1992	HF Development and Investment Limited
Title Number Nairobi/Block 121/257	3.925 hectares Lease from the County Government of Nairobi Term 99 years from 1/9/ 1992	HF Development and Investment Limited
Title Number Mombasa/ Block XXI/217	0.1211 of an acre Title is freehold	HFC Limited
Title Number Mombasa / Block XXI/580	0.0450 hectares Lease from Government of Kenya. Term 99 Years from 1/5/1994	HF Bancassurance Intermediary Limited
Title Number Mombasa / Block XXI/581	0.0414 hectares Lease from Government of Kenya. Term 99 Years from 1/5/1994	HF Bancassurance Intermediary Limited
Title Number Mombasa / Block XXI/582	0.0414 hectares Lease from Government of Kenya. Term 99 Years from 1/5/1994	HF Bancassurance Intermediary Limited
Title Number Mombasa / Block XVII/1585	0.0453 hectares Lease from Government of Kenya. Term 99 Years from 1/12/1998	HFC Limited
Title Number Kiambu/Municipality Block II/243	0.0434 hectares Lease from the County Government of Kiambu Term 99 years from 1/3/1998	HFC Limited
Land Reference Number 8226/103 Kiambu	Title No. I.R 113647 0.0990 hectares Lease from the Government of Kenya Term 951 years from 1/1/1953	HFC Limited
Land Reference Number 27820/51 Machakos	Title No. I.R 120255 0.0233 hectares Lease from the Government of Kenya Term 99 years from 1/8/2009	HFC Limited
Land Reference Number 37/254/31 Nairobi	Title No. I.R 12628 0.1791 acres Lease from the Government of Kenya Term 99 years from 1/4/1955	HFC Limited

Schedule 2

Material Litigation against HFC Limited

1. Kiambu HCCC No. 1 of 2020
Kigio Group Company Limited vs HFC Limited & Garam Civil Appeal (Application) No. E193/2022 Kigio Group Company Limited & Another

This is a suit by a customer seeking an order for rent of KES 78,735,000 for the 7 floors locked by the contractor for a period of 18 months, exemplary damages, general damages, permanent injunction, cost and interest at commercial rates. The ruling was delivered on 29th April 2021 and the injunction application dismissed. The borrower has filed an appeal.

2. Milimani HCCC No. 474 of 2012
ICEA Lion vs Housing Finance Company of Kenya Limited, CfC Stanbic Bank Limited and another

ICEA instituted proceedings against HFC Limited and 2 others claiming the loss of Kshs. 120 million which was fraudulently lost through an intricate series of fixed and call deposit accounts opened by the third defendant with HFC Limited and the 2nd defendant on behalf of ICEA, funds which were later transferred or diverted to other accounts and withdrawn. The plaintiff blames HFC Limited for breach of the terms governing the customer banker relationship and the account operation mandates. The 3rd defendant, ICEA's former Assistant General Manager is also facing a criminal suit regarding the matter.

3. Milimani HCCC No. 250 of 2008
Faith Wanjiru Kimeriah/Estate of late Harrison Charles Kimeriah

The wife to the late borrower filed suit challenging the realization process. She alleges that the loan was fully paid up, statutory notices were not served and that the suit property was undervalued. Judgement was delivered against HFC Limited on 27th November 2023. HFC Limited was ordered to pay KES 150,000,000.00 plus costs and interest of the suit. HFC Limited has filed a notice of appeal. The application for stay pending appeal has been allowed on condition that HFC Limited provides an independent bank guarantee of KES 150,000,000 and HFC Limited has already provided the guarantee.

17. REPORTING ACCOUNTANT'S REPORT

HF GROUP PLC

HISTORICAL FINANCIAL INFORMATION

FOR FINANCIAL YEARS ENDED 31 DECEMBER 2021, 2022 AND 2023

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The Directors
HF Group Plc
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 - 00100
Nairobi, Kenya

Reporting Accountant's report on compilation of the historical financial information of HF Group Plc for each of the three financial years ended 31 December 2023

Introduction

We have compiled the accompanying historical financial information of HF Group Plc (the "Company") and its subsidiaries (together, the "Group") for each of the three financial years ended 31 December 2023 set out in pages 3 to 122 based on information provided to us by management.

The historical financial information comprise:

- Consolidated statement of profit or loss and other comprehensive income for each of the financial years;
- Company statement of profit or loss and other comprehensive income for each of the financial years;
- Consolidated statement of financial position for each of the financial years;
- Company statement of financial position for each of the financial years;
- Consolidated statement of changes in equity for each of the financial years;
- Company statement of changes in equity for each of the financial years;
- Consolidated statement of cashflows for each of the financial years;
- Company statement of cashflows for each of the financial years; and
- the notes, including significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation engagements.*

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of the historical financial information in accordance with IFRS Accounting Standard. The historical financial information for each of the three financial years is based on the audited financial statements for the Company and the Group for the respective financial years. There has not been changes in IFRS Standards within that period to necessitate the financial statements to be restated.

We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

The historical financial information and the accuracy and completeness of the information used to compile them are your responsibility.

Because a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with IFRS Accounting Standards.

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Reporting Accountant's report on compilation of the historical financial information of HF Group Plc for each of the three financial years ended 31 December 2023 (continued)

We consent to the inclusion of this report in the Information Memorandum to be issued to the prospective investors in the form and context in which it appears.

FCPA Michael Mugasa, Practising Certificate Number 1478
Engagement partner responsible for the engagement

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

17th September **2024**

Consolidated statement of profit or loss and other comprehensive income

	Note	2023 Shs'000	2022 Shs'000	2021 Shs'000
		Year ended 31 December		
Interest income	6	5,347,608	4,364,293	3,975,185
Interest expense	6	(2,654,825)	(2,110,369)	(2,095,238)
Net interest income		2,692,783	2,253,924	1,879,947
Credit impairment losses	22	(309,299)	(194,130)	(280,645)
Net interest income after credit impairment losses		2,383,484	2,059,794	1,599,302
Fee and commission income	7	414,469	506,894	215,935
Trading income	8	174,407	154,859	48,350
Other income	9	542,677	293,691	221,748
Net operating income		3,515,037	3,015,238	2,085,335
Employee benefits	11	(1,625,812)	(1,330,440)	(1,182,536)
Depreciation and amortization	12	(364,829)	(360,779)	(445,423)
Other operating expenses	10	(1,257,858)	(1,126,360)	(1,306,844)
Share of profit/(loss) in joint ventures	21	31,946	(6,265)	(15,740)
Investment property fair valuation gain/ (loss)	29	36,000	(1,000)	(100,000)
Profit before income tax		334,484	190,394	(965,208)
Income tax credit	13	53,672	75,176	297,462
Profit for the year		388,156	265,570	(667,746)
Other comprehensive income, net of income tax				
Items that may be reclassified to profit or loss				
Fair value loss on investments in financial instruments measured at (FVOCI)	31	(378,578)	(77,337)	(299)
Deferred income tax	26	113,573	23,201	90
		(265,005)	(54,136)	(209)
Items that will not be reclassified to profit or loss				
Revaluation surplus on property, plant and equipment	31	20,000	404,292	-
Deferred income tax	26	(3,000)	(121,288)	-
		17,000	283,004	-
Total comprehensive profit for the year		140,151	494,438	(667,955)
Annualised basic and diluted earnings per share – Shs	14	1.01	0.69	(1.78)

Company statement of profit or loss and other comprehensive income

		Year ended 31 December		
		2023	2022	2021
	Note	Shs'000	Shs'000	Shs'000
Other income	9	98,600	204,120	131,752
Employee benefits	11	(73,640)	(78,738)	(56,019)
Depreciation and amortisation	12	(273)	(210)	(134)
Other operating expenses	10	(20,808)	(75,230)	(109,669)
Profit before income tax		3,879	49,942	(34,070)
Income tax (expense)/credit	13	(463)	63	12,573
Profit for the year		3,416	50,005	(21,497)
Other comprehensive income net of tax		-	-	-
Total comprehensive income for the year		3,416	50,005	(21,497)

Consolidated statement of financial position

	Note	2023 Shs'000	At 31 December 2022 Shs'000	2021 Shs'000
Assets				
Cash and balances with banks	16	2,145,150	2,184,939	2,708,074
Placements with other banks	17	607,391	12,346	33,311
Investment in government securities	18	9,682,141	8,540,137	6,550,168
Loans and advances to customers	22	38,787,793	36,299,175	34,692,625
Other assets	23	2,495,449	2,317,399	1,074,741
Inventories	25	525,819	414,604	462,658
Property and equipment	19	792,635	579,410	1,133,965
Right-of-use asset	35	194,104	492,613	456,489
Intangible assets	20	277,897	332,592	519,873
Investment in property fund	24	380,207	380,207	380,207
Investment in joint ventures	21	1,645,120	1,613,173	1,544,339
Investment property	29	1,885,000	1,849,000	1,698,782
Current income tax	13	367,255	365,267	342,746
Deferred income tax	26	1,764,469	1,570,538	1,567,993
Total assets		61,550,430	56,951,400	53,165,971
Liabilities				
Balances from Central Bank	27	1,500,000	499,777	-
Deposits from customers	27	43,847,644	39,796,941	37,714,914
Deposits from banks	27	3,193	24,317	601,606
Other liabilities	28	3,277,155	3,086,567	1,658,870
Derivative liabilities	37	1,570	13,268	28,982
Dividends payable	15	246	246	246
Deferred income tax	26	487	-	-
Borrowings	30	3,740,432	4,317,757	4,298,349
Government of Kenya income notes	32	52,860	52,860	52,860
Lease liabilities	35	261,513	434,488	579,403
		52,685,100	48,226,221	44,935,230
Shareholders' equity				
Share capital	31	1,923,071	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512	4,343,512
Regulatory reserve	31	4,854,473	3,696,575	3,413,517
Revaluation reserves	31	1,312,129	1,295,129	1,012,125
Fair value reserves	31	(305,378)	(40,373)	13,763
Accumulated losses		(3,262,477)	(2,492,735)	(2,475,247)
		8,865,330	8,725,179	8,230,741
Total liabilities and shareholders' equity		61,550,430	56,951,400	53,165,971

Company statement of financial position

		At 31 December		
		2023	2022	2021
	Note	Shs'000	Shs'000	Shs'000
Assets				
Cash and balances with banks	16	1,107	15,387	2,317
Other assets	23	3,033	36,692	10,355
Property and equipment	19	727	998	402
Investment in subsidiaries	21	9,857,594	9,857,594	9,767,594
Current income tax	13	57,486	52,016	46,947
Deferred income tax	26	49,377	49,840	49,777
Total assets		9,969,324	10,012,527	9,877,392
Liabilities				
Other liabilities	28	347,439	394,058	308,928
Dividends payable	15	246	246	246
		347,685	394,304	309,174
Shareholders' equity				
Share capital	31	1,923,071	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512	4,343,512
Retained earnings		3,355,056	3,351,640	3,301,635
		9,621,639	9,618,223	9,568,218
Total liabilities and shareholders' equity		9,969,324	10,012,527	9,877,392

Consolidated statement of changes in equity

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

Consolidated statement of changes in equity (continued)

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

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2021				
At start of year	1,923,071	4,343,512	3,323,132	9589715
Profit and total comprehensive income for the year	-	-	(21,497)	(21,497)
At end of year	1,923,071	4,343,512	3,301,635	9,568,218
Year ended 31 December 2022				
At start of year	1,923,071	4,343,512	3,301,635	9,568,218
Profit and total comprehensive income for the year	-	-	50,005	50,005
At end of year	1,923,071	4,343,512	3,351,640	9,618,223
Year ended 31 December 2023				
At start of year	1,923,071	4,343,512	3,351,640	9,618,223
Profit and total comprehensive income for the year	-	-	3,416	3,416
At end of year	1,923,071	4,343,512	3,355,056	9,621,639

Consolidated statement of cash flows

	Note	2023 Shs'000	2022 Shs'000	2021 Shs'000
		Year ended 31 December		
Net cash flows from operating activities	33	1,923,232	(173,240)	(210,846)
INVESTING ACTIVITIES				
Purchase of property and equipment	19	(85,123)	(19,915)	(9,727)
Investment in Joint venture		-	(75,099)	(171,756)
Purchase of intangible assets	20	(158,411)	(52,764)	19,805
Proceeds from disposal of repurchased properties		35,700	106,251	(47,758)
Proceeds from disposal of property, plant and equipment		3,577	-	27,883
Net cash flows used in investing activities		(204,257)	(41,527)	(181,553)
FINANCING ACTIVITIES				
Receipts of borrowed funds	30	-	700,000	1,514,574
Principle repayments of borrowings	30	(577,325)	(680,592)	(844,452)
Interest lease payments		(30,422)	(24,309)	(6,115)
Principal lease payments	35	(92,798)	(117,414)	(142,964)
Net cash flows used in financing activities		(700,545)	(122,315)	521,043
Net increase/(decrease) in cash and cash equivalents		1,018,430	(337,082)	128,644
Effects of exchange rate differences		-	-	(1,287)
Cash and cash equivalents at start of year		848,691	1,185,773	1,058,416
Cash and cash equivalents at end of year	33	1,867,121	848,691	1,185,773

Company statement of cash flows

	Note	Year ended 31 December 2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Net cash flows (used in) / generated from operating activities	33	(14,280)	103,877	(6,746)
INVESTING ACTIVITIES				
Purchase of property and equipment	19	-	(807)	(118)
Net cash flows (used in) / generated from investing activities		-	(807)	(118)
FINANCING ACTIVITIES				
Dividend paid		-	-	(6,115)
Investments in subsidiaries-HFC	21	-	(90,000)	(4,900)
Net cash flows used in financing activities		-	(90,000)	(11,015)
Net increase/(decrease) in cash and cash equivalents		-	13,070	(17,879)
Cash and cash equivalents at start of year		15,387	2,317	20,196
Cash and cash equivalents at end of year	16	1,107	15,387	2,317

Notes

1 General information

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

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

2 Significant accounting policies

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

(a) Basis of preparation

The consolidated historical financial information have been prepared in accordance with IFRS Accounting Standards and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS Accounting Standards. The historical financial information comply with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Going concern assessment

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

In 2023, the bank is now solidly back to profitability. The turnaround phase of 2018 – 2022 successfully ended with the bank's registering its first annual profit in 2022. During this transition phase, the bank laid the requisite strategies ranging from;

- Launching new business segments including SME Banking, Financial Institutions, Custody Business, Institutional Banking and Treasury as a business (they are now all profitable) to supplement its earlier single segment (Personal Banking).
- Recalibrating its assets-liabilities mix and structure to optimize the net interest margin and reduce structural liquidity fragilities.
- Separating the "Good Bank" and the "Bad Bank" (Special Assets), assigning the 2 banks different management teams with different skill sets. This has allowed HFC to continue with the NPL resolution efforts while at the same time developing a new loan portfolio much healthier than the Kenyan banking sector loan portfolio. This Good Bank portfolio closed FY 2023 contributing slightly more than 75% of the total HFC loans and with an impressive NPL ratio of 6.49% against the prevailing Kenyan banking sector NPL ratio of 15.2% in November 2023.
- Revenue diversification: The new business segments have helped the bank to reduce its over reliance on interest income by creating new streams on non funded income.

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern assessment (continued)

Property subsidiary

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

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

Bancassurance subsidiary

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

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

In 2022, the Group had an improved performance where it recorded a profit before tax of Shs 190,394,000 (2021: loss before income tax of Shs 965,208,000. The capital ratios also improved. The core capital to total risk weighted assets ratio as at 31 December 2022 was 8.30% compared to 2021 where the ratio was 8.25% therefore the Banking subsidiary was able to achieve the minimum ratio of 8.00%, which does not include the 2.5% risk buffer that CBK expects institutions to operate above. The total capital to total risk weighted assets was 12.20% compared to 2021 when the ratio was 12.1%. The group however continued to be in breach of the minimum regulatory capital ratios. The liquidity ratio closed at 25.2% as at the end of the year 2022 an improvement from 2021 position of 22.87%.

Based on the above factors, the Board and managed considered the Group to be a going concern and prepared the financial statements on a going concern basis for each of the preceeding three years.

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures

(i)New and amended standards adopted by the Group

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

Changes in accounting policy and disclosures

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

Title	Effective date	Key requirements
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	2023	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	2021-2023	The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules	2023	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
IFRS 17, 'Insurance co ntracts'	2023	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the company

Standard	Affected financial years	Key requirements
IFRS 17, 'Insurance co ntracts'	2023	Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract. The standard did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	2022	As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022 The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the company

Standard	Affected financial years	Key requirements
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	2022	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	2021 and 2022	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	2021	In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide the following reliefs: • When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement. • The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded. The amendment did not have a significant effect on the Group and Company, and no adjustments are necessary to the financial statements for 2021, 2022 and 2023.

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the company

Effect of Ibor reform on the Group's financial statements

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's risk exposure that is directly affected by the interest rate benchmark reform is only in reference to the USD LIBOR. It is currently expected that SOFR (Secured Overnight Financing Rate) will replace USD LIBOR. There remain key differences between USD LIBOR and SOFR. USD LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SOFR is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which SOFR currently does not.

To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition. The following table contains details of all of the financial instruments that the Group holds at 31 December 2021 which reference 6 month USD LIBOR and have not yet transitioned to SOFR or an alternative interest rate benchmark as the settings will only be discontinued on 30 June 2023:

Measured at amortised cost amount at 31 December 2021 Shs'000	**Carrying value/Nominal**	**Libor setting**
Borrowings		
Shelter Afrique	615,376	6 months USD Libor plus a margin of 6.35%
Arab Bank for Economic Development in Africa (BADEA)	209,549	6 months USD Libor plus a margin of 5%

Notes (continued)

2 Summary of material accounting policies (continued)

(a) Basis of preparation(continued)

Changes in accounting policy and disclosures (continued)

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

Standard	Affected financial years	Key requirements
Amendments to IAS 1 - Non-current liabilities with covenants	2021-2023	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IFRS 16 – Leases on sale and leaseback	2022-2023	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7)	2023	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

None of these standards are expected to have a significant impact on the Group.

Notes (continued)

2 Summary of material accounting policies (continued)

(c) Revenue recognition

Net interest income

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

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

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

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

Non – interest revenue

i. Net fee and commission revenue

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

ii. Trading revenue

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

iii. Other revenue

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

Notes (continued)

2 Summary of material accounting policies (continued)

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment 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 profit or loss.
The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced item is derecognised. The cost of day to day servicing of property and equipment is recognised in profit and loss.

(ii) Depreciation

Freehold land is not depreciated.
Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives as follows:

Computers	20%
Motor vehicles	20%
Office equipment, fixtures and fittings	5% - 20%

Buildings on leasehold land are depreciated over the shorter of 50 years and the remaining period of the lease. Buildings on freehold land are depreciated over fifty years. The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year-end and adjusted prospectively, as a change in an estimate, if appropriate.

(iii) Disposal of property and equipment

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

(e) Intangible assets

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(e) Intangible assets (continued)

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

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

The intangible assets with finite lives are amortised over the estimated useful life, currently estimated at five (5) to (8) years, on a straight-line basis from the date the software is available for use. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(f) Leases

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

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

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

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

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

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

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

Notes (continued)

2 Summary of material accounting policies (continued)

(f) Leases (continued)

(i) Group acting as a lessee

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

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

The Group presents right-of-use assets separately while lease liabilities are presented in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

(ii) Group acting as a lessor

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

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

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

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

(g) Employee benefits

(i)Employee retirement benefits plan

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

Notes (continued)

2 Summary of material accounting policies (continued)

(g) Employee benefits (continued)

(i) Employee retirement benefits plan (continued)

The employees and the Group also contribute to the National Social Security Fund. Contributions are determined by the local statute and the Group's contributions are charged to profit or loss in the period to which they relate.

(ii) Accrued leave

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

(iii) Termination benefits

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

(iv) Short-term benefits

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

(h) Income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

Notes (continued)

2 Summary of material accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred income tax (continued)

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

(i) Cash and cash equivalents

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

(j) Financial instruments

Initial recognition and measurement

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

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

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

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

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

Financial assets

(i) Classification and subsequent measurement

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:
(i) the Group and Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset

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

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

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

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

Business model: The business model reflects how the Group and Company manages the assets in order to generate cash flows. That is, whether the Group and Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group and Company in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated.

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

For example, the liquidity portfolio of assets is held by the Group and Company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

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

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

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

Equity instruments

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

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

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

Stages

Stage 1

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

Stage 2

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

Stage 3 (Credit impaired assets)

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

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

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

Significant increase in credit risk

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

Low credit risk

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Default

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

• Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
• A breach of contract, such as default or delinquency in interest and/or principal payments
• Disappearance of active market due to financial difficulties
• It becomes probable that the borrower will enter bankruptcy or other financial reorganisation
• Where the Group and Company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group and Company would not otherwise consider
• Exposures which are overdue for more than 90 days are also considered to be in default

Forward-looking information

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

Write-off

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

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

Financial assets measured at amortised cost (including loan commitments)

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

Off-balance sheet exposures (excluding loan commitments)

Recognised as a provision within other liabilities.

Financial assets measured at fair value through OCI

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(iii) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

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

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

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

(iv) Derecognition other than on a modification

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

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Financial assets

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

(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays

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

Financial liabilities

(i) *Classification and subsequent measurement*

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

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group and Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) *Derecognition*

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(j) Financial instruments (continued)

Offsetting financial assets and financial liabilities

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

Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit
or loss) are subsequently measured at the higher of the:
- ECL calculated for the financial guarantee; or
- unamortised premium.

(k) Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Fair value less costs ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs). Impairment test can also be performed on a single asset when the fair value less costs of development or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Dividends

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

(m) Deposits from customers

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

Notes (continued)

2 Summary of material accounting policies (continued)

(n) Comparatives

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

(o) Inventories

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

(p) Contingent liabilities

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

(q) Fiduciary activities

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

(r) Derivative financial assets and liabilities

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

The Group and Company uses the following derivative instruments:

Currency forwards

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

Notes (continued)

2 Summary of material accounting policies (continued)

(s) Earnings per share

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

(t) Investment property

Investment property comprises land, buildings and equipment (such as lifts and air-conditioning) that is considered an integral part of the building. Investment properties are held to earn rental income and for capital appreciation.

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

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

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

(u) Provisions, contingent assets and contingent liabilities

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

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

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. A provision for restructuring is recognised when the Group and Company has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group and Company recognises any impairment loss on the assets associated with that contract.

Notes (continued)

2 Summary of material accounting policies (continued)

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

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the Group and Company, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group and Company's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote

.

(v) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in operating expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(w) Consolidation

i) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

Notes (continued)

2 Summary of material accounting policies (continued)

(w) Consolidation (continued)

i) Subsidiaries (continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

(ii) Changes in ownership interests

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

Notes (continued)

2 Summary of material accounting policies (continued)

(w) Consolidation (continued)

(iii) Disposal of subsidiaries

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

(x) Operating segments

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

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

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

Operating segments defined at HF Group Plc are organised in four main reporting segments. The segmentation is based on the Group's management and internal reporting structure.

The following summary describes the operations of each of the Group's reportable segment;

- Retail banking: This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers, micro loans, personal loans and it forms the major proportion of the Group's loan book. The segment is also responsible for the sourcing of deposits from retail customers which are then used to finance the Group's loan products.

- Corporate banking: This segment is responsible for sourcing for deposits from corporate organizations. It is also in charge of projects, providing lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.

- Property Development: This function is undertaken by one of the Group's subsidiaries, HF Development and Investment Limited and its core business is the development of housing projects and the sale of houses thereof.

Notes (continued)

2 Summary of material accounting policies (continued)

(y) Operating segments (continued)

- Bancassurance: The bancassurance function is based at the HF Insurance Agency Limited and the business is procuring insurance business and earning commissions thereof.

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

(z) Joint arrangements

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

Joint operations

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

Joint ventures

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

3 Critical accounting estimates and judgements

Use of estimates and judgements

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

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

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

(a) Measurement of the expected credit loss allowance

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

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Use of estimates and judgements (continued)

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

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

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

Judgements

The following represent critical judgements adopted

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

Estimates

The following approach was adopted to determine estimates

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

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

Notes (continued)

4 Financial risk management

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

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

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

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

(a) Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Group or if an obligor otherwise fails to perform as agreed.

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

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

Management of credit risk

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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

	Note	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Credit exposures				
On – balance sheet items				
Balances and deposits due from financial institutions*	16	1,277,201	1,652,834	2,202,775
Investment securities	18	9,682,141	8,540,137	6,550,168
Loans and advances to customers	22	38,787,793	36,299,175	34,692,625
Other assets**	23	1,299,136	1,076,671	531,039
		51,046,271	47,568,817	43,976,607
Off-balance sheet items				
Guarantees		2,428,566	1,353,528	976,588
Letters of credit, acceptances and other credits		80,452	581,569	169,046
		2,509,018	1,935,097	1,145,634
		53,555,289	49,503,914	45,122,241

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

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

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments and foreclosed assets have been excluded from other assets balances as they do not bear any credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing and impairment of Shs 61,834,000 (2022: Shs 36,995,000 and 2021: Shs 36,891,313) has been recognised against them at 31 December 2023.

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

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

	2022			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**
Amortized cost				
Individually and collectively impaired				
Grade 3: Substandard	-	-	406,556	406,556
Grade 4: Doubtful	-	-	8,080,378	8,080,378
Grade 5: Loss	-	-	-	-
Gross amount	-	-	8,486,934	8,486,934
Provision for impairment losses	-	-	(3,028,743)	(3,028,743)
Carrying amount	-	-	5,458,191	5,458,191
Grade 1: Normal	26,009,719	-	-	26,009,719
Grade 2: Watch	-	5,234,201	-	5,234,201
Gross amount	26,009,719	5,234,201	-	31,243,920
Provision for impairment losses	(102,961)	(299,975)	-	(402,936)
Carrying amount	25,906,758	4,934,226	-	30,840,984
Total carrying amount	25,906,758	4,934,226	5,458,191	36,299,175

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Collateral on loans and advances

The Group routinely obtains collateral and security to mitigate credit risk. The Group ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. Before attaching value to collateral, the business holding approved collateral must ensure that they are legally perfected devoid of any encumbrances. Security structures and legal covenants are subject to regular review, to ensure that they remain fit for purpose and remain consistent with accepted local market practice. The principal collateral types held by the Group for loans and advances are Mortgages over residential properties and commercial properties.

The Group has a panel of valuers who undertake valuation of property and other assets to be used as collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. The valuation is performed on origination, periodically in line with the Group policy and in the course of enforcement actions. Collateral for impaired loans is reviewed regularly to ensure that it is still enforceable, and that the impairment allowance remains appropriate given the current valuation.

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

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Property	52,282,892	68,553,529	87,077,067
Cash	547,145	948,660	983,125
	52,830,037	69,502,189	88,060,192

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

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Concentration by segment (Gross)			
Mortgage	23,808,422	23,849,826	24,138,451
Projects	8,328,934	8,247,003	8,955,214
Commercial	6,127,733	5,174,815	3,988,518
Unsecured	3,467,644	2,433,879	936,309
IPF	62,117	25,342	30,764
Micro	632,652	-	10
	42,427,502	39,730,865	38,049,266

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.

The Bank incorporates forward-looking information into both its assessment of whether the credit risk instrument has increased significantly since its initial recognition and its measurement of ECL. On the of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the 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 r probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and mc authorities, other organisations such as the International Monetary Fund (IMF), World Bank and selec private-sector and academic forecasters.

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Probability of Default (PD)

The credit allowance estimate is also sensitive to changes in PD. An increase in PDs by 10bps would result to an increase in expected credit losses by Shs 37,964,000 (2022: Shs 46,250,000)

Sensitivity Analysis: Change in PDs assigned

The case below considers alternative PDs to reflect change in ECL

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

2023	**Base case**	**Case ('PDs worse by 10%)**	**Change in ECL allowance. Increase/(Decrease)**	
	Shs'000	**Shs'000**	**Shs'000**	**%**
Stage 1	124,595	135,446	(10,851)	(9)
Stage 2	131,715	158,828	(27,113)	(21)
	256,310	294,274	(37,964)	

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

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

2021	**Base case**	**Case ('PDs worse by 10%)**	**Change in ECL allowance. Increase/(Decrease)**	
	Shs'000	**Shs'000**	**Shs'000**	**%**
Stage 1	84,571	74,314	(10,256)	(12)
Stage 2	399,871	344,472	(55,399)	(14)
Stage 3	2,943,618			
Total	3,428,060	418,786	(65,655)	

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

Measurement of ECL

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

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

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

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities. LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Measurement of ECL

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

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the obligor's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are considered. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

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

Significant increase in credit risk

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

The nominal values of such commitments are listed below: -

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Undrawn overdrafts	40,978	41,681	42,562
Letters of credit	39,474	581,569	169,046
Guarantees	2,428,566	1,353,528	976,588
	2,509,018	1,976,778	1,188,196
Allowance for impairment losses	(23,730)	(19,984)	(19,984)
	2,485,288	1,956,794	1,168,212

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

Impairment losses for loans and advances

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

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Against impaired accounts	9,964,325	9,661,507	16,973,983
Against accounts not impaired	42,865,712	59,820,682	71,086,209
	52,830,037	69,482,189	88,060,192

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

Management of liquidity risk

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.
To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

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

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

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from financial institutions and commitments maturing within the next 91 days.

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting period were as follows:

	2023	2022	2021
At 31 December	24.25%	25.20%	22.97%
Average for the year	23.27%	24.11%	20.80%
Maximum for the year	27.00%	25.76%	22.50%
Minimum for the year	20.40%	22.04%	16.45%
Minimum statutory requirement	20.00%	20.00%	20.00%

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities

The table below analyses the liquidity position of the Group's financial assets and liabilities:

Year ended 31 December 2023	**Less than 3 months Shs'000**	**3 - 6 months Shs'000**	**6 months - 1 year Shs'000**	**1 - 5 years Shs'000**	**More than 5 years Shs'000**	**Total Shs'000**
Financial assets						
Balances and deposits due from financial institutions	2,752,541	-	-	-	-	2,752,541
Government securities	677,323	1,067,672	251,936	3,450,630	5,433,132	10,880,693
Loans and advances to banks	608,067	-	-	-	-	608,067
Loans and advances	5,364,254	333,171	1,287,764	11,149,737	28,427,371	46,562,297
Other assets	195,405	-	2,008,828	1,951,670	-	4,155,903
Total financial assets	9,597,590	1,400,843	3,548,528	16,552,037	33,860,503	64,959,501
Financial liabilities						
Deposits from banks	3,193	-	-	-	-	3,193
Customer deposits	22,560,175	5,141,393	5,274,781	12,424,366	2,404,870	47,805,585
Derivative financial liabilities	1,570	-	-	-	-	1,570
Balances from Central Bank	1,500,000	-	-	-	-	1,500,000
Borrowings	74,297	126,519	1,892,267	2,010,429	58,867	4,162,379
Other Liabilities	3,138,535	-	1,516,621	-	-	4,655,156
Lease liabilities	-	-	107,988	174,680	3,002	285,670
Total financial liabilities	27,277,770	5,267,912	8,791,657	14,609,475	2,466,739	58,413,553
Net liquidity gap	(17,680,180)	(3,867,069)	(5,243,129)	1,942,197	31,393,764	6,545,583

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Year ended 31 December 2023	**Less than 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Off balance sheet exposures						
Letters of credit	-	37,668	1,806	-	-	39,474
Guarantees	259,550	1,256,785	843,957	68,273	-	2,428,565
Forward derivatives	289,511	-	-	-	-	289,511
Unrecognised loan commitments	17,381	-	23,597	-	-	40,978
Total commitments and guarantees	566,442	1,294,453	869,360	68,273		2,798,528
Year ended 31 December 2022						
Financial assets						
Balances and deposits due from financial institutions	2,197,285	-	-	-	-	2,197,285
Loans and advances to banks	13,087	-	-	-	-	13,087
Loans and advances	7,102,403	1,481,155	760,566	7,774,476	26,838,139	43,956,739
Investment securities	-	221,857	418,140	2,609,385	6,031,465	9,280,847
Other assets	-	-	2,355,394	-	-	2,355,394
Total financial assets	9,312,775	1,703,012	3,534,100	10,383,861	32,869,604	57,803,352

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2022	**Less than 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Deposits from banks	31,513	-	-	-	-	31,513
Customer deposits	31,379,648	4,534,448	4,029,856	61,741	376,339	40,382,032
Balances from Central Bank	500,000	-	-	-	-	500,000
Borrowings	166,641	309,872	3,421,472	970,549	729,832	5,598,366
Other liabilities	-	-	3,073,878	-	-	3,073,878
Lease liabilities	-	-	255,105	349,762	28,349	633,216
Total financial liabilities	32,077,802	4,844,320	10,780,311	1,382,052	1,134,520	50,219,005
Net liquidity gap	(22,765,027)	(3,141,308)	(7,246,211)	9,001,809	31,735,084	7,584,347
Off balance sheet items						
Letters of credit	582,276	-	-	-		582,276
Guarantees	289,112	213,224	380,157	481,989	-	1,364,482
Forward derivatives	1,279,381	424,273	124,714	-	-	1,828,368
Unrecognised loan commitments	42,163	-	-	-	-	42,163
Total commitments and guarantees	2,192,932	637,497	504,871	481,989	-	3,817,289

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2021	**Due on demand**	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial liabilities						
Customer deposits	19,997,064	3,791,994	2,231,607	75,162	11,619,087	37,714,914
Bank deposits	601,606	-	-	-	-	601,606
Borrowings	134,809	192,202	3,953,306	635,192	-	4,915,509
Government income notes*	-	-		-	52,860	52,860
Total financial liabilities	20,733,479	3,984,196	6,184,913	710,354	11,671,947	43,284,889
Net liquidity gap	7,397,231	3,458,273	4,005,627	(7,001,178)	(9,503,302)	(1,643,349)
Off balance sheet items						
Letters of credit	-	135,780	-	-		135,780
Guarantees	-	286,794	35,285	510,947	176,828	1,009,854
Forward derivatives	-	737,350	574,550	1,077,675	-	2,389,575
Unrecognised loan commitments	-	135,780	-	-	-	135,780
Total commitments and guarantees	-	1,295,704	609,835	1,588,622	176,828	3,670,989

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

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Liquidity reserves

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

Liquidity reserves	2023 Shs'000	2022 Shs'000	2021 Shs'000
Cash at hand	367,508	544,451	538,629
Balances with commercial banks	302,222	76,894	345,779
Balances with Central Bank of Kenya:	1,475,340	1,563,593	1,823,685
Placements with other banks	607,391	12,346	33,311
Government securities	9,682,141	8,540,137	6,550,168
Total liquidity reserves	12,434,602	10,737,421	9,291,572

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The Group's exposure to foreign currency risk arose from assets denominated in US Dollars, EUR and GBP was as follows:

31 December 2023	**US$ Shs' 000**	**GBP Shs' 000**	**Euro Shs' 000**	**Total Shs' 000**
Assets				
Cash and cash equivalents	282,596	38,911	37,512	359,019
Loans and advances to customers	2,917,495	42,168	2	2,959,665
Investment in Govt. securities	1,772,823	-	-	1,772,823
Other assets	94,545	1,543	814	96,902
Total assets	5,067,459	82,622	38,328	5,188,409
Liabilities				
Customer deposits	3,199,189	11,361	22,411	3,232,961
Borrowed funds	1,800,086	-	-	1,800,086
Other liabilities	-	119,511	14,152	133,663
Total liabilities	4,999,275	130,872	36,563	5,166,710
Net financial position	68,183	(48,249)	1,764	21,698
31 December 2022				
Assets				
Cash and cash equivalents	1,471,415	18,476	11,899	1,501,790
Loans and advances to customers	3,759,220	37,033	317	3,796,570
Other assets	47,891	12,308	426	60,625
Total assets	5,278,526	67,817	12,642	5,358,985
Liabilities				
Customer deposits	1,477,574	10,562	18,590	1,506,726
Borrowed funds	2,242,344	-	-	2,242,344
Other liabilities	1,375,321	100,517	3,997	1,479,835
Total liabilities	5,095,239	111,079	22,587	5,228,905
Net financial position	183,287	(43,261)	(9,945)	130,081

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

31 December 2021

Assets				
Cash and cash equivalents	370,174	(7,171)	52,510	415,513
Loans and advances to customers	3,391,035	39,598	99	3,430,732
Other assets	43,744	749	414	44,907
Total assets	3,804,953	33,176	53,023	3,891,152
Liabilities				
Customer deposits	1,132,793	10,233	27,968	1,170,994
Borrowed funds	2,800,749	-	-	2,800,749
Other liabilities	(192,278)	2,031	2,545	(187,702)
Total liabilities	**3,741,264**	**12,264**	**30,513**	**3,784,041**
Net financial position	**63,689**	**20,912**	**22,510**	**107,111**

The following significant exchange rates applied during the period:

	Average rates 2023	**Closing rates 2023**	**Average rates 2022**	**Closing rates 2022**	**Average rates 2021**	**Closing rates 2021**
US Dollar	140.06	157	118.34	123.35	109.65	113.15
EUR	151.49	173.85	124.11	131.59	129.68	128.19
GBP	174.33	200.08	145.19	148.39	150.68	152.86

Sensitivity analysis on exchange rates

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

	2023			**2022**		
	Change in currency	**Effect on profit before income tax Shs' 000**	**Effect on equity Shs' 000**	**Change in currency**	**Effect on profit before income tax Shs' 000**	**Effect on equity Shs' 000**
US$	10%	6,818	4,773	10%	18,328	12,829
GBP	10%	(4,825)	(3,377)	10%	(4,326)	(3,028)
EURO	10%	176	123	10%	(994)	(696)

		2021	
US$	10%	6,369	4,458
GBP	10%	2,251	1,576
EURO	10%	2,091	1,464

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(ii) Sensitivity analysis to interest rate risk

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

Assets	Interest rate	2023 Shs'000	2022 Shs'000	2021 Shs'000
Loans and advances	10.62%	38,787,793	36,299,175	35,910,642
Government securities	12.69%	9,682,141	8,540,137	6,550,168
Placements with banks	12.27%	607,000	12,346	33,311
Total liquidity reserves		49,076,934	44,851,658	42,494,121
Liabilities				
Deposits	5.84%	43,851,506	39,821,258	38,316,520
Balances with CBK	15.62%	1,500,000	499,777	
Borrowings and income notes	9.73%	3,793,300	4,370,617	4,298,349
Total liquidity reserves		49,144,806	44,691,652	42,614,869
Interest rate sensitivity gap		(67,872)	237,183	(1.338,765)

At 31 December 2023, if interest rates at that date had been 50 basis points higher for assets and 100 basis points higher for liabilities with all other variables held constant, pre-tax loss for the year would have been Shs 2,154,454 (2022: Shs 1,976,131, 2021: Shs 2,309,510) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 2,154,454 (2022: Shs 1,976,131, 2021: Shs 2,309,510) lower arising mainly as a result of lower interest income loans and advances.

(iii) Other price risk

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

(d) Operational risk

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

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

Notes (continued)

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.

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

Tier 1 capital	**2023 Shs'000**	**2022 Shs'000**	**2021 Shs'000**
Ordinary share capital	5,090,000	5,090,000	5,000,000
Share premium	3,513,662	3,513,662	3,513,662
Retained earnings	(5,442,592)	(4,471,842)	(4,367,055)
Deferred income tax asset	(1,078,787)	(946,759)	(974,939)
Total tier 1 capital	2,082,283	3,185,061	3,171,668

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

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

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

Notes (continued)

4 Financial risk management (continued)

(f) Fair value measurement (continued)

Valuation hierarchy (continued)

	Level 1	**Level 2**	**Level 3**
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and other securities.	Corporate and other government bonds and loans	Corporate bonds in illiquid markets
Types of financial liabilities:	Actively traded corporate bonds in liquid markets.	Leases whose valuation model references directly or indirectly market observable inputs.	Actively traded corporate bonds in illiquid markets.

31 December 2023	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Financial assets				
Investment in government securities	-	5,645,273	-	5,645,273
Non-financial assets				
Investment properties	-	1,885,000	-	1,885,000
	-	7,530,273	-	7,530,273
Financial liabilities				
Derivative liabilities		1,570		1,570
31 December 2022				
Financial assets				
Investment in government securities	4,760,994	-	-	4,760,994
Non-financial assets				
Investment properties	-	1,849,000	-	1,849,000
	4,760,994	1,849,000	-	6,609,994
Financial liabilities				
Derivative liabilities	-	13,268	-	13,268

Notes (continued)

5 Operating segments

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

- The HF Bancassurance Intermediary (formerly HF Insurance Agency Limited) – offers insurance solutions to both HF customer base and currently reaching out to the general public and partnering with underwriters on different bancassurance solutions including general and life insurance.

- HF Development and Investment Limited – (formerly known as Kenya Building Society Limited) was previously a property development company. The current entity strategy is providing wealth management solutions, affordable housing partnership and property advisory and sales services.

- Retail Banking- This segment encompasses branch-based Business tailored for individual customers and small businesses.

- Corporate Banking- This comprises of Treasury, Custodial and Financial institutions business, serving the financial needs of larger corporate clients, institutions, and government entities.

Notes (continued)

5 Operating segments (continued)

	Retail Banking			Corporate Banking			Property Development		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Interest income	4,229,324	3,564,599	3,460,527	1,173,075	948,445	685,404	-	-	-
Interest expense	(1,822,014)	(1,381,032)	(1,435,283)	(838,170)	(739,901)	(669,159)	-	(148,752)	(170,745)
Net interest income	2,407,310	2,183,567	2,025,244	334,905	208,544	16,245	-	(148,752)	(170,745)
Non-interest income	396,778	359,117	271,419	192,940	174,635	86,827	434,406	358,617	78,778
Reporting segment profit/(loss) before income tax	62,813	32,315	(380,958)	98,244	64,436	(283,369)	114,840	86,769	(290,539)
Deposits balances	41,327,970	35,902,693	34,521,997	2,544,172	3,983,356	3,872,632	-	-	-
Other non-cash items									
Impairment losses on mortgage loans	309,299	194,130	(345,688)	-	-	-	-	-	
Capital expenditure	38,787,793	-		-	-	-	-	-	
Reportable segment assets	38,787,793	40,324,912	39,338,702	9,682,141	8,627,174	6,947,820	3,806,430	3,605,599	3,229,916
Reportable segment liabilities	41,327,970	35,902,693	34,521,997	6,337,454	8,353,973	8,223,941	3,153,796	3,067,805	3,085,796

Notes (continued)

5 Operating segments (continued)

	Bancassurance			Others			Total		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**		**Shs'000**	**Shs'000**	**Shs'000**
Interest income	4,653	9,979	9,132	707	585	468	5,407,759	4,523,608	4,155,531
Interest expense	(276)	(333)	(396)	-	-	-	(2,660,460)	(2,270,018)	(2,275,583)
Net interest income	4,377	9,646	8,736	707	585	468	2,747,299	2,253,590	1,879,948
Non-interest income	111,297	73,382	59,582	98,600	204,120	131,752	1,234,021	1,169,871	628,358
Reporting segment profit/(loss) before income tax	52,211	47,548	42,608	3,378	49,325	(34,912)	331,486	280,393	(947,170)
Deposits balances	-	-	-	-	-	-	43,872,142	-	-
Other non-cash items									
Impairment losses on mortgage loans	-	-	-	-	-	-	309,299	194,130	(345,688)
Capital expenditure	-	-	-	-	-	-	-		228
Reportable segment assets	159,238	135,558	141,279	9,980,400	10,025,945	9,887,407	62,416,002	62,719,188	59,545,125
Reportable segment liabilities	81,337	80,054	29,556	350,994	391,095	342,843	51,251,551	47,795,620	46,204,135

Notes (continued)

5 Operating segments (continued)

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Net interest income			
Total net interest income for reportable segments	2,747,299	2,388,814	1,989,396
Other interest income adjustments	(54,515)	(134,890)	(125,908)
Consolidated net interest income	2,692,784	2,253,924	1,863,488
Non-interest income			
Total non-interest income for reportable segments	1,234,021	1,168,870	522,386
Other non-interest income	(102,468)	(213,426)	(19,893)
Consolidated non-interest income	1,131,553	955,444	502,493
Profit or loss			
Total profit or loss for reportable segments	334,484	280,393	(912,258)
Other profit or loss	-	(89,999)	36,506
Consolidated profit before income tax	334,484	190,394	(875,752)
Assets			
Total assets for reportable segments	62,416,002	49,278,607	55,469,429
Other assets	(865,573)	7,672,793	(2,565,911)
Consolidated total assets	61,550,429	56,951,400	52,903,518
Liabilities			
Total liabilities for reportable segments	51,251,551	47,904,302	47,295,136
Other liabilities	1,431,459	321,922	(2,327,938)
Consolidated total liabilities	52,683,010	48,226,224	44,967,198

Notes (continued)

6 Interest income and expense

(a) Interest income

Group	2023 Shs'000	2022 Shs'000	2021 Shs'000
Loans and advances	4,031,360	3,324,955	3,237,688
Deposit with banks	27,413	10,522	21,768
Loan origination fees	143,198	90,893	52,093
Financial assets at amortised cost	444,330	317,335	-
Financial assets at FVOCI	701,307	620,588	663,636
	5,347,608	4,364,293	3,975,185

(b) Interest expense

Deposits from customers	2,013,724	1,577,728	168,375
Deposits from banks	255,477	77,343	1,519,600
Repurchase agreement with CBK	-	81,961	-
Borrowings	355,477	348,695	335,647
Lease liabilities	30,147	24,642	71,616
	2,654,825	2,110,369	2,095,238

7 Fee and commission income

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Service fees and commission /transactional banking	199,987	189,663	196,146
Custodial services	19,082	21,822	15,267
Other commissions*	195,400	295,409	4,522
	414,469	506,894	215,935

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

Notes (continued)

8 Net trading income

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Foreign currency exchange gains	175,977	168,127	77,332
Fair value loss on derivatives	(1,570)	(13,268)	(28,982)
	174,407	154,859	48,350

9 Other income

Group

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Rental income	85,164	74,983	-
Sales income	110,152	53,100	-
Other *	277,176	89,391	204,120
Insurance commission	70,185	76,217	-
	542,677	293,691	204,120

Company

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Other *	98,600	204,120	131,752

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

10 Other operating expenses

Group

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Occupancy expenses	65,047	53,957	61,322
Deposit Protection Fund payment	80,184	72,705	76,888
Cost of sold houses	81,848	24,139	45,233
Marketing expenses	57,762	71,725	87,696
Information technology expenses	282,387	295,058	328,498
Legal expenses	59,733	111,745	123,066
Office expenses	66,604	192,311	169,799
General administration expenses	564,293	304,720	414,342
	1,257,858	1,126,360	1,306,844

Notes (continued)

10 Other operating expenses

Company	2023 Shs'000	2022 Shs'000	2021 Shs'000
Marketing expenses	1,865	10,861	2,985
Office expenses	5,998	44,318	82,804
General administration expenses	12,945	20,051	23,880
	20,808	75,230	109,669

11 Employee benefits

The following items are included in salaries and employee benefits:

Group

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Salaries and other staff costs	1,496,475	1,211,142	1,053,724
Remuneration to executive directors	52,029	58,474	50,293
NSSF contributions	3,643	1,812	1,656
Contributions to the defined contribution retirement scheme	73,665	59,012	76,863
	1,625,812	1,330,440	1,182,536
Average number of employees	568	520	447

Company

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Salaries and other staff costs	49,652	44,884	38,968
Remuneration to executive directors	23,584	33,520	16,865
NSSF contributions	24	5	4
Contributions to the defined contribution retirement scheme	380	329	182
	73,640	78,738	56,109
Average number of employees	2	2	2

Notes (continued)

12 Depreciation and amortisation

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Group			
Depreciation of property and equipment (Note 19)	77,652	41,948	113,599
Depreciation of investment property (Note 29)	-	-	14,000
Amortisation of intangible assets (Note 20)	213,106	240,045	231,139
Amortisation of right-of-use asset (Note 35	74,072	78,786	86,685
	364,830	360,779	445,423
Company			
Depreciation of property and equipment (Note 19)	273	210	134

13 Income tax

(a) Income tax credit

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

Group	2023 Shs'000	2022 Shs'000	2021 Shs'000
Profit before income tax	334,484	190,394	(875,753)
Tax at the applicable tax rate of 30% (2022: 30%)	100,345	57,118	(262,726)
Prior year under provision of current tax	-	(126)	-
Prior year deferred tax restatement – Note 38	-	-	(15,000)
Prior year (under)/over provision of deferred tax	-	-	(875)
Tax effect of non-deductible costs and tax-exempt income	(154,017)	(132,168)	(18,861)
Income tax credit	(53,672)	(75,176)	(297,462)
Current income tax at 30% (2022: 30%, 2021: 30%)	29,686	25,582	24,906
Prior year under provision of current tax		(126)	(70)
Deferred tax movement (Note 26)	(87,340)	(75,571)	(321,423)
Prior year deferred tax (under)/over provision (Note 26)	3,982	(25,061)	(875)
	(53,672)	(75,176)	(297,462)

Notes (continued)

13 Income tax

(a) Income tax credit

Company	**2023 Shs'000**	**2022 Shs'000**	**2021 Shs'000**
Profit/ (Loss) before income tax	3,878	49,942	(34,070)
Tax at the applicable tax rate of 30% (2022: 30%, 2021: 30%)	1,163	14,983	10,221
Tax effect of non-deductible costs and tax-exempt income	(1,626)	(15,046)	(2,352)
Income tax credit	(463)	(63)	(12,573)
Current income tax at 30% (2022: 30%, 2021: 30%)	-	-	(11,627)
Prior year under provision of current tax	-	-	(946)
Deferred tax movement (Note 26)	(1,624)	(63)	
	(1,624)	(63)	(12,573)

(b) Current income tax recoverable

Group

	2023	2022	2021
At start of year	365,267	342,746	344,929
Charge for the year	(29,687)	(25,582)	(24,905)
Prior year under provision of current tax	-	126	7,669
Paid during the year	31,675	47,977	15,053
At end of year	367,255	365,267	342,746

Company

	2023	2022	2021
At start of year	52,016	46,947	41,682
Charge for the year	-	-	-
Prior year under provision of current tax	-	-	-
Paid during the year	5,470	5,069	5,265
At end of year	57,486	52,016	46,947

Notes (continued)

14 Earnings per share

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Net loss for the year attributable to shareholders	388,156	265,570	(682,955)
Number of ordinary shares in issue (000's)	384,614	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	384,614	384,614
Basic earnings per share	1.01	0.69	(1.78)
Weighted earnings per share	1.01	0.69	(1.78)

15 Dividends

(a) Proposed dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. No final dividend in respect of the year ended 31 December 2023 (2022: Nil) has been proposed. No interim dividend was paid during the year (2022: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2023 (2022: 384,614,168).

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
At start of year	246	246	6,361
Dividends paid during the year	-	-	(6,115)
At end of year	246	246	246

16 (a) Cash and balances with banks

Cash at hand	367,508	544,451	538,629
Balances with commercial banks	302,222	76,894	364,260
Placements with other banks (Note 17)	607,391	12,346	33,311
Balances with Central Bank of Kenya:			
- Restricted (Cash Reserve Ratio)	1,475,340	1,563,593	1,595,612
- Unrestricted	-	-	209,573
	2,752,461	2,197,284	2,741,385

Notes (continued)

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

Group	2023 Shs'000	2022 Shs'000	2021 Shs'000
12-month ECL:			
At start of year	(3)	(19)	(550)
Re-measurement during the year	83	16	531
Allowance for impairment losses	80	(3)	(19)
	2,752,541	2,197,281	2,741,366
Cash and balances with banks	2,145,150	2,184,939	2,708,055
Placement with other banks	607,391	12,346	33,311
	2,752,541	2,197,285	2,741,366

Movement in restricted balances:
Group

	2023	2022	2021
At start of year	1,563,593	1,595,612	1,688,236
Movement during the year	(88,253)	(32,019)	(92,624)
At end of year	1,475,340	1,563,593	1,595,612

The Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2023, the Cash Reserve Ratio was 4.25% (2022: 4.25%, 2021: 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 4.25%.

Notes (continued)

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

Company	**2023 Shs'000**	**2022 Shs'000**	**2021 Shs'000**
Balances with commercial banks	1,107	15,387	2,317

16 (b) Net debt reconciliation

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

Group	**2023 Shs' 000**	**2022 Shs' 000**	**2022 Shs' 000**
Cash and cash equivalents (Note 16(a))	1,277,201	633,691	1,204,273
Liquid investments:			
Investment in government securities (Note 18)	9,682,141	8,540,137	6,550,168
Borrowings - repayable within one year (Note 30)	(527,148)	(3,330,011)	(922,458)
Borrowings - repayable after one year (Note 30)	(3,213,284)	(987,750)	(3,955,294)
Lease liabilities	(259,598)	(434,488)	-
Net cash	6,959,312	4,421,579	2,876,689

Group			
Cash and other liquid investments	10,959,342	9,173,828	7,754,441
Gross debt - fixed interest rates	(2,403,414)	(3,052,569)	(2,453,584)
Gross debt - variable interest rates	(1,596,616)	(1,699,680)	(2,424,168)
	6,959,312	4,421,579	2,876,689

Notes (continued)

16 (b) Net debt reconciliation

	Liquid assets		Borrowings		Leases	Total
	Cash and cash equivalents	Government securities	Due within 1 year	Due after 1 year	Lease liabilities	
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2023						
At start of year	633,691	8,540,137	(2,383,520)	(1,934,237)	(432,064)	4,424,007
Cash flows	643,510	1,142,004	239,704	337,621	122,435	2,485,274
Non-cash movements	-	-	-	-	50,031	50,031
At end of year	1,277,201	9,682,141	(2,143,816)	(1,596,616)	(259,598)	6,959,312
Year ended 31 December 2022						
At start of year	1,185,773	6,550,168	(3,888,548)	(409,801)	(560,903)	2,876,689
Cash flows	(554,127)	1,989,820	558,537	(577,949)	120,274	1,536,555
Non-cash movements	-	149	-	-	6,141	6,290
Foreign exchange	2,045	-	-	-	-	2,045
At end of year	633,691	8,540,137	(3,330,011)	(987,750)	(434,488)	4,421,579
Year ended 31 December 2021						
At start of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055
Cash flows	126,070	(295,150)	1,372,348	(2,042,470)	142,964	(696,238)
Non-cash movements	-	(299)	-	-	(71,617)	(71,916)
Foreign exchange	1,287	-	-	-	-	1,287
At end of year	1,185,773	6,550,168	(779,648)	(3,518,701)	(579,404)	2,858,188

17 Placements with other banks

	2023	2022	2021
	Shs'000	Shs'000	Shs'000
Placements with other banks	607,392	12,349	33,330
Less: Allowance for impairment losses	(1)	(3)	(19)
	607,391	12,346	33,311

The weighted average effective interest rate on placements with other banks was 12.27% (2022: 3.53%, 2021: 3.53%).

Notes (continued)

18 Investment in government securities

Held at amortised cost

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Treasury bills and bonds	4,036,868	3,779,143	1,825,422
FVOCI			
Treasury bonds	5,645,273	4,760,994	4,724,746
	9,682,141	8,540,137	6,550,168

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

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

	Group		
Amortised cost	**2023 Shs'000**	**2022 Shs'000**	**2021 Shs'000**
At start of year	3,779,143	1,825,422	1,941,696
Purchases during the year	327,725	2,178,850	-
Sales/maturities during the year	(70,000)	(225,000)	(115,912)
Less: Allowance for impairment losses	-	(129)	(362)
At end of year	4,036,868	3,779,143	1,825,422
Fair value through other comprehensive income			
At start of year	4,760,994	4,724,746	5,163,921
Purchases during the year	16,553,746	9,044,559	8,350,050
Sales/maturities during the year	(15,290,889)	(8,930,974)	(8,788,926)
Loss on fair valuation	(378,578)	(77,337)	(299)
At end of year	5,645,273	4,760,994	4,724,746
Total government securities less ECL	9,682,141	8,540,137	6,550,168

18 Investment in government securities

Maturity analysis for the investments in

Maturing within 90 days	590,000	215,000	40,000
Maturing after 90 days	9,092,141	8,325,137	6,510,168
Total	9,682,141	8,540,137	6,550,168

Notes (continued)

19 Property and equipment

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

Notes (continued)

19 Property and equipment (continued)

(b) Group	**Freehold land**	**Buildings**	**Furniture, fixtures, equipment & motor vehicles**	**Total**
Year ended 31 December 2022	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost or valuation				
At start of year	62,000	905,183	1,276,732	2,243,915
Additions	-	-	19,915	19,915
Disposals	-	-	(784)	(784)
Transfer to Investment property		(580,000)		(580,000)
At end of year	62,000	325,183	1,295,863	1,683,046
Comprising:				
At cost	52,000	225,183	1,295,863	1,573,046
At valuation	10,000	100,000	-	110,000
	62,000	325,183	1,295,863	1,683,046
Accumulated depreciation				
At start of year	-	52,535	1,020,847	1,073,382
Charge for the year	-	6,442	35,506	41,948
Disposals	-	-	(784)	(784)
Transfers	-	(10,910)	-	(10,910)
At end of year	-	48,067	1,055,569	1,103,636
Net book value at end of year	62,000	277,116	240,294	579,410

Notes (continued)

19 Property and equipment (continued)

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

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

	2023	**2022**	**2021**
	Shs'000	**Shs'000**	**Shs'000**
Free hold land	52,000	52,000	52,000
Buildings	310,000	259,893	555,308
	362,000	311,893	607,308

The historical cost of free hold land is Shs 52,000,000 and buildings is Shs 655,290,000. In year 2022 60% of the cost of the building was transferred to investment property.
The net book value of the revalued motor vehicle at its historical cost is as follows:

Notes (continued)

19 Property and equipment (continued)

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Motor vehicle	5,733	344	344

(b) Company

	Furniture, fixtures, equipment & motor vehicles		
	2023 Shs'000	2022 Shs'000	2021 Shs'000
Cost or valuation			
At start of year	1,727	919	801
Additions	-	806	118
At end of year	1,727	1,725	919
Accumulated depreciation			
At start of year	727	517	383
Charge for the year	273	210	134
At end of year	1,000	727	517
Net book value at end of year	727	998	402

20 Intangible assets

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Cost:			
At start of year	1,960,913	1,908,149	1,860,391
Additions during the year	147,222	52,764	47,758
Work in progress	11,189	-	-
At end of year	2,119,324	1,960,913	1,908,149
Accumulated amortisation			
At start of year	1,628,321	1,388,276	1,157,137
Amortisation during the year	213,106	240,045	231,139
At end of year	1,841,427	1,628,321	1,388,276
Net book value at end of year	277,897	332,592	519,873

Notes (continued)

21 Investments in subsidiary companies and ventures

(a) Subsidiaries

		Company		
		2023 Shs'000	**2022 Shs'000**	**2021 Shs'000**
HFC Limited	100%	8,603,662	8,603,662	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,243,912	1,243,912	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	5,000	5,000	5,000
		9,857,594	9,857,594	9,767,594

21 Investments in subsidiary company

(b) Investment in Joint ventures & associate

		2023 Shs'000	**2022 Shs'000**	**2021 Shs'000**
At start of year				
Kahawa Downs Limited	50%	103,252	112,101	119,971
Precious Heights Limited	50%	86,306	86,040	88,101
Richland Development Limited	50%	101,409	96,768	96,861
Claycity Limited	33%	483,629	485,968	489,330
Theta Dam Estate Limited	50%	870,524	838,561	750,076
		1,645,120	1,619,438	1,544,339
Group's share of profit in joint ventures				
Kahawa Downs Limited	50%	(428)	(936)	(7,870)
Kahawa Downs Limited prior year adjustment *		1,480	-	-
Precious Heights Limited	50%	1,772	(2,985)	(2,060)
Precious Heights Limited prior year adjustment*		(7,486)	-	-
Richland Development Limited	50%	1,177	3,465	(94)
Claycity Limited	33%	(2,076)	(262)	(3,362)
Theta Dam Estate Limited	50%	37,507	(5,547)	(2,354)
		31,946	(6,265)	(15,740)

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

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

Notes (continued)

21 Investment In subsidiary companies (continued)

(b) Joint ventures (continued)

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

Group **Year ended 31 December 2023**	**Kahawa Development Limited**	**Precious Heights Limited**	**Richland Development Limited**	**Claycity Limited**	**Theta Dam Estate Limited**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	-	8,982	8,083	148	205,683	222,896
Operating costs	(855)	(5,439)	(5,225)	(6,435)	(106,396)	(124,350)
Income tax expense			(504)	(4)	(24,273)	(24,781)
(Loss)/profit and other comprehensive income	(855)	3,543	2,354	(6,291)	75,014	73,765
Group share of net loss	(428)	1,772	1,177	(2,076)	37,507	37,952
Prior year adjustment*	1,480	(7,486)				(6,006)
	1,052	(5,714)	1,177	(2,076)	37,507	31,946
Net assets	206,503	172,603	202,818	1,450,475	1,741,047	3,773,446
Groups share of net assets	103,252	86,306	101,409	483,629	870,524	1,645,120
Group's interest in net assets at the beginning of the year	111,165	83,055	100,233	485,706	833,013	1,613,172
Group share of current year total comprehensive income	(428)	1,772	1,177	(2,076)	37,507	37,952
Prior year adjustment	1,480	(7,486)				(6,006)
Carrying amount of interest in investee at end of year	112,217	77,341	101,410	483,630	870,520	1,645,118

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

Notes (continued)

21 Investments in subsidiary companies (continued)

(b) Joint ventures (continued)

Group **Year ended 31 December 2022**	**Kahawa Development Limited**	**Precious Heights Limited**	**Richland Development Limited**	**Claycity Limited**	**Theta Dam Estate Limited**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	67	3,283	9,807	2,284	2,308	17,749
Operating costs	(1,938)	(9,253)	(2,877)	(3,080)	(13,402)	(30,550)
Loss and other comprehensive income	(1,871)	(5,970)	6,930	(796)	(11,094)	(12,801)
Group share of net loss	(936)	(2,985)	3,465	(262)	(5,547)	(6,265)
Net assets	222,331	166,112	200,466	1,471,834	1,666,028	3,726,771
Groups share of net assets	111,165	83,056	100,233	485,705	833,014	1,613,173
Group's interest in net assets at the beginning of the year	112,101	86,041	96,768	485,968	763,462	1,544,340
Net asset adjustment	-	-	-	-	75,099	75,099
Group share of current year total comprehensive income	(936)	(2,985)	3,465	262	(5,547)	(5,741)
Carrying amount of interest in investee at end of year	111,165	83,056	100,233	486,230	833,014	1,613,698

Notes (continued)

21 Investments in subsidiary companies (continued)

b Joint ventures (continued)

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

Notes (continued)

22 Loans and advances at amortised cost

Group	**2023**	**2022**	**2021**
	Shs'000	**Shs'000**	**Shs'000**
Gross loans and advances to customers	42,427,502	39,730,864	38,049,266
Less: Provision for expected credit losses	(3,639,709)	(3,431,689)	(3,356,641)
Net loans and advances to customers	38,787,793	36,299,175	34,692,625
Current	6,188,328	8,249,203	6,030,247
Non-current portion	36,239,174	31,481,661	32,019,019
Gross loans and advances	42,427,502	39,730,864	38,049,266
Stage 1 loans	27,817,660	26,009,720	22,086,457
Stage 2 loans	3,790,128	5,234,210	7,290,049
Stage 3 loans	10,819,714	8,486,934	8,672,760
	42,427,502	39,730,864	38,049,266
Stage 1 impairment	(124,595)	(102,970)	(84,571)
Stage 2 impairment	(131,715)	(299,976)	(399,871)
Stage 3 impairment	(3,383,399)	(3,028,743)	(2,943,618)
	(3,639,709)	(3,431,689)	(3,428,060)
Net loans and advances	38,787,793	36,299,175	34,621,206

Notes (continued)

22 Loans and advances (continued)

Provision for expected credit losses on loans and advances

	Stage 1 12-month ECL	Stage 2 Lifetime ECL Not credit impaired	Stage 3 Lifetime ECL	Total
Year ended 31 December 2023	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of the year	102,970	299,976	3,028,743	3,431,689
Movements during the year:				
Transfer to 12 months ECL	6,624	(3,401)	(3,223)	-
Transfer to lifetime ECL not credit impaired	(13,076)	131,152	(118,076)	-
Transfer to lifetime ECL credit impaired	(2,711)	(42,603)	45,314	-
Net remeasurement of loss allowance	(8,864)	(269,907)	602,926	324,155
Net financial assets originated	46,622	20,398	25,116	92,136
Financial assets derecognised	(6,970)	(3,900)	(197,401)	(208,271)
Loss allowance as at 31 December	124,595	131,715	3,383,399	3,639,709
Year ended 31 December 2022	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of the year	84,571	399,871	2,943,618	3,428,060
Movements during the year:				
Transfer to 12 months ECL	3,912	(2,017)	(1,895)	-
Transfer to lifetime ECL not credit impaired	(16,562)	18,411	(1,849)	-
Transfer to lifetime ECL credit impaired	(45,119)	(124,591)	169,710	-
Net remeasurement of loss allowance	34,933	(19,370)	213,273	228,836
Net financial assets originated	64,702	89,461	18,417	172,580
Financial assets derecognised	(23,467)	(61,789)	(312,531)	(397,787)
Loss allowance as at 31 December	102,970	299,976	3,028,743	3,431,689
Year ended 31 December 2021	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At start of the year	78,051	349,846	3,203,354	3,631,251
Movements during the year:				
Transfer to 12 months ECL	61,241	(45,786)	(15,455)	-
Transfer to lifetime ECL not credit impaired	(10,747)	46,772	(36,025)	-
Transfer to lifetime ECL credit impaired	(1,016)	(4,520)	5,536	-
Net remeasurement of loss allowance	(151,196)	(95,805)	1,323,931	1,076,930
Net financial assets originated	(52,641)	164,883	142,509	360,033
Financial assets derecognised	(15,822)	(15,519)	893,407	(924,748)
Write offs	-	-	-	(786,825)
Loss allowance as at 31 December	13,152	399,871	2,943,618	3,356,641

Notes (continued)

22 Loans and advances at amortised cost (continued)

		2023		
Year ended 31 December 2023	**Stage 1 Shs' 000**	**Stage 2 Shs' 000**	**Stage 3 Shs' 000**	**Total Shs' 000**
Gross carrying amount at start of year	26,009,720	5,844,366	8,486,934	40,341,020
Transfer to 12 months ECL	1,620,346	(1,289,110)	(331,236)	-
Transfer to lifetime ECL not credit impaired	(413,796)	2,354,884	(1,941,087)	-
Transfer to lifetime ECL credit impaired	(2,850)	(394,917)	397,767	-
Net remeasurement	(3,181,348)	261,388	4,564,581	1,644,621
Net financial assets originated	2,962,067	243,655	46,537	3,252,259
Financial assets derecognised	(1,531,363)	(875,254)	(403,782)	(2,810,399)
Gross carrying amount at end of year	25,462,776	6,145,012	10,819,714	42,427,501

Year ended 31 December 2022	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Gross carrying amount at start of year	22,086,457	7,290,049	8,672,760	38,049,266
Transfer to 12 months ECL	1,074,041	(716,974)	(357,067)	-
Transfer to lifetime ECL not credit impaired	(663,556)	782,216	(118,660)	-
Transfer to lifetime ECL credit impaired	(373,914)	(565,075)	938,989	-
Net remeasurement	(2,555,272)	(1,085,881)	80,754	(3,560,399)
Net financial assets originated	7,490,033	1,141,996	87,204	8,719,233
Financial assets derecognised	(1,048,069)	(1,612,121)	(622,012)	(3,282,202)
Write offs	-	-	(195,034)	(195,034)
Gross carrying amount at end of year	26,009,720	5,234,210	8,486,934	39,730,864

Notes (continued)

22 Loans and advances at amortised cost (continued)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	
Year ended 31 December 2021	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Gross carrying amount at start of year	24,478,632	6,558,292	10,798,847	41,835,771
Transfer to 12 months ECL	1,614,743	(1,563,171)	(51,572)	-
Transfer to lifetime ECL not credit impaired	(2,193,566)	2,307,147	(113,581)	-
Transfer to lifetime ECL credit impaired	(86,215)	(295,908)	382,123	-
Net remeasurement	(2,023,615)	33,395	(333,792)	(2,324,012)
Net financial assets originated	5,381,775	1,486,267	276,304	7,144,346
Financial assets derecognised	(5,085,297)	(1,235,973)	(2,285,569)	(8,606,839)
Write offs	-	-	-	-
Gross carrying amount at end of year	22,086,457	7,290,049	8,672,760	38,049,266

The weighted average effective interest rate on loan advances to customers as at 31 December 2023 was 10.62% (2022: 9.9% and 2021: 13.4%).

Notes (continued)

22 Loans and advances at amortised cost (continued)

Loss allowance on financial instruments

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income

	Loans and advances to customers Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Investment in Government securities	Total Shs'000
Year ended 31 December 2023						
Net re-measurement of loss allowance	324,155	11,587	72	22,645	7,855	366,314
New financial assets originated or purchased	92,136		-	-	-	92,136
Financial assets derecognized	(208,271)		-	-	-	(208,271)
Write offs	101,279					101,279
	309,299	11,587	72	22,645	7,855	351,458
Year ended 31 December 2022						
Net re-measurement of loss allowance	228,836	(7,841)	(16)	3,557	(233)	224,303
New financial assets originated or purchased	172,580	-	-	-	-	172,580
Financial assets derecognized	(397,787)	-	-	-	-	(397,787)
Write offs	195,034	-	-	-	-	195,034
	198,663	(7,841)	(16)	3,557	(233)	194,130

Notes (continued)

22 Loans and advances at amortised cost (continued)

Loss allowance on financial instruments

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income

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

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

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

	2021		
Segment	**Gross Shs'000**	**Loss allowance Shs'000**	**Carrying amount Shs'000**
Commercial	(3,988,518	(352,472)	3,636,046
IPF	30,764	(997)	29,767
Micro	10	(6)	4
Mortgage	24,138,451	(927,455)	23,210,996
Projects	8,955,214	(1,894,928)	7,060,286
Unsecured	936,309	(180,783)	755,526
	38,049,266	(3,356,641)	34,692,625

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

			2023				
Stage 3	**Mortgage Shs'000**	**Projects Shs'000**	**Commercial Shs'000**	**IPF Shs'000**	**Micro Shs'000**	**Unsecured Shs'000**	**Total Shs'000**
At start of year	157,475	122,598	157,157	186	-	47,026	484,442
Remeasurement	(85,095)	(82,482)	(121,913)	200	-	61,157	(228,133)
At end of year	72,380	40,116	35,244	386	-	108,183	256,309
Stage 1 & 2							
At start of year	666,500	1,939,688	204,752	901	7	131,772	2,943,620
Remeasurement	84,312	19,911	191,280	149	2	144,126	439,780
At end of year	750,812	1,959,599	396,032	1,050	9	275,898	3,383,400

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

				2022			
Stage 3	**Mortgage Shs'000**	**Projects Shs'000**	**Commercial Shs'000**	**IPF Shs'000**	**Micro Shs'000**	**Unsecured Shs'000**	**Total Shs'000**
At start of year	666,500	1,939,688	204,752	901	6	131,771	2,943,618
Remeasurement	(19,984)	17,306	123,244	(75)	-	(35,356)	85,135
At end of year	646,516	1,956,994	327,996	826	6	96,415	3,028,753
Stage 1 & 2							
At start of year	157,475	122,598	157,157	186	-	47,026	484,442
Remeasurement	7,720	4,066	(137,036)	(52)	-	43,796	(81,506)
At end of year	165,195	126,664	20,121	134	0	90,822	402,936

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

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

Notes (continued)

23 Other assets

Group

	2023 Shs'000	**2022 Shs'000**	**2021 Shs'000**
Trade receivables	1,297,735	1,064,666	521,542
Less: Allowance for impairment losses	(61,834)	(37,995)	(40,504)
	1,235,901	1,026,671	481,038
Prepayments	248,020	243,274	162,503
Receivable from KMRC	50,000	50,000	50,000
Foreclosed assets Deposits	103,819	121,766	381,200
Foreclosed assets	857,709	875,688	-
	2,495,449	2,317,399	1,074,741
12-month ECL:			
At start of year	(37,995)	(40,504)	(24,825)
Re-measurement during the year	(23,839)	2,509	(15,679)
At end of year	(61,834)	(37,995)	(40,504)

Company

	2023 Shs'000	**2022 Shs'000**	**2021 Shs'000**
Trade receivables	2,519	42,655	16,825
Less: Allowance for impairment losses	(13)	(6,970)	(6,970)
	2,506	35,685	9,855
Receivable from KMRC	527	1,007	500
	3,033	36,692	10,355
12-month ECL:			
At start of year	(6,970)	(6,970)	-
Re-measurement during the year	6,957	-	(6,970)
At end of year	(13)	(6,970)	(6,970)

Notes (continued)

24 Investment in property fund

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Assets as at start of the year	380,207	380,207	324,251
Impairment losses	-	-	55,956
As at end of the year	380,207	380,207	380,207

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

25 Inventories

	2023 Shs'000	2022 Shs'000	2021 Shs'000
At start of the year	414,604	414,604	462,658
Inventories (housing units and plots)	111,215	-	-
At end of year	525,819	414,604	462,658

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

Notes (continued)

26 Deferred income tax

(a) Group

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

Deferred tax liability

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

Notes (continued)

26 Deferred income tax (continued)

(a) Group

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

Year ended 31 December 2022	**Shs'000**	**Shs'000**	**Shs'000**
Property and equipment	(14)	(25)	(39)
Trading losses	9,466	(180)	9,286
General provisions	40,325	268	40,593
Net deferred tax	49,777	63	49,840

Notes (continued)

26 Deferred income tax (continued)

(b) Group

Year ended 31 December 2021	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	(210,895)	63,087	-	-	(147,808)
Revaluation surplus	(53,230)	-	-	(70)	(53,300)
Financial assets at FVOCI	(6,406)	-	90	-	(6,316)
Other general provisions	(9,818)	27,200	-	-	17,382
Right of use asset	(32,815)	126,021	-	-	93,206
Unrealised exchange losses	1	-	-	-	1
Trading losses	568,859	155,505	-	945	725,309
General provision on loans and advances	1,049,363	(65,390)	-	-	983,973
Deferred income tax	1,305,059	306,423	90	875	1,612,447

(b) Company

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

Year ended 31 December 2022	Shs'000	Shs'000	Shs'000
Property and equipment	(14)	(25)	(39)
Trading losses	9,466	(180)	9,286
General provisions	40,325	268	40,593
Net deferred tax	49,777	63	49,840

Year ended 31 December 2021	Shs'000	Shs'000	Shs'000
Property and equipment	(27)	13	(14)
Trading losses	10,978	(1,512)	9,466
General provisions	26,253	14,071	40,325
Net deferred tax	37,204	12,572	49,777

Notes (continued)

27 (a)Deposits from customers

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Government and parastatals:			
Payable within 90 days	8,888,748	10,605,604	2,704,529
Payable after 90 days and within one year	4,144,050	505,936	550
Payable after one year	-	1,487	4,937,695
Private sector and individuals:			
Payable within 90 days	12,734,281	14,164,528	17,685,571
Payable after 90 days and within one year	8,986,060	3,120,005	5,982,167
Payable after one year	9,094,505	11,399,381	6,264,402
	43,847,644	39,796,941	37,714,914

27 Deposits from customers

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2023 was 5.84% (2022 4.70% and 2021 4.03%). The carrying value of customer deposits approximates their fair value.
The summary of terms and conditions for the various categories of deposits are below:

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

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

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

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

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

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

Notes (continued)

(b)Deposits from banks

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Money market deposits	3,193	24,317	601,606

(c)Deposits from CBK

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Repurchase agreement	1,500,000	499,777	-

The Banking subsidiary entered into a repurchase agreement with the Central Bank of Kenya. The repurchase agreement is secured by investment in government securities. The weighted average interest rate on repurchase agreement was 15.62% (2022: 9.9% and (2022: 4.8%).

28 Other liabilities

Group	**2023 Shs'000**	**2022 Shs'000**	**2021 Shs'000**
House sales deposits	392,775	383,178	303,827
Withholding tax payable	95,073	114,064	77,154
Sundry creditors	303,647	53,055	35,232
Trade creditors	1,461,253	1,085,855	417,786
Insurance premium payable	87,330	338,896	328,637
Contractors payables	332,192	262,201	259,437
Asset retirement obligation – ROU asset	22,317	20,328	18,383
Other payables	582,568	828,990	250,382
	3,277,155	3,086,567	1,690,838

Company			
Other payables	347,439	394,058	308,928

Notes (continued)

29 Investment property

The Group has changed the accounting policy on investment property in the year. We have further explained the change in accounting policy under Note 2(a).

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the Group are classified as investment properties and are non-current assets. Investment properties are carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are presented in the income statement in the year to which they relate.

During the year, management has reclassified the foreclosed properties held under investment property to other assets. This is due to management intention is to sell these assets as opposed to holding them for longer term appreciation. The investment property had been held at cost in the previous year. The Group has also transferred 60% of the Rehani land and building that are not owner occupied to investment property in the year.

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Fair value			
At start and end of year	1,849,000	1,000,000	1,100,000
Transfer from rights of use assets	-	270,000	-
Transfer from property and equipment		580,000	-
Fair value gain/(loss)	36,000	(1,000)	(100,000)
	1,885,000	1,849,000	1,000,000

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Foreclosed properties			
Cost			
At start of year	-	735,395	582,798
Disposals	-	(106,151)	171,756
Transfers to other assets	-	(629,244)	(19,159)
Revaluation			
At end of year		-	735,395
Accumulated depreciation			
At start of year	-	(36,613)	23,167
Charge for the year	-	(36,613)	13,446
At end of year	-	-	36,613
Net carrying amount at end of year	-	-	698,782

All foreclosed assets were transferred to other assets in 2022

Notes (continued)

29 Investment property

Investment property reconciliation	2023 Shs'000	2022 Shs'000	2021 Shs'000
Investment property at fair value	1,849,000	1,849,000	1,000,000
Fair value gain	36,000	-	698,782
Total investment property	1,885,000	1,849,000	1,698,782

30 Borrowings

	2023	2022	2021
European Investment Bank (EIB)	1,214,764	1,309,816	1,523,134
Shelter Afrique	485,202	527,690	615,376
East African Development Bank	-	246,700	452,691
Arab Bank for Economic Development in Africa	81,972	147,505	209,549
Britam	1,029,442	1,024,480	1,022,691
Kenya Mortgage Refinance Company	929,052	1,061,566	474,908
	3,740,432	4,317,757	4,298,349
Current	527,148	3,330,011	3,888,548
Non-current portion	3,213,284	987,746	409,801
	3,740,432	4,317,757	4,298,349
Movement during the year			
At start of year	4,317,757	4,298,349	3,628,227
Receipt	-	700,000	1,514,574
Net movement in repayment and accrued interest	(577,325)	(680,592)	(844,452)
At end of year	3,740,432	4,317,757	4,298,349

Notes (continued)

30 Borrowings (continued)

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

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

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

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

Notes (continued)

30 Borrowings (continued)

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

31 December 2022 **Lender**	**Loan balance Shs' 000**	**Current Shs' 000**	**Non-current Shs' 000**	**Interest rate**	**Issue date**	**Maturity date**
European Investment Bank (EIB)	1,309,819	1,309,819	-	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	527,691	527,691	-	9.29%	28 December 2015	31 January 2026
Britam	1,024,480	1,024,480	-	14.41%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	1,061,566	136,497	925,069	5.00%	31 March 2021	31 March 2028
East African Development Bank (EADB)	246,700	246,700	-	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	147,501	84,824	62,677	9.27%	5 March 2018	23 December 2028
	4,317,757	3,330,011	987,746			

Notes (continued)

30 Borrowings (continued)

31 December 2021 Lender	**Loan balance Shs' 000**	**Current Shs' 000**	**Non-current Shs' 000**	**Interest rate**	**Issue date**	**Maturity date**
European Investment Bank (EIB)	1,523,134	1,523,134	-	4.32%	24 July 2017	1 October 2026
Shelter Afrique Limited	615,376	615,376	-	6.51%	28 December 2015	31 January 2026
Britam	1,022,691	1,022,691	-	12.94%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	474,908	65,107	409,801	5.00%	31 March 2021	31 March 2028
East African Development Bank (EADB)	452,691	452,691	-	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	209,549	209,549	-	5.16%	5 March 2018	23 December 2028
	4,298,349	3,888,548	409,801			

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

31 Capital and reserves

(a) Share capital

	2023 Shs' 000	**2022 Shs' 000**	**2021 Shs' 000**
Authorised – 500,000,000 (2021-22: 500,000,000) ordinary shares of Shs 5 each	2,500,000	2,500,000	2,500,000
Issued and fully paid - 384,614,168 (2021-22: 384,614,168) ordinary shares of Shs 5 each	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
In monetary terms:			
At start and end of year	1,923,071	1,923,071	1,923,071

Notes (continued)

31 Capital and reserves

(a) Share capital (continued)

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2023 (2022: 384,614,168 and 2021: 384,614,168).

(b) Share premium

This reserve arises when the shares of the Company are issued at a price higher than the nominal (Par) value. In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
At start of year	4,343,512	4,343,512	4,343,512
At end of year	4,343,512	4,343,512	4,343,512

31 Capital and reserves

(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.

	2023 Shs'000	2022 Shs'000	2021 Shs'000
At start of year	1,295,129	1,012,125	1,012,125
Change in fair value during the period:			
Revaluation gain on Land	20,000	404,292	-
Deferred income tax	(3,000)	(121,288)	-
At end of year	1,312,129	1,295,129	1,012,125

Notes (continued)

31 Capital and reserves (continued)

(d) Statutory credit risk reserve

The loan loss reserve represents excess of the loans and advances impairment provision determined in accordance with the Central Bank of Kenya's prudential guidelines compared with the requirements of IFRS 9 - *Financial instruments*. These reserves are not available for distribution.

The movement during the year is as below:

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
At start of year	3,696,575	3,413,517	3,653,888
Transfer	1,157,898	283,058	(240,370)
At end of year	4,854,473	3,696,575	3,413,518

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt investments and treasury bonds held at FVOCI until the investment is derecognised when the net changes are recycled to profit or loss.

	2023 Shs'000	2022 Shs'000	2021 Shs'000
At start of year	(40,373)	13,763	13,972
Change in fair value during the year:			
Fair value losses on treasury bonds classified as FVOCI	(378,578)	(77,337)	(299)
Less: Deferred income tax	113,573	23,201	90
At end of year	(305,378)	(40,373)	13,763

32 Government of Kenya income notes and loans

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Government of Kenya – Income Notes	52,860	52,860	52,860

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

Notes (continued)

33 Cash flows from operating activities

	Note	2023 Shs'000	2022 Shs'000	2021 Shs'000
Profit before income tax		334,484	190,394	(965,208)
Adjustments for:				
Group's share of profit/loss from investments in joint ventures	20	(31,946)	6,265	15,740
Interest expense on lease liabilities	35	30,423	24,309	71,616
Depreciation of property and equipment	18	77,652	41,948	113,599
Amortisation of right of use asset	35	78,434	78,786	86,685
Depreciation of investment property	28	-	-	14,000
Amortisation of intangible assets	19	213,106	240,045	231,139
Loss on sale of repurchased property		720	-	(1,192)
Gain on sale of property and equipment	23	(3,556)	-	(55,956)
Increase in customer and banks deposits		4,029,579	1,504,738	(2,818,088)
Increase/(decrease) in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	15	88,253	32,019	92,624
Movement in loans and advances to customers		(2,496,171)	(1,606,550)	2,305,848
Investment in government securities		(1,151,270)	(1,892,306)	335,150
Increase/decrease in inventory		(111,215)	48,054	51,764
Increase in other assets		(178,050)	(708,096)	(91,351)
Increase in other liabilities		190,588	1,427,697	280,184
Fair value gain on derivatives		(1,570)	(15,714)	28,982
Fair value gain/loss on investment property	28	(36,000)	1,000	100,000
Gain/Loss on modification on lease liabilities		(78,777)	2,371	-
Increase in deposit with Central Bank		1,000,233	499,777	-
Exchange rate difference		-	-	1,287
Net cash flows from operating activities before tax		1,954,967	(125,263)	(203,177)
Income tax paid		(31,675)	(47,977)	(7,669)
Net cash flows from operating activities		1,923,292	(173,240)	(210,846)

Notes (continued)

33 Cash flows from operating activities (continued)

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Cash in hand and bank (Note 16 (a))	367,508	544,451	1,112,462
Balances due from banking institutions (Note 16 (a))	302,222	76,894	33,311
Placement	607,391	12,346	-
Investments maturing within 90 days (Note 18)	590,000	215,000	40,000
	1,867,121	848,691	1,185,773

Analysis of cash and cash equivalents
Group

Cash in hand and bank (Note 15 (a))	366,242	544,451	1,112,462
Balances due from banking institutions (Note 15 (a))	910,879	89,240	33,311
Investments maturing within 90 days	590,000	215,000	40,000
	1,867,121	848,691	1,185,773

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Guarantees	2,428,566	366,154	976,588
Letters of credit	39,474	1,569,040	169,046
	2,468,040	1,935,194	1,145,634

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

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Loans approved but not yet disbursed	785,727	1,416,322	1,214,932

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

(a) Guarantees, letters of credit and commitments

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

	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
31 December 2023					
Guarantees	259,550	1,256,785	843,957	68,273	2,428,565
Letters of credit		37,668	1,806		39,474
Loans approved but not yet disbursed		785,727			785,727
	259,550	2,080,180	845,763	68,273	3,253,766
31 December 2022					
Guarantees	366,154	-	-	-	366,154
Letters of credit	502,303	211,512	377,105	478,120	1,569,040
Loans approved but not yet disbursed	-	1,416,322	-	-	1,416,322
	868,457	1,627,834	377,105	478,120	3,351,516
31 December 2021					
Guarantees	36,080	151,015	615,480	174,013	976,588
Letters of credit	-	135,780	33,266	-	169,046
Loans approved but not yet disbursed	-	1,214,932	-	-	1,214,932
	36,080	1,501,727	648,746	174,013	2,360,566

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities

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

35 Leases

The Group as a lessee

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

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

(a) Right-of-use assets

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
At start of year	1,004,756	895,594	895,594
Adjustments due to changes in cashflows changes	(67,775)	(25,130)	-
Additions	25,934	-	-
Fair value gain transferred to revaluation reserves	-	404,292	-
Transfer of land to inventory	(8,906)	-	-
Transfer of land to investment property	-	(270,000)	-
Transfer of land to property plant & equipment	(180,000)	-	-
Accumulated depreciation	(579,905)	(512,143)	(439,105)
At end of year	194,104	492,613	456,489

Notes (continued)

35 Leases (continued)

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

	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Year ended 31 December 2023				
Cost				
At start of year and end of year	188,904	595,949	219,903	1,004,756
Remeasurement during the year		25,934		25,934
Adjustments due to changes in cashflows		(6,760)	(61,015)	(67,775)
Transfer of land to inventory	(8,904)			(8,906)
Transfer of land to property plant and equipment	(180,000)			(180,000)
	-	615,123	158,888	774,009
Accumulated depreciation				
At start of year	(10,424)	(408,673)	(93,046)	(512,143)
Charge for the year		(53,009)	(25,425)	(78,434)
Transfers	6,310			6,310
Reversal of accumulated depreciation	4,362			4,362
Total accumulated depreciation	248	(461,682)	(118,471)	(579,905)
At end of year	248	153,441	40,417	194,104
Year ended 31 December 2022				
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
Remeasurement during the year		(25,130)	-	(25,130)
Fair value gain transferred to revaluation reserves	404,292	-	-	404,292
Transfer of land to investment property	(270,000)	-	-	(270,000)
	188,904	595,949	219,903	1,004,756
Accumulated depreciation				
At start of year	(12,894)	(354,096)	(72,115)	(439,105)
Charge for the year	(3,278)	(54,577)	(20,931)	(78,786)
Transfers	5,748	-	-	5,748
	(10,424)	(408,673)	(93,046)	(512,143)
	178,480	187,276	126,857	492,613

Notes (continued)

35 Leases (continued)

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

	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Year ended 31 December 2021				
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
Remeasurement during the year	-	-	-	-
Fair value gain transferred to revaluation reserves	-	-	-	-
Transfer of land to investment property	-	-	-	-
	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start of year	(12,432)	(295,361)	(44,627)	(352,420)
Charge for the year	(462)	(58,735)	(27,488)	(86,685)
Transfers	-	-	-	-
At end of year	(12,894)	(354,096)	(72,115)	(439,105)
	41,718	266,983	147,788	456,489

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

Maturity analysis – Contractual undiscounted cash flows	2023 Shs '000	2022 Shs '000	2021 Shs '000
Less than one year	107,988	255,105	148,019
Between one and five years	174,680	349,762	654,111
More than five years	3,002	28,349	30,184
	285,670	633,216	832,314

(b) Amounts recognised in profit or loss

Leases under IFRS 16			
Interest on lease liabilities	30,423	24,309	71,616
Interest on asset retirement obligation	-	1,865	1,906
Depreciation of Right-of-use assets	78,434	78,786	86,685

Notes (continued)

35 Leases

a) Amounts recognised in statement of cash flows

Total cash outflow for leases	123,541	141,723	139,959

(d) Lease liabilities

	2023 Shs '000	2022 Shs '000	2021 Shs '000
Current	83,998	103,884	142,810
Non-current	177,515	330,604	436,593
	261,513	434,488	579,403

(d) Lease liabilities

Movement in lease liabilities

At start of year	434,488	576,552	650,751
Additions	25,934	-	-
Remeasurement (principal)		(62,092)	-
Remeasurement (cashflows)	(106,111)	37,442	-
Interest expense charged	30,422	24,309	-
Interest elements of lease payments	(30,422)	(24,309)	71,616
Principal elements of lease payments	(92,798)	(117,414)	(142,964)
At end of year	261,513	434,488	579,403

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group as a lessor

The Group leases out part of its property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income earned during the period was Shs.85,163,941 (2022: Shs 74,983,000).

Notes (continued)

36 Related parties and related party transactions

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

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

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

(a) Loans to key management personnel

	2023 Shs' 000	**2022 Shs' 000**	**2021 Shs' 000**
At start of year	173,591	200,933	159,741
Loans disbursed	57,108	63,219	82,943
Repayments	(64,272)	(90,561)	(41,751)
At end of year	166,427	173,591	200,933
Current	27,033	28,196	32,637
Non - current	139,394	145,395	168,296
Total	166,427	173,591	200,933

Notes (continued)

36 Related parties and related party transactions

(b) Loans to employees

	2023 Shs'000	2022 Shs'000	2021 Shs'000
At start of year	1,049,491	771,795	793,613
Loans advanced during the year	835,386	728,059	404,169
Loans repayments received	(632,375)	(450,363)	(425,987)
At end of year	1,252,502	1,049,491	771,795
Comprising:			
Mortgages and advances	726,911	633,528	565,842
Personal loans	499,440	397,653	193,653
Staff car loans	26,151	18,310	12,300
	1,252,502	1,049,491	771,795
Current	325,651	272,868	200,667
Non - current	926,851	776,623	571,128
Total	1,252,502	1,049,491	771,795

Interest income arising from these employees' facilities amounted to Shs 76,494,119 (2022: Shs 60,087,974 and 2021: Shs 52,936,000).

(c) Remuneration to directors and key management personnel

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Remuneration to executive directors:			
Company*	69,451	72,543	50,293
Group**	52,029	48,882	16,865
Remuneration to key management	145,264	105,214	140,807
	266,744	226,639	207,965

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

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

Notes (continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Remuneration to key management:			
Salaries and short-term benefits	145,264	105,214	140,807
Pension	21,790	15,782	21,162
	167,054	120,996	161,969

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

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

	2023 Shs' 000	2022 Shs' 000	2021 Shs' 000
Bank balances held with HFC Limited	59,567	18,316	64,582

(e) Transactions with HF Development and Investment Limited

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Bank balances held with HFC Limited	9,161	7,082	12,772
Loans and other receivables	1,210,396	1,640,233	2,168,658
	1,219,557	1,647,315	2,181,430

Notes (continued)

36 Related parties and related party transactions (continued)

(f) Transactions with HF Bancassurance Intermediary

	2023 Shs'000	2022 Shs'000	2021 Shs'000
Bank balances held with HFC Limited	12,696	32,921	-
Other receivables	40,955	34,136	-
	53,651	67,057	-

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	1,863	2,942	6,889
Other receivables	2,746	-	-
	4,609	2,942	6,889

(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	10,265	170	86,263

(i) Transactions with Clay City Limited

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

(j) Transactions with Richland Development Limited

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

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

Bank balances held with HFC Limited	109	18,476	102,288

(l) Transactions with Pioneer International College

Loans and advances held with HFC Limited	11,624	54,468	136,186

Notes (continued)

36 Related parties and related party transactions (continued)

(k) Transactions with Agricultural and Industrial Holdings Ltd

Loans and advances held with HFC Limited	58,199	79,266	97,292

37 Derivative Liabilities

The Bank's derivative financial instruments are entered into for trading purposes. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is
both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

	Notional contract amount	2023	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Foreign exchange contracts	289,511	1,570	13,268	28,982

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HF GROUP PLC

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2024

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The Directors
HF Group Plc
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 - 00100
Nairobi, Kenya.

Report on interim financial statements for the six-months period ended 30 June 2024

We have reviewed the accompanying consolidated interim financial statements of HF Group Plc (the "Company") and its subsidiaries (together the "Group") for the six-month period ended 30 June 2024 as set out in pages 4 to 23, comprising the consolidated statement of financial position as at 30 June 2024, and the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the six-month period then ended, together with the Company statement of financial position as at 30 June 2024 and the Company statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the six-month period then ended, and the notes comprising material accounting policies and other explanatory information.

The directors are responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standards 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view , in all material respects, the financial position of the group as at 30 June 2024 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standards 34 – Interim Financial Reporting.

FCPA Michael Mugasa, Practicing Certificate Number 1478
Engagement partner responsible for the review

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi
17th September **2024**

HF Group Plc
Interim financial statements
For the six month period ended 30 June 2024

Consolidated statement of profit or loss and other comprehensive income

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Interest income	3	3,041,628	5,347,608
Interest expense	4	(1,708,777)	(2,654,825)
Net interest income		1,332,851	2,692,783
Allowance for expected credit losses		(167,375)	(309,299)
Net interest income after credit impairment losses		1,165,476	2,383,484
Fee and commission income	5	295,123	340,781
Trading income		91,508	174,407
Other income	6	223,050	542,677
Net operating income		1,775,157	3,441,349
Employee benefits	7	(876,979)	(1,625,812)
Depreciation and amortisation		(123,484)	(364,829)
Other operating expenses	8	(598,364)	(1,184,170)
Share of profit in joint ventures		106,629	31,946
Investment property fair valuation gain/ loss		-	36,000
Profit before income tax		282,959	334,484
Income tax (charge) /credit		(16,686)	53,672
Profit for the year		266,273	388,156
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Fair value loss on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)		256,354	(378,578)
Deferred income tax		(76,906)	113,573
		179,448	(265,005)
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment		-	20,000
Deferred income tax		-	(3,000)
		-	17,000
Total comprehensive profit for the year		445,721	140,151
Basic and diluted earnings per share – Shs		1.38	1.01

Company statement of profit or loss and other comprehensive income

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Other income	6	46,865	98,600
Employee benefits	7	(38,623)	(73,640)
Depreciation and amortisation		(116)	(273)
Other operating expenses	8	(14,400)	(20,808)
(Loss)/profit before income tax		(6,274)	3,879
Income tax credit/(expense)		88	(463)
(Loss)/profit after income tax		(6,186)	3,416
Other comprehensive income, net of tax		-	-
Total comprehensive (loss) /income for the year		(6,186)	3,416

HF Group Plc
Interim financial statements
As at 30 June 2024

Consolidated statement of financial position

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Assets			
Cash and balances with banks	9	3,168,060	2,145,150
Placements with other banks	9	-	607,391
Investment in government securities	10	12,194,314	9,682,141
Loans and advances to customers	11	37,916,739	38,787,793
Other assets	12	2,571,363	2,495,449
Inventories		497,684	525,819
Property and equipment	13	854,554	792,635
Right-of-use asset		173,290	194,104
Intangible assets	14	300,452	277,897
Investment property	15	1,885,000	1,885,000
Investment in property fund		380,207	380,207
Investment in joint ventures	16	1,751,749	1,645,120
Current income tax		362,184	367,255
Deferred income tax		1,689,627	1,764,469
Total assets		63,745,223	61,550,430
Liabilities			
Balances from Central Bank	17	2,005,939	1,500,000
Deposits from customers	17	45,028,280	43,847,644
Deposits from banks	17	607,841	3,193
Other liabilities	18	3,458,898	3,277,155
Derivative liabilities		2,630	1,570
Dividends payable		246	246
Deferred income tax		487	487
Borrowings	19	3,025,056	3,740,432
Government of Kenya income notes	20	52,860	52,860
Lease liabilities		246,612	261,513
		54,428,849	52,685,100
Shareholders' equity			
Share capital		1,923,071	1,923,071
Share premium		4,343,512	4,343,512
Regulatory reserve		5,167,524	4,854,473
Revaluation reserves		1,312,129	1,312,129
Fair value reserves		(120,607)	(305,378)
Accumulated losses		(3,309,255)	(3,262,477)
		9,316,374	8,865,330
Total liabilities and shareholders' equity		63,745,223	61,550,430

Company statement of financial position

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Assets			
Cash and balances with banks	9	5,053	1,107
Investment in subsidiaries	16	9,857,594	9,857,594
Other assets	12	19,632	3,033
Property and equipment	13	811	727
Current income tax		52,016	57,486
Deferred income tax		49,465	49,377
Total assets		9,984,571	9,969,324
Liabilities			
Other liabilities	18	368,872	347,439
Dividends payable		246	246
		369,118	347,685
Shareholders' equity			
Share capital		1,923,071	1,923,071
Share premium	3	4,343,512	4,343,512
Retained earnings		3,348,870	3,355,056
		9,615,453	9,621,639
Total liabilities and shareholders' equity		9,984,571	9,969,324

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Accumulated losses	Fair value reserves	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2023							
At start of year	1,923,071	4,343,512	1,295,129	3,696,575	(2,492,735)	(40,373)	8,725,179
Profit for the year	-	-	-	-	388,156	-	388,156
Other comprehensive loss for the year							
Transfer from statutory credit risk reserve	-	-	-	1,157,898	(1,157,898)	-	-
At fair value through other comprehensive income	-	-	-	-	-	(265,005)	(265,005)
Revaluation surplus on property and equipment	-	-	17,000	-	-	-	17,000
At end of year	1,923,071	4,343,512	1,312,129	4,854,473	(3,262,477)	(305,378)	8,865,330
Six month period ended 30 June 2024							
At start of year	1,923,071	4,343,512	1,312,129	4,854,473	(3,262,477)	(305,378)	8,865,330
Profit for the period	-	-	-	-	266,273	-	266,273
Other comprehensive loss for the year							
Transfer from statutory credit risk reserve	-	-	-	313,051	(313,051)	-	-
At fair value through other comprehensive income	-	-	-	-	-	184,771	184,771
At end of year	1,923,071	4,343,512	1,312,129	5,167,524	(3,309,255)	(120,607)	9,316,374

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2023				
At start of year	1,923,071	4,343,512	3,351,640	9,618,223
Profit and total comprehensive income for the year	-	-	3,416	3,416
At end of year	1,923,071	4,343,512	3,355,056	9,621,639
Six month period ended 30 June 2024				
At start of year	1,923,071	4,343,512	3,355,056	9,621,639
Loss and total comprehensive loss for the year	-	-	(6,186)	(6,186)
At end of year	1,923,071	4,343,512	3,348,870	9,615,453

Consolidated statement of cash flows

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Profit before income tax		282,959	334,484
Adjustments for:			
Depreciation of property and equipment	13	40,818	77,652
Amortisation of intangible asset	14	45,555	213,106
Loss on sale of repurchased properties		-	720
Gain on sale of property and equipment		-	(3,556)
Bank's share of profit in joint ventures	16	(106,629)	(31,946)
Increase in balances with Central Bank of Kenya: – cash reserve ratio	9	(422,150)	88,256
Increase in customer and bank deposits		1,757,543	4,029,629
Decrease (increase) in loan advances to customers		871,054	(2,496,171)
Increase in Central Bank of Kenya balances		505,939	1,000,233
Increase in investment in government securities		(2,512,173)	(1,151,270)
Decrease in inventory		28,133	(111,215)
Increase in other assets		(90,916)	(178,050)
Increase in other liabilities		192,413	190,587
Amortisation of right-of-use assets		37,112	78,434
Interest expense on lease liability		14,832	30,421
Fair value gain on investment property		-	(36,000)
Fair value gain/ (loss) on derivatives		1,060	(1,570)
Gain/loss on modification on lease liabilities		-	(78,777)
Net cash flows from operating activities before income tax		645,550	1,954,967
Income tax paid		(25,233)	(31,675)
Net cash flows from operating activities		620,317	1,923,292
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(102,736)	(85,183)
Purchase of intangible assets	14	(59,636)	(158,411)
Proceeds from disposal of repurchased properties		-	35,700
Proceeds from disposal of property, plant and equipment		-	3,577
Net cash flows used in investing activities		(186,739)	(204,317)
FINANCING ACTIVITIES			
Principal repayments of borrowings	19	(715,376)	(577,325)
Interest lease payments		(14,832)	(30,422)
Principal lease payments		(51,881)	(92,798)
Net cash flows used in financing activities		(782,089)	(700,545)
Net (decrease)/ increase in cash and cash equivalents		(324,144)	1,018,430
Cash and cash equivalents at start of year		1,867,121	848,691
Cash and cash equivalents at end of year		1,542,977	1,867,121

Company statement of cash flows

	Note	6-months period ended 30 June 2024 Shs'000	12-months period ended 31 December 2023 Shs'000
Loss/profit before income tax		(6,274)	3,879
Adjustments for:			
Depreciation of property and equipment	13	116	273
(Decrease)/increase in other assets		(11,129)	33,658
Increase /(decrease) in other liabilities		21,433	(46,620)
Net cash flows from operating activities before income tax		4,146	(8,810)
Income tax paid		-	(5,470)
Net cash flows from operating activities		4,146	(14,280)
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(200)	-
Net cash flows used in investing activities		(200)	-
Net (decrease)/ increase in cash and cash equivalents		3,946	(14,280)
Cash and cash equivalents at start of year		1,107	15,387
Cash and cash equivalents at end of year		5,053	1,107

Notes

1 General information

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

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

2 Material accounting policies

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

(a) Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34: *Interim Financial Reporting*. The unaudited interim financial statements should be read in conjunction with the financial statements for the year ended 31 December 2023. The accounting policies used in the preparation of the consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2023.

(b) Functional and presentation currency

The financial statements are presented in Kenya Shillings which is the Company's Functional Currency. All the financial statements presented in Kenya Shillings have been rounded to the nearest thousands except when otherwise indicated.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency").

(c) Use of judgment and estimates

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2023.

(d) Going concern assessment

The banking subsidiary

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

- Launching new business segments including SME Banking, Financial Institutions, Custody Business, Institutional Banking and Treasury as a business (they are now all profitable) to supplement its earlier single segment (Personal Banking);

- Recalibrating its assets-liabilities mix and structure to optimize the net interest margin and reduce structural liquidity fragilities.

Notes (continued)

2 Material accounting policies (continued)

(d) Going concern assessment (continued)

The banking subsidiary (continued)

- Separating the "Good Bank" and the "Bad Bank" (Special Assets), assigning the 2 banks different management teams with different skill sets. This has allowed HFC to continue with the NPL resolution efforts while at the same time developing a new loan portfolio much healthier than the Kenyan banking sector loan portfolio. This Good Bank portfolio closed 30 June 2024 contributing slightly more than 75% of the total HFC loans and with an impressive NPL ratio of 6.49% against the prevailing Kenyan banking sector NPL ratio of 15.2% in March 2024.

- Revenue diversification: The new business segments have helped the bank to reduce its over reliance on interest income by creating new streams on non funded income.

Property subsidiary

The group's property subsidiary has undergone significant changes in its business structure. The subsidiary has changed its traditional core business mandate of property development and is now focusing on landowner solutions and other property management consultancy.
Over the last two years, this has proven to be profitable, sustainable, and less capital intensive. The subsidiary posted an enviable profit before tax growth rate of 32%.

Bancassurance subsidiary

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

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

Based on the above factors, the board and management consider the entities to be a going concern and these interim financial statements have been prepared on a going concern basis.

3 Interest income

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Loans and advances to customers	2,325,230	4,174,558	-	-
Deposit with banks	40,403	27,413	-	-
Financial assets at amortised cost	202,553	444,330	-	-
Financial assets at FVOCI	473,442	701,307	-	-
	3,041,628	5,347,608	-	-

Notes (continued)

4 Interest expense

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits from customers	1,325,981	2,013,724	-	-
Deposits from banks	31,790	55,948	-	-
Repurchase agreement with CBK	169,024	199,529	-	-
Borrowings	169,676	355,477	-	-
Lease liabilities	12,306	30,147	-	-
	1,708,777	2,654,825	-	-

5 Fee and commission income

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Service fees and commission /transactional banking	119,234	199,987	-	-
Custodial services	34,584	19,082	-	-
Other commissions	141,305	121,712	-	-
	295,123	340,781	-	-

6 Other income

	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Rental income	45,323	85,164	-	-
Sales income	37,865	110,152	-	-
Other *	101,781	277,176	46,865	98,600
Insurance commission	38,081	70,185	-	-
	223,050	542,677	46,865	98,600

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

Notes (continued)

7 Employee benefits

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Salaries and other staff costs	778,876	1,496,475	26,630	49,652
Remuneration to executive directors	46,534	52,029	11,791	23,584
NSSF contributions	6,633	3,643	12	24
Contributions to the defined contribution retirement scheme	44,936	73,665	190	380
	876,979	1,625,812	38,623	73,640
Average number of employees	570	568	2	2

8 Other operating expenses

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Occupancy expenses	33,034	65,047	-	-
Deposit Protection Fund payment	42,518	80,184	-	-
Cost of sold houses	-	81,848	-	-
Marketing expenses	59,200	57,762	125	1,865
Information technology expenses	187,524	282,387	-	-
Legal expenses	6,584	59,733	-	-
Office expenses	90,921	66,604	2,871	5,998
General administration expenses	178,583	490,605	11,404	12,945
	598,364	1,184,170	14,400	20,808

9 Cash and balances with banks

	Group 2024 Shs'000	Group 2023 Shs'000	Company 2024 Shs'000	Company 2023 Shs'000
Cash at hand	392,267	367,508	-	-
Balances with commercial banks	878,303	302,222	5,053	1,107
Placements with other banks (Note 17)	-	607,391	-	-
Balances with Central Bank of Kenya:				
- Restricted (Cash Reserve Ratio)	1,897,490	1,475,340	-	-
	3,168,060	2,752,461	5,053	1,107

Notes (continued)

9 Cash and balances with banks (continued)

Analysis of cash and cash equivalents	Group		Company	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand and bank	392,266	367,508	-	-
Balances due from banking institutions	870,711	909,613	5,053	1,107
Investment maturing within 90 days	280,000	590,000	-	-
	1,542,977	1,867,121	5,053	1,107

10 Investment in government securities

Held at amortised cost	Group	
	2024	2023
	Shs'000	Shs'000
Treasury bills and bonds	3,225,683	4,036,868
FVOCI		
Treasury bills and bonds	8,968,631	5,645,273
	12,194,314	9,682,141

10 Investment in government securities

Held at amortised cost	2024	2023
	Shs'000	Shs'000
At start of year	4,044,852	3,779,143
Purchases during the year	20,000	327,725
Sales/maturities during the year	(839,169)	(70,000)
At end of year	3,225,683	4,036,868

Fair value through other comprehensive income (FVOCI)		
At start of year	5,645,273	4,760,994
Purchases during the year	6,825,350	16,553,746
Sales/maturities during the year	(3,758,346)	(15,290,889)
Gain/(loss) on fair valuation	256,354	(378,578)
At end of year	8,968,631	5,645,273
	12,194,314	9,682,141

Notes (continued)

11 Loans and advances

	Group 2024 Shs'000	2023 Shs'000
Gross loans and advances to customers	41,604,727	42,427,502
Less: Provision for expected credit losses	(3,687,988)	(3,639,709)
Net loans and advances to customers	37,916,739	38,787,793

Classification of the loans and advances by stage

	2024 Shs'000	2023 Shs'000
Stage 1 loans	26,651,320	27,817,660
Stage 2 loans	3,748,005	3,790,128
Stage 3 loans	11,205,402	10,819,714
	41,604,727	42,427,502

Classification of impairment by stage

	2024 Shs'000	2023 Shs'000
Stage 1 impairment	(112,910)	(124,595)
Stage 2 impairment	(211,188)	(131,715)
Stage 3 impairment	(3,363,890)	(3,383,399)
	(3,687,988)	(3,639,709)
Net loans and advances	37,916,739	38,787,793

12 Other assets

	Group		Company	
	2024 Shs'000	2023 Shs'000	2024 Shs'000	2023 Shs'000
Trade receivables	1,354,149	1,297,735	18,649	2,519
Less: Allowance for impairment losses	(63,536)	(61,834)	(13)	(13)
	1,290,613	1,235,901	18,636	2,506
Prepayments	267,723	248,020	996	527
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets deposits	100,308	103,819	-	-
Foreclosed assets	862,719	857,709		
	2,571,363	2,495,449	19,632	3,033

Notes (continued)

13 Property plant and equipment

Group	Freehold land	Leasehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
Period ended 30 June 2024	**Shs'000**		**Shs'000**	**Shs'000**	**Shs'000**
Cost or valuation					
At start of year	62,000	180,000	380,000	1,380,309	2,002,309
Additions	-	-	-	85,236	85,236
Work in progress	-	-	-	17,500	17,500
At end of period	62,000	180,000	380,000	1,483,046	2,105,046
Accumulated depreciation					
At start of year	-	6,310	23,775	1,179,589	1,209,674
Charge for the year	-	-	5,118	35,700	40,818
At end of period		6,310	28,893	1,215,289	1,250,492
Net book value at end of period	62,000	173,690	351,107	267,757	854,554
Year ended 31 December 2023					
Cost or valuation					
At start of year	62,000	-	360,000	1,295,663	1,717,663
Additions	-	-	-	85,183	85,183
Work in progress	-	-	-	12,336	12,336
Disposals	-	-	-	(12,873)	(12,873)
Valuation gain	-		20,000	-	20,000
Transfer from right of use asset		180,000	-	-	180,000
At end of year	62,000	180,000	380,000	1,380,309	2,002,309
Accumulated depreciation					
At start of year	-	-	13,716	1,124,532	1,138,248
Charge for the year	-	-	10,059	67,593	77,652
Disposals	-	-	-	(12,536)	(12,536)
Transfers	-	6,310	-	-	6,310
At end of year		6,310	23,775	1,179,589	1,209,674
Net book value at end of year	62,000	173,690	356,225	200,720	792,635

Notes (continued)

13 Property plant and equipment (continued)

Company

Period ended 30 June 2024	Furniture, fixtures, equipment & motor vehicles 2024 Shs'000	2023 Shs'000
Cost or valuation		
At start of year	1,727	1,727
Additions	200	-
At end of year	1,927	1,727
Accumulated depreciation		
At start of year	1,000	727
Charge for the year	116	273
At end of year	1,116	1000
Net book value at end of period	811	727

14 Intangible assets

	Group 2024 Shs'000	2023 Shs'000
Cost:		
At start of year	2,119,324	1,960,913
Additions during the year	59,636	147,222
Work in progress	8,474	11,189
At end of year	2,187,434	2,119,324
Accumulated amortisation		
At start of year	1,841,427	1,628,321
Amortisation during the year	45,555	213,106
At end of year	1,886,982	1,841,427
Net book value at end of year	300,452	277,897

Notes (continued)

15 Investment property

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

16(a) Investment in joint ventures & associate

At start of year		Group 2024 Shs'000	2023 Shs'000
Kahawa Downs Limited	50%	103,252	103,252
Precious Heights Limited	50%	86,306	86,306
Richland Development Limited	50%	101,409	101,409
Claycity Limited	33%	483,629	483,629
Theta Dam Estate Limited	50%	977,153	870,524
		1,751,749	1,645,120

16(a) Investment in joint ventures & associate

Group's share of profit in joint ventures		2024 Shs'000	2023 Shs'000
Kahawa Downs Limited	50%	-	(428)
Kahawa Downs Limited prior year adjustment *		-	1,480
Precious Heights Limited	50%	-	1,772
Precious Heights Limited prior year adjustment*		-	(7,486)
Richland Development Limited	50%	-	1,177
Claycity Limited	33%	-	(2,076)
Theta Dam Estate Limited	50%	106,629	37,507
		106,629	31,946

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

Notes (continued)

16(b) Investment in subsidiaries

		Company 2024 Shs'000	2023 Shs'000
HFC Limited	100%	8,603,662	8,603,662
HF Development and Investment Limited (HFDI)	100%	1,243,912	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	5,000	5,000
		9,857,594	9,857,594

17 (a) Deposits from Central Bank of Kenya (CBK)

	Group 2024 Shs'000	2023 Shs'000
Repurchase agreement	2,005,939	1,500,000

(b) Deposits from banks

Inter- bank lending	607,841	3,193

(c) Deposits from customers

Government and parastatals:		
Payable within 90 days	7,885,375	8,888,748
Payable after 90 days and within one year	4,853,080	4,144,050
Private sector and individuals:		
Payable within 90 days	11,802,008	12,734,281
Payable after 90 days and within one year	5,374,002	8,986,060
Payable after one year	15,113,815	9,094,505
	45,028,280	43,847,644

Notes (continued)

18 Other liabilities

	Group		Company	
	2023	2022	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
House sales deposits	400,480	392,775	-	-
Withholding tax payable	58,813	95,073	-	-
Sundry creditors	353,414	303,647	-	-
Trade creditors	1,719,641	1,461,253	-	-
Insurance premium payable	44,867	87,330	-	-
Contractors payables	336,539	332,192	-	-
Asset retirement obligation – right of use asset	22,317	22,317	-	-
Other payables	522,826	582,568	368,872	347,439
	3,458,898	3,277,155	368,872	347,439

19 Borrowings

	Group	
	2024	2023
	Shs'000	Shs'000
European Investment Bank (EIB)	813,797	1,214,764
Shelter Afrique	317,874	485,202
Arab Bank for Economic Development in Africa	-	81,972
Britam Holdings Plc	1,033,425	1,029,442
Kenya Mortgage Refinance Company	859,960	929,052
	3,025,056	3,740,432

HFC Bank Limited a subsidiary of HF Group Plc was in breach of some of financial covenants laid by some of the lenders. More information regarding these breaches can be obtained in the published 2023 annual report that is available for public use.

20 Government of Kenya income notes and loans

	Group	
	2024	2023
	Shs'000	Shs'000
Government of Kenya – Income Notes	52,860	52,860

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The Directors
HF Group Plc
Rehani House
Kenyatta Avenue/ Koinange Street
P.O. Box 30088-00100
Nairobi, Kenya

Independent auditor's report on the prospective financial information of HF Group Plc

We have undertaken a reasonable assurance review of the accompanying prospective financial information of HF Group Plc (the 'Company') and its subsidiaries (together, the "Group") set out in pages 4 to11, comprising the consolidated statement of financial position as at 30 June 2025 and the consolidated statements of profit or loss and other comprehensive income and changes in equity for the year then ending, together with the Company statement of financial position as at 30 June 2025 and the Company statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ending, and the notes comprising the basis of preparation and the underlying assumptions.

Opinion

In our opinion the prospective financial information have been properly compiled based on the underlying assumptions and the Group's accounting policies.

Responsibility for the prospective financial information

HF Group Plc is responsible for the preparation and presentation of the prospective financial information, including the assumptions and accounting policies set out on note 2 of the prospective information.This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the prospective financial information that are based on the accompanying assumptions.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standard Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to provide the opinion required by the Capital Markets Authority ("CMA"). We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance engagements other than audits or reviews of historical financial information ('ISAE 3000'),* issued by the International Auditing and Assurance Standards Board.

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

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Independent auditor's report on the prospective financial information of HF Group Plc (continued)

Our responsibility (continued)

That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether management has properly compiled, in all material respects, the prospective financial information on the basis of the assumptions and the accounting policies set out in the Accountant's report section of the Information Memorandum.

This reasonable assurance engagement, performed in accordance with ISAE 3000, involved performing procedures to obtain evidence that the prospective financial information were properly compiled by management on the basis of the assumptions set out in Accountant's report section of the Information Memorandum and that the basis of accounting used is consistent with the accounting policies of the Group. The nature, timing and extent of procedures selected in an ISAE 3000 engagement depend on the auditor's judgment, including the assessment of the risks of improper compilation, whether due to fraud or error, of the prospective financial information. In making those risk assessments, we considered internal control relevant to HF Group Plc's preparation of the prospective financial information. Our procedures included evaluating whether the accounting policies applied in the preparation of the prospective financial information were consistent with the accounting policies used by management in the preparation of the entity's previous financial information and whether the prospective financial information had been properly compiled on the basis of those accounting policies and management's assumptions. We also considered the overall presentation of the prospective financial information, including the disclosure of the assumptions on which it is based.

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

Inherent limitations

The prospective financial information have been prepared for the purpose of inclusion in the Information Memorandum in support of the Groups' capital raising and may not be used for any other purpose. Because of its forward looking nature, the prospective financial information has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Consequently, we express no opinion on the validity of the assumptions on which the projection is based or on how closely the results actually achieved will compare with the prospective financial information.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the prospective financial information since other anticipated events frequently do not occur as expected and the variation may be material. Further, we emphasise that the prospective financial information are not intended to, and do not, provide all the information and disclosures necessary to give a fair presentation in accordance with IFRS Accounting Standards.

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Independent auditor's report on the prospective financial information of HF Group Plc (continued)

Opinion

In our opinion the prospective financial information have been properly compiled on the basis of the assumptions set out and included in the reporting accountant section of the Information Memorandum and the basis of accounting used is consistent with the accounting policies of the Group.

Intended users and purpose

These prospective financial information have been prepared for the purpose described above, and may, therefore, not be appropriate for any other purpose. Our report is intended solely for the directors of HF Group Plc for inclusion in the Information Memorandum in support of the Groups' capital raising and may not be used for any other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Consent

We consent to the inclusion of this report in the Information Memorandum in support of the capital raising by HF Group Plc to be issued on or about 15 October 2024 in the form and context in which it appears.

FCPA Michael Mugasa, Practising Certificate Number 1478
Engagement partner responsible for the engagement

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

17th September **2024**

Prospective consolidated statement of profit or loss and other comprehensive income
For the year ending 30 June 2025

	Shs'000
Interest income	7,106,116
Interest expense	(4,026,812)
Net interest income	3,079,303
Credit impairment losses	(508,860)
Net interest income after credit impairment losses	2,570,444
Non-interest income	2,198,999
Net operating income	4,769,443
Employee benefits	(1,864,748)
Depreciation and amortisation	(257,330)
Other operating expenses	(1,625,041)
Profit before income tax	1,022,324
Income tax expense	(184,018)
Profit after income tax	838,306
Other comprehensive income, net of income tax	
Items that may be reclassified to profit or loss	
Fair value loss on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)	358,703
Deferred income tax	(107,611)
	251,092
Total comprehensive income for the year	1,089,398

Prospective company statement of profit or loss and other comprehensive income
For the year ending 30 June 2025

	Shs'000
Other income	93,732
Employee benefits	(44,733)
Depreciation and amortisation	(116)
Other operating expenses	(26,521)
Profit before income tax	22,362
Income tax expense	(4,472)
Profit after income tax	17,890
Other comprehensive income, net of tax	-
Total comprehensive income for the year	17,890

HF Group Plc
Prospective financial information
As at 30 June 2025

Prospective consolidated statement of financial position
As at 30 June 2025

	Shs'000
Assets	
Cash and balances with banks	3,590,588
Placements with other banks	618,061
Investment in government securities	18,191,733
Loans and advances to customers	44,432,469
Other assets	6,587,074
Investment properties	1,885,000
Property and equipment	702,115
Total assets	76,007,040
Liabilities	
Balance from Central Bank of Kenya	400,000
Deposits from customers	53,042,220
Deposits from banks	733,659
Other liabilities	3,489,339
Borrowings	4,802,717
	62,467,935
Shareholders' equity	
Share capital	5,723,071
Share premium	3,676,845
Regulatory reserve	5,177,720
Revaluation reserves	1,312,129
Other reserves	130,485
Accumulated losses	(2,481,145)
	13,539,105
Total liabilities and shareholders' equity	76,007,040

Prospective company statement of financial position
As at 30 June 2025

	Shs'000
Assets	
Cash and balances with banks	3,037
Investment in subsidiaries	12,990,927
Other assets	3,033
Property and equipment	578
Current income tax	57,486
Deferred income tax	49,377
Total assets	13,104,438
Liabilities	
Other liabilities	337,604
Dividends payable	246
	337,850
Shareholders' equity	
Share capital	5,723,071
Share premium	3,676,845
Retained earnings	3,366,672
	12,766,588
Total liabilities and shareholders' equity	13,104,438

Consolidated statement of changes in equity

	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Accumulated losses	Other reserves	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 30 June 2025							
At start of year	1,923,071	4,343,512	1,312,129	5,167,523	(3,309,254)	(120,607)	9,316,374
Issue of shares	4,000,000	-	-	-	-	-	4,000,000
Transaction costs	(200,000)	-	-	-	-	-	(200,000)
Utilisation of the discount	-	(666,667)	-	-	-	-	(666,667)
Profit for the year	-	-	-	-	838,306	-	838,306
Transfer from statutory credit risk reserve	-	-	-	10,197	(10,197)	-	-
At fair value through other comprehensive income	-	-	-	-	-	251,092	251,092
At end of year	5,723,071	3,676,845	1,312,129	5,177,720	(2,481,145)	130,485	13,539,105

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2023				
At start of year	1,923,071	4,343,512	3,348,782	9,615,365
Issue of new shares	4,000,000	-	-	4,000,000
Transaction costs	(200,000)	-	-	(200,000)
Utilisation of discount	-	(666,667)	-	(666,667)
Profit and total comprehensive income for the year	-	-	17,890	17,890
At end of year	5,723,071	3,676,845	3,366,672	12,766,588

Notes

1. Basis of preparation

The prospective financial information has been prepared by applying the group's accounting policies on a consistent basis as historical financial information. The Group's accounting policies are set out within the historical financial information.

2. Key underlying assumptions for the prospective financial information

The directors have made the following assumptions in the preparation of the prospective financial information:

1. Additional equity funding of Shs 4 billion from new share issues to be available for use by 31 December 2024.

2. Customer deposits to grow by 18% between 30 June 2024 and 30 June 2025, higher than the historical growth rate of 10.23% between 31 December 2023 and 31 December 2022. The growth for the Kenyan banking sector for year 2023 was 18%. The growth will be driven by the market confidence post recapitalisation, the ongoing repositioning of the brand, and the new business segments that have been established within the existing segments including financial institutions and institutional banking. The deposits growth will be achieved at an average cost of 7.39% per annum (30 June 2024: 6.32% per annum).

3. Additional debt funding of USD 3 million from a regional development financial institution by 31 December 2024. The development financial institution has already granted HFC Bank an offer for the said amount and is expected to be at an average rate of 9.8%. HFC Bank also targets to drawdown Shs 2 billion from an existing local partner by 30 April 2025. HFC Bank and the said partner already have an existing master financing agreement that supports any ongoing drawdown arrangements, and the expected interest rate will be 6% per annum.

4. Cost of borrowing to average 12% by 30 June 2025 from the average of 13.78% as at 30 June 2024. This decrease is as a result of lower cost of the new funds.

5. The retail & commercial banking loans and advances to customers to grow by 27% between 30 June 2024 and 30 June 2025 driven by the expected growth in customers deposits, additional borrowings, and new equity capital. Project finance loans and advances to customers to decline due to the board decision to reduce the Group's exposure to project finance and foreclosure on the existing non-performing accounts.

6. Income yields on retail & commercial banking loans and advances and project loans and advances to average 13.64% per annum and 4.49% per annum respectively which is in line with historical performance for the period ended 30 June 2024.

7. The non-interest income as a percentage of net interest income is expected to grow from 54% as at 30 June 2024 to 71% as at 30 June 2025 due to the projected increase in project management fees and sales commission from the development arm of the group.

8. The NPL ratio is projected to decrease from 27% as at 30 June 2024 to 18% as at 30 June 2025. This is due to foreclosure of existing nonperforming accounts as well as the board's decision to reduce the group's exposure to project finance loans that have the highest level of NPL within the group. The expected credit loss allowance as a percentage of gross loans is expected to remain the same at 8.5% as at 30 June 2025.

2. Key underlying assumptions for the prospective financial information (continued)

9. The Net interest income to total interest income for the year ending 30 June 2025 is projected to decrease from 44% as at 30 June 2024 to 43% as at 30 June 2025 due to the expected increase in the cost of funds.

10. The investment in government securities is projected to grow by 49% between 30 June 2024 to 30 June 2025. The growth will be driven by the proceeds from customers deposits, additional borrowings, and new equity capital. Income yield on government securities to average 12.26%per annum for the year ending 30 June 2025, down from 13.16% per annum for the six months period ended 30 June 2024. This is as a result of the declining yields globally and also from the Kenyan government securities.

11. The Group's investment in government securities has an average duration of 3.3 years and with the expected decline in treasury yields as stated above, this is expected to create projected fair value gains of Shs 359 million as shown in the statement of other comprehensive income.

12. The Group is expected to continue utilizing its historical tax losses and as a result no current income tax is expected from its core operations except for income tax on separate source rental income.

13. Operating expenses to grow by 19% from 30 June 2024 to 30 June 2025 driven by 11 % increase in staff costs as a result of increase in staff numbers to support the business growth. Marketing expenses are projected to increase due to the ongoing repositioning of the brand.

14. Intangible assets and property and equipment will be amortised or depreciated over their estimated useful lives as per the Group accounting policies.

15. Management assumes that the cost of raising capital will be approximately Shs 200 million and the shares will be issued at a discount.


WE'RE
ENRICHING LIVES
TODAY AND TOMORROW

APPENDIX I

PROVISIONAL ALLOTMENT LETTER

USE BLOCK LETTERS TO COMPLETE THE FORM

<table>
<tr><td colspan="5">THE PROVISIONAL ALLOTMENT LETTER (PAL) IS OF VALUE AND IS ISSUED PURSUANT TO AN INFORMATION MEMORANDUM DATED 25th OCTOBER 2024. PLEASE CONSULT YOUR ADVISER. READ NOTES ON THE REVERSE OF THIS PAL. RIGHTS ISSUE OPENS AT 9:00 A.M. ON 12th NOVEMBER 2024 AND CLOSES AT 5:00 P.M. ON 9th DECEMBER 2024.</td><td colspan="2">PAL No:</td></tr>
<tr><td colspan="2">RIGHTS ISSUE 2024</td><td colspan="2">Authorised Selling Agent Stamp</td><td colspan="3">CDS A/C</td></tr>
<tr><td rowspan="6">OFFICIAL USE ONLY</td><td colspan="3" rowspan="6">Eligible Shareholders Name and Address</td><td colspan="2">BOX 1
Existing Shares as of the Record Date</td><td rowspan="6">OFFICIAL USE ONLY</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">BOX 2
New Shares provisionally allotted to you</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">BOX 3
Amount payable (KES) in full</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">ATTORNEY</td><td colspan="5">Eligible Shareholders who wish to appoint an attorney to deal with the Rights Issue may do so via the Appointment of Attorney Form available from an Authorised Selling Agent or downloaded from www.hfgroup.co.ke.</td></tr>
<tr><td rowspan="2">PART 1A</td><td colspan="5" rowspan="2">FULL ACCEPTANCE. I/We hereby accept in full, subject to the terms of the Information Memorandum, this PAL and the Memorandum and Articles of Association of HF Group Plc, the number of New Shares above in Box 2 for the value in Box 3 above.</td><td>Tick √</td></tr>
<tr><td></td></tr>
<tr><td rowspan="2">PART 1B</td><td colspan="3" rowspan="2">ADDITIONAL SHARES. Having accepted all the New Shares in Part 1A above, I/we hereby apply for Additional Shares, subject to the terms of the Information Memorandum, this PAL and the Articles of Association of HF Group Plc, the number of Additional Shares in Box 4 for the value in Box 5 herein.</td><td>BOX 4
Number of
Additional Shares</td><td colspan="2">BOX 5
Amount payable
(KES) (multiply figure in Box 4 by KES 4.00)</td></tr>
<tr><td></td><td colspan="2"></td></tr>
<tr><td rowspan="2">PART 1C</td><td colspan="3" rowspan="2">TOTAL SHARES. Having accepted all the New Shares in Part 1A above and applied for Additional Shares in Part 1B above (where applicable), I/we hereby apply for the total New Shares in Box 6 for the value in Box 7 herein.</td><td>BOX 6
Number of total
New Shares (Box 2 + Box 4)</td><td colspan="2">BOX 7
Amount payable
(KES) (Box 3 + Box 5)</td></tr>
<tr><td></td><td colspan="2"></td></tr>
</table>

PART 2	**PARTIAL ACCEPTANCE. IF PART 1 ABOVE IS NOT ACCEPTED.** I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Articles of Association of HF Group Plc, the number of New Shares specified in BOX 8 for the value set out in BOX 9 herein	**BOX 8** **Number of New Shares accepted in Part 1A**	**BOX 9** **Amount payable (KES) (multiply figure in BOX 8 by KES 4.00)**

Part 3 PAYMENT	Tick √		1. Direct Amount Payment	KES		Transfer Ref No/ Deposit Ref No	Bank Name & Branch
	Tick √		2. Mobile Money	KES		Mobile Money Reference No	
	Tick √		3. Irrevocable: Bank Guarantee	4. Financier Details			
				CDS Form 5 Serial No			
				Institution and Branch			
PART 4 REFUNDS	Account Name (as per statement)			Bank Name			Branch Code
	Country & Swift if Not Kenya			Account Number (full Account No)			
	MPESA or Mobile Money Transfer Option						
	Mobile No						
PART 5	Signature of Eligible Shareholder or Authorised Attorney						
	Sign			Date:			
PART 6	Email						
	Mobile No:						

------------------------------------***Tear off***------------------------------------***Tear off***------------------------------------

HF GROUP PLC – RIGHTS ISSUE 2024 - PAL RECEIPT	PAL No.	Eligible Shareholder	Authorised Selling Agent

PAL RECEIPT. Eligible Shareholder must ensure that this tear off this section stamped by the Authorised Selling Agent and returned to the Eligible Shareholders for their safe custody together with the proof of payment.

The last date and time for acceptance and payment of the New Shares is on or before 5:00 P.M. on 9th December 2024. If no action is taken on the Rights, they will lapse and be subject to Section 8.26 (Untaken Rights and Allocation Policy) in the Information Memorandum.

NOTES ON FILLING THE PROVISIONAL ALLOTMENT LETTER

General Instructions

- Please complete the Provisional Allotment Letter (**PAL**) in **BLOCK LETTERS**.

- A copy of the Information Memorandum and the abridged Information Memorandum can be obtained from the Group's website at this link www.hfgroup.co.ke.
- The PAL is subject to the terms and conditions in the Information Memorandum.
- Capitalised terms in the Information Memorandum shall have the same meaning in this PAL unless otherwise defined.
- For advice on the Rights Issue and completion of this PAL, the Eligible Shareholder should consult their stockbroker, investment adviser, banker, financial consultant or other professional adviser, who specialises in advising on the acquisition of shares and other securities.
- The PAL may be rejected as per the policy set out in the Information Memorandum.
- All alterations on the PAL, other than the deletion of alternatives, must be authenticated by the signature of the Eligible Shareholder.
- Presentation of receipt of funds transferred shall not amount to the acceptance of any application.
- A completed PAL must be physically returned to an Authorised Selling Agent. Once returned, it is irrevocable and may not be withdrawn.
- The PAL and proof of payment of the Application Money should be received by the Authorised Selling Agents by 5:00 p.m. on 9th December 2024 ("Closing Date") and neither the Group, nor any of the advisers nor any of the Authorised Selling Agents shall be under any liability whatsoever should a PAL not be received by 5.00pm on the Closing Date.
- This PAL and the Information Memorandum shall be governed by and construed in accordance with the laws of Kenya.

PART 1 FULL ACCEPTANCE ADDITIONAL SHARES, TOTAL SHARES

1. FULL ACCEPTANCE. Tick PART 1A if accepting in full all New Shares as in Box 2
2. ADDITIONAL and TOTAL.
    a. Application for Additional Shares shall only be made if all New Shares in Box 2 were accepted in full in Part 1A. To apply for Additional Shares (PART 1B): fill in Box 4 and fill in the amount due for these Additional Shares in Box 5 by multiplying the number in Box 4 by KES 4.00 per New Share.
    b. Complete total number of New Shares applied for in Box 6 in PART 1C, i.e. Box 6 = Box 2 + Box 4.
    c. Complete the total value of New Shares applied for in Box 7 in PART 1C, i.e. Box 7 = Box 3 + Box 5.
3. Acceptance and allotment are subject to terms and conditions in the Information Memorandum.

PART 2 PARTIAL ACCEPTANCE

1. Complete this PART 2 if you wish to accept a portion of the New Shares to which you are entitled. You must not have completed PART 1.
2. Enter number of New Shares you would like to accept into Box 8 with this number being less than the number in Box 2.
3. Enter the amount due for the New Shares in Box 9 by multiplying the number in Box 8 with KES 4.00 per New Share.

PART 3 PAYMENT

1. All payments of the Application Money must be made in Kenya Shillings (KES).
2. Section 8.22 in the Information Memorandum sets out details on Modes of Payment.
3. Complete paragraph 1 with the funds transfer number and name of remitting/paying bank.
4. Complete paragraph 2 with the mobile money reference number if this mode is used to make payment.
5. If payment for Additional Shares is via Irrevocable Bank Guarantee, tick the box provided and attach the Bank Guarantee to the PAL.
6. If a bank is involved, complete section labelled '4. Financier Details' by providing the CDS Form 5 Reference and bank's name and branch.
7. All Application Money must be paid in cleared funds on or before 5:00 P.M. on 9th December 2024 (Closing Date).

PART 4 REFUNDS

1. A bank account is mandatory for eligible investors.
2. Please refer to Section 8.24 in the Information Memorandum for details on Refunds.
3. If you have applied for Additional Shares by filling PART 1B, please provide bank details or a mobile number registered to the shareholder for MPESA in PART 4 that will be used in the event of a refund.

PART 5 SIGNATURE

The PAL must be signed. For companies and legal entities, signatures can be affixed by the authorised signatories.

PART 6 EMAIL AND/OR MOBILE NO

A space in PART 6 has been provided to insert this information so that contact can be established if required.

For Assistance contact:

The Issuer: rightsissue@hfgroup.co.ke 0800 721 400 (Toll Free)
Data Processing Agent: HFRights@image.co.ke, 0800720934 (Toll Free)

APPENDIX II

FORM E – FORM OF ENTITLEMENT

USE BLOCK LETTERS TO COMPLETE THE FORM

<table>
<tr><td colspan="4">THE FORM OF ENTITLEMENT (FORM E) IS OF VALUE AND IS ISSUED PURSUANT TO AN INFORMATION MEMORANDUM DATED 25th OCTOBER 2024. PLEASE CONSULT YOUR ADVISER. READ NOTES ON THE REVERSE OF THIS FORM E. RIGHTS ISSUE OPENS AT 9:00 A.M. ON 12th NOVEMBER 2024 AND CLOSES AT 5:00 P.M. ON 9th DECEMBER 2024.</td><td colspan="2">Serial No:</td></tr>
<tr><td colspan="2">RIGHTS ISSUE 2024</td><td colspan="2">Authorised Selling Agent Stamp</td><td colspan="2">CDS A/C</td></tr>
<tr><td rowspan="3">OFFICIAL USE ONLY</td><td colspan="3" rowspan="3">Entitlee Name and Address</td><td>BOX 1
No of Rights in your CDS Account</td><td rowspan="3">OFFICIAL USE ONLY</td></tr>
<tr><td>BOX 2
No of New Shares allotted from Rights</td></tr>
<tr><td>BOX 3
Amount payable (KES) in full</td></tr>
<tr><td colspan="2">ATTORNEY</td><td colspan="4">Eligible Shareholders who wish to appoint an attorney to deal with the Rights Issue may do so via the Appointment of Attorney Form available from an Authorised Selling Agent or downloaded from www.hfgroup.co.ke.</td></tr>
<tr><td>PART 1A</td><td colspan="4">FULL ACCEPTANCE. /We hereby accept in full, subject to the terms of the Information Memorandum, this FORM E and the Memorandum and Articles of Association of HF Group Plc, the number of New Shares above in Box 2 for the value in Box 3 above.</td><td>Tick √</td></tr>
<tr><td>PART 1B</td><td colspan="2">ADDITIONAL SHARES. Having accepted all the New Shares in Part 1A above, I/we hereby apply for Additional Shares, subject to the terms of the Information Memorandum, this FORM E and the Articles of Association of HF Group Plc, the number of Additional Shares in Box 4 for the value in Box 5 herein.</td><td colspan="2">BOX 4
Number of Additional Shares</td><td>BOX 5
Amount pay able (KES) (multiply figure in Box 4 by KES [ ]</td></tr>
<tr><td>PART 1C</td><td colspan="2">TOTAL SHARES. Having accepted all the New Shares in Part 1A above and applied for Additional Shares in Part 1B above (where applicable), I/we hereby apply for the total New Shares in Box 6 for the value in Box 7 herein.</td><td colspan="2">BOX 6
Number of total New Shares (Box 2 + Box 4)</td><td>BOX 7
Amount payable (KES) (Box 3 + Box 5)</td></tr>
</table>

		BOX 8	BOX 9
PART 2	**PARTIAL ACCEPTANCE. IF PART 1 ABOVE IS NOT ACCEPTED.** I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Articles of Association of HF Group Plc, the number of New Shares specified in BOX 8 for the value set out in BOX 9 herein.	**Number of New Shares accepted in Part 1A**	**Amount payable (KES) (multiply figure in BOX 8 by KES [ ])**

PART 3 PAYMENT	Tick √		1. Direct Amount Payment	KES		Transfer Ref No/ Deposit Ref No	Bank Name & Branch
	Tick √		2. Mobile Money	KES		Mobile Money Reference No	
	Tick √		3. Irrevocable: Bank Guarantee	4. Financier Details			
				CDS Form 5 Serial No			
				Institution and Branch			

PART 4 REFUNDS	Account Name (as per statement	Bank Name	Branch Code
	Country & Swift if Not Kenya	Account Number (full Account No)	
	MPESA or Mobile Money Transfer Option		
	Mobile No		
PART 5	Signature of Eligible Shareholder or Authorised Attorney		
	Sign		Date:
PART 6	Email		
	Mobile No:		

------------------------------------Tear off--Tear off--------------------------------

HF GROUP PLC – RIGHTS ISSUE 2024 - FORM E RECEIPT	PAL No.	Eligible Shareholder	Authorised Selling Agent

FORM E RECEIPT. Eligible Shareholder must ensure that this tear off this section stamped by the Authorised Selling Agent and returned to the Eligible Shareholders for their safe custody together with the proof of payment.

The last date and time for acceptance and payment of the New Shares is on or before 5:00 P.M. on 9th December 2024. If no action is taken on the Rights, they will lapse and be subject to Section 8.26 (Untaken Rights and Allocation Policy) in the Information Memorandum.

NOTES ON FILLING THE FORM OF ENTITLEMENT

General Instructions

- Please complete the Form of Entitlement (**Form E**) in **BLOCK LETTERS**.

- A copy of the Information Memorandum and the abridged Information Memorandum can be obtained from the Group's website at this link www.hfgroup.co.ke.
- The Form E is subject to the terms and conditions in the Information Memorandum.
- Capitalised terms in the Information Memorandum shall have the same meaning in this Form E unless otherwise defined.
- For advice on the Rights Issue and completion of this Form E, the Eligible Shareholder should consult their stockbroker, investment adviser, banker, financial consultant or other professional adviser, who specialises in advising on the acquisition of shares and other securities.
- The Form E may be rejected as per the policy set out in the Information Memorandum.
- All alterations on the Form E, other than the deletion of alternatives, must be authenticated by the signature of the Eligible Shareholder.
- Presentation of receipt of funds transferred shall not amount to the acceptance of any application.
- A completed Form E must be physically returned to an Authorised Selling Agent. Once returned, it is irrevocable and may not be withdrawn.
- The Form E and proof of payment of the Application Money should be received by the Authorised Selling Agents by 5:00 p.m. on 9th December 2024 ("Closing Date") and neither the Group, nor any of the advisers nor any of the Authorised Selling Agents shall be under any liability whatsoever should a Form E not be received by 5.00pm on the Closing Date.
- This Form E and the Information Memorandum shall be governed by and construed in accordance with the laws of Kenya.

PART 1 FULL ACCEPTANCE, ADDITIONAL SHARES, TOTAL SHARES

4. FULL ACCEPTANCE. Tick PART 1A if accepting in full all New Shares as in Box 2
5. ADDITIONAL and TOTAL.
   a. Application for Additional Shares shall only be made if all New Shares in Box 2 were accepted in full in PART 1A. To apply for Additional Shares (Part 1B): fill in Box 4 and fill in the amount due for these Additional Shares in Box 5 by multiplying the number in Box 4 by KES 4.00 per New Share.
   b. Complete total number of New Shares applied for in Box 6 in PART 1C, i.e. Box 6 = Box 2 + Box 4.
   c. Complete the total value of New Shares applied for in Box 7 in PART 1C, i.e. Box 7 = Box 3 + Box 5.
6. Acceptance and allotment are subject to terms and conditions in the Information Memorandum.

PART 2 PARTIAL ACCEPTANCE

4. Complete this PART 2 if you wish to accept a portion of the New Shares to which you are entitled. You must not have completed PART 1.
5. Enter number of New Shares you would like to accept into Box 8 with this number being less than the number in Box 2.
6. Enter the amount due for the New Shares in Box 9 by multiplying the number in Box 8 with KES 4.00 per New Share.

PART 3 PAYMENT

8. All payments of the Application Money must be made in Kenya Shillings (KES).
9. Section 8.22 in the Information Memorandum sets out details on Modes of Payment.
10. Complete paragraph 1 with the funds transfer number and name of remitting/paying bank.
11. Complete paragraph 2 with the mobile money reference number if this mode is used to make payment.
12. If payment for Additional Shares is via Irrevocable Bank Guarantee, tick the box provided and attach the Bank Guarantee to the Form E.
13. If a bank is involved, complete section labelled '4. Financier Details' by providing the CDS Form 5 Reference and bank's name and branch.
14. All Application Money must be paid in cleared funds on or before 5:00 P.M. on 9th December 2024 (Closing Date).

PART 4 REFUNDS

4. A bank account is mandatory for eligible investors.
5. Please refer to Section 8.24 in the Information Memorandum for details on Refunds.
6. If you have applied for Additional Shares by filling Part 1B, please provide bank details or a mobile number registered to the shareholder for MPESA in Part 4 that will be used in the event of a refund.

PART 5 SIGNATURE

The Form E must be signed. For companies and legal entities, signatures can be affixed by the authorised signatories.

PART 6 EMAIL AND/OR MOBILE NO

A space in Part 6 has been provided to insert this information so that contact can be established if required.

For Assistance contact:

The Issuer: rightsissue@hfgroup.co.ke, 0800 721 400 (Toll Free)

Data Processing Agent: HFRights@image.co.ke, 0800720934 (Toll Free)

APPENDIX III

FORM R – FORM OF RENUNCIATION

USE BLOCK LETTERS TO COMPLETE THE FORM

THE FORM OF RENUNCIATION (FORM R) IS OF VALUE AND IS ISSUED PURSUANT TO AN INFORMATION MEMORANDUM DATED 25th OCTOBER 2024. PLEASE CONSULT YOUR ADVISER. READ NOTES ON THE REVERSE OF THIS RENUNCIATION FORM. RIGHTS ISSUE OPENS AT 9:00 A.M. ON 12th NOVEMBER 2024 AND CLOSES AT 5:00 P.M ON 9th DECEMBER 2024.

RIGHTS ISSUE 2024

Authorised Selling Agent Stamp	CDS A/C

ELIGIBLE SHAREHOLDER. For NIL consideration, I/we the Eligible Shareholder hereby accept, subject to the terms of the Information Memorandum, my/our PAL, the Articles of Association of HF Group Plc and requisite approvals from the regulator/s, to renounce my/our Rights as per my/our PAL in favour of person (s) named below in this Form of Renunciation relating to such New Shares. Accordingly, I/we have signed below.

BOX 1 Eligible Shareholder Name	**BOX 2** PAL NUMBER	**BOX 4** New Shares provisionally renounced to the Renouncee (less than or equal to the New Shares provisionally allotted in PAL)	**BOX 5** Amount payable (KES) (multiply figure in Box 4 by KES 4.00
	Box 3 Shareholder CDS No		

SIGNATURE OF ELIGIBLE SHAREHOLDER OR AUTHORISED ATTORNEY

Signature:	Date:

RENOUNCEE

Renouncee	CDS A/C	Relationship to Eligible Shareholder
Name :	ID No./Passport No.	
Postal Address including post code & Email / Mobile No:		

PART 1A	**FULL ACCEPTANCE.** I/We hereby accept in full, subject to the terms of the Information Memorandum, this Form of Renunciation, the attached PAL and the Articles of Association of HF Group Plc, the number of Rights specified in Box 4, and for the value in Box 5 above.		Tick √
PART 1B	**ADDITIONAL SHARES.** Having accepted in full all the New Shares in PART 1A above, I/we hereby apply for Additional Shares, subject to the terms of the Information Memorandum, this Form of Renunciation, the attached PAL and the Articles of Association of HF Group Plc, the number of Additional Shares in Box 6 for the value in Box 7.	**BOX 6** Number of Additional Shares	**BOX 7** Amount payable (multiply value in Box 6 by KES 4.00)
PART 1C	**TOTAL SHARES.** Having accepted all the New Shares in PART 1A above and applied for Additional Shares in Part 1B above (where applicable), I/we hereby apply for the total New Shares in Box 8 for the value in Box 9 herein.	**BOX 8** Number of total New Shares (Box 4 + Box 6)	**BOX 9** Amount payable (KES) (Box 7 + Box 7)

PART 2	**PARTIAL ACCEPTANCE. IF PART 1 ABOVE IS NOT ACCEPTED.** I/We hereby accept in part, subject to the terms of the Information Memorandum, this PAL and the Articles of Association of HF Group Plc, the number of New Shares specified in BOX 10 for the value set out in BOX 11 herein	**BOX 10** **Number of New Shares accepted in Part 1A**	**BOX 11** **Amount payable (KES) (multiply figure in BOX 10 by KES 4.00)**

PART 3 PAYMENT	Tick √		1. Direct Amount Payment	KES		Transfer Ref No/Deposit Ref No	Bank Name & Branch
	Tick √		2. Mobile Money	KES		Mobile Money Reference No	
	Tick √		3. Irrevocable: Bank Guarantee		4. Financier Details		
					CDS Form 5 Serial No		
					Institution and Branch		

PART 4 REFUNDS	Account Name (as per statement	Bank Name	Branch Code
	Country & Swift if Not Kenya	Account Number (full Account No)	
	MPESA or Mobile Money Transfer Option		
	Mobile No		

PART 5	Signature of Eligible Shareholder or Authorised Attorney			
	Sign		Date:	
PART 6	Email			
	Mobile No:			

-------------------------------------***Tear off***---***Tear off***--------------------------------

HF GROUP PLC – RIGHTS ISSUE 2024 - FORM R RECEIPT	Serial No.	Eligible Shareholder	New Shares Accepted	Authorised Selling Agent

FORM R RECEIPT. Renouncee must ensure that this tear off this section stamped by the Authorised Selling Agent and returned to the Renouncee for their safe custody.

The last date and time for acceptance and payment of the New Shares is on or before 5:00 P.M. on 9th December 2024. If no action is taken on the Rights, they will lapse and be subject to Section 8.26 (Untaken Rights and Allocation Policy) in the Information Memorandum.

NOTES ON FILLING THE FORM OF RENUNCIATION

General Instructions

- Please complete the Form of Renunciation (**Form R**) in **BLOCK LETTERS**.

- A copy of the Information Memorandum and the abridged Information Memorandum can be obtained from the Group's website at this link www.hfgroup.co.ke.
- The Form R is subject to the terms and conditions in the Information Memorandum.
- Capitalised terms in the Information Memorandum shall have the same meaning in this Form R unless otherwise defined.
- For advice on the Rights Issue and completion of this Form R, the Eligible Shareholder should consult their stockbroker, investment adviser, banker, financial consultant or other professional adviser, who specialises in advising on the acquisition of shares and other securities.
- The Form R may be rejected as per the policy set out in the Information Memorandum.
- All alterations on the Form R, other than the deletion of alternatives, must be authenticated by the signature of the Eligible Shareholder.
- Presentation of receipt of funds transferred shall not amount to the acceptance of any application.
- A completed Form R must be physically returned to an Authorised Selling Agent. Once returned, it is irrevocable and may not be withdrawn.
- The Form R and proof of payment of the Application Money should be received by the Authorised Selling Agents by 5:00 p.m. on 9th December 2024 ("Closing Date") and neither the Group, nor any of the advisers nor any of the Authorised Selling Agents shall be under any liability whatsoever should a Form E not be received by 5.00pm on the Closing Date.
- This Form R and the Information Memorandum shall be governed by and construed in accordance with the laws of Kenya.

ELIGIBLE SHAREHOLDER: Please complete Box 1, Box 2, Box 3, Box 4 and Box 5 and sign in the space provided.

RENOUNCEE: Please complete Name, ID/Passport No, Relationship, Postal Address, Email Address and Mobile No and the parts below in the Form R.

PART 1 FULL ACCEPTANCE, ADDITIONAL SHARES, TOTAL SHARES

1. Tick PART 1A if accepting in full all New Shares as in Box 4
2. Application for Additional Shares shall only be made if all New Shares in Box 4 were accepted in full in PART 1A. To apply for Additional Shares (PART 1B), follow the directions below. Otherwise, skip to instruction 5. Fill in Box 6. Fill in the amount due for these Additional Shares in Box 7 by multiplying the number in Box 6 by KES 4.00 per New Share.
3. If you have opted not to apply for Additional Shares, write "0" in both Box 6 and Box 7.
4. Complete the total number of New Shares applied for in Box 8 in PART 1C ie Box 8 = Box 4 + Box 6.
5. Complete the total value of New Shares applied for in Box 9, PART 1C i.e. Box 9 = Box 5 + Box 7
6. Acceptance and allotment are subject to terms and conditions in the Information Memorandum.

PART 2 PARTIAL ACCEPTANCE

7. Complete this PART 2 if you wish to accept a portion of the New Shares to which you are entitled. You must not have completed PART 1.
8. Enter number of New Shares you would like to accept into Box 8 with this number being less than the number in Box 2.
9. Enter the amount due for the New Shares in Box 9 by multiplying the number in Box 8 with KES 4.00 per New Share.

PART 3 PAYMENT

15. All payments of the Application Money must be made in Kenya Shillings (KES).
16. Section 8.22 in the Information Memorandum sets out details on Modes of Payment.
17. Complete paragraph 1 with the funds transfer number and name of remitting/paying bank.
18. Complete paragraph 2 with the mobile money reference number if this mode is used to make payment.
19. If payment for Additional Shares is via Irrevocable Bank Guarantee, tick the box provided and attach the Bank Guarantee to the Form E.
20. If a bank is involved, complete section labelled '4. Financier Details' by providing the CDS Form 5 Reference and bank's name and branch.
21. All Application Money must be paid in cleared funds on or before 5:00 P.M. on 9th December 2024 (Closing Date).

PART 4 REFUNDS

7. A bank account is mandatory for eligible investors.
8. Please refer to Section 8.24 in the Information Memorandum for details on Refunds.
9. If you have applied for Additional Shares by filling Part 1B, please provide bank details or a mobile number registered to the shareholder for MPESA in Part 4 that will be used in the event of a refund.

PART 5 SIGNATURE and ENDORSEMENTS BY AUTHORISED SELLING AGENTS AND REGULATOR

The Form R must be signed. For companies and legal entities, signatures can be affixed by the authorised signatories.

Renunciation by Private Transfer requires certain documentation to support this action by Eligible Shareholders. This section provides for the Authorised Selling Agents to confirm the requisite documentation is attached. Renunciation by Private Transfer requires private transfers to be approved by the Regulators. This section provides for the Regulator to approve the transfer (if applicable).

PART 6 EMAIL AND/OR MOBILE NO

A space in Part 6 has been provided to insert this information so that contact can be established if required.

For Assistance contact:

The Issuer: rightsissue@hfgroup.co.ke, 0800 721 400 (Toll Free)
Data Processing Agent: HFRights@image.co.ke, 0800720934 (Toll Free)

HF GROUP
Dreams Made Possible

APPENDIX IV

FORM OF POWER OF ATTORNEY

THE FORM OF POWER OF ATTORNEY (FORM A) IS OF VALUE AND IS ISSUED PURSUANT TO AN INFORMATION MEMORANDUM DATED 25th OCTOBER 2024. PLEASE CONSULT YOUR ADVISER. READ NOTES ON THE REVERSE OF THIS PAL. RIGHTS ISSUE OPENS AT 9:00 A.M. ON 12th NOVEMBER 2024 AND CLOSES AT 5:00 P.M. ON 9th DECEMBER 2024.		
AUTHORISED AGENT STAMP	AUTHORISED AGENT CODE	

CDS ACCOUNT NUMBER		REFERENCE NO Pal No/Serial No for Form E/Serial No for Form R
PRINT YOUR NAME / ADDRESS DETAILS:		

FORM A

- This Form A is only for Eligible Shareholders who wish to appoint entirely at their own risk an attorney to act on their behalf.
- This Form A can only be used by an Eligible Shareholder who has received an Entitlement of more than 100 New Shares.

APPOINTMENT OF ATTORNEY

To: The Directors, HF Group Plc

This Appointment of Attorney is limited in respect of the HF Group Plc Rights Issue 2024.

I / We hereby accept, subject to the terms of the Information Memorandum, the PAL and the Memorandum and Articles of Association of HF Group Plc, to appoint the persons as named in Attorney Details below ('Attorney') to be my/our attorneys in my/our name and on my/our behalf, to effect sale/purchase/renunciation of the New Shares provisionally allotted to me/us or any part thereof and/or obtain Entitlement and Acceptance Forms on request, complete any forms in connection with my/our Rights and to do all or acts which the Attorney thinks fit with regard to any and all Entitlement and Acceptance Forms or other forms. I/We agree to ratify everything the Attorney does or purports to do in accordance with the Appointment of Attorney and to indemnify the Attorney against all claims and liabilities arising our of anything lawfully done by the Attorney. This power shall remain irrevocable until 9th December 2024. Accordingly, I/We have signed below.

SIGNATURE OF ELIGIBLE SHAREHOLDER(S)

1) Signature	2) Signature	3) Company Seal
ID/PP No.	ID/PP No.	
Date	Date	

ATTORNEY DETAILS

Name	Name	Address
ID/PP No.	ID/PP No.	Tel No:
Date	Date	

SIGNATURE OFATTORNEY

1) Signature	2) Signature	3) Company Seal
ID/PP No.	ID/PP No.	
Date	Date	

APPENDIX V

FORM OF BANK GUARANTEE

[To be typed on the letter head of the Issuing Bank]
Ref:[ ]
Date: [ ]
The Directors
HF Group Plc
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 – 00100
Nairobi
Kenya

Dear Sirs,

HF GROUP PLC RIGHTS ISSUE 2024 IRREVOCABLE GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF NEW SHARES {*INSERT NAME OF THE INVESTOR*} (the **"IBG")**

WHEREAS [name of Investor] [*the "Investor"*] has by a Provisional Allocation Letter/Form of Entitlement/Form of Renunciation No. [*Insert PAL/Serial number*] date [*insert date*] applied for [*insert the number of shares*] New shares in the HF Group Rights Issue 2024 as set out in the Information Memorandum dated 25th October 2024 (*capitalised terms used in this IBG shall have the meaning and interpretation given to such terms in the HF Group Plc Information Memorandum*),

AND WHEREAS it has been stipulated in the HF Group Rights Issue Information Memorandum that the investor shall furnish you with an irrevocable on demand guarantee for the full value payable for the New shares applied for at the Offer Price.

AND WHEREAS we [*Name of Guarantor*] have agreed to give this IBG,

NOW, at the request of the investor and in consideration of your allocation to the investor the New Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you in Kenya Shillings, promptly upon your first written demand through HFC Limited in full without set off or counter claim and free from any deduction or withholding whatsoever, such sum as may be demanded by you up to a maximum some of Kenya Shillings ([*words*][*figures*]) without your needing to prove or to show grounds or reasons for your demand or the sum specified therein by way of EFT/RTGS within 24 hours of the said demand on or before 3:00 p.m. on 20th December 2024 as set out in the HF Group Rights Issue Information Memorandum.

This IBG will remain in force up to and including 3:00 p.m. on 20th December 2024 and shall be governed and construed in accordance with the Laws of the Republic of Kenya.

IN WITNESS WHEREOF THIS LETTER OF IRREVOCABLE BANK GUARANTEE HAS BEEN EXECUTED BY US ON THIS

[date on or before [Date].

[*Signed as per the Guarantor*]

APPENDIX VI

FORM OF LETTER OF UNDERTAKING

[ON LETTERHEAD OF ISSUING INVESTOR/CUSTODIAN]
Ref:[ ]
Date: [ ]
The Directors
HF Group Plc
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 – 00100
Nairobi
Kenya

Dear Sirs

HF GROUP PLC RIGHTS ISSUE 2024 IRREVOCABLE LETTER OF UNDERTAKING IN RESPECT OF PAYMENT FOR ALLOCATION OF NEW SHARES TO [name of investor] (the "**ILU"**)

WHEREAS [*name of investor*] (the "**Investor"**) has by an Provisional Allotment Letter/Form of Entitlement/Form of Renunciation No [ ] applied for [ ] New Shares in the **HF GROUP PLC RIGHTS ISSUE 2024** as set out in the **Information Memorandum** dated 20th December (*capitalised terms used in this ILU shall have the meaning and interpretation given to such terms in the HF Group Plc Information Memorandum*),

AND WHEREAS it has been stipulated in the HF Group Plc Information Memorandum that the Investor shall furnish you with a letter of undertaking for the full value of the New Shares applied for at the Offer Price,

AND WHEREAS we [*name of guarantor*] have agreed to give this ILU,

NOW, at the request of the Investor and in consideration of you allocating to the Investor the New Shares or such lesser number as you shall in your sole and absolute discretion determine, we hereby irrevocably undertake to pay you in Kenya Shillings, upon your first written demand (vide email, fax, hand delivered letter or SWIFT) and without any delay or argument, such sums as may be demanded by you up to a maximum of Kenya Shillings [*amount in words*] (KES [*amount in figures*]) without your needing to prove or show grounds or reasons for your demand or the sum specified therein by way of EFT/ RTGS within 24 hours of the said demand or before 3.00 p.m. on 20th December whichever occurs earlier, as set out in the HF Group Plc Information Memorandum.

This ILU shall remain in force up to and including 3.00 p.m. on 20th December and any demand in respect thereof should reach our office not later than the above date and time. Should such payment not be made within two business weekdays by 3:30 p.m. following the deemed service of such notice then HF Group Plc shall be entitled without further notice to either: treat our application as having been repudiated and cancel the provisional allotment to us and re-allocate the provisionally New Shares on such terms and conditions as it shall think fit without prejudice to any rights to damages for such repudiation, or to allow us further time for payment on such terms and conditions as it shall think fit in which event we shall pay default interest on all sums outstanding at an agreed rate per annum calculated on daily balances and compounded monthly.

This ILU shall be shall be governed and construed in accordance with the Laws of the Republic of Kenya.

IN WITNESS WHEREOF THIS IRREVOCABLE LETTER OF UNDERTAKING HAS BEEN EXECUTED BY US ON THIS [•] DAY OF [•] 2024.

[*signed as per mandate*]

APPENDIX VII

AUTHORISED SELLING AGENTS

Dyer & Blair Investment Bank Ltd Goodman Tower, 7th floor, Waiyaki Way P.O. Box 45396 00100, Nairobi Tel: 0709930000 Email: shares@dyerandblair.com Web: www.dyerandblair.com	**ABC Capital Ltd** ABC Bank House, Mezzanine Floor Westlands P.O. Box 34137-00100, Nairobi Tel: 2246036/2245971 Email: customercare@abccapital.co.ke Web: www.abccapital.co.ke	**ABSA Financial Services Limited** West End Building, 5th Floor, Waiyaki Way P.O Box 30120 Nairobi Tel: 4254000/4254501/0711097000 Email: absa.kenya@absa.africa Web: www.absabank.co.ke
AIB-AXYX Africa The Promenade, 5th Floor P.O. Box 43676 – 00100 Nairobi Tel: 020 7602525 Email:invest@aib-axysafrica.com Web: www.aib-axysafrica.com	**EFG Hermes Kenya Limited** Orbit Place, 8th Floor, Westlands Road P.O Box 349-00623, Nairobi Tel: 3743040 Email: kenyaoperations@efg-hermes.com Web: www.efg-hermes.com	**Equity Investment Bank Limited** Equity Centre, Hospital Road, Upper Hill P.O Box 75104-00200, Nairobi Tel: 0711026000 Web: www.equitybankgroup.com
Faida Investment Bank Ltd Crawford Business Park, Ground Floor, State House Road, Nairobi P. O. Box 45236-00100 Tel: +254-20-7606026-35 Fax: 2243814 Email: info@fib.co.ke Web: www.fib.co.ke	**Francis Drummond & Company Limited** Finance House, 14th Floor, Loita Street P.O. Box 45465 00100 Tel: 318690/318689 Fax: 2223061 Email: info@drummond.co.ke Web: www.drummond.co.ke	**Genghis Capital Ltd** 1st Floor, Purshottam Place Westlands P.O Box 607-00612, Nairobi Tel: 0730145000 Email: info@genghis-capital.com Web: www.genghis-capital.com
KCB Capital Kencom House, 2nd Floor P.O Box 48400-00100, Nairobi Tel: 0711012000/0734108200 Email: investmentbanking@kcb.co.ke Web: www.kcb.co.ke	**Kestrel Capital (EA) Limited** 2nd Floor, Orbit Place, Westlands Road P.O. Box 40005-00100, Nairobi Tel: 251758/2251893,2251815,2250082 Email: info@kestrelcapital.com Web: www.kestrelcapital.com	**Kingdom Securities Ltd** Co-operative Bank House,5th Floor P.O Box 48231-00100, Nairobi Tel: 0711049039 Email: info@kingdomsecurities.co.ke Web: www.kingdomsecurities.co.ke
NCBA Investment Bank Limited NCBA Annex, 3rd Floor, Mara Ragati Road Junction, Upper Hill P.O. Box 44599-00100, Nairobi Tel: 2888 444 / 0711 056444 Email: contact@ncbagroup.com Web: www.ncbagroup.com	**Renaissance Capital (Kenya) Ltd** Pramukh Tower, 10th Floor Westlands, Chiromo Road P.O Box 40560-00100, Nairobi Tel: 3682000 Email: infokenya@rencap.com Web: www.rencap.com	**SBG Securities Ltd** Stanbic Centre, 58 Westlands Road P.O. Box 47198 – 00100, Nairobi Tel: 3638900 Fax: 3752950 Email: sbgs@stanbic.com Web: www.sgbsecurities.co.ke
Capital A Investment Bank Limited Mayfair Suites, 4th Floor, Parklands Road Nairobi Tel: 0735571530/0207605650 Email: infoke@securitiesafrica.com web: www.securitiesafrica.com	**Standard Investment Bank Ltd** ICEA Building, 16th floor P. O. Box 13714- 00800, Nairobi Tel: 0202277000/0777333000 Fax: 240297 Email: clientservices@sib.co.ke	**Sterling Capital Ltd** Delta Corner Annex, 5th Floor Ring Road - Westlands P.O. Box 45080- 00100, Nairobi Tel: 2213914/244077/ 0723153219/0734219146 Fax: 2218261 Email: info@sterlingib.com Web: www.sterlingib.com
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