HF GROUP
Dreams Made Possible

ANNUAL REPORT I 2015

DREAMS MADE POSSIBLE

HF GROUP


Housing Finance is now HF GROUP
HFC
HFDI
HF Insurance Agency
HF Foundation
HF GROUP
Dreams Made Possible
HFC

CONTENTS

DIRECTORS

Steve O. Mainda	Chairman
Frank Ireri	Managing Director
Benson Wairegi	
Peter K. Munga	
Adan D. Mohamed	
Constance Gakonyo	
Kaushik Manek	Appointed 26 June 2015
David R. Ansell*	Retired 24 April 2015
Shem Migot – Adholla	Retired 24 April 2015
Gladys Ogallo	Retired 3 August 2015

*British

COMPANY SECRETARY

Regina Anyika
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi GPO

REGISTERED OFFICE

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

SHARE REGISTRAR

Regina Anyika, CPS (K)
HF Group Limited
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi GPO

BANKERS

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

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612
00100 Nairobi GPO

PRINCIPAL LEGAL ADVISORS

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680
00200 Nairobi City Square

SUBSIDIARIES

HFC Limited
HF Development and Investment Limited (Formerly Kenya Building Society Limited)
First Permanent (East Africa) Limited
HF Insurance Agency Limited (Formerly Housing Finance Insurance Agency Limited)
HF Foundation Limited (Formerly Housing Finance Foundation Limited)


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BOARD OF DIRECTORS

Frank Ireri
Managing Director

Adan Daud Mohamed

Benson Wairegi

Constance Gakonyo

BOARD OF DIRECTORS

Kaushik Manek

Peter Munga

Steve Omenge Mainda, EBS
Chairman

To the Shareholders of **HF GROUP LIMITED (FORMERLY HOUSING FINANCE COMPANY OF KENYA LIMITED)**

NOTICE IS HEREBY GIVEN that the 50th Annual General Meeting of the Company will be held at **Nairobi** on **Friday 22 April 2016** at **Kenyatta International Convention Centre (KICC) AMPHITHEATRE** at **11.00 am** to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2015, together with the Chairman's, the Directors' and Auditor's Reports thereon.
4. To declare dividend of KShs.1.30 per share (interim of KShs.0.65 per share already paid) for the financial year ended 31 December 2015 and approve the closure of the Register of Members at the close of business on 29th April 2016.
5. To elect Directors:
   a. Mr. Adan Mohamed retires by rotation in accordance with Article 105 of the company's Articles of Association and being eligible, offers himself for re-election.
   b. Mr. Steve Omenge Mainda retires by rotation in accordance with Article 105 of the Company's Articles of Association, and having attained the age of seventy years further retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible, offers himself for re-election.
   c. Mr. Peter Kahara Munga retires by rotation in accordance with Article 105 of the Company's Articles of Association, and having attained the age of seventy years further retires in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible, offers himself for re-election.
   d. Dr. Kaushik Manek retires in accordance with Article 104 of the Company's Articles of Association, and being eligible, offers himself for re-election.
7. To approve the Directors Remuneration.
8. To note that the auditors, KPMG Kenya, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and to authorize the Directors to fix their remuneration.

BY ORDER OF THE BOARD

Regina Anyika

Company Secretary

P.O. Box 30088, GPO 00100

NAIROBI

Date: 29th March 2016

NB:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, HF Group Limited, Rehani House, Kenyatta Avenue, P.O. Box 30088, GPO 00100, Nairobi, to arrive not later than 11 AM on 20th April 2016.

   If the appointer is a corporation or Government office, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.

2. A copy of this notice, the proxy, the entire Annual Report & Accounts may be viewed on the Company's website at www.hfgroup.co.ke or a printed copy may be obtained from the Registered Office of the Company, Rehani House, Kenyatta Avenue/Koinange Street, P.O. Box 30088-00100 GPO, and Nairobi and from all our registered Branches countrywide.

Kwa wanahisa wa **HF GROUP LIMITED (ZAMANI IKIJULIKANA KAMA HOUSING FINANCE COMPANY OF KENYA LIMITED)**

NOTISI INATOLEWA HAPA KWAMBA mkutano wa 50 wa pamoja wa mwaka wa kampuni utafanyika jijini **Nairobi Ijumaa Aprili 22, 2016** katika ukumbi wa mikutano ya kimataifa wa **Kenyatta International Convention Centre (KICC) AMPHITHEATRE** kuanzia saa tano asubuhi ili kuangazia maswala yafuatayo ya kibiashara:

1. Kutaja mawakala na kuangazia akida (idadi ya watu wanaohitajika) ili kuendesha mkutano.
2. Kusoma notisi ya kuitishwa mkutano.
3. Kupokea na endapo itaidhinishwa kupitisha mizania na hesabu ya pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2015 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wakaguzi wa pesa.
4. Kupitisha sehemu ya malipo ya awali ya mgawo wa faida ya KShs. 1.30 kwa kila hisa (malipo ya awali ya senti 0.65 kwa hisa tayari yametolewa) kwa kipindi cha mwaka uliomalizika Desemba 31, 2015 na kuidhinisha kufungwa kwa rejista ya wanachama kufikia Aprili 29, 2016.
5. Kuwachagua Wakurugenzi:
    a. Bw. Adan Mohammed anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa anastahili, amejitokeza ili kuchaguliwa tena.
    b. Bw. Steve Omenge Mainda anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na baada ya kutimiza umri wa 70 anastafuu kwa mujibu sera za maadili ya usimamizi wa mashirika ya utoaji wa dhamana za hisa kwa umma ya mwaka 2015 na kwa sababu anastahili, anajitokeza ili kuchaguliwa tena.
    c. Bw. Peter Kahara Munga anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha mashirika na baada ya kutimiza umri wa miaka 70 anastaafu kwa mujibu wa sera za maadili ya usimamizi wa mashirika ya utoaji wa dhamana za hisa kwa umma ya mwaka 2015 na kwa sababu anastahili, anajitokeza ili kuchaguliwa tena.
    d. Dkt. Kaushik Manek anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za makampuni na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena.
6. Kupitisha marupu rupu ya wakurugenzi.
7. Kutambua kwamba wakaguzi wa pesa KPMG Kenya wataendelea mbele na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni (Cap 486) na kuwapa uhuru wakurugenzi kuamua malipo yao.

KWA AMRI YA HALMASHAURI

Regina Anyika

Katibu wa Kampuni

Slp 30088, GPO 00100

NAIROBI

Tarehe: Machi 29, 2016

Muhimu

1. Mwanachama anayepasa kuhudhuria na kupiga kura wakati wa mkutano uliotajwa anaweza kumteua wakala wake kuhudhuria na kupiga kura kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mawanachama. Fomu ya uwakala inafaa kurejeshwa kwa msajili, HF Group Limited, Rehani House, Kenyatta Avenue Slp 30088, GPO 00100, Nairobi kabla ya saa tano asubiuhi Aprili 2016.

   Endapo mteuzi ni shirika au serikali, nakala itakayotumika kumteua wakala iwe imepigwa muhuri au kutiwa sahihi na afisa aliyeidhinishwa kufanya hivyo na shirika au ofisi ya serikali.

2. Nakala ya notisi hii, ripoti yote ya mwaka pamoja na hesabu zinaweza kupatikana kupitia wavuti wa kampuni www.hfgroup.co.ke au nakala iliyochapishwa kupatikana kupitia ofisi ya kampuni iliyosajiliwa, Rehani House, Kenyatta Avenue/Koinange Street, Slp 30088-00100, Nairobi na matawi yetu yote yaliyosajiliwa kote nchini.

Steve Omenge Mainda, EBS
Chairman

Dear Shareholders,

On behalf of the Board of Directors of the HF Group, I am pleased to present to you the Group's Financial Statement and the Auditor's report for the year ended 31st December 2015. For the third year running, the Group posted profitability in excess of KShs. 1 Billion with a 25% growth in profit before tax.

Key events that characterised the year, their impact on business as well as some of the major achievements during the year are highlighted in the Report.

Economic Overview

The Kenyan economy was largely subdued in 2015. The economy is estimated to have grown by 5.5%, which is slightly higher than the 5.3% growth rate seen in 2014. The year also saw an inflation rate of 6.8% which was within the CBK target of 7.5% while the Shilling depreciated by 12.9% on the back of a global strengthening of the dollar. High volatility was experienced on interest rates and this affected the uptake of loans and mortgages in the country as it discouraged borrowers and investors alike. The Government continues with diversification policies as a part of the Vision 2030 programme and is expected to gain from such positive and forward looking policies and initiatives.

HF Group Rights Issue

HF Group achieved major milestones:

In February of 2015, we made a cash call to you as valued shareholders, inviting you to enhance your investment in the Group. The rights issue gave existing shareholders the opportunity to buy one share for every two shares held for a discounted price of KShs. 30, considering the KShs. 38 price per share then.

The rights issue was extremely successful and was oversubscribed by 257% of our targeted amount of KShs. 3.5 billion. This was an overwhelming show of support and confidence in the company, by the shareholders. The capital raised is being utilised to fund the growth and expansion of the Group and its subsidiaries.

End of Housing Finance and Beginning of HF Group

In August, Housing Finance Company of Kenya was restructured and named HF Group, a non-operating holding company, following approval by the Central Bank of Kenya (CBK). With this restructure, the mortgage and banking business of the company was moved to a new subsidiary HFC. Other than HFC, the other subsidiaries include HF Development and Investment (formerly Kenya Building Society), HF Insurance Agency, HF Foundation and First Permanent (which is currently not operational). This restructure presents the Group with the impetus required to deliver on the growth strategy.

Exciting Half a Century and a Great Future of Making Dreams Possible

Last year, we marked our Golden Jubilee. Founded in 1965, HF Group has established itself through the provision of innovative property finance solutions for its customers. Over the years, the Group has grown into an integrated property and financial services provider whose offering now includes property development, bancassurance, commercial banking and property finance solutions.

Building on the strength of our legacy, we move into 2016 with renewed energy and passion, looking to push forward and carve another 50 years of success. I have said in past reports that the Board is mindful of its role as the guardian of shareholders' investments. In addition to ensuring operating excellence, the Board remains restless in its hunt for shareholder value and will continue to supervise the activities of the Group and ensure that all synergies are leveraged across the subsidiaries in order to maximize this value.

Investing in Our Artisans

HF Group has invested in improving the building and construction industry, a key part of our ecosystem. The industry has over the years suffered from an acute shortage of skilled artisans (fundis), which has resulted in low quality workmanship, delays in completion of projects and high cost of importation of manpower. Through the HF Foundation, which was established in 2012, we will continue to fulfil our vision of facilitating and catalysing industry relevant and sustainable practical skills required by the building and construction industry through the creation of an army of 1 Million Artisans for Kenya. In 2015, through our public and private sector partnerships, we managed to facilitate, globally competitive competency trainings in: painting, masonry, electrical works and plumbing. On-going training is being conducted at our Komarock projects.

Proposed Dividends

Following the 2015 performance, I am delighted to announce that the Board of Directors in the meeting held on 24th February 2016 has proposed a full and final dividend of KShs. 0.65 per share and an interim payment of KShs. 0.65 per share. This will result to a full dividend payment of KShs. 1.30 per share.

Year Ahead

Kenya's economic growth is projected to grow at 5.5% in 2016. Inflation is expected to significantly decline due to fall in oil prices. This could have a positive impact on finances and economic growth. The Kenya Government has assured that Kenya's major development projects will continue as planned. The Government of Kenya has given confidence to the private sector and also the investors in terms of continuity of the development spending.

On the back of Kenya Government's plans to maintain spending in 2016 and assurances that major development projects would go on as planned, the banking industry is therefore expected to maintain its stable growth trends.

Acknowledgement

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence that they have placed in the Board of Directors, Management and Staff. I wish to thank all our Shareholders for the continued support and trust in us. This motivates us to excel in all our pursuits and constantly endeavour to create value for you.

The Board of Directors

I also wish to thank my colleagues on the Board for their valuable guidance and contribution in steering the Group to higher heights and the Central Bank of Kenya for its valuable guidance to the banking sector.

Finally, on behalf of the Board of Directors, Employees, Management and Shareholders, I would like to express our utmost sincere gratitude to H.E. President Uhuru Muigai Kenyatta for breaking ground for the Komarock Heights Housing Project on 16th September 2015.

Steve Omenge Mainda, EBS

Board Chairman

Kwa Wanahisa,

Kwa niaba ya Halmashauri ya Wakurugenzi wa HF Group, nina furaha kuwatangazia ninyi taarifa ya matumizi ya fedha ya kundi pamoja na ripoti ya wahasibu kwa kipindi cha mwaka uliokamilika Desemba 31, 2015. Kwa mwaka wa tatu mfululizo, kundi liliandikisha faida iliyozidi shilingi bilioni moja na kiwango cha ukuaji wa asilimia 25 (25%) cha faida kabla ya kutozwa ushuru.

Matukio muhimu yaliyoshuhudiwa mwaka huu, athari zake kwa biashara yetu pamoja na baadhi ya mafanikio makubwa wakati wa kipindi hiki yameangaziwa kupitia ripoti hii.

Mtazamo wa Kiuchumi

Kwa kiwango kikubwa, uchumi wa taifa la Kenya ulipunguka kasi mwaka 2015. Inakisiwa kwamba, uchumi uliweza kukua kwa kiwango cha asilimia 5.5 (5.5%) kiasi ambacho kilikuwa ni cha juu dhidi ya aslimia 5.3 (5.3%) kilichoshuhudiwa mwaka 2014. Mwaka huu ulishuhudia pia kiwango cha mfumuko wa bei cha asilimia 6.8 (6.8%) ambacho kilikuwa kwenye makadirio ya benki kuu ya Kenya cha asilimia 7.5 (7.5%) huku shilingi ikiathirika kwa asilimia 12.9 (12.9%) kutokana na kuimarika kwa Dola ya Marekani ulimwenguni. Shinikizo kubwa lilishuhudiwa katika viwango ya riba ya mikopo. Hali hii iliathiri uchukuaji wa mikopo na rehani nchini na kuwaweka hofu wakopaji pesa na wawekezaji. Serikali inaendelea na sera zake za upanuzi kama sehemu mojawapo ya mpango wa ruwaza ya mwaka 2030 na inatarajiwa kufaidi kutokana na hatua kama hizi za kuangazia mbinu na mikakati.

Toleo la hisa la HF Group

HF Group ilipata mafanikio makubwa.

Mnamo mwezi Februari 2015, tulitoa mwito kwenu ninyi wanahisa wetu wapendwa na kuwaalika kuimarisha uwekezaji wenu kwenye kundi. Toleo la ununuzi wa hisa liliwapa wanahisa walioko nafasi kununua hisa moja kwa kila hisa mbili zilizoshikiliwa kwa bei iliyopunguzwa ya shilingi 30 huku ikizingatiwa bei iliyokuwepo kwa wakati huo ilikuwa ni shilingi 38.

Toleo hili la umiliki wa hisa lilifaulu pakubwa na lilizidi ununuzi kwa asilimia 257 (257%) dhidi ya malengo yetu ya shilingi bilioni 3.5. Hali hii ilidhihirisha uungwaji mkono wa hali ya juu na imani kwa kampuni kutoka kwa wanahisa. Mtaji uliopatikana unatumika kugharamia ukuaji na upanuzi wa kundi na kampuni tanzu.

Mwisho wa Housing Finance na Mwanzo wa HF Group

Mnamo mwezi Agosti, Housing Finance Company of Kenya ilibadilisha jina lake na kuwa HF Group, kampuni isiyokusanya pesa baada ya kupata idhini kutoka kwa Benki Kuu ya Kenya (CBK). Kupitia mabadiliko haya, biashara za benki na rehani za kampuni zilihamishwa hadi kitengo kipya -HFC. Bali na HFC, vitengo vingine ni pamoja na HF Development & Investment (iliyojulikana kama Kenya Building Society), HF Insurance Agency, HF Foundation na First Permanent (ambayo kwa sasa haifanyi kazi). Mabadiliko haya yanalipa kundi nguvu zinazohitajika kufanikisha mkakati wake wa ukuaji.

Maadhimisho ya Miaka 50 na Ndoto ya Ufanisi Siku za Usoni

Mwaka jana, tuliadhimisha mwaka wetu wa Jubilii. Tangu ianzishwe mwaka 1965, HF Group imejiimarisha kama mtoaji suluhu kwa ufadhili wa ujenzi wa makao kwa wateja wake. Kwa muda wa miaka hii yote, kundi limekua na kuwa mtoaji wa huduma za pamoja za raslimali na fedha ambazo kwa sasa zinahusisha ustawi wa raslimali, bima, benki ya kibiashara na suluhu la ufadhili kifedha.

Kwa kuegemea uthabiti wa urithi wetu, tunaingia mwaka 2016 tukiwa na nguvu mpya na ujasiri, huku tukilenga miaka mingine 50 ya ufanisi. Kupitia ripoti za awali, nimesema kwamba Halmashauri inazingatia kikamilifu wajibu wake kama mtunzaji wa uwekezaji wa wanahisa. Licha ya kuhakikisha usimamizi bora, Halmashauri inajitahidi katika juhudi zake za kutafuta thamani kwa wanahisa na itazidi kusimamia shughuli za kundi na kuhakisha kwamba juhudi zote zimeelekezwa kote kwenye kampuni tanzu ili kupata thamani yake kamili.

Kuwekeza kwa Mafundi

HF Group imewekeza ili kuimarisha sekta ya makao na ujenzi nchini, sehemu ambayo ni muhimu sana kwa mfumo mzima wa biashara yetu. Kwa muda wa miaka iliyopita, biashara hii imekuwa ikiathirika kutokana na ukosefu wa mafundi wa kutosha na waliohitimu hali ambayo imepelekea kuwepo kwa kazi duni, kucheleshwa ukamilishaji wa miradi na gharama za juu za uajiri wa mafundi kutoka mataifa ya nje. Kupitia wakfu wetu ambao ulianzishwa mwaka 2012, tunaendelea kutimiza ndoto yetu ya kusaidia na kuchochea kuwepo kwa watalaamu wanaohitajika kwenye biashara ya ujenzi kupitia mwito wa kubuniwa kwa mafundi milioni moja nchini Kenya.

Mnamo mwaka 2015, kupitia ushirikiano wetu wa umma na sekta za kibnafsi, tuliweza kusaidia kuandaa mafunzo yenye ushindani ulimwenguni kuhusu; upakaji rangi, uwashi (masonry), umeme na mbao. Mafunzo yanayoendelea sasa yanatekelezwa kupitia miradi yetu ya Komarock.

Pendekezo la mgawo wa faida kufuatia matokeo ya mwaka 2015, nina furaha kutangaza kwamba Halmashauri ya wakurugenzi kupitia mkutano uliofanyika Februari 24 2016 imetoa pendekezo la malipo ya mwisho ya mgawo wa faida ya KShs. 0.65 kwa kila hisa na malipo mengine ya awali ya KShs. 0.65 kwa kila hisa. Kwa jumla, malipo yote ya mwisho ya mgawo wa faida yatakuwa KShs. 1.30 kwa kila hisa.

Mwaka ulio Mbele

Ukuaji wa uchumi wa taifa la Kenya unatarajiwa kuimarika kwa asilimia 5.5 (5.5%) mwaka 2016. Mfumuko wa bei za bidhaa unatarajiwa kupungua kutokana na kushuka kwa bei ya mafuta. Hali hii inaweza kuleta athari za ufadhili wa kifedha na ukuaji wa uchumi. Serikali ya Kenya imetoa hakikisho kwamba miradi mikubwa ya kimaendeleo itaendelea mbele kama ilivyopangwa. Serikali ya Kenya imetoa imani kwa sekta za kibnafsi na wawekezaji la kuendelea na matumizi ya maendeleo.

Kufungamana na mipango ya serikali ya Kenya ya kudumisha matumizi mwaka 2016 na hakikisho kwamba miradi mikubwa itaendelea mbele kutekelezwa kama ilivyopangwa, sekta ya benki inatarajiwa kudumisha mienendo yake ya ukuaji.

Shukrani

Kwa niaba ya Halmashauri ya wakurugenzi, ningependa kuwashukuru wateja wetu kutokana na ulezi wao na imani ambayo wamedhihirisha kwa halmashauri ya wakurugenzi, usimamizi na wafanyakazi. Ningependa kuwashukuru washika dau wetu wote kwa kuendelea kutuunga mkono na kwa imani yao kwetu. Hali hii inatuchochea kufanikisha malengo yetu na kila mara kujitolea kubuni thamani kwenu.

Halmashauri ya Wakurugenzi

Pia, ningependa kuwashukuru wenzangu kwenye halmashauri kutokana na mwongozo na mchango wao wa kuliongoza kundi kwenye hatua za juu na pia Benki Kuu ya Kenya kwa mwelekeo mwema kwenye sekta ya benki.

Mwisho, kwa niaba ya halmashauri ya wakurugenzi, wafanyakazi na usimamizi na wanahisa, ningependa kutoa shukrani zetu za dhati kwake Mhe. Rais Uhuru Muigai Kenyatta kwa kuzindua msingi wa ujenzi wa mradi wa Komarock Heights Housing Project mnamo Septemba 16, 2015.

Steve Omenge Mainda, EBS

Mwenyekiti wa Halmashauri

HFDI - PROPERTY DEVELOPMENT & INVESTMENT

Frank Ireri, EBS
Group Managing Director

Dear Shareholders,

2015 was a significant year for the Group as it saw the achievement of many milestones. On November 18th 2015, HF Group marked its 50th anniversary and has, over the years, built a name for itself as a powerhouse in property financing and development. As we move into the future, the Group will continue to augment this capability. We have talented and committed people, exceptional innovation capabilities, a strong and trusted brand, and a solid balance sheet, all of which we will leverage to soundly position ourselves in the market.

One of the key achievements in 2015 was the restructure of our business from Housing Finance Company of Kenya to HF Group, a move aimed at ensuring optimal growth at both Group and subsidiary levels. This restructure also saw the formation of a new subsidiary – HFC, which handles the mortgage and banking business.

Effectively, HF Group now has four operational subsidiaries;

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

These subsidiaries complement each other and play a critical role in providing our customers with holistic property and financial solutions. For instance HFDI develops properties and through HFC we are able to provide financing for customers to purchase these. Our insurance agency then comes in to provide these customers with a wide range of bancassurance solutions to protect their investments.

The Group Reorganisation Paying Off

Despite the macroeconomic challenges faced in 2015, the Group was able to post growth in profitability mainly due to the diversified banking, property development and insurance strategy. This performance signifies that the Group reorganisation is already paying off. Some of the key highlights of our performance are as follows:

- The Group's profit before tax grew 25% to KShs. 1.75 billion in the period compared to KShs. 1.4 billion over a similar period in 2014.
- Customer deposits at HFC grew by 17% to KShs. 42 billion in the year ending December 2015 from KShs. 36 billion in 2014.
- Loans and advances to HFC customers increased by 17.2% to KShs. 53 billion from KShs. 45.2 billion in the previous year following continued uptake of new banking products.

- Total interest income increased by 27 per cent during the year to KShs. 8.1 billion on account of higher loan book and favourable rates on money market instruments
- Total shareholders' funds increased by 62 per cent to KShs. 10.6 billion from KShs. 6.6 billion. This was on account of new capital raised through a rights issue of KShs. 3.36 billion and retained earnings of KShs. 1.2 billion
- HFDI completed Komarock 5B residential estate and K-Mall, a retail commercial development and also launched the construction of phase one of Komarock Heights project

Dreams Made Possible

The customer remains at the centre of everything we do and we continue to develop innovative solutions and simplified processes that enhance our value to them. With our holistic property and financial solutions as well as the launch of a robust core banking system, we are well underway in fulfilling our mandate of making our customers dreams possible.

Looking Ahead Into The Future

We have now embarked on the implementation of our 2016-2020 strategy dubbed *Vision 2020*, which is the next wave of growth. This focuses on five strategic thrusts as indicated below:

- Focus core mortgage lending and banking efforts on the under-penetrated, upper-middle income and affluent market segments.
- Build a full service retail banking offering.
- Rapidly scale up HFDI property development capability and the creation of affordable housing for Kenyans.
- Develop our corporate banking proposition to our ecosystem.
- Develop our bancassurance capability through our insurance agency.

Our ambition for HFC is to become a top 10 bank by 2020. Towards this end, we are developing our full service banking capability to include competitive property finance, corporate and retail banking solutions that meet customer needs. We plan to continue increasing our branch network and introduce alternative channels such as agency banking, mobile apps and internet banking which will allow customers to access our services at their convenience.

Scaling The Heights of Real Estate Development

As HF Group, we are keen on doing our part to reduce the housing deficit and make the dream of home ownership a possibility for Kenyans. Through our subsidiary HFDI, we have been involved in the development of affordable housing, the most recent project being Komarock Heights whose ground breaking was held in September 2015, and graced by His Excellency President Uhuru Kenyatta. This project comprises of 1,272 units which will be developed in three phases.

In November, HFDI completed the development of Komarock Phase 5B project, and hand over of the houses has since been done for most of the owners. The Komarock Commercial Centre, K-Mall, which is located within the vicinity of Komarock Phase 5A and 5B, has also been completed and is set to launch in 2016.

Our urban centres have been growing at a phenomenal rate and are fast attracting new residents and companies. With the implementation of the devolved system of Government, major towns are expected to grow at an even faster rate. HF Group is aware of the immense opportunity that this will bring because of the pressure that will be exerted on the existing housing capacity in such towns. We are therefore keen to address this housing gap and have put in place an elaborate plan to partner with counties through Public Private Partnerships (PPPs) to put up housing units. The plan is already in motion and in October 2015, we signed a Memorandum of Understanding with the Kakamega County Government to put up 1,000 housing units in the county. We are also exploring partnerships with other like-minded counties and other entities to fulfil this agenda.

We made considerable progress in 2015, but there is still alot to be done to deliver HF Group's full potential. As the management team, we have our work cut out for us and are confident that we have chosen a sound strategic direction that will enable us to deliver value to all our stakeholders.

Frank Ireri

Group Managing Director

Kwa Wanahisa,

2015 ulikuwa mwaka muhimu kwa kundi kwani ulishuhudia mafanikio makubwa. Mnamo Novemba 18 2015, HF Group iliadhimisha miaka 50 na kwa muda wa miaka iliyopita, imejenga jina kama kituo thabiti cha ufadhili wa mali na maendeleo. Huku tunapoangazia siku za usoni, kundi litazidi kupanua uwezo wake. Tuna watu wenye talanta na waliojitolea, uwezo wa ubunifu wa kipekee, bidhaa imara na zinazoaminika, na mizania thabiti ambayo sote tutagemea ili kujiweka katika nafasi imara katika soko.

Mojawapo wa mafanikio muhimu mwaka 2015 yalikuwa ni kufanyia mabadiliko biashara yetu kutoka Housing Finance of Kenya hadi HF Group, hatua ambayo lengo lake ni kuhakikisha ukuaji wa kasi wa kundi na viwango vya kampuni tanzu. Mabadiliko haya pia yalishuhudia kubuniwa kwa kitengo tanzu kwa jina HFC ambacho jukumu lake ni kuangazia biashara za rehani na benki.

Kuanzia hapo, sasa, HF Group ina vitengo vinne tanzu vinavyotekeleza majukumu;

- HFC - ambayo imepewa leseni kutekeleza biashara za ufadhili wa rehani pamoja na benki chini ya sheria za benki.
- HF Development and Investment - ambayo zamani ilikuwa ikijulikana kama Kenya Building Society Limited ambayo inatelekeza jukumu la maendeleo ya mijengo ya mitaa.

  HF Insurance Agency - ambayo inatoa suluhu la udhamini wa bima.
- HF Foundation - ambacho ni kitengo cha uwekezaji wa kijamii.

Viengo hivi tanzu husaidiana kutekeleza wajibu muhimu wa kuwapa wateja wetu suluhu la kijumla la raslimali na la kifedha. Kwa mfano, HFDI huendeleza raslimali na kupitia HFC tunaweza kutoa ufadhili kwa wateja wetu ili kununua raslimali hizi. Hatimaye, wakala wetu wa bima huingia kati na kuwapa wateja hawa suluhu pana la bima kulinda uwekezaji wao.

Mafanikio ya Kufanyia Mabadiliko Kundi

Licha ya changamoto zilizokumba chumi ndogo mwaka 2015, kundi liliweza kuandikisha ukuaji wa faida hasa kutokana na upanuzi wa huduma za benki, ustawishaji wa raslimali, maendeleo na mkakati wa bima. Matokeo haya yanaashiria kwamba mabadiliko yaliyofanyiwa kundi tayari yanazaa matunda. Baadhi ya vidokezo vya matokeo yetu ni kama vifuatavyo:

- Faida ya kundi kabla ya kutozwa ushuru iliimarika kwa asilimia 25 (25%) na kufikia shilingi bilioni 1.75 wakati wa kipindi hiki cha mwaka ikilinganishwa na bilioni 1.4 kipindi sawa na hiki cha mwaka 2014.
- Akiba ya wateja katika HFC iliongezeka kwa asilimia 17 (17%) na kufikia shilingi bilioni 42 wakati wa kipindi cha mwaka uliomalizika Desemba 2015 kutoka bilioni 36 mwaka 2014.
- Mikopo na malipo ya awali kwa wateja wa HFC ziliongezeka kwa asilimia 17.2 (17.2 %) na kufikia shilingi bilioni 53 kutoka bilioni 45.2 mwaka uliotangulia kutokana na kuendeleza uzinduzi wa bidhaa mpya za benki.
- Mapato ya jumla kutokana na riba yaliongezeka kwa asilimia 27 (27%) wakati wa kipindi hiki cha mwaka na kufikia shilingi bilioni 8.1 kutokana na kiwango cha juu cha mikopo na viwango bora vya ada katika soko la pesa.
- Jumla ya hazina ya wanahisa iliongezeka kwa asilimia 62 (62%) na kufikia shilingi bilioni 10.6 kutoka shilingi bilioni 6.6. Hii ilitokana na mtaji ulioongezwa kupitia toleo la umiliki wa hisa wa shilingi bilioni 3.36 na malipo yaliyoshikiliwa ya shilingi bilioni 1.2
- HFDI ilikamilisha ujenzi wa mtaa wa makao wa Komarock 5B na K-Mall – kituo cha maendeleo ya uwekezaji na pia kuzindua ujenzi wa awamu ya kwanza ya mradi wa Komarock Heights.

Ndoto Kufanywa Kuwa Kweli

Mteja angali kiungo cha kati kwa yote tunayofanya na tunaendelea na uvumbuzi wa mbinu na urahisishaji wa njia ambazo ambazo zitaongeza thamani yetu kwao. Huku tukiwa na suluhu la jumla la raslimali na fedha pamoja na uzinduzi wa mfumo wa haraka wa benki, tuko kwenye mkondo salama wa kutimiza wajibu wetu wa kufanya ndoto ya wateja wetu kuwa ya kweli.

Kuangazia Siku Za Usoni

Kwa sasa, tumerejelea matumizi ya mkakati wetu wa mwaka 2016 - 2020 ambao kauli ni ruwaza ya 2020 (Vision 2020) ambao ni mkondo mwingine wa ukuaji.

Mkondo huu unaangazia mikakati 5 kama ilivyoonyeshwa hapa chini:

- Kuangazia sehemu muhimu za utoaji mikopo ya rehani na juhudi za benki katika maeneo ambayo hayajaangaziwa, vitengo vya masoko ya mapato ya kadri na ya juu.
- Kujenga vituo kamili vya benki vya utoaji wa huduma za reja reja.
- Kwa haraka, kuinua uwezo wa HFDI kuendeleza raslimali na kubuni makao nafuu kwa wakenya.
- Kuendeleza huduma za benki kwa mashirika kwenye mfumo wetu wa pamoja.
- Kuendeleza uwezo wetu wa hakikisho la benki yetu kupitia wakala wa bima.

Tamaa yetu kwa HFC ni kuwa miongoni mwa benki 10 bora ifikiapo mwaka 2020. Kufikia sasa, tunabuni uwezo wetu kamili utakaohusisha ufadhili shindani wa raslimali, kutoa suluhu la huduma za benki za reja reja na mashirika ambazo zitaafikiana na mahitaji ya wateja. Tunapanga kuendeleza mtandao wa matawi yetu na wakati huo kuanzisha mbinu mbadala za uwakala wa benki, matumizi ya simu tamba na huduma za benki kupitia intanenti ambazo huwapa nafasi wateja kufikia huduma zetu kwa njia rahisi.

Kupima Kilele Cha Maendeleo Ya Ujenzi Wa Mitaa

Kama HF Group, tuko makini sana kutekeleza wajibu ili kupunguza pengo lililoko la makao na kutimiza ndoto ya umiliki wa nyumba kuwa kweli kwa wakenya. Kupitia kampuni yetu tanzu ya HFDI, tumejihusisha na ujenzi wa nyumba za makao ya bei nafuu. Mradi wa hivi majuzi ni ule wa Komarock Heights ambao msingi wa ujenzi wake ulifanyika mwezi Septemba 2015 na kuongozwa na Mheshimiwa Rais Uhuru Kenyatta. Mradi huu unahusisha nyumba 1, 272 na utajengwa kupitia awamu tatu.

Mnamo Novemba, HFDI ilikamilisha ujenzi wa mradi wa Komarock Phase 5B. ukabidhi wa mradi huu tayari umetolewa kwa baadhi ya wamiliki. Mradi wa Komarock Commercial Center, K- Mall ambao uko eneo la Komarock Phase 5A na 5B pia umekamilika na unatarajiwa kuzinduliwa mwaka 2016.

Vituo vyetu vilivyoko maeneo ya mijini pia vimekua vikishuhudia ukuaji wa kasi na vimekuwa vikiwavutia wakazi na makampuni. Kufuatia kuanzishwa kwa mfumo wa serikali za ugatuzi, miji mingi inatarajiwa kukua kwa kiwango kwa haraka. HF inafahamu vyema kuhusu nafasi zitakazojitokeza kutokana na shinikizo kali la uwepo wa makao kwa miji kama hii. Kwa sababu hiyo, tuko makini sana kuangazia pengo hili la makao na tumeweka mpango mathubuti wa ushirkiano na serikali za kaunti kupitia makundi ya watu kibnafi na umma (PPPS) kujenga makao. Tayari, mpango huu uko kwenye mkondo na mnamo mwezi Oktoba 2015, tulitia sahihi memoranda ya makubaliano na serikali ya Kaunti ya Kakamega ili kujenga nyumba 1,000. Pia, tunaendelea kutafiti ushirikiano wetu na kaunti nyingine pamoja na makundi mengine yenye malengo sawa na haya ili kutimiza agenda hii.

Tulipata ufanisi muhimu mwaka 2015 lakini kuna mengi yanayostahili kutelekezwa ili kuafikia manufaa kamili ya kundi la HF. Kama timu ya usimamizi, tuna majukumu yetu kutekeleza na tuna imani kwamba tumechagua mwelekeo bora wa mkakati utakaotuwezesha kuwapa thamani wanahisa wetu wote.

Frank Ireri

Meneja Mkurugenzi wa Kundi

HFC - PROPERTY FINANCE AND COMMERCIAL BANKING SOLUTIONS

| MANAGEMENT |

Frank Ireri
Group Managing Director

James Karanja
Executive Director
HFDI

Sam Waweru
Managing Director
HFC

Winnie Imanyara
Executive Director
HF Foundation

Jane Surungai
Principal Officer
HF Insurance Agency

Achieng Oluoch

Constantine Barasa

Ben Lanya

Tirus Mutoru

Caroline Armstrong

Regina Anyika

Steve Mainda
Chairman

Frank Ireri

John Nicholas Ashford-Hodges

Gladys Ogallo

Sam Waweru
Managing Director

Benson Wairegi

| HF DEVELOPMENT AND INVESTMENT (HFDI) DIRECTORS |

Peter Munga
Chairman

Frank Ireri

Christopher Khaemba

Ruth Kagia

Winnie Imanyara
Executive Director

Caroline Armstrong

Frank Ireri
Chairman

Constantine Barasa

Jane Surungai
Principal Officer

50TH ANNIVERSARY CELEBRATIONS

KOMAROCK HEIGHTS GROUNDBREAKING

LAUNCH OF "SOLAPAWA" SOLAR FINANCING SOLUTION

BELL RINGING

"CREATING AN ARMY OF 1 MILLION ARTISANS" - GRADUATIONS

HF GROUP

HF GROUP LIMITED
(Formerly Housing Finance Company of Kenya Limited)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2015. The report discloses the state of affairs of the Group and the Company.

1. Change of name

The Company changed its name from Housing Finance Company of Kenya Limited to HF Group Limited (the 'Company') on 13 August 2015.

2. Principal activities

The company is licensed as a non operating holding company under the Banking Act (Cap.488).
The subsidiaries' principal activities are to encourage and promote the flow of both private and public savings into financing home ownership, development and selling of residential houses and insurance agency business.

3. Transfer of banking and mortgage business, assets and liabilities from HF Group Limited (formerly Housing Finance Company of Kenya Limited) to HFC Limited

On 3 August 2015, HF Group Limited (formerly Housing Finance Company of Kenya Limited), transferred the banking and mortgage business and certain assets and liabilities to HFC Limited at book values in exchange for equity in HFC Limited. The agreement for the transfer was signed by both companies and approved by the Central Bank of Kenya to take effect from 3 August 2015.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

4. Results and appropriations

	2015	2014
	KShs'000	KShs'000
Gross income	**9,269,225**	**7,217,477**
Profit before taxation		
HF Group Limited (formerly Housing Finance Company of Kenya Limited)	824,713	1,266,552
HFC Limited	745,940	-
HF Development and Investment Limited (formerly Kenya Building Society Limited)	167,174	89,532
First Permanent (East Africa) Limited	(86)	294
HF Foundation	818	-
HF Insurance Agency Limited	14,959	44,275
Group profit before taxation	**1,753,518**	**1,400,653**
Taxation	(556,549)	(425,317)
Profit after taxation	1,196,969	975,336
Retained profit and available for sale reserves brought forward	2,853,885	2,117,112
	4,050,854	**3,092,448**
Dividends – interim paid/proposed	(541,992)	(347,153)
Change in fair value of available for sale investments net of taxes	(13,433)	(65,760)
Transfer to/from statutory reserve	(329,025)	174,350
Retained profit and available for sale reserves carried forward	**3,166,404**	**2,853,885**

5. Dividend

The Directors recommend a final dividend payment of KShs. 226,782,834 (2014 – KShs. 173,685,000). An interim dividend amounting to KShs. 226,360,000 (2014 – KShs. 173,468,000) was paid during the year. The total dividend for the year is therefore KShs. 1.30 per share (2014 – KShs. 1.50), amounting to a total of KShs. 453,142,834 (2014 – KShs. 347,153,000).

6. Directors

The Directors who served during the year and up to the date of this report are set out on page 2.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

7. Auditors

The auditors, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486) and subject to Section 24(1) of the Banking Act (Cap.488).

8. Approval of financial statements

The financial statements set out on pages 43 to 114 were approved at a meeting of the Directors held on 24th February 2016

BY ORDER OF THE BOARD

Company Secretary:

Date: 24th February 2016

HF GROUP LIMITED
(Ambayo zamani ilikuwa ikijulikana kama Housing Finance Company of Kenya Limited)

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2015

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2015. Ripoti inafichua hali ya kundi na kampuni.

1. Kubadilishwa kwa jina

Kampuni ilibadilisha jina lake kutoka Housing Finance Company of Kenya hadi HF Group Limited (Kampuni) mnamo Agosti 13, 2015.

2. Shughuli Muhimu

Kampuni hii imesajiliwa rasmi kama kampuni ambayo haikusanyi pesa za wateja chini ya kifungu cha sheria ya masuala ya benki (kifungu nambari 488).

Shughuli nyinginezo ndogo ni pamoja na kuhimiza na kuhamasisha uwekaji wa akiba wa kibnafsi na wa umma ili kufadhili umiliki wa makao, kubuni na kuuza nyumba za kuishi na uwakala wa biashara za bima.

3. Kuhamisha biashara za benki na rehani, raslimali na madeni kutoka HF Group Limited (zamani ikijulikana kama Housing Finance Company of Kenya Limited) hadi HFC Limited.

Mnamo Agosti 3, 2015, HF Group Limited (zamani ikijulikana kama Housing Finance Company of Kenya Limited) ilihamisha biashara zake za benki, rehani, raslimali kadhaa na madeni hadi HFC Limited kwenye vitabu vyake ili kubadilishana umiliki wa hisa katika HFC Limited. Makubaliano ya uhamisho yalitiwa sahihi na makundi yote mawili na kuidhinishwa na Benki Kuu ya Kenya kuanza kutumika Agosti 3, 2015.

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2015 (Yaendeleya)

4. Matokeo na Makadirio

	2015	2014
	Kshs 000	Kshs 000
Mapato kwa jumla	**9, 269, 225**	**7, 217, 477**
Faida kabla ya ushuru		
HF Group Limited (zamani Ikijulikana kama Housing Finance Company of Kenya Limited)	824, 713	1, 266, 552
HFC Limited	745, 940	-
HF Development and Investment Limited		
(zamani ikijulikana kama Kenya Building society Limited)	167, 174	89, 532
First Permanent (East Africa) Limited	(86)	294
HF Foundation	818	-
HF Insurance Agency Limited	14, 959	44, 275
Faida ya kundi kabla ya ushuru	**1, 753,518**	**1, 400, 653**
Ushuru	(556,549)	(425,317)
Faida baada ya ushuru	1,196,969	975,336
Faida iliyohifadhiwa na		
Iliyo tayari kuuzwa. Hazina iliyo wasilishwa	2,853,885	2,117,112
	4,050,854	**3,092,448**
Mgawo- uliotolewa awali/ uliopendekezwa	(541,992)	(347,153)
Mabadiliko ya thamani kwa raslimali zilizoko kwa		
Madhumuni ya kuuzwa na ushuru kwa jumla	(13,433)	(65, 760)
Kuhamishwa kutoka hazina ya kisheria	(329,025)	174,350
Faida iliyohifadhiwa na iliyoko kwa madhumuni ya mauzo yaliyowasilishwa mbele	**3,166,404**	**2, 853,885**

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2015 (Yaendeleya)

5. Mgawo wa Faida

Wakurugenzi wanatoa pendekezo la malipo ya mwisho ya mgawo wa faida ya KShs. 226,782,834 (2014 yalikuwa KShs. 173,685,000). Malipo ya awali ya mgawo wa faida ya KShs. 226,360,000 (2014 yalikuwa KShs. 173,468,000) yalitolewa wakati wa kipindi cha mwaka. Kwa hivyo, jumla ya malipo ya mgawo wa faida kwa mwaka ni KShs. 1.30 kwa kila hisa (2014 yalikuwa KShs. 1.50) na kufikia jumla ya KShs. 453,142,834 (2014 yalikuwa KShs. 347,153,000).

6. Wakurugenzi

Wakurugenzi waliohudumu wakati wa kipindi hiki cha mwaka wameangaziwa kupitia ukurasa wa pili.

7. Wakaguzi wa Pesa

Wakaguzi wa Pesa KPMG wataendelea na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni nchini Kenya (kifungu nambari 486) na kwa kutegemea sehemu ya 24 (1) ya sheria za mabenki (kifungu nambari 488).

8. Kuidhinishwa kwa taarifa za matumizi ya pesa

Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 43 hadi 114 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 24 Februari 2016.

KWA AMRI YA HALMASHAURI

Katibu wa Kampuni:

Tarehe: 24 Februari 2016

The Board of HF Group Limited (formerly Housing Finance Company of Kenya Ltd) is responsible for the overall management of the Group and is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practice in corporate governance.

In recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2013 under Section 33(4) of the Banking Act and The Guidelines on Corporate Governance Practises by Public Listed Companies in Kenya issued by the Capital Markets Authority in May 2002 under Cap. 485A of the Capital Markets Authority Act.

1. The Board of Directors

The Board is responsible for drawing and implementing strategies for the long-term success of the Group as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. To this end, the Board meets regularly and has a formal schedule of matters reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group and overseeing the Group's compliance with statutory and regulatory obligations.

Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board is composed of six non-executive Directors including an independent Chairman and one executive Director. Mr. Frank Ireri is the Managing Director. At least a third of the Directors are Independent and Non-Executive. The Directors have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

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

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

2. Board and Management Committees

The Board has constituted 3 sub-committees chaired by Non-Executive Directors, namely Nomination & Governance, Strategy and Procurement.

Nomination and Governance Committee

The members of the Nomination and Governance committee are:

- Constance Gakonyo (Chairperson)
- Peter K. Munga
- Frank Ireri
- Gladys Ogallo

All the committee members are Non-Executive Directors with the exception of the Managing Director.

HF GROUP

Nomination and Governance Committee (Continued)

The Committee's responsibilities include:

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

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

Board Strategy Committee

This committee is composed of five Non-Executive Directors and the Managing Director:

- Benson Wairegi (Chairman)
- Peter K. Munga
- Adan D. Mohamed
- Kaushik Manek
- Frank Ireri
- Gladys Ogallo

The principal roles of the committee are to:

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

Board Procurement Committee

This committee is composed of two Non-Executive Directors and the Managing Director.

- Peter K. Munga (Chairman)
- Adan D. Mohamed
- Frank Ireri

The primary purpose of the Board Procurement Committee is:

- To ensure that the processes for procurement comply with the procurement policies and procedures manual and are anchored on quality, speed of delivery and price.
- To ensure effective and timely implementation of special projects through effective procurement, and that these are in line with the Group strategy.

Attendance of Individual Directors

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

Board meetings attendance for the year ended 31 December 2015	**Board meetings**				**Total attendance**
Date	24/3	21/4	21/7	24/10	
Steve Mainda	✓	✓	✓	✓	4
David R. Ansell*	✓	✓	N/A	N/A	2
Benson Wairegi	✓	✓	✓	✓	4
Peter Munga	✓	✓	X	✓	3
Shem Migot - Adholla*	✓	✓	N/A	N/A	2
Adan D Mohamed	✓	✓	✓	✓	4
Frank Ireri	✓	✓	✓	✓	4
Gladys Ogallo **	✓	✓	✓	N/A	3
Constance Gakonyo	✓	✓	X	✓	3
Kaushik Manek***	N/A	N/A	✓	✓	2

* Retired on 24 April 2015

** Resigned on 3 August 2015

*** Appointed on 26 June 2015

✓ Attended

X Absent with apology

N/A Not applicable

A number of Management committees have been established by the Board to oversee operations in some critical areas. These are Executive committee (EXCO), Asset and Liability committee (ALCO), Risk Management committee, Lending committee, Arrears Management committee, Information Technology Steering committee and Management Strategy committee (STRATCOM). The Board appoints other committees as and when necessary.

3. Board effectiveness evaluation

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

In February 2016, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

The Nomination & Governance Committee approved an evaluation process for non-executive Directors, which entails conducting one to one meetings with the Non-Executive Directors to discuss their performance and contribution.

4. Internal audit function

The Group has a fully operational internal audit function that is led by a senior member of staff who is a member of the Institute of Certified Public Accountants of Kenya. Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its audit programmes.

5. Communication with shareholders

The company is committed to:

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

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

6. Directors benefits and loans

All the Non-Executive Directors have continued to receive Directors' fees. The aggregate amount of Directors' fees is disclosed in Note 10 to the financial statements.

7. Major shareholders as at 31 December 2015

	Name	No. of shares	% age shareholding
1	British American Investment Company (Kenya) Ltd	67,878,315	19.46
2	Equity Nominees Limited A/C 00104	45,756,825	13.11
3	British American Insurance Company (Kenya) Ltd	32,628,258	9.35
4	British American Insurance Company (Kenya) Ltd	23,270,000	6.67
5	SCB A/C Pan African Unit Linked FD	11,810,050	3.38
6	Permanent Secretary Treasury	8,422,850	2.41
7	Board of Trustee NSSF	7,858,224	2.25
8	Standard Chartered Nominees Resd A/C KE11401	6,344,112	1.82
9	Standard Chartered Nominees Resd A/C KE11450	3,929,112	1.13
10	Kenya Commercial Bank Nominees Ltd A/C 915B	3,929,112	1.13
	TOTAL	**211,826,858**	**60.71**

8. Distribution of shareholders as at 31 December 2015

Number of shares	No. of shareholders	No. of shares held	% age shareholding
1-500	9,370	2,472,163	0.71
501-1,000	4,131	3,491,020	1.00
1,001-10,000	12,304	35,412,751	10.15
10,001-50,000	1,261	25,061,200	7.18
50,001-100,000	149	10,623,389	3.04
100,001-1,000,000	114	29,055,289	8.33
Over 1,000,000	24	242,780,855	69.59
TOTAL	**27,353**	**348,896,667**	**100%**

The Directors are responsible for the preparation and presentation of the financial statements of HF Group Limited (formerly Housing Finance Company of Kenya Ltd) set out on pages 43 to 114 which comprise the statements of financial position of the Group and the Company as at 31 December 2015, and the Group's statement of profit or loss and other comprehensive income, Group's and Company statements of changes in equity and Group's statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of the Group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Group and the Company's ability to continue as a going concern and have no reason to believe the Group and the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 24th February 2016 and were signed on its behalf by:

Chairman: Director:

Director: Company Secretary:

Wakurugenzi wana wajibu wa kuandaa na kutoa taarifa ya matumizi ya pesa ya Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kutoka kurasa 43 hadi 114 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2015 na taarifa ya kina ya kundi kuhusu mapato, mabadiliko kuhusu umiliki wa hisa na mtiririko wa fedha kwa kipindi cha mwaka uliomalizika na pia muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni ile iliyokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kwa hali ilivyo; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu kwa maandaalizi na utoaji wa taarifa hii ya matumizi ya pesa ambayo haina udanganyifu wowote, hila au makosa, kutenga na kutumia sera mwafaka za ukaguzi wa pesa na kuweka makadirio ya maana ya uhasibu

Chini ya sheria za makampuni nchini Kenya, wakurugenzi wanahitajika kuandaa taarifa ya matumizi ya pesa kwa kila kipindi cha matumizi ya pesa ambayo itatoa taswira (picha) halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na pia matokeo ya shughuli. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi za hesabu ambayo itafichua makadirio ya maana ya hali ya pesa ya kampuni na kundi.

Wakurugenzi hukubali kuchukua jukumu kuhusu taarifa ya ukaguzi wa pesa ambayo imetayarishwa kwa kufuata kanuni za ukaguzi wa pesa zinazohitajika na zinazoungwa mkono na uhakiki wa maana na makadirio yanayofaa kwa kufungamana na viwango vya kimataifa na kwa njia inayolingana na sheria za makampuni nchini Kenya .Wakurugenzi wanakubaliana kwa kauli moja kwamba, taarifa ya ukaguzi wa pesa inaonyesha hali halisi kuhusiana na maswala ya kifedha na matokeo ya shughuli za kundi na kampuni.

Zaidi ya hayo, wakurugenzi wanakubali kuchukua jukumu la kudumisha rekodi za ukaguzi wa pesa zinazoweza kutegemewa wakati wa kuandaa taarifa ya hesabu pamoja na taratibu za kudhibiti ukaguzi wa ndani wa kila siku wa fedha.

Wakurugenzi wamefanya uchunguzi wa kundi na uwezo wa kampuni kuendelea na shughuli zake na hawana tashwishi kuamini kwamba, kundi na kampuni hazitasitisha shughuli zao kwa kipindi cha miezi kumi na mbili ijayo kuanzia siku ya kutolewa kwa taarifa hii.

Kuidhinishwa Kwa Taarifa ya Matumizi ya Pesa

Taarifa ya matumizi ya pesa kama ilivyoonyeshwa hapo juu iliidhinishwa na halmashauri ya Wakurugenzi tarehe 24 Februari 2016 na kutiwa sahihi kwa niaba yake na:-

Mwenyekiti:

Mkurugenzi:

Mkurugenzi: Mwairegi

Katibu wa Kampuni:

Report on the financial statements

We have audited the Group financial statements of HF Group Limited (formerly Housing Finance Company of Kenya Limited) set out on pages 43 to 114 which comprise the statements of financial positions of the Group and the Company at 31 December 2015, and the Group's statement of profit or loss and other comprehensive income, Group and Company statements of changes in equity and Group statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 39, the company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Kenya, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the consolidated and company financial position of HF Group Limited (formerly Housing Finance Company of Kenya Limited) at 31 December 2015, and the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) The statement of financial position of the Company is in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha - P/1610.

KPMG Kenya

Date: 24th February 2016

Ripoti kuhusu matumizi ya pesa

Tumeandaa taarifa kuhusu matumizi ya pesa ya HF Group Limited (Zamani ikijulikana kama Housing Finance Company of Kenya Limited) ilivyoonyeshwa kupitia ukurasa wa 43 hadi 114 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2015 na taarifa ya kundi kuhusu faida au hasara na mapato mengine ya kina, taarifa za kundi na kampuni kuhusu mabadiliko ya umiliki na taarifa za kundi kuhusu mtiririko wa fedha kwa kipindi cha mwaka uliomalizika pamoja na muhtasari wa sera muhimu za ukaguzi wa pesa na ufafanuzi wa vidokezo vingine.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa

Kama ilivyoelezwa kupitia ukurasa wa 40, wakurugenzi wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa vya utoaji ripoti za kifedha na kwa njia inayohitajika na sheria za makampuni nchini Kenya na kwa uthibiti wa ndani ambao wakurugenzi wataona unafaa kuandaa taarifa za matumizi ya pesa ambazo hazina dosari yoyote iwe ni kutokana na udanganyifu au makosa.

Wajibu wa Wakaguzi wa Hesabu

Wajibu wetu ni kutoa maoni yetu kuhusu taarifa hii ya matumizi ya pesa kwa mujibu wa ukaguzi wetu. Tulifanya ukaguzi wetu kwa mujibu wa viwango vya kimataifa. Viwango hivyo vinatuhitaji kuzingatia maadili muhimu, kupanga na kutekeleza ukaguzi wa pesa ili kupata uhakika wa maana kuwa taarifa ya ukaguzi haina dosari yoyote.

Ukaguzi wa pesa unahusu uzingatiaji wa hatua ili kupata ushahidi wa idadi na fichuzi katika taarifa ya matumizi ya pesa. Hatua zilizoteuliwa zinategemea uamuzi wetu ikiwemo kukadiria hatari ya udanganyifu katika taarifa iwe ni kutokana na hila au makosa. Wakati wa ukadiriaji huo, tunazingatia uthibiti wa ndani unaohusiana na maandalizi ya taarifa iliyo sawa ya matumizi ya pesa ili kubuni taratibu za ukaguzi zinazohitajika lakini si kwa kutoa maoni kuhusiana na sera za uhasibu zilizotumika na makadirio ya maana ya uhasibu yaliyoandaliwa na wasimamizi pamoja na kukadiria kwa jumla mtazamo kamili wa taarifa ya pesa.

Tunaamini kwamba ushahidi kuhusu ukaguzi wa pesa tuliopata unatosha na unafaa kutupatia msingi wa maoni yetu.

Maoni

Kwa maoni yetu, taarifa za matumizi ya pesa zinatoa taswira halisi na ya haki ya hali ya kifedha iliyojumuishwa pamoja ya HF Group (ambayo zamani ilijulikana kama Housing Finance Company of Kenya Limited) kufikia Desemba 31 2015 na pia matokeo yaliyojumuishwa pamoja na mtiririko wa fedha kwa kipindi cha mwaka uliomalizika kwa mujibu wa viwango vya kimataifa vya utoaji wa ripoti za kifedha na sheria za makampuni nchini Kenya.

Ripoti kuhusu mahitaji mengine ya kisheria

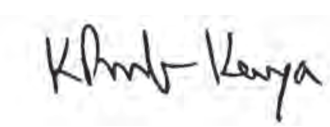
Kama inavyohitahika na sheria za makampuni nchini Kenya, kwa mujibu wa ukaguzi wetu, tunaripoti kwenu kwamba;

(i) Tumepata maelezo na ufafanuzi ambao kwa ufahamu wetu na imani ulikuwa muhimu kwa madhumuni ya ukaguzi wetu wa kifedha

(ii) Kwa maoni yetu, uwekaji bora wa vitabu vya hesabu umezingatiwa na Kampuni kama inavyodhihirika kupitia ukaguzi wetu wa vitabu hivyo; na

(iii) Taarifa ya hali ya kifedha ya Kampuni inawiana na vitabu vya hesabu.

Mhasibu aliyehusishwa na ukaguzi ambao ulipelekea ripoti hii ya ukaguzi wa kujitegemea wa pesa ni C.P.A Jacob Gathecha – P/1610



Tarehe: 24 Februari 2016

	Note	2015 KShs'000	2014 KShs'000
Interest income	7	8,098,136	6,374,782
Interest expense	7	(4,486,182)	(3,340,803)
Net interest income		**3,611,954**	**3,033,979**
Impairment losses on loans and advances	18(c)	(503,771)	(551,219)
Net interest income after impairment			
Losses on loans and advances		**3,108,183**	**2,482,760**
Non-interest income	8	1,171,089	842,695
Non-interest expenses	9	(2,608,766)	(1,906,551)
Share of profit/(loss) in Joint Ventures	19	83,012	(18,251)
Profit before taxation	**10**	**1,753,518**	**1,400,653**
Income tax expense	11	(556,549)	(425,317)
Net profit after tax for the year		**1,196,969**	**975,336**

Other comprehensive income

Items that are or may be reclassified to profit or loss

	Note	2015 KShs'000	2014 KShs'000
Revaluation of land and buildings		-	226,161
Change in fair value of available-for-sale investments	33(e)	(19,190)	(85,151)
Related tax		5,757	(17,533)
		(13,433)	123,477
Total comprehensive income for the year		**1,183,536**	**1,098,813**
Basic and diluted earnings per share – KShs	12	**3.43**	**4.21**
Dividends per share – KShs	13	**1.30**	**1.50**
Total number of shares		**348,897**	**231,580**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 |

		2015	2014
ASSETS	**Note**	**KShs'000**	**KShs'000**
Cash and balances with banks	15	5,387,083	4,028,234
Placements with other banks	16	4,580,142	7,597,238
Investment in government securities	17	2,150,981	264,332
Loans and advances to customers (Net)	18(a)	53,021,022	45,243,539
Investment in joint venture	19	1,080,213	172,549
Other assets	20	1,324,544	1,031,322
Housing development projects	22	1,319,204	314,347
Property and equipment	23(a)	1,341,930	1,282,252
Prepaid operating lease rentals	24	45,396	46,038
Intangible assets	25	819,147	521,114
Tax recoverable	11(b)	13,421	14,260
Deferred tax asset	26(a)	576,351	446,455
TOTAL ASSETS		**71,659,434**	**60,961,680**
LIABILITIES			
Customers' deposits	28	41,665,085	36,105,929
Other liabilities	29	657,273	1,107,450
Tax payable	11(b)	110,068	-
Deffered tax liability	26(a)	43	-
Dividends – payable		63,949	46,307
Loans from banks	30	7,253,511	6,783,610
Borrowed funds	31	1,074,422	147,000
Corporate bond	32	10,212,442	10,212,502
		61,036,793	**54,402,798**
SHAREHOLDERS' EQUITY			
Share capital	33	1,744,483	1,157,900
Reserves (Pages 47 & 48)	33	8,827,408	5,350,232
Shareholders' income notes and loans	34	50,750	50,750
		10,622,641	**6,558,882**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**71,659,434**	**60,961,680**

The financial statements set on pages 43 to 114 were approved by the Board of Directors on 24th February 2016 and were signed on its behalf by:

Chairman:

Director:

Director:

Company Secretary:

The notes set out on pages 51 to 114 form an integral part of these financial statements.

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	30,973	4,028,221
Placement with other banks	16	5,000	7,597,238
Investment in government securities	17	-	264,332
Loans and advances to customers (Net)	18(a)	-	45,243,539
Investment in subsidiaries	19	9,958,782	255,120
Other assets	20	30,900	637,033
Investment in joint venture	19	-	172,549
Property and equipment	23(b)	203	1,282,081
Prepaid operating lease rentals	24	-	39,860
Intangible assets	25	-	521,114
Tax recoverable	11(b)	-	4,315
Deferred tax asset	26(b)	-	445,431
TOTAL ASSETS		**10,025,858**	**60,490,833**
LIABILITIES			
Customers' deposits	28	-	36,310,472
Other liabilities	29	17,046	861,909
Tax payable	11(b)	63,354	-
Dividends - payable		63,949	46,307
Loans from banks	30	-	6,783,610
Corporate bond	32	-	10,212,502
		144,349	**54,214,800**
SHAREHOLDERS' EQUITY			
Share capital	33	1,743,983	1,157,900
Reserves (Pages 49 & 50)	33	8,137,526	5,067,383
Shareholders' income notes and loans	34	-	50,750
		9,881,509	**6,276,033**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,025,858**	**60,490,833**

The financial statements set on pages 43 to 114 were approved by the Board of Directors on 24th February 2016 and were signed on its behalf by:

Chairman: Director:

Director: Company Secretary:

The notes set out on pages 51 to 114 form an integral part of these financial statements.

	Note	2015 KShs'000	2014 KShs'000
Net cash flows from operating activities	35(a)	**(4,409,455)**	**3,265,259**
INVESTING ACTIVITIES			
Purchase of property and equipment		(90,004)	(16,446)
Sale of Investments		-	173,259
Investment in joint venture		(824,652)	-
Capital work in progress		(63,061)	(177,210)
Proceeds from sale of equipment		-	60,092
Additions to intangible assets		(308,832)	(137,889)
Net cash flow from investing activities		**(1,286,549)**	**(98,194)**
FINANCING ACTIVITIES			
Proceeds from rights issue and Employee Share Ownership Plan		3,369,222	5,100
Dividend paid		(471,252)	(405,940)
Net cash flow from financing activities		**2,897,970**	**(400,840)**
Net (decrease)/increase in cash and cash equivalents	35(b)	**(2,798,034)**	**2,766,225**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

2015	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available--for-sale reserve KShs'000	Total KShs'000
At 1 January 2015	1,157,900	701,568	1,557,073	173,685	64,021	2,899,130	(45,245)	6,508,132
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	1,196,969	-	1,196,969
Other comprehensive income								
Reversal of surplus on revaluation of land and buildings	-	(105)	-	-	-	-	-	(105)
Deferred tax on revaluation Surplus on land and buildings								
Change in fair value of available-for-sale investment	-	-	-	-	-	-	(19,190)	(19,190)
Deferred tax on change in fair value of available-for-sale investment	-	-	-	-	-	-	5,757	5,757
Transfer to statutory credit risk reserve	-	-	-	-	329,025	(329,025)	-	-
Total comprehensive income	**-**	**(105)**	**-**	**-**	**329,025**	**867,944**	**(13,433)**	**1,183,431**
Transactions with owners, recorded directly in equity								
Rights issue & Employee Share Ownership Plan	586,583	-	2,782,639	-	-	-	-	3,369,222
Dividend paid - 2014	-	-	-	(173,685)	-	(88,849)	-	(262,534)
Interim dividend paid - 2015	-	-	-	-	-	(226,360)	-	(226,360)
Proposed dividends	-	-	-	226,783	-	(226,783)	-	-
Total transactions with owners for the year	**586,583**		**2,782,639**	**53,098**	**-**	**(541,992)**	**-**	**2,880,328**
Balance as at 31 December 2015	**1,744,483**	**701,463**	**4,339,712**	**226,783**	**393,046**	**3,225,082**	**(58,678)**	**10,571,891**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

2014:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2014	1,155,350	512,331	1,554,523	231,070	238,371	2,096,597	20,515	5,808,757
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	975,336	-	975,336
Other comprehensive income								
Surplus on revaluation of land and buildings	-	226,161	-	-	-	-	-	226,161
Deferred tax on revaluation Surplus on land and buildings	-	(36,924)	-	-	-	-	-	(36,924)
Change in fair value of available-for-sale investment	-	-	-	-	-	-	(85,151)	(85,151)
Deferred tax on change in fair value of available-for-sale investment	-	-	-	-	-	-	19,391	19,391
Transfer from statutory credit risk reserve	-	-	-	-	(174,350)	174,350	-	-
Total comprehensive income	**-**	**189,237**	**-**	**-**	**(174,350)**	**1,149,686**	**(65,760)**	**1,098,813**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,550	-	2,550	-	-	-	-	5,100
Dividend paid – 2014	-	-	-	(231,070)	-	-	-	(231,070)
Interim dividend paid - 2014	-	-	-	-	-	(173,468)	-	(173,468)
Proposed dividends				173,685		(173,685)	-	-
Total transactions with owners for the year	**2,550**	**-**	**2,550**	**57,385**	**-**	**(347,153)**	**-**	**(399,438)**
Balance as at 31 December 2014	**1,157,900**	**701,568**	**1,557,073**	**173,685**	**64,021**	**2,899,130**	**(45,245)**	**6,508,132**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

2015:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2015	1,157,900	701,568	1,557,073	173,685	64,021	2,616,281	(45,245)	6,225,283
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	747,447	-	747,447
Other comprehensive income								
Surplus on revaluation of Land and buildings	-	(701,568)	-	-	-	701,463	-	(105)
Deferred tax on revaluation Surplus on land and buildings	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale investments	-	-	-	-	-	-	28,556	28,556
Revaluation on transfer						(16,689)	16,689	-
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	-	-	-
Transfer from statutory credit risk reserve	-	-	-	-	(64,021)	64,021	-	-
Total comprehensive	**-**	**(701,568)**	**-**	**-**	**(64,021)**	**1,496,242**	**45,245**	**775,898**
Transactions with owners, recorded directly in equity								
Rights issue & Employee Share Ownership Plan	586,583	-	2,782,639	-	-	-	-	3,369,222
Dividend paid – 2014	-	-	-	(173,685)	-	(88,849)	-	(262,534)
Interim dividend paid - 2015	-	-	-	-	-	(226,360)	-	(226,360)
Proposed dividends	-	-	-	226,783	-	(226,783)	-	-
Total transactions with owners for the year	**586,583**	**-**	**2,7882,639**	**53,098**	**-**	**(541,992)**	**-**	**2,880,328**
Balance as at 31 December 2015	**1,744,483**	**-**	**4,339,712**	**226,783**	**-**	**3,570,531**	**-**	**9,881,509**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

2014:	**Share capital KShs'000**	**Revaluation reserve KShs'000**	**Share premium KShs'000**	**Proposed dividends KShs'000**	**Statutory credit risk reserve KShs'000**	**Retained profits KShs'000**	**Available--for-sale reserve KShs'000**	**Total KShs'000**
At 1 January 2014	1,155,350	512,331	1,554,523	231,070	238,371	1,918,943	20,515	5,631,103
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	870,141	-	870,141
Other comprehensive income								
Surplus on revaluation of Land and buildings	-	226,161	-	-	-	-	-	226,161
Deferred tax on revaluation Surplus on land and buildings	-	(36,924)	-	-	-	-	-	(36,924)
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(85,151)	(85,151)
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	-	19,391	19,391
Transfer from statutory credit risk reserve	-	-	-	-	(174,350)	174,350	-	-
Total comprehensive income	**-**	**189,237**	**-**	**-**	**(174,350)**	**1,044,491**	**(65,760)**	**993,618**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,550	-	2,550	-	-	-	-	5,100
Dividend paid - 2014	-	-	-	(231,070)	-	-	-	(231,070)
Interim dividend paid - 2014	-	-	-	-	-	(173,468)	-	(173,468)
Proposed dividends	-	-	-	173,685	-	(173,685)	-	-
Total transactions with owners for the year	**2,550**	**-**	**2,550**	**(57,385)**	**-**	**(347,153)**	**-**	**(399,438)**
Balance as at 31 December 2014	**1,157,900**	**701,568**	**1,557,073**	**173,685**	**64,021**	**2,616,281**	**(45,245)**	**6,225,283**

The notes set out on pages 51 to 114 form an integral part of these financial statements.

1. REPORTING ENTITY

HF Group Limited (formerly Housing Finance Company of Kenya Limited) is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of the company's registered office is shown on Page 2. The consolidated financial statements of the Group as at and for the year ended 31 December 2015 include the company and its subsidiaries (together referred as the "Group" and individually as "Group entities"). The Group is primarily involved in mortgage lending, provision of corporate and retail banking, property development and bancassurance services.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in compliance with the Kenyan Companies Act.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis of accounting except for the following:

note 21 - available-for-sale financial assets are measured at fair value;

note 23 - land and buildings are measured at revalued amounts.

(c) Functional and presentation currency

These consolidated financial statements are presented in Kenya shillings (KShs), which is the Group's functional currency.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings. Except as otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (KShs'000).

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may ultimately differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 19 – consolidation: whether the Group has de facto control over an investee;

Note 19 – classification of the joint arrangement; and

Note 37 – lease classification

2. BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgements (Continued)

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

Note 26 – recognition of deferred tax assets: availability of future taxable profits against which carryforward tax losses can be used;

Notes 36 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 6.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interest in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition

Income is recognised on an accrual basis.

(i) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and,
- interest on available-for-sale investment securities on an effective interest basis.

(ii) Non interest income

Fees and commission income

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

Other fees and commission income, including account servicing fees, are recognised as the related services are performed.

Sale of houses

Revenue is recognized from sale of houses in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Rental income

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

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(c) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at the rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at the reporting date. The resulting realised and unrealised differences from conversion and translations are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment

(i) Recognition and measurement

All categories of property and equipment are initially recorded at cost. Property and equipment is subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by external independent valuers. Purchased software that is integral to the functioning of related equipment is capitalized as part of that equipment. Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit or loss.

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The cost of day to day servicing of property and equipment are recognized in the 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 remaining period of the lease. Buildings on freehold land are depreciated over fifty years.

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

(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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Prepaid operating lease rental

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases arrangements (whether prepaid or postpaid) are charged to profit or loss on a straight-line basis over the period of the lease.

(g) Employee benefits

(i) Employee Retirement Benefits Plan

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

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

(ii) Employee Share Ownership Plan (ESOP)

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(iii) Accrued leave

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

(iv) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits (Continued)

(v) 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) Taxation

Tax on the operating results for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the tax asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is calculated on the basis of the tax rates enacted at the reporting date.

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins at hand, unrestricted balances held with Central Bank of Kenya, balances with commercial banks and highly liquid financial assets with original maturities of less than three months on date of acquisition, which are subject to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

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

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

(ii) Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or

Management determines the classification of its investments at initial recognition.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. These include mortgage and advances to customers, staff loans and placements with other banks. Loans and advances are subsequently measured at their amortised cost using the effective interest method.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification (Continued)

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held-to-maturity or (c) financial assets at fair value through profit and loss.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(iii) Identification and measurement of impairment of financial assets (Continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the profit or loss. Changes in cumulative impairment losses attributable to the effective interest method are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income directly in equity.

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(v) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment for non-financial assets

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

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

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

(l) Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Committee (EXCO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(m) Dividends

Dividends are recognised as a liability in the year in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(n) Earnings per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the period

- Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

set out in the formal terms of the plan;

linked to service; and

Independent of the number of years of service.

When contributions are eligible for practical experience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014.

The Group has no transactions affected by these amendments. Therefore, the application of these amendments has no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(i) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015.

New standard or amendments	Effective for annual periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Amendments to IAS 41 – Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**

  The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised

  The amendments will be effective from annual periods commencing on or after 1 January 2016. Management is assessing the impact of the adoption of the amendments to the standard.

- **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)**

  The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

  Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- **Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)**

  The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

  The new requirements are effective from 1 January 2016, with earlier adoption permitted. The application of these amendments will have no impact on the disclosures or on the amounts recognised in the Group's financial statements.

  Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

  The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (Continued)**

  The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- **Equity Method in Separate Financial Statements (Amendments to IAS 27)**

  The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted. The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- **IFRS 14 Regulatory Deferral Accounts**

  IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

  The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted. The application of this standard will have no material impact on the disclosures or on the amounts recognised in the Group's financial statements.

- **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

  The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (Continued)**

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- **Disclosure Initiative (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- **IFRS 15 Revenue from Contracts with Customers**

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

- **IFRS 15 Revenue from Contracts with Customers (Continued)**

  IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted. Management is assessing the impact of the adoption of the amendments to the standard.

- **IFRS 9 Financial Instruments (2014)**

  On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

  This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

  The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. Although the Group does not envisage any major impact on its financial statements on the adoption of IFRS 9 given its limited use of complex financial instruments, the standard is still going through major changes before it finally replaces IAS 39. The full impact of these changes cannot therefore be reliably estimated at this time.

- **IFRS 16 Leases**

  On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

  The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2015 (Continued)

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(i) Short-term leases (i.e. leases of 12 months or less) and;

(ii) Leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

Management is assessing the impact of the adoption of the amendments to the Standard.

4. FINANCIAL RISK MANAGEMENT

Principles

HF Group Limited (formerly Housing Finance Company of Kenya Limited) faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Group's risk exposure, actions to limit risk and the constant monitoring of risk.

The overarching aim of risk management is to ensure that all risks assumed in the course of the Group's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Group. Risk management and monitoring are implemented via the Group's risk management and risk control process and the organization structure corresponds to the CBK Risk Management Guidelines.

4. FINANCIAL RISK MANAGEMENT (Continued)

Principles (Continued)

In order to ensure continuous improvement of risk management at all times the following key risk principles have been adopted and are applied;

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Company and divisional levels, as well as by enforcing consistent operating limits for individual business activities.
- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the risk management framework. It is further supplemented by specific guidelines for measuring and monitoring individual risk types as issued by the CBK Risk Management Guidelines.

The section below provides details of the Group's exposure to various risks and describes the methods used by management to control risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk mainly interest risk and operational risk.

(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.

Management of credit risk

The Group is subject to credit risk through its lending and investing activities.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk is the Group's largest risk and considerable resources, expertise and controls are devoted to managing it and comprehensive strategies, policies and procedures have been developed to effectively manage this risk.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Board provides effective oversight of the overall credit portfolio through the Board Credit Committee (BCC). This committee is the decision making body with responsibility for loans that exceed the scope of authority of the management lending committee. Acting on the basis of the powers granted to it by the Board, the BCC decides on the overall lending limits for the Group and approves the credit risk strategies to be adopted.

The Group has adequate Board approved Credit Policies which are reviewed annually and which cover all aspects of credit risk management (loan origination, analysis and appraisal, acceptable collateral, approval authorities and non-performing loan management).

At the management level, there is a Credit Risk Department staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this department there is a fully fledged loans recoveries and rehabilitation unit with the responsibility of formulating workout solutions and restructuring loans in distress.

The Group's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The Group is also exposed to credit risk on debt investments. The current credit exposure in respect of the instruments is equal to the carrying amount of these assets in the statement of financial position.

The risk that counterparties to instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standings and obtain collateral.

The Group also monitors concentration of credit risk that arises by customer in relation to loans and advances to customers. The Group has no significant exposure to any individual customer or counterparty.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are graded as substandard to loss categories in the Group's internal credit risk grading system.

Past due but not impaired loans and advances

Past due but not impaired loans are those for which contractual interest or principal payments are past due but not for more than three months and the Group believes that impairment is not appropriate on the basis that in the Group's assessment the total outstanding balances are recoverable and the level of security / collateral available and / or the stage of collection of amounts owed to the Group is adequate. Any amounts past due for more than three months are considered impaired.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Loans and advances with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category until satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group Credit determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Exposure to credit risk	Loans and advances		Investment in government securities		Investment in equities		Placement with other banks	
	2015	2014	2015	2014	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Impaired loans and advances	4,097,356	4,163,451	-	-	-	-	-	-
Gross amount allowance for impairment	(1,778,253)	(1,389,826)	-	-	-	-	-	-
Carrying amount	**2,319,103**	**2,773,625**	-	-	-	-	-	-
Neither past due nor impaired (normal and watch)	50,818,422	42,547,378	2,150,981	264,332	-	-	4,580,142	7,597,238
Allowance for impairment								
incurred but not reported	(116,503)	(77,464)	-	-	-	-	-	-
Carrying amount	**50,701,919**	**42,469,914**	**2,150,981**	**264,332**	**-**	**-**	**4,580,142**	**7,597,238**
Net carrying amount	**53,021,022**	**45,243,539**	**2,150,981**	**264,332**	**-**	**-**	**4,580,142**	**7,597,238**

In addition to the above, the Group has entered into lending commitments of KShs 7,933,776,000 (2014 – KShs 9,086,451,000) with various counter parties.

The carrying amounts of cash and bank balances, investments in government securities, placements and balances with other banking institutions and the amounts due from related companies equal the maximum exposure to risk. In addition, these balances are neither past due nor impaired.

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 risk free.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

	2015	2014
	KShs'000	KShs'000
Against impaired accounts	6,540,299	7,208,226
Against accounts not impaired	166,904,350	125,524,668
	173,444,649	**132,732,894**

Details of financial and non-financial assets obtained by the Group during the year by taking possession of collateral held against loans and advances held at the year-end are shown below:

	2015	2014
	KShs'000	KShs'000
Properties	173,362,792	132,684,841
Secured by Cash	81,857	48,053
	173,444,649	**132,732,894**

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

(b) Liquidity risk

Liquidity risk is the current or prospective risk to earnings and capital arising from the institution's failure to meet its maturing obligations when they fall due without incurring unacceptable losses.

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.

To this end, there is a Board approved policy to effectively manage liquidity at all times to meet loans demand and deposit withdrawals, regulatory requirements (liquidity ratio), unexpected outflow / non-receipt of expected inflow of funds as well as ensure adequate diversification of funding sources. The Asset & Liability Committee (ALCO) undertakes statement of financial position liquidity management and scenario analysis as per the policy on a bi-weekly basis.

The Group has access to a diverse funding base. Funds are raised mainly from deposits, share capital, corporate bond and loans. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from financial institutions and commitments maturing within the next 91 days. Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting year were as follows:

	2015	2014
At 31 December	28.04%	30.76%
Average for the year	24.70%	29.39%
Maximum for the year	28.04%	34.50%
Minimum for the year	22.27%	24.07%

Contractual maturity analysis of financial assets and liabilities

The table below analyses the liquidity position of the Group's financial assets and liabilities:

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

31 December 2015:	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash and bank balances	5,387,083	-	-	-	-	5,387,083
Placements with other banks	1,380,142	2,600,000	600,000	-	-	4,580,142
Investment in Government securities	-	527,999	550,000	1,072,982	-	2,150,981
Net loans and advances to customers	413,027	2,969,771	4,751,263	7,835,778	37,051,183	53,021,022
Total	**7,180,252**	**6,097,770**	**5,901,263**	**8,908,760**	**37,051,183**	**65,139,228**
Financial liabilities						
Customer deposits	10,176,275	22,867,146	2,414,894	107,643	6,099,127	41,665,085
Loans from banks	-	287,240	1,298,537	5,045,551	622,183	7,253,511
Borrowed funds	-	-	-	1,074,422	-	1,074,422
Corporate bond	-	-	212,442	10,000,000	-	10,212,442
Government income notes	-	-	-	-	50,750	50,750
Total	**10,176,275**	**23,154,386**	**3,925,873**	**16,227,616**	**6,772,060**	**60,256,210**
Guarantees	50	12,086	111,720	132,400	-	256,256
Unrecognised loans and advances commitments	-	3,218,000	4,715,776	-	-	7,933,776
At 31 December 2015	**(2,996,073)**	**-**	**(2,852,106)**	**(7,451,256)**	**30,279,123**	**(3,307,014)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

31 December 2014:	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash and bank balances	4,028,234	-	-	-	-	4,028,234
Placements with other banks	5,078,103	2,519,135	-	-	-	7,597,238
Investment in Government securities	-	264,332	-	-	-	264,332
Net loans and advances to customers	193,595	1,671,264	3,209,974	5,580,141	34,588,565	45,243,539
Total	**9,299,932**	**4,454,731**	**3,209,974**	**5,580,141**	**34,588,565**	**57,133,343**
Financial liabilities						
Customer deposits	9,877,724	17,184,252	3,407,895	138,110	5,497,948	36,105,929
Loans from banks	-	272,582	510,078	5,049,680	951,270	6,783,610
Borrowed funds	-	-	-	147,000	-	147,000
Corporate bond	-	-	212,502	10,000,000	-	10,212,502
Government income notes	-	-	-	-	50,750	50,750
Total	**9,877,724**	**17,456,834**	**4,130,475**	**15,334,790**	**6,499,968**	**53,299,791**
Guarantees	-	34,411	13,919	26,400	-	74,730
Unrecognised loans and advances commitments	-	4,670,250	4,416,201	-	-	9,086,451
At 31 December 2014	**(577,792)**	**(17,706,764)**	**(5,350,621)**	**(9,781,049)**	**28,088,597**	**(5,327,629)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Management of market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

Exposure to interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

	Average interest rate	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total Shs'000
31 December 2015:							
Financial assets							
Cash balances		5,387,083	-	-	-	-	5,387,083
Placements with other banks	12.9%	1,380,142	2,600,000	600,000	-	-	4,580,142
Investment in Government securities	15.2%	-	527,999	550,000	1,072,982	-	2,150,981
Net loans and advances to customers	13.9%	413,027	2,969,771	4,751,263	7,835,778	37,051,183	53,021,022
Total		**7,180,252**	**6,097,770**	**5,901,263**	**8,908,760**	**37,051,183**	**65,139,228**
Financial liabilities							
Customer deposits	7.01%	10,176,275	22,867,146	2,414,894	107,643	6,099,127	41,665,085
Loans from banks	8.9%	-	287,240	1,298,537	5,045,551	622,183	7,253,511
Borrowed funds	18.0%	-	-	-	1,074,422	-	1,074,422
Corporate bond	10.17%	-	-	212,442	10,000,000	-	10,212,442
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**10,176,275**	**23,154,386**	**3,925,873**	**16,227,616**	**6,772,060**	**60,256,210**
Guarantees		50	12,086	111,720	132,400	-	256,256
Unrecognised loans commitments		-	3,218,000	4,715,776	-	-	7,933,776
At 31 December 2015		**(2,996,073)**	**(20,286,702)**	**(2,852,106)**	**(7,451,256)**	**30,279,123**	**(3,307,014)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

31 December 2014:	Average interest rate	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets							
Cash balances	-	4,028,234	-	-	-	-	4,028,234
Placements with other banks	7.78%	5,078,103	2,519,135	-	-	-	7,597,238
Investment in Government securities	12.76%	-	264,332	-	-	-	264,332
Net loans and advances to customers	13.62%	193,595	1,671,264	3,209,974	5,580,141	34,588,565	45,243,539
Total		**9,299,932**	**4,454,731**	**3,209,974**	**5,580,141**	**34,588,565**	**57,133,343**
Financial liabilities							
Customer deposits	5.24%	9,877,724	17,184,252	3,407,895	138,110	5,497,948	36,105,929
Loans from banks	9.17%	-	272,582	510,078	5,049,680	951,270	6,783,610
Borrowed funds	16.50%	-	-	-	147,000	-	147,000
Corporate bond	10.17%	-	-	212,502	10,000,000	-	10,212,502
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**9,877,724**	**17,456,834**	**4,130,475**	**15,334,790**	**6,499,968**	**53,299,791**
Guarantees		-	34,411	13,919	26,400	-	74,730
Unrecognised loans commitments		-	4,670,250	4,416,201	-	-	9,086,451
At 31 December 2014		**(577,792)**	**(17,706,764)**	**(5,350,621)**	**(9,925,661)**	**28,088,598**	**(5,327,629)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Sensitivity analysis interest rate risk

At 31 December 2015, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax profit for the year would have been KShs. 37.957 million (2014 – KShs. 23.079 million) lower arising mainly as a result of lower interest income and other components of equity would have been KShs. 26.569 million (2014 – KShs. 16.155 million) lower arising mainly as a result of lower interest income loans.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been KShs. 32.601 million (2014 - KShs. 23.079 million) higher, arising mainly as a result of higher interest income on mortgage lending and other components of equity would have been KShs. 22.821 million (2014 – KShs. 16.155 million) higher, arising mainly as a result of higher interest income loans.

Sensitivity analysis foreign currency exchange risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which bank placements and borrowings are denominated and the respective functional currencies of the Group companies. The functional currency of Group is the Kenya Shillings. The Group's policy is to ensure that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The summary quantitative data about the Group's exposure to currency risk as reported to the management is as follows.

	2015	2014
USD	**USD**	**USD**
Bank placements	6,813,591	2,009,002
Loans and advances	52,501,316	37,954,070
Bank loans	(46,777,893)	(45,838,000)
Net statement of financial position exposure	**12,537,014**	**(5,874,928)**
Average rate	98.59	90.5978
Year-end spot rate	102.35	90.5311

A reasonably possible strengthening/(weakening) of the KShs against the USD as at 31 December 2015 and 31 December 2014 would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Profit or loss		Equity	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2015	KShs	KShs	KShs	KShs
USD 10% Movement	877,591	(877,591)	877,591	(877,591)
31 December 2014				
USD 10% Movement	(587,493)	587,493	(587,493)	587,493

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational risk

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

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

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups 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 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 company 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 banking subsidiary of HF Group Limited (formerly Housing Finance Company of Kenya 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 minority 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. There has been no material change in the Group's management of capital during the year.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

The regulatory capital position for HFC Limited, being the banking subsidiary of HF Group Limited, as at 31 December 2015 was as follows:

	KShs'000
Tier 1 capital	
Ordinary share capital	5,000,000
Share premium	3,513,662
Retained earnings	165,918
Deferred tax	(584,879)
	8,094,701
Tier 2 capital	
Collective allowances for impairment	393,046
Revaluation reserve	-
Qualifying subordinated liabilities	1,060,189
	1,453,235
Total regulatory capital	**9,547,936**
Risk weighted assets	**52,671,912**

Capital ratios	**2015**
Total regulatory capital expressed as a percentage of total risk-weighted assets	18.1%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	15.4%

Central Bank of Kenya required HFC Limited to maintain a minimum core capital of KShs 1 billion as at 31 December 2015.

HFC Limited is already compliant with this requirement.

5. OPERATING SEGMENTS

The Group is organised in two main reporting segments: Retail and Corporate. This is based on the Group's management and internal reporting structure. The retail segment is further split between Retail mortgages and Retail deposits while the Corporate segment is split between Schemes mortgages, Projects, Short-term loans and Corporate deposits.

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

- **Retail loans and advances:** This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers and it forms the major proportion of the mortgage lending of the Group.
- **Retail deposits:** This segment plays a critical role in the operations of the Group sourcing for deposits from retail customers which are then used to finance the Group's mortgage products.

5. OPERATING SEGMENTS (Continued)

- **Schemes loans:** This segment is mainly responsible for arranging corporate loan packages with employers such that the employees of the participating companies can enjoy preferential interest rates on their loans.
- **Projects:** This segment provides lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.
- **Corporate deposits:** This segment is responsible for sourcing for deposits from corporate organizations.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's EXCO.

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

5. OPERATING SEGMENTS (Continued)

	Lending					
External revenues	Retail		Corporate		Total	
	2015	2014	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest income	4,730,896	3,753,936	3,369,218	2,620,846	**8,100,114**	**6,374,782**
Interest expense:						
- Retail	(1,797,898)	(1,635,671)	-	-	**(1,797,898)**	**(1,635,671)**
- Corporate	-	-	(2,720,635)	(1,720,543)	**(2,720,635)**	**(1,720,543)**
Net interest income	**2,932,998**	**2,118,265**	**648,583**	**900,303**	**3,581,581**	**3,018,568**
Non interest income	593,845	356,111	86,715	155,704	**680,560**	**511,815**
Reporting segment profit/(loss) before income tax	2,282,678	1,220,847	(462,764)	45,705	**1,819,914**	**1,266,552**
Loan disbursements	6,250,581	9,216,659	10,806,999	8,734,503	**17,057,580**	**17,951,162**
Loan sales	6,253,576	12,069,389	13,324,136	11,437,997	**19,577,712**	**23,507,386**
Deposits balances	24,021,600	28,169,358	17,288,030	7,749,519	**41,309,630**	**35,918,877**
Other material non cash items						
Impairment losses on loans and advances	(241,014)	(291,941)	(262,757)	(259,278)	**(503,771)**	**(551,219)**
Capital expenditure	137,703	165,499	204,998	156,841	**342,701**	**322,340**
Reportable segment assets	**29,966,851**	**33,172,445**	**38,841,803**	**27,298,997**	**68,808,654**	**60,471,442**
Reportable segment liabilities	**31,472,761**	**36,866,911**	**28,296,689**	**17,347,888**	**59,769,450**	**54,214,799**

5. OPERATING SEGMENTS (Continued)

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

	2015 KShs'000	2014 KShs'000
Net interest income		
Total net interest income for reportable segments	3,581,581	3,018,014
Other interest income adjustments	30,373	15,965
Consolidated net interest income	**3,611,954**	**3,033,979**
Non interest income		
Total non interest income for reportable segments	680,560	511,815
Other non interest income	490,529	330,880
Consolidated non interest income	**1,171,089**	**842,695**
Profit or loss		
Total profit or loss for reportable segments	1,819,913	1,266,552
Other profit or loss	(66,395)	134,101
Consolidated profit before income tax	**1,753,518**	**1,400,653**
Assets		
Total assets for reportable segments	68,808,654	60,471,442
Other assets	2,850,780	490,238
Consolidated total assets	**71,659,434**	**60,961,680**
Liabilities		
Total liabilities for reportable segments	59,769,450	54,214,799
Other liabilities	1,267,343	187,999
Consolidated total liabilities	**61,036,793**	**54,402,798**

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

(ii) Income taxes

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

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made assumptions, estimations and judgements in determining:

- The classification of joint arrangements;
- The classification of financial assets;
- Lease classifications;
- Whether assets are impaired, recognition and measurement of provisions; and
- Depreciation rates for property and equipment.

7. INTEREST INCOME AND INTEREST EXPENSE

	2015	2014
Interest income	KShs'000	KShs'000
Arising from:		
Advances to customers	7,218,269	5,814,833
Placements with other banks	756,912	523,935
Treasury bonds	122,955	36,014
	8,098,136	**6,374,782**

Included in interest income on loans and advances for the year is a total of KShs. 590,695,957 (2014 – KShs 411,995,347) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are available for sale.

	2015	2014
Interest expense	KShs'000	KShs'000
Arising from:		
Customer deposits	2,857,720	1,867,321
Interest on borrowed funds	1,628,462	1,473,482
	4,486,182	**3,340,803**

8. NON INTEREST INCOME

Arising from:		
Fees and commission income	332,247	367,038
Rental income	54,409	96,301
House sales income	636,775	219,711
Other operating income	147,658	105,433
Gain on sale of property and equipment	-	54,212
	1,171,089	**842,695**

9. NON INTEREST EXPENSES

Arising from:		
Salaries and employee benefits	1,035,091	974,712
Rental expenses	61,917	34,359
Deposit Protection Fund	55,091	45,320
Cost of sold houses	450,603	157,190
General administration expenses	1,006,064	694,970
	2,608,766	**1,906,551**

9. NON INTEREST EXPENSES (Continued)

	2015 KShs'000	2014 KShs'000
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions	1,131	1,138
Contributions to the defined contribution retirement scheme	57,789	57,060

10. PROFIT BEFORE TAXATION

	2015 KShs'000	2014 KShs'000
The profit before taxation is arrived at after charging/(crediting):		
Directors' remuneration:		
- Fees	17,138	4,595
- Expenses	2,492	9,667
- As executives	112,660	81,015
Auditor's remuneration	10,293	9,850
Amortisation of prepaid operating lease rentals	269	647
Amortisation of intangible assets	10,799	12,710
Depreciation	93,655	77,198
Gain on sale of property and equipment	-	(54,212)

11. TAXATION

	2015 KShs'000	2014 KShs'000
(a) Income tax expense		
Current tax at 30% - Current year	680,642	576,027
Prior year	-	-
	680,642	576,027
Deferred tax (Note 26(a)) - Current year	(124,093)	(150,710)
	556,549	**425,317**

The tax on the Group's profit before tax differs from the theoretical amount using the basic tax rate as follows:

	2015 KShs'000	2014 KShs'000
Accounting profit before taxation	**1,753,518**	**1,400,653**
Tax at the applicable corporation tax rate of 30%	526,055	420,196
Tax effect of non-deductible costs	55,397	46,366
Tax effect of share of profit in joint ventures	(24,903)	(41,245)
	556,549	**425,317**

11. TAXATION (Continued)

(b) Taxation recoverable / (payable)

	Group		Company	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	14,260	(71,471)	4,315	(68,845)
Paid during the period/year	569,735	661,758	240,498	619,420
Charge for the period/year	(680,642)	(576,027)	(308,167)	(546,260)
At 31 December	**(96,647)**	**14,260**	**(63,354)**	**4,315**
The following amounts are shown in the balance sheet:				
Taxation recoverable	**13,421**	**14,260**	**-**	**4,315**
Taxation payable	**(110,068)**	**-**	**(63,354)**	**-**

12. EARNINGS PER SHARE

Basic

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

	2015	2014
	KShs'000	KShs'000
Net profit for the year attributable to shareholders	**1,196,969**	**975,336**
Number of ordinary shares in issue (000's)	**348,897**	**231,580**
Weighted average number of ordinary shares	**319,487**	**231,290**
Basic earnings per share	**3.43**	**4.21**

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. A final dividend in respect of the year ended 31 December 2015 of KShs. 0.65 per share (2014 - KShs. 0.75) amounting to a total of KShs. 226,782,834 (2014 - KShs. 173,685,000) has been proposed. During the year an interim dividend of KShs. 0.65 per share (2014 - KShs. 0.75), amounting to a total of KShs. 226,360,000 was paid. The total dividend for the year is therefore KShs. 1.30 per share (2014 - KShs. 1.50), amounting to a total of KShs. 453,143,834 (2014 - KShs. 347,153,000). Issued and fully paid ordinary shares were 348,896,667 as at 31 December 2014 (2014 – KShs. 231,580,000).

14. FINANCIAL ASSETS AND LIABILITIES

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

(a) Group 31 December 2015:	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets				
Cash and cash equivalents	-	-	5,387,083	5,387,083
Placements with banks	-	-	4,580,142	4,580,142
Investment in government Securities	1,574,403	-	-	2,150,981
Loans and advances	-	-	53,021,022	53,021,022
	1,574,403	**-**	**62,988,247**	**65,139,228**
Financial Liabilities				
Customer deposits	-	-	41,665,085	41,665,085
Corporate bond	-	-	10,212,442	10,212,442
Borrowed funds	-	-	1,074,422	1,074,422
Loans from banks	-	-	7,253,511	7,253,511
	-	**-**	**60,205,460**	**60,205,460**

(b) Group 31 December 2014:	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets				
Cash and cash equivalents	-	-	4,028,234	4,028,234
Placements with banks	-	-	7,597,238	7,597,238
Investment in government Securities	-	-	-	264,332
Loans and advances	-	45,243,539	-	45,243,539
	-	**45,243,539**	**11,625,472**	**57,133,343**
Financial Liabilities				
Customer deposits	-	-	36,105,929	36,105,929
Corporate bond	-	-	10,212,502	10,212,502
Borrowed funds	-	-	147,000	147,000
Loans from banks	-	-	6,783,610	6,783,610
	-	-	**53,249,041**	**53,249,041**

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

The fair value of treasury bonds is based on the indicative price of the specific issues as at the reporting date. The indicative prices are derived from trading at the Nairobi Securities Exchange. For Treasury bills, placements with other banks, cash and cash equivalents and deposits the amortised cost is deemed a reasonable approximation of fair value because of their short-term nature.

The fair value of mortgage and advances has not been disclosed as this cannot be determined reliably.

(c) Valuation hierarchy

The valuation hierarchy and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and other securities Listed derivative instruments Listed equities	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives	Corporate bonds in illiquid markets Highly structured OTC derivatives with unobservable parameters
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

(c) Valuation hierarchy (Continued)

The table below shows the classification of financial instruments held at fair value by the level in the fair value hierarchy as at 31 December 2015:

Group	Level 1	Level 2	Level 3	Total
31 December 2015:	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Financial Assets				
Investment in government				
Securities	-	2,150,981	-	2,150,981
Loans and advances	-	-	53,021,022	53,021,022
	-	**2,150,981**	**53,021,022**	**55,172,003**
Financial Liabilities				
Customer deposits	-	-	41,665,085	41,665,085
Corporate bond	-	10,212,442	-	10,212,442
Borrowed funds	-	-	1,074,422	1,074,422
Loans from banks	-	-	7,253,511	7,253,511
	-	**10,212,442**	**49,993,018**	**60,205,460**
31 December 2014:				
Financial Assets				
Investment in government				
Securities	-	264,332	-	264,332
Laons and advances	-	-	45,243,539	45,243,539
	-	**264,332**	**45,243,539**	**45,507,871**
Financial Liabilities				
Customer deposits	-	-	36,105,929	36,105,929
Corporate bond	-	10,212,502	-	10,212,502
Borrowed funds	-	-	291,612	291,612
Loans from banks	-	-	6,783,610	6,783,610
	-	**10,212,502**	**43,181,151**	**53,393,653**

15. CASH AND BALANCES WITH BANKS

	2015		2014	
	Group	Company	Group	Company
	KShs'000	KShs'000	KShs'000	KShs'000
Cash at hand	322,997	30,973	285,753	285,753
Balances with commercial banks	937,527	-	986,283	986,270
Balances with Central Bank of Kenya:				
- Unrestricted	1,927,464	-	1,696,890	1,696,890
- Restricted (Cash Reserve Ratio)	2,199,095	-	1,059,308	-1,059,308
	5,387,083	**30,973**	**4,028,234**	**4,028,221**

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 2015, the Cash Reserve Ratio was 5.25% (2014 – 5.25%) of all deposits. These funds are now available for use by the company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%.

16. PLACEMENTS WITH OTHER BANKS

	Group 2015 KShs'000	Company 2015 KShs'000	Group & Company 2014 KShs'000
Placements with commercial banks	**4,580,142**	**5,000**	**7,587,238**

17. INVESTMENT IN GOVERNMENT SECURITIES

	Group 2015 KShs'000	Group & Company 2014 KShs'000
Held to maturity		
Treasury bonds due after 180 days	1,571,403	-
Available-for-sale		
Treasury bonds classified as available-for-sale	579,578	264,332
	2,150,981	**264,332**

The weighted average effective interest rate on government securities as at 31 December 2015 was 12.76% (2014 – 12.07%)

18. LOANS AND ADVANCES TO CUSTOMERS

	Group 2015 KShs'000	Group & Company 2014 KShs'000
(a) Loans and advances at amortised cost		
Loans and advances	54,915,778	46,710,829
Less: Provision for impairment losses (Note 18(b))	(1,894,756)	(1,467,290)
	53,021,022	**45,243,539**
Maturing:		
Within five years	16,467,390	10,348,833
Over five years to ten years	10,281,821	9,061,239
Over ten years to fifteen years	18,760,067	17,482,817
Over fifteen years	9,406,500	9,817,940
	54,915,778	**46,710,829**

(b) Reserve for impairment losses	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2014	878,649	67,575	946,224
Impairment made in the year	806,509	9,889	816,398
Provisions no longer required	(265,179)	-	(265,179)
Written off against balance	(30,151)	-	(30,151)
At 31 December 2014	**1,389,826**	**77,464**	**1,467,290**
Impairment made in the year	954,884	39,039	993,923
Provisions no longer required	(490,152)	-	(490,152)
Written off against balance	(76,305)	-	(76,305)
At 31 December 2015	**1,778,253**	**116,503**	**1,894,756**

(c) Impairment losses			
2015			
Impairment made in the year	954,884	39,039	993,923
Provisions no longer required	(490,152)	-	(490,152)
At 31 December 2015	**464,732**	**39,039**	**503,771**
2014			
Impairment made in the year	806,509	9,889	816,398
Provisions no longer required	(265,179)	-	(265,179)
At 31 December 2014	**541,330**	**9,889**	**551,219**

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

d) Loans and advances

Included in the loans balance is interest yet to be received in cash from loans and advances classified as impaired loans and advances as shown below:

	2015 KShs'000	2014 KShs'000
Interest on impaired loans and advances which have not yet been received in cash	**624,572**	**202,459**

The weighted average effective interest rate on loans advances to customers as at 31 December 2015 was 13.9% (2014 – 13.62 %).

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

Subsidiaries	**Shareholding**	**Company 2015 KShs'000**	**Company 2014 KShs'000**
HFC Limited	100%	8,513,662	-
HF Development and Investment Limited			
(formerly Kenya Building Society Limited)	100%	1,440,000	250,000
First Permanent (East Africa) Limited	100%	5,020	5,020
HF Insurance Agency Limited			
(formerly Housing Finance Insurance Agency Limited)	100%	100	100
		9,958,782	**255,120**
Joint venture			
Precious Height Limited	50%	78,236	86,700
Kahawa Downs Limited	50%	94,313	104,100
Richland Limited	50%	114,585	-
Theta Grove Limited	50%	683,540	-
Claycity Limited	50%	26,527	-
		997,201	**190,800**
Group share of profit/(loss) in joint venture			
Precious Height Limited	50%	33,148	(8,464)
Kahawa Downs Limited	50%	49,864	(9,787)
		(83,012)	(18,251)
Net investment in joint venture		**1,080,213**	**172,549**

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

In 2014, the Group entered into a joint venture in the name of Kahawa Downs Limited with a land owner for development of housing units (apartments) in Kahawa Wendani, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. HF Group Limited (formerly Housing Finance Company of Kenya Limited) contributed capital which is equivalent to value of the land where the housing units will be developed. Kahawa Downs Limited is structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in Kahawa Downs as a joint venture, which is equity accounted.

In 2012, the Group entered into a joint venture in the name of Precious Heights Limited with a land owner for development of housing units (apartments) in Riruta, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. HF Group Limited (formerly Housing Finance Company of Kenya Limited) contributed capital which is equivalent to value of the land where the housing units will be developed. Precious Heights Limited is structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in Precious Height as a joint venture, which is equity accounted.

In 2015, the Group entered into the following joint ventures for development of housing units in Ruiru and Kamiti Road in Kiambu:

- Richland Limited;
- Theta Grove Limited; and
- Claycity Limited.

The entities are jointly controlled with each party holding 50% of the shareholding. The Group contributed capital which is equivalent to value of the land where the housing units will be developed. They are structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in these entities as a joint venture, which is equity accounted. These joint ventures are still in formation stages as at the date of these financial statements.

19. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE (Continued)

The following are summarized financial information for Kahawa Downs Limited and Precious Heights Limited, based on its financial statements prepared in accordance with IFRS.

	Group 2015		Group & Company 2014	
	KDL	PHL	KDL	PHL
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	693,584	864,327	-	-
Operating costs	(559,504)	(776,799)	(19,574)	(16,928)
Income tax expense	(34,352)	(21,232)	-	-
Profit and other comprehensive income	**99,728**	**66,296**	**(19,574)**	**(16,928)**
Group share of net profit/ loss) (50%)	**49,864**	**33,148**	**(9,787)**	**(8,464)**
Current assets	1,004,082	450,699	578,733	737,818
Current liabilities	(715,728)	(227,931)	(390,107)	(581,346)
Net assets	**288,354**	**222,768**	**188,626**	**156,472**
Groups share of net assets (50%)	**144,177**	**111,384**	**94,313**	**78,236**
Group's interest in net assets of the investees at the beginning of the year	94,313	78,236	104,100	86,700
Share of total comprehensive income	49,864	33,148	(9,787)	(8,464)
Carrying amount of interest in investee at end of the year	**144,177**	**111,384**	**94,313**	**78,236**

20. OTHER ASSETS

	2015		2014	
	Group	Company	Group	Company
	KShs'000	KShs'000	KShs'000	KShs'000
Staff debtors	135,636	-	124,545	124,545
Prepayments	279,024	-	265,516	265,516
Deposits and rent receivable	47,294	-	15,996	15,996
House sales debtors	639,993	-	384,255	-
Other receivables	222,597	30,900	241,010	230,976
	1,324,544	**30,900**	**1,031,322**	**637,033**

Included in staff debtors are staff car loans of KShs. 21,633,242 (2014 – KShs. 25,305,257) and staff personal loans of KShs. 114,002,776 (2014 – KShs. 99,566,600).

21. EQUITY INVESTMENTS

Group and Company:	2015	2014
	KShs'000	KShs'000
Equity investments		
At 1 January	-	151,500
Disposal	-	(151,500)
Change in fair value during the year	-	-
Available for sale investments		

In 2011, the company participated in the British American Initial Public Offer and bought 10 million shares at price of KShs 9 per share. Total cost for the shares amounted to KShs 90m. The shares are listed in the Nairobi Securities Exchange. The shares were disposed off in 2014 resulting in a gain of KShs 83,259,426.

22. HOUSING DEVELOPMENT PROJECTS

	2015	2014
	KShs'000	KShs'000
Group:		
Housing projects		
Komarock Housing Projects	**1,319,204**	**314,347**

There were no commitments in respect of these projects authorized in 2015 (2014 - Nil).

23. PROPERTY AND EQUIPMENT

(a) Group

2015:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2015	52,000	654,965	558,922	261,953	1,527,840
Additions	-	-	90,004	63,061	153,065
Revaluation	-	219	(324)	-	(105)
At 31 December 2015	52,000	655,184	648,602	325,014	1,680,800
Comprising:					
At cost	-	20,651	648,602	325,014	994,267
At valuation	52,000	634,533	-	-	686,533
	52,000	655,184	648,602	325,014	1,680,800
Depreciation:					
At 1 January 2015	-	35,212	210,376	-	245,588
Charge for the year	-	10,079	83,203	-	93,282
At 31 December 2015	-	45,291	293,579	-	338,870
Net book value: At 31 December 2015	**52,000**	**609,893**	**355,023**	**325,014**	**1,341,930**

23. PROPERTY AND EQUIPMENT (Continued)

(a) Group (Continued)

2014:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures equipment & motor vehicles KShs'000,	Work in progres KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2014	7,000	475,596	361,826	272,418	1,116,840
Additions	-	6,805	9,641	177,210	193,656
Revaluation	45,000	181,161	-	-	226,161
Disposals	-	(8,597)	(220)	-	(8,817)
Transfers	-	-	187,675	(187,675)	-
At 31 December 2014	52,000	654,965	558,922	261,953	1,527,840
Depreciation:					
At 1 January 2014	-	30,967	140,358	-	171,325
Charge for the year	-	7,065	70,133	-	77,198
Disposals	-	(2,820)	(115)	-	(2,935)
At 31 December 2014	-	35,212	210,376	-	245,588
Net book value: At 31 December 2014	**52,000**	**619,753**	**160,871**	**449,628**	**1,282,252**

The Group's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2014. The resulting surplus was credited to revaluation reserve.

The net book value (NBV) of properties at their historical cost is as follows:

	2015 KShs 000	2014 KShs '000
Freehold land	206	206
Buildings	10,224	16,411

Included in equipment are assets with a gross value of KShs 36,364,404 (2014 – KShs 45,884,804) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 7,272,881 (2014 – KShs 8,154,925).

23. PROPERTY AND EQUIPMENT (Continued)

(b) Company 2015:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures,equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2015	52,000	654,966	553,319	261,953	1,522,238
Additions	-	-	45,331	54,749	100,080
Revaluation		324	(324)	-	-
Disposals	-	-	-	-	-
Transfers to HFC Ltd	(52,000)	(655,290)	(598,116)	(316,702)	(1,622,108)
At 31 December 2015	-	-	210	-	210
Depreciation:					
At 1 January 2015	-	35,289	204,868	-	240,157
Charge for the year	-	5,878	47,674	-	53,552
Transfers to HFC Ltd	-	(41,167)	(252,535)		(293,702)
At 31 December 2015	-	-	7	-	7
Net book value:					
At 31 December 2015	**-**	**-**	**203**	**-**	**203**
2014:					
Cost or valuation:					
At 1 January 2014	7,000	467,000	356,223	272,418	1,102,641
Additions	-	6,805	9,641	177,210	193,656
Revaluation	45,000	181,161	-	-	226,161
Disposals	-	-	(220)	-	(220)
Transfers	-	-	187,675	(187,675)	-
At 31 December 2014	52,000	654,966	553,319	261,953	1,522,238
Comprising:					
At cost	-	60,860	553,319	261,953	876,132
At valuation	52,000	594,106	-	-	646,106
	52,000	654,966	553,319	261,953	1,522,238
Depreciation:					
At 1 January 2014	-	28,224	134,973	-	163,197
Charge for the year	-	7,065	70,009	-	77,074
Disposals	-	-	(115)	-	(115)
At 31 December 2014	-	35,289	204,867	-	240,157
Net book value:					
At 31 December 2014	**52,000**	**619,677**	**348,451**	**261,953**	**1,282,081**

The Company's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2014. The resulting surplus was credited to revaluation reserve.

24. PREPAID OPERATING LEASE RENTALS

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At 1 January and 31 December	54,612	45,706	54,612	45,706
Transfers to HFC Ltd	-	(45,706)	-	-
At 31 December 2015	54,612	-	54,612	45,706
Amortisation:				
At 1 January	8,574	5,846	7,927	5,380
Charge for the year	642	269	647	466
Transfers to HFC Ltd	-	(6,115)	-	-
As at 31 December	9,216	-	8,574	5,846
At 31 December	**45,396**	**-**	**46,038**	**39,860**

As at 31 December 2015 the un-expired lease period ranges from 68 to 87 years. Leasehold land is recognised at cost. The company leasehold land was valued professionally on 31 December 2014 at KShs. 350,000,000.

25. INTANGIBLE ASSETS

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At January	673,517	673,445	535,628	535,556
Additions during the year	308,832	224,711	137,889	137,889
Transfer to HFC Ltd	-	(898,156)	-	-
As at 31 December	982,349	-	673,517	673,445
Amortisation:				
At January	152,403	152,331	139,693	139,621
Amortisation during the year	10,799	6,774	12,710	12,710
Transfer to HFC Ltd	-	(159,105)	-	-
As at 31 December	163,202	-	152,403	152,331
Net book value: As at 31 December	**819,147**	**-**	**521,114**	**521,114**

Included in the Net book value above, is work in progress relating to the new core banking system project amounting to KShs. 804,763,150 (2014 - KShs. 498,765,949).

26. DEFERRED TAX ASSETS

Recognised deferred tax assets and liabilities are attributable to the following:

(a) Group

2015:	01.01.2015 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognized in other compre hensive income KShs'000	31.12.2015 KShs'000
Arising from:					
Plant and equipment	(1,967)	-	1,142	-	(825)
Revaluation surplus	(36,924)	-	-	-	(36,924)
Fair value reserves	19,391	-	-	5,760	25,151
Other general provisions	30,970	-	(13,044)	-	17,926
Unrealised exchange losses	(5,202)	-	7,798	-	2,596
General provision on Loans and advances	440,187	-	128,240	-	568,427
Net deferred tax	**446,455**	**-**	**124,136**	**5,760**	**576,351**
Deferred tax liability					
Arising from:					
Property and equipment	**-**	**-**	**43**	**-**	**43**

Group 2014:	01.01.2014 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Recognized in other compre-hensive income KShs'000	31.12.2014 KShs'000
Arising from:					
Plant and equipment	1,140	324	(3,431)	-	(1,967)
Revaluation surplus	-	-	-	(36,924)	(36,924)
Fair value reserves	-	-	-	19,391	19,391
Other general provisions	21,806	-	9,164	-	30,970
Unrealised exchange losses	6,055	-	(11,257)	-	(5,202)
General provision on Loans and advances	284,277	(324)	156,234	-	440,187
Net deferred tax	**313,278**	**-**	**150,710**	**(17,533)**	**446,455**

26. DEFERRED TAX ASSETS (Continued)

(b) Company

2015:	At 01.01.2015 KShs'000	Prior year under provision KShs'000	Transfer to HFC Ltd KShs'000	Recognized in other comprehensive income KShs'000	31.12.2015 KShs'000
Arising from:					
Plant and equipment	(2,018)	-	2,018	-	-
Revaluation surplus	(36,924)	-	36,924	-	-
Fair value reserves	19,391	-	(19,391)	-	-
Other general provisions	29,997	-	(29,997)	-	-
Unrealised exchange losses	(5,202)	-	5,202	-	-
General provision on Loans and advances	440,187	-	(440,187)	-	-
	445,431	**-**	**(445,431)**	**-**	**-**

2014:	At 01.01.2014 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	other compre hensive income KShs'000	31.12.2014 KShs'000
Arising from:					
Plant and equipment	1,089	324	(3,431)	-	(2,018)
Revaluation surplus	-	-	-	(36,924)	(36,924)
Fair value reserves	-	-	-	19,391	19,391
Other general provisions	21,695	-	8,302	-	29,997
Unrealised exchange losses	6,055	-	(11,257)	-	(5,202)
General provision on Loans and advances	284,277	(324)	156,234	-	440,187
	313,116	**-**	**149,848**	**(17,533)**	**445,431**

27. EMPLOYEE BENEFITS

Employee Share Ownership Plan (ESOP)

Movement in the number of share options held for the employees under the Employee Share Ownership Plan is as follows:

	2015	2014
	Number of shares	Number of shares
Outstanding at start of year	455,000	640,000
Granted during the year	925,000	685,000
Lapsed	(200,000)	(360,000)
Exercised	(650,000)	(510,000)
Outstanding at end of year	**530,000**	**455,000**
Exercise price per share – KShs	**10.00**	**10.00**

Options may be exercised at the price of KShs. 10. The trading price of HF Group Limited (formerly Housing Finance Company of Kenya Limited) share as at 31 December 2015 on the Nairobi Securities Exchange was KShs. 22.25 (2014 – KShs. 45.75). All 530,000 (2014 – 455,000) outstanding shares were exercisable as at 31 December 2015.

Background of Employee Share Ownership Plan

On 26 July 2006, the shareholders gave approval for an Employee Share Ownership Plan (ESOP) to be set up to facilitate the ownership of shares in HF Group Limited (formerly Housing Finance Company of Kenya Limited) by employees of the company. Approval to issue additional shares, listing of shares and allotment to the Employee Share Ownership Plan (ESOP) was approved by Capital Market Authority on 20 December 2010. The total number of shares approved under the ESOP amount to 5,750,000. The ESOP is for Company employees (excluding Non-Executive Board Directors) who have attained the age of 18 years, have completed the probationary period and have been confirmed as employees of the Company in accordance with their contract of employment. However, the right to exercise an Option shall terminate immediately upon the Option holder ceasing to be an eligible employee, unless the holder of an unexercised Option dies before exercising a subsisting Option, where the Option may be exercised by his personal representatives within 12 months of the date of death. The eligible employees pay for the units by cash at a price determined by Trustees either in full or by instalments until price is paid in full. The Unit holder is not allowed to sell, transfer or otherwise dispose of Units registered in his name to another Unit holder or to any third party whatsoever. The administrative offices of the ESOP – Unit Trust are the Principal Offices of the Company.

28. CUSTOMERS' DEPOSITS

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Government and parastals:				
Payable within 90 days	6,311,924	-	488,003	488,003
Payable after 90 days and within one year	-	-	655,661	655,661
Payable after one year	948,011	-	2,814,132	2,814,132
Private sector and individuals:				
Payable within 90 days	26,731,498	-	29,257,790	29,462,333
Payable after 90 days and within one year	2,414,894	-	2,752,233	2,752,233
Payable after one year	5,258,758	-	138,110	138,110
	41,665,085	**-**	**36,105,929**	**36,310,472**

(a) Included in customers' deposits is KShs 171,279,834 (2014 – KShs 141,000,630) due to a subsidiary, HF Development and Investments Limited (formerly Kenya Building Society Limited), KShs 7,526,493 (2014 – KShs 17,612,594) due to a subsidiary, First Permanent (East Africa) Limited and KShs 6,844,292 (2014- KShs 45,930,078) due to a subsidiary, HF Insurance Agency Limited (formerly Housing Finance Insurance Agency Limited).

(b) The weighted average effective interest rate on customer deposits as at 31 December 2015 was 7.01% (2014 – 5.24%).

29. OTHER LIABILITIES

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Interest payable on the Government of Kenya income notes	2,093	-	2,093	2,093
House sales deposits			23,630	-
Withholding tax payable	59,147	-	48,978	48,978
Sundry creditors	120,592	-	174,466	174,466
Other liabilities	475,441	17,046	858,283	636,372
	657,273	**17,046**	**1,107,450**	**861,909**

30. LOANS FROM BANKS

	Group 2015 KShs'000	Group & Company 2014 KShs'000
European Investment Bank	2,184,925	2,261,855
Ghana International Bank (London)	1,279,375	1,699,918
Norfund	1,005,333	1,005,333
Shelter Afrique	1,025,328	-
International Finance Corporation	1,758,550	1,816,504
	7,253,511	**6,783,610**

The loans from European Investment Bank, Ghana International Bank (London), Norfund and International Finance Corporation were transferred from HF Group Limited (formerly Hosuing Finance Company of Kenya Limited) with effect from 3 August 2015. HF Group Limited received a USD 18.75 million loan from Ghana International Bank in London for a period of 3 years with effect from 31 December 2014 at the rate of 3 months USD LIBOR plus a margin of 5.50%. Both interest and principal of this facility are repayable on a quarterly basis. In 2014, HF Group Limited received three tranches from European Investment Bank of USD 7,088,000 at a rate of 5.037%, KShs 356,283,794 at a rate 10.664% and KShs 447,052,320 at a rate of 10.712% while in 2012 the Company received two loan tranches from European Investment Bank of KShs 668,085,425 at 10.783 % and KShs. 211,000,000 at 11.269%. All the tranches are for a period of 7 years for lending to Small and Medium Enterprises in the real estate sector. Interest and principal are payable semi-annually with a 2 year grace period for principal repayments. A USD 20m loan was received from International Finance Corporation on 1 July 2013. The loan is for 7 years at a rate of 6 months USD Libor plus a margin of 4.30%. Interest is paid half yearly with a 3 year grace period on the principal loan repayment. During the period, the company received a loan of USD 10 million from Shelter Afrique for a period of 10 years with effect from 23 December 2015 at the rate of 6 months USD Libor plus a margin of 6.35%. Interest is paid half yearly with a 2 year grace period on the principal loan repayment.

31. BORROWED FUNDS

	2015 KShs'000	2014 KShs'000
Group:		
Borrowed funds	**1,074,422**	**147,00**

In 2015, HF Development and Investment Limited (formerly Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of HF Group Ltd entered into a financing arrangement with Shelter Afrique for development of housing units at Komarock Estate. The facility is secured by the land where the development is taking place. The loan is at Shelter Afrique's base rate currently at 18%. Both interest and principal are payable on a quarterly basis.

32. CORPORATE BOND

	Group 2015 KShs'000	Company 2014 Group & KShs'000
Corporate bond	10,000,000	10,000,000
Interest payable on Corporate bond	212,442	212,502
	10,212,442	**10,212,502**

In 2012, the company raised KShs 2,969,100,000 which was the balance on the 7 year KShs 10 billion Medium Term Note (MTN) programme. The total amount is at a fixed rate of 13%.

In 2010, the company raised KShs 7,030,900,000 under the 7 year MTN whose programme size is KShs 10,000,000,000. The total notes on a fixed rate of 8.5% per annum amount to KShs 5,865,400,000 while the total notes on floating rate are KShs 1,165,500,000. The floating rate notes are on a margin of 3% plus 182 day Treasury bill rate of the last auction immediately preceding the interest payment date subject to a minimum of 5% per annum and maximum of 9.5% per annum.

33. CAPITAL AND RESERVES

Company:

(a) Ordinary share capital	**2015**	**2014**
Authorised:	**KShs'000**	**KShs'000**
At 1 January		
500,000,000(2014-235,750,000) ordinary shares of KShs. 5.00 each	2,500,000	1,178,750
2015-Nil (2014-264,250,000) additional shares		
of KShs. 5.00 each authorized during the year	-	1,321,250
At 31 December		
500,000,000 (2014 – 500,000,000) ordinary Shares of KShs. 5.00 each	**2,500,000**	**2,500,000**
Issued and fully paid:		
At 1 January:		
231,580,000 (2014 – 231,070,000) ordinary shares of KShs. 5.00 each	1,157,900	1,155,350
117,316,667 (2014 – 510,000) ordinary		
shares of KShs. 5.00 each issued in the year	586,583	2,550
At 31 December		
348,896,667 (2014 – 231,580,000) ordinary shares of KShs 5.00 each	**1,744,483**	**1,157,900**

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 348,896,667 as at 31 December 2015 (2014 – 231,580,000). During the year, 116,666,667 ordinary shares were issued through a rights issue at KShs. 30 per share leading to a share premium of KShs. 25.00 (2014-Nil) per share issued. Additionally 650,000 (2014-510,000) shares were issued under employee share ownership program at KShs. 10 per share leading to a share premium of KShs. 5 (2014 – KShs. 5) per share.

33. CAPITAL AND RESERVES (Continued)

(b) Share premium

This reserve arises when the shares of the company are issued at a price higher than the nominal (Par) value.

(c) Revaluation reserve

Revaluation reserve arise from the periodic revaluation of Group's assets. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(d) Statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

(e) Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments and available-for-sale Treasury bonds, excluding impairment losses, until the investment is derecognised.

34 SHAREHOLDERS' INCOME NOTES AND LOANS

	2015 KShs'000	2014 KShs'000
Government of Kenya – Income Notes	50,750	50,750

The Government of Kenya – Income Notes carry no redemption date and are charged interest at a fixed rate of 8.25% per annum (2014 – 8.25%).

35. NOTES TO THE STATEMENT OF CASH FLOWS

	2015 KShs'000	2014 KShs'000
(a) Reconciliation of operating profit to net cash flows from operating activities		
Profit before taxation	1,753,518	1,400,653
Adjustments for:		
Depreciation	93,282	77,198
Amortisation of intangible asset	10,799	12,710
Amortisation of prepaid operating lease rentals	642	647
Profit on sale of equity investment	-	(83,259)
Profit on sale of property and equipment	-	(54,212)
Increase of balances with Central Bank of Kenya - CRR	(1,139,787)	(261,642)
Increase in customer deposits	5,559,156	9,598,725
Increase in loans and advances to customers	(7,777,483)	(10,027,642)
Investment in Government securities	(1,905,842)	185
Increase in housing project	(1,004,857)	(196,525)
Loss on investment in joint ventures	(83,012)	18,251
Increase in other assets	(293,222)	94,851
(Decrease)/increase in other liabilities	(450,177)	567,615
Increase in borrowed funds	1,397,263	2,779,462
Net cash flows from operating activities before tax	**(3,839,720)**	**3,927,017**
Income tax paid	(569,735)	(661,758)
Net cash flows from operating activities	**(4,409,455)**	**3,265,259**

(b) Analyses of cash and cash equivalents

	2015 KShs'000	2014 KShs'000	Change in the year KShs'000
Cash in hand and bank	3,187,988	2,968,926	219,062
Balances due from banking institutions	4,580,142	7,597,238	(3,017,096)
	7,768,130	**10,566,164**	**(2,798,034)**

36. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2015, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 256.26 million (2014 – KShs 74.730 million).

(b) Other contingent liabilities

In the ordinary course of business, the company and its subsidiaries are defendants 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 be successfully defended and therefore no provision has been made in the financial statements. The significant claims are described below:

ICEA LION Group has sued HFC Limited and others for loss of KShs 120m which were funds withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with Nyaga Stock Brokers. The Company's advocates have filed a defence against ICEA.

Sharok Kher Mohamed sued HFC Limited for selling the property by public auction in 2000. The plaintiff was awarded judgment for 20 million plus interest. HFC Limited have appealed against the judgment and the matter is pending in the Court of Appeal.

HF Development and Investment Limited (HFDI) (Formerly Kenya Building Society Limited) (KBSL) is a 100% owned subsidiary of HF Group. The company entered into a joint venture agreement with Santack Limited for the development of a housing project in Komarock (Komarock Phase V). HFDI terminated the contract because Santack Limited was unable to perform as per the contract. Upon termination of the contract Santack raised a claim of KShs 340 million being their estimated loss following the termination of the contract. HFDI also raised a counter claim of KShs 74 million. The matter was referred for arbitration as provided for in the joint venture agreement.

The arbitrators ruled in favour of HFDI on 7 April 2012 i.e. termination of the joint venture agreement was lawful, and that HFDI was entitled to vacant possession and a sum of Kshs. 7.9 million plus costs. Santack's application to have the arbitral award set aside was dismissed on 23rd April 2015. HFDI's application to have the arbitral award adopted and enforced as a court decree was allowed on 9 October 2015. HFDI is in the process of trying to enforce the arbitral award.

In 2010, Kenya Revenue Authority (KRA) carried out a tax audit of HF Group Limited (formerly Housing Finance Company of Kenya Limited) for the years 2006 – 2009 and raised a claim of KShs 61,369,382 (including penalties and interest). HF Group Limited appealed against KRA's assessments for KShs 6,743,448 at the Local Committee and the appeal succeeded. However, KRA appealed against the local Committee decision at the High Court. The appeal was however dismissed by the High Court in November 2012. Out of the remaining balance of KShs 51,142,134, KRA conceded KShs 28,338,768, HF Group Limited paid KShs 6,205,446 and applied for waiver of penalties and interest amounting to 16,597,920 to the Cabinet Secretary for the National Treasury.

37. OPERATING LEASE ARRANGEMENTS

Group:

The bank as a lessor

Rental income earned during the year was KShs. 54,409,129 (2014 – KShs. 40,097,205). At the reporting date, the Group had contracted with tenants for the following future lease receivables:

	2015	2014
	KShs'000	KShs'000
Within one year	37,102	34,893
In second to fifth year inclusive	78,247	82,309
After five years	3,109	-
	118,458	**117,202**

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

The group as a lessee

At the reporting date, the Group had outstanding commitments under operating leases which fall due as follows:

	2015	2014
	KShs'000	KShs'000
Within one year	78,021	46,813
In second to fifth year inclusive	262,191	177,262
After five years	17,953	12,137
	358,165	**236,212**

Operating lease payments represent rentals payable by HFC Limited for its branch premises. Leases are negotiated for an average term of 6 years.

38. LOAN COMMITMENTS

Group:

Loan commitments amounting to KShs. 7,933,776,319 (2014 – KShs. 9,086,451,144) are analysed below:

	2015	2014
	KShs'000	KShs'000
Commitment in principle but not authorised for payment	3,218,000	4,416,201
Authorised but not paid	4,715,776	4,670,250
	7,933,776	**9,086,451**

39. CAPITAL COMMITMENTS

	2015	2014
Group:	**KShs'000**	**KShs'000**
Authorised but not contracted	342,702	333,606

40. ASSETS PLEDGED AS SECURITY

As at 31 December 2015, there were no assets pledged by the Group to secure liabilities nor secured Group liabilities other than as disclosed on Note 31.

41. RELATED PARTY TRANSACTIONS

Group:

The Group has entered into transactions with its employees as follows:

(a) Loans	**2015**	**2014**
	KShs'000	**KShs'000**
At 1 January	834,219	806,073
Loans advanced during the year	389,308	280,398
Loans repayments received	(221,407)	(252,252)
At 31 December	**1,002,120**	**834,219**
Comprising:		
Mortgage advances	865,782	711,171
Personal loans	114,003	99,567
Staff car loans	21,633	25,305
Other	702	(1,824)
At 31 December	**1,002,120**	**834,219**

Included in related party are staff car loans of KShs. 21,633,242 (2014 – KShs. 25,305,257) and staff personal loans of KShs. 114,002,776 (2014 – KShs. 99,566,600). The related interest income for staff car loans and staff personal loans in 2015 was KShs. 638,511 (2014 – KShs. 1,307,419) and KShs. 3,383,119 (2014 – KShs. 5,367,734) respectively.

In the normal course of business, transactions have been entered with certain related parties at commercial terms.

41. RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration to Directors is disclosed under Note 10.

(c) Compensation to senior management including executive directors for the year ended 31 December 2015 amounted to KShs. 185,411,701 (2014 – KShs 215,654,186).

	2015 KShs'000	2014 KShs'000
(d) Transactions with British-American Insurance Company (Kenya) Limited		
Bank balances held with HFC Limited/HF Group Limited (formerly Housing Finance Company of Kenya)	646,111	380,635
(e) Transactions with British-American Investment Company (Kenya) Limited		
Bank balances held with HFC Limited/HF Group Limited (formerly Housing Finance Company of Kenya)	-	582,076
(f) Transactions with British-American Assets Managers Limited		
Bank balances held with HFC Limited/HF Group Limited (formerly Housing Finance Company of Kenya)	901,425	164,856

SHAREHOLDER'S PROXY

To: The Registrar
HF Group Limited
Rehani House
Kenyatta Avenue
PO Box 30088
00100 NAIROBI GPO

I/We ____

of ____

Being a member /members of HF GROUP LIMITED hereby appoint _____________________________________

____

of ____

or failing him, the duly appointed Chairman of the meeting to be my/our proxy to vote for me/us on my/our behalf at the 50th Annual General Meeting of the Company to be held on the 22nd day of April 2016, or at any adjournment thereof.

Number of shares held____

Account number :____(if known)

Signed this ________________________ day of______________________2016 ________________________________

Signed

____

Note:

1. In case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorized.
2. The proxy form should be completed and returned to the Registrar by 11.00 am on 20th April 2016, failing which it will be invalid.

Kwa: Msajili
HF Group Limited

Rehani House

Kenyatta Avenue

SLP. 30088

00100 NAIROBI GPO

Mimi/Sisi ____

Kutoka ____

Kama mwanachama/wanachama wa HF GROUP LIMITED namteua ____

____

Kutoka ____

Au akikosa, Mwenyekiti aliyeteuliwa kuwa msimamizi wa mkutano kuwa wakala wangu/ wetu kupiga kura kwa niaba yangu/sisi wakati wa mkutano Mkuu wa 50 wa pamoja wa Mwaka wa Kampuni utakaofanyika Aprili 22, 2016 au kuahirishwa kwake.

Idadi ya hisa zinazomilikiwa ____

Nambari ya akaunti _______________________ (endapo inajulikana)

Imetiwa sahihi tarehe ______________________ mwezi _____________ 2016

Sahihi

____

Muhimu:

1. Endapo mwanachama atakuwa shirika, ni lazima fomu ya uwakilishi iwe imepigwa muhuri rasmi na kutiwa sahihi na afisa au wakili aliyeidhinishwa kisheria.
2. Fomu ya uwakilishi ijazwe kikamilifu na kurejeshwa kwa msajili kabla ya saa tano asubuhi Aprili 20, 2016 na ikikosa haitakuwa na umuhimu.

HF Group
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Toll free no. 0800 721400
Email: housing@hfgroup.co.ke
Website: www.hfgroup.co.ke

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