HF GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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Directors

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

Olive Mugenda EBS, CBS	Chairperson – appointed 21st October 2021
Robert Kibaara	Group Chief Executive Officer
Dr Benson Wairegi	
Dr. Peter K. Munga	
Kaushik Manek	Chairperson – Retired 28th May 2021
Adan D Mohamed	Retired 28th May 2021
Constance Gakonyo	
Felister Kembi	
Gladys Karuri	Retired 28th May 2021
Dr. Anthony Omerikwa Opare MBS	Appointed 18th January 2022
Charles Kimani Njuguna	Appointed 14th January 2022

Company Secretary

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

Registered Office

Plot No. LR 209/905
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088 00100
Nairobi, Kenya

Legal Adviser

Walker Kontos Advocates
Hakika House
Bishops Road
PO Box 60680–00200
Nairobi

Principal Bankers

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

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

Independent auditor

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

The directors submit their report together with the audited financial statements of HF Group Plc (the Company) and its subsidiaries (together, the Group) for the year ended 31 December 2021.

Incorporation

The Group is domiciled in Kenya where it is incorporated as a private group limited by shares under the Companies Act, 2015. The address of the registered office is set out on page 1.

Directorate

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

Board meetings attendance for the year ended 31 December 2021

	HF Group Board meetings					Total Attendance
Date	10/3/21	26/03/21	19/04/21	3/8/21	3/11/21	
Dr. Kaushik Manek	✓	✓	✓	✓	✓	5
Gladys Karuri	✓	✓	✓			3
Adan Mohamed	✓	✓	✓			3
Constance Gakonyo	✓	✓	✓	✓	✓	5
Dr. Peter Munga			✓	✓	✓	3
Dr. Benson Wairegi	✓	✓	✓	✓	✓	5
Felister Kembi	✓	✓	✓	✓	✓	5
Robert Kibaara	✓	✓	✓	✓	✓	5

Principal Activities

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

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

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

Principal Activities (continued)

The subsidiaries' principal activities are to encourage and promote the flow of both private and public savings into financing home ownership, corporate and retail banking solutions, development and selling of residential houses, insurance agency business, and social investment.

Business review

During the year, the Group reported a loss after tax of Shs 593,291,000 (2020: Loss of Shs 1,706,863,000). Interest income earned during the year was Shs 3,975,185,000 representing a 8% decline from Shs 4,281,711,000 earned in 2020, while the interest expense incurred during the year declined by 13% to Shs 2,095,238,000 from Shs 2,399,249,000 in 2020. The net loan book at the end of year was Shs 34,692,625,000 compared to Shs 36,998,473,000 in 2020. The non-performing loans (NPL) reduced by Shs 2,126,087,000 from Shs 10,798,847,000 in 2020 to Shs 8,672,760,000 in 2021. Deposits reduced by Shs 2,818,088,000 to Shs 38,316,520,000 as at the end of the year.

The business environment was challenging in 2021 mainly due to the negative impact of the Covid-19 pandemic on the economy and business with some sectors harder hit than others. The economics environment improved in 2021 with the rollout of vaccinations and phased removal of government restriction.There still remains significant uncertainty due to the risks associated with emergence of new strains, knock on impact of the pandemic and the Russian /Ukraine conflict such as disruption to supply chains and increases in commodity prices. However, with the continued improvement of the economy, the Bank is expected to get on track to achieving its strategic initiatives.

Financial results and recommended dividend

The Group loss for the year of Shs 593,291,000 (2020: Loss of Shs 1,706,863,000). No interim dividend was paid during the year (2020: Nil). The directors do not recommend payment of a final dividend (2020: Nil).

Principal risks and uncertainties

The Group principal risk and uncertainties together with process that are in place to monitor and mitigate those risks where applicable can be found under Note 4 to the financial statements.

Future outlook

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

Environmental, social and employee matters

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

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

The environmental and social risk policy has been incorporated into our lending process and is aligned with recognised international performance standards. Our loan applications therefore include, among other issues, an environmental assessment and are in compliance with regulatory requirements.The Group has taken several measures to ensure safety of employees and the continuity of operations during the Covid-19 pandemic. These include work-from-home arrangements, social distancing within the workplace, abolishment of physical meetings, provision of hand sanitizers and face masks as well as temperature screening at all entry points.

Statement as to disclosure to the group's auditor

With respect to each director at the time this report was approved:

a) there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and

b) the director has taken all the steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Terms of appointment of the auditor

PricewaterhouseCoopers LLP continue in office in accordance with the Company's Articles of Association and Section 721 of the Companies Act, 2015.

The directors monitor the effectiveness, objectivity, and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

Events after the reporting year

There have been no events after the reporting date that require adjustment or disclosure to these financial statements.

By order of the Board

SECRETARY

31 March 2022

Information subject to audit

The directors' remuneration report has been prepared in compliance with the Group's remuneration policy, Capital Markets Authority Code of Corporate Governance Guidelines on Directors' remuneration and the Companies Act, 2015. The remuneration is reviewed regularly to ensure that it is within the existing market rates. This is done to ensure that individual directors are effective and continue to pursue the business strategy. Performance of each director is evaluated annually and communicated appropriately. All directors are expected to observe attendance of the board meetings and make valuable contributions depending on each member's area of speciality. The remuneration is disclosed through the periodic publications made by the Group.

There has been no change to the rate of remuneration for the non-executive directors during the year.

Directors' remuneration paid during the year was as per the table below.

Non- executive directors

	Year ended 31 December 2021			Year ended 31 December 2020		
	Fees	Sitting allowance	Total	Fees	Sitting allowance	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Dr. Benson Wairegi, EBS	488	1,778	2,266	488	1,404	1,892
Dr. Peter K Munga	488	1,323	1,811	488	624	1,112
Adan D Mohamed	266	1,098	1,364	648	1,560	2,208
Constance Gakonyo	488	1,656	2,144	487	900	1,387
Kaushik Manek	975	3,900	4,875	4,875	208	5,083
Felister Kembi	488	1,360	1,848	488	1,196	1,684
Gladys Karuri	200	434	634	488	1,040	1,528
Prof. Olive Mugenda	244	758	1,002	-	-	-
	3,637	12,307	15,944	7,962	6,932	14,894

Executive director

	2021	2020
Robert Kibaara	Shs'000	Shs'000
Salary	40,843	39,072
Non-cash benefits	-	3,072
Gratuity	9,450	9,000
Total	50,293	51,144

Information not subject to audit

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

Non-executive Directors' remuneration policy and framework

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

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

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

Approval of the directors' remuneration report

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

By order of the Board

SECRETARY

31 March 2022

The Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Group and Company keeps proper accounting records that: (a) show and explain the transactions of the Group and Company; (b) disclose, with reasonable accuracy, the financial position of the Group and Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

The directors have disclosed in Note 2(a) of the financial statements matters relating to the use of going concern basis of preparation.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of directors on 31 March 2022 and signed on its behalf by:

Prof.Olive Mugenda
Chairman

Robert Kibaara
Director

Benson Wairegi
Director

Regina Anyika
Company Secretary

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

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of HF Group Plc (the Company) and its subsidiaries (together, the Group) set out on pages 13 to 118, which comprise the consolidated statement of financial position at 31 December 2021 and the statements of profit or loss and other comprehensive income, statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2021, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of HF Group Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2021 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

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

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances to customers requires management's judgment in the assumptions that are applied in the models used to calculate ECL.	We evaluated the appropriateness of the methodology applied by management in the estimation of expected credit losses for consistency with IFRS 9. We evaluated the appropriateness of segmentation of the loan portfolio. We validated management's basis for staging of loans and advances.

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

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The policies for estimating ECL are explained in notes 2 (j) and 4 (a) of the financial statements.

The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:

• the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments;

• the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This determines whether a 12-month or lifetime PD is used;

• the relevance of the forward-looking information assumption used in the models; and

• the reasonableness of the timing and amount of the present value of expected future cash flows on loans and advances to customers, which is the key driver for LGD for stage 3 loans.

Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.</td><td>We tested, on a sample basis, the accuracy of the computation of PDs, and the completeness and accuracy of the underlying historical data applied in the computation.

We reviewed the suitability of forward-looking data used in estimating PDs together with the accuracy of its application in the PD computation process.

For forward-looking information, we assessed the appropriateness of the model, including assumptions applied; we corroborated the data using publicly available information; and assessed the reasonableness of the weightings applied to different scenarios to reflect the impact of COVID-19.

We tested, on a sample basis the computation of EAD for both on and off-balance sheet items.

We tested, on a sample basis, the reasonableness of the present values of expected future cashflows of loans and advances used in the estimation of LGD.

We recomputed, on a sample basis, expected credit losses for loans and advances to customers.

We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

We recomputed, on a sample basis, expected credit losses for loans and advances to customers.

We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.</td></tr>
</table>

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

Other information

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

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

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence.

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

Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the Directors' report on pages 2 to 4 is consistent with the financial statements.

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

Report on other matters prescribed by the Companies Act, 2015 (continued)

Directors' remuneration report

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

K. Saiti

CPA Kang'e Saiti, Practicing certificate P/1652
Signing partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

31 March **2022**

Consolidated statement of profit or loss and other comprehensive income

	Note	2021 Shs'000	2020 Shs'000
Interest income	6	3,975,185	4,281,711
Interest expense	6	(2,095,238)	(2,399,249)
Net interest income		1,879,947	1,882,462
Credit impairment losses	22	(280,645)	(405,069)
Net interest income after credit impairment losses		1,599,302	1,477,393
Fee and commission income	7	215,935	212,195
Net trading income	8	48,350	85,270
Other income	9	221,748	198,799
Net operating income		2,085,335	1,973,657
Employee benefits	11	(1,182,536)	(1,227,163)
Depreciation and amortisation	12	(455,968)	(500,392)
Other operating expenses	10	(1,306,844)	(1,925,851)
Share of loss in joint ventures	21	(15,740)	(96,133)
Loss before income tax		(875,753)	(1,775,882)
Income tax credit	13	282,462	69,019
Loss for the year		(593,291)	(1,706,863)
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Fair value loss on investments in financial instruments measured at fair value through other comprehensive income (FVOCI)	31	(299)	(75,772)
Deferred income tax		90	22,732
		(209)	(53,040)
Items that will not be reclassified to profit or loss			
Revaluation surplus on property and equipment	31	-	137,076
Deferred income tax		-	(6,854)
		-	130,222
Total comprehensive loss for the year		(593,500)	(1,629,681)
Annualised basic and diluted earnings per share – Shs	14	(1.54)	(4.44)

Company statement of profit or loss and other comprehensive income

	Note	2021 Shs'000	2020 Shs'000
Other income	8	131,752	126,183
Employee benefits	10	(56,019)	(56,553)
Depreciation and amortisation	12	(134)	(132)
Other operating expenses	9	(109,669)	(308,833)
Loss before income tax		(34,070)	(239,335)
Income tax credit	13	12,573	11,097
Loss for the year		(21,497)	(228,238)
Other comprehensive income		-	-
Total comprehensive loss for the year		(21,497)	(228,238)

Consolidated statement of financial position

	Note	2021 Shs'000	2020 Shs'000
Assets			
Cash and balances with banks	16	2,708,074	2,284,217
Placements with other banks	17	33,311	202,435
Investment in government securities	18	6,550,168	7,105,617
Loans and advances to banks	22	-	201,509
Loans and advances to customers	22	34,692,625	36,796,964
Investment in joint ventures	21	1,544,339	1,635,079
Other assets	23	1,074,741	983,390
Investment in property fund	24	380,207	324,251
Investment property	29	1,391,875	1,263,268
Inventories	25	462,658	514,422
Property and equipment	19	1,133,965	1,237,680
Right-of-use asset	35	456,489	543,174
Intangible assets	20	519,873	703,254
Current income tax	13	342,746	344,930
Deferred income tax	26	1,612,447	1,305,059
Total Assets		52,903,518	55,445,249
Liabilities			
Deposits from customers	27	37,714,914	39,944,490
Deposits from banks	27	601,606	1,190,118
Other liabilities	28	1,658,870	1,410,654
Dividends payable	15	246	6,361
Borrowings	30	4,298,349	3,628,227
Government of Kenya income notes	32	52,860	52,860
Derivatives liabilities	37	28,982	-
Lease liabilities	35	579,403	650,751
		44,935,230	46,883,461
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Statutory credit risk reserve	31	3,413,517	3,653,888
Revaluation reserves	31	1,012,125	1,012,125
Fair value reserves	31	13,763	13,972
Accumulated losses		(2,737,700)	(2,384,780)
		7,968,288	8,561,788
Total Liabilities and Shareholders' Equity		52,903,518	55,445,249

The financial statements on pages 13 - 118 were approved for issue by the Board of directors on 31 March 2022 and signed on its behalf by:

Prof. Olive Mugenda
Chairlady

Robert Kibaara
Director

Benson Wairegi
Director

Regina Anyika
Company Secretary

Company statement of financial position

	Note	2021 Shs'000	2020 Shs'000
Assets			
Cash and balances with banks	16	2,317	20,196
Investment in subsidiaries	21	9,767,594	9,762,694
Other assets	23	10,355	1,645
Property and equipment	19	402	418
Current income tax	13	46,947	41,682
Deferred income tax	26	49,777	37,204
Total Assets		9,877,392	9,863,839
Liabilities			
Other liabilities	28	308,928	267,763
Dividends payable	15	246	6,361
		309,174	274,124
Shareholders' Equity			
Share capital	31	1,923,071	1,923,071
Share premium	31	4,343,512	4,343,512
Retained earnings		3,301,635	3,323,132
		9,568,218	9,589,715
Total Liabilities and Shareholders' Equity		9,877,392	9,863,839

The financial statements on pages 13 - 118 were approved for issue by the Board of directors on 31 March 2022 and signed on its behalf by:

Prof.Olive Mugenda
Chairman

Robert Kibaara
Director

Benson Wairegi
Director

Regina Anyika
Company Secretary

Consolidated statement of changes in equity (continued)

	Share capital	Share premium	Revaluation reserves	Statutory credit risk reserve	Retained earnings	Fair value reserves	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2020							
At start of year	1,923,071	4,343,512	881,903	2,668,069	307,902	67,012	10,191,469
Loss for the year	-	-	-	-	(1,706,863)	-	(1,706,863)
Other comprehensive income for the year	-	-	130,222	-	-	(53,040)	77,182
Transfer from statutory credit risk reserve	-	-	-	985,819	(985,819)	-	-
At end of year	1,923,071	4,343,512	1,012,125	3,653,888	(2,384,780)	13,972	8,561,788
Year ended 31 December 2021							
At start of year	1,923,071	4,343,512	1,012,125	3,653,888	(2,384,780)	13,972	8,561,788
Loss for the year	-	-	-	-	(593,291)	-	(593,291)
Other comprehensive loss for the year	-	-	-	-	-	(209)	(209)
Transfer from statutory credit risk reserve	-	-	-	(240,371)	240,371	-	-
At end of year	1,923,071	4,343,512	1,012,125	3,413,517	(2,737,700)	13,763	7,968,288

Company statement of changes in equity

	Share capital Shs' 000	Share premium Shs' 000	Retained earnings Shs' 000	Total Shs' 000
Year ended 31 December 2020				
At start of year	1,923,071	4,343,512	3,551,370	9,817,953
Loss and total comprehensive income for the year	-	-	(228,238)	(228,238)
At end of year	1,923,071	4,343,512	3,323,132	9,589,715
Year ended 31 December 2021				
At start of year	1,923,071	4,343,512	3,323,132	9,589,715
Loss and total comprehensive income for the year	-	-	(21,497)	(21,497)
At end of year	1,923,071	4,343,512	3,301,635	9,568,218

Consolidated statement of cash flows

	Note	2021 Shs'000	2020 Shs'000
Net cash flows from operating activities	33	(210,846)	1,156,198
INVESTING ACTIVITIES			
Purchase of property and equipment	18	(9,727)	(32,409)
Purchase of investment property	28	(171,756)	(37,848)
Proceeds from sale of equipment		19,805	58
Purchase of intangible assets	19	(47,758)	(66,680)
Proceeds from sale of disposal of investment property		27,883	-
Net cash flows used in investing activities		(181,553)	(136,879)
FINANCING ACTIVITIES			
Receipts of borrowed funds	29	1,514,574	-
Principle repayments of borrowings	29	(844,452)	(2,175,496)
Dividend paid	15	(6,115)	(6,662)
Principal lease payments	35	(142,964)	(130,488)
Net cash flows used in financing activities		521,043	(2,312,646)
Net decrease in cash and cash equivalents	33	128,644	(1,293,327)
Cash and cash equivalents at start of year		1,058,416	2,337,779
Effects of exchange rate differences		(1,287)	13,964
Cash and cash equivalents at end of year	33	1,185,773	1,058,416

Company statement of cash flows

	Note	2021 Shs' 000	2020 Shs' 000
Net cash flows (used in) / generated from operating activities	33	(6,746)	(4,298)
INVESTING ACTIVITIES			
Purchase of property and equipment	18	(118)	-
Net cash flows (used in) / generated from investing activities		(118)	(4,298)
FINANCING ACTIVITIES			
Dividend paid	14	(6,115)	(6,662)
Investments in subsidiaries-HF Bancassurance Intermediary	14	(4,900)	-
Net cash flows used in financing activities		(11,015)	(6,662)
Net decrease in cash and cash equivalents	33	(17,879)	(10,960)
Cash and cash equivalents at start of year		20,196	31,156
Cash and cash equivalents at end of year	33	2,317	20,196

Notes

1 General information

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

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

2 Significant accounting policies

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

(a) Basis of preparation

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

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

Going concern assessment

The economy in 2021 has seen a gradual recovery evidenced by improved business conditions in the Kenyan private sector. The economic environment has improved due to the successful rollout of vaccinations and phased removal of government restrictions. There still remains some uncertainty due to risks associated with emergence of new Covid -19 strains this far and the knock-on impacts of the pandemic and the Russia/Ukraine conflict such as disruption to supply chains around the world and increases in commodity prices.

Within the Group, we have seen an improvement in performance where the loss before income tax position has decreased by Shs 900,129,000 to Shs 875,753,000 (2020: Shs 1,775,882,000). The Bank's capital ratios have also improved. The core capital to total risk weighted assets ratio at 31 December 2021 was 8.25% compared to prior year where the ratio was 7.83% therefore the Bank was able to achieve the minimum ratio of 8.00%, which does not include the 2.5% risk buffer that CBK expects institutions to operate above. The total capital to total risk weighted assets was 12.10% compared to prior year when the ratio was 9.08%. The Bank however still continues to be in breach of the minimum regulatory capital ratios. We have covered within this section how the Group intends to improve the capital ratios. The Bank's liquidity ratio closed at 22.87% as at end of the year 2021 an improvement from last year's position of 20.90%.

The Group's lenders require compliance with regulatory ratios. The Group therefore remains in breach of some of the financial covenants as a result of the regulatory breaches. The covenants breaches have been disclosed under Note 30.

The Group has closed in a negative cashflows from operating activities position of Shs 210,846,000 mainly due to reduction of customer deposits as the Group strives to offload legacy expensive fixed deposits. This has resulted to a reduction in interest expense by 13% to Shs 2,095,238,000 from Shs 2,399,249,000 in 2020.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

We have set out below the actions we are taking to address business challenges:

Overall strategy

Towards the end of FY 2021, the Bank and the Group board held a strategy retreat to review the turnaround strategy and the performance year to date. Though there was improvement in the performance, the Board proposed new strategic interventions that will see the Group grow its performance almost triple fold between the period 2022-2026. Some of the proposed interventions include: - Repositioning the HFC Limited as a full-service niche bank offering superior capabilities for the selected segments, scaling up the engines for Growth, solidifying the capital base and investing in growing the businesses through increased investments. With these investments, the financial performance is expected to triple the size of the bank in the next five years. The bank has laid down the foundational background required to achieve this performance.

Non-performing loans (NPLs)

The Group continues to make significant progress in the recovery of non-performing loans and concerted efforts have been put on the NPL recovery efforts. There is a lot of progress in the resolution of matters under litigation, completion of stalled projects, (and aggressive sale of the completed office space/residential property), negotiated settlements, and realisation of collateral either vide private treaty or auction. The target is to resolve the entire legacy non-performing loans (Shs 10 billion) over a 5-year period.

As at 31 December 2021, the Group's gross non-performing loans reduced by Shs 2,126,087,000 from Shs 10,798,847,000 as at 31 December 2020 to Shs 8,672,760,000 as at 31 December 2021. Consequently, the NPL ratio reduced from 26% as at 31 December 2020 to 22% as at 31 December 2021. The above recoveries are projected to result in unwinding of statutory credit risk reserves and as a result this will reduce the statutory credit risk reserve resulting in a transfer to retained earnings and will eventually improve the core tier 1 capital.

Actions to improve tier 2 capital

The Group received tier 2 capital injection from the Group's significant shareholder, of Shs 1 billion on 1 February 2021. The funding has improved the total capital to total risk weighted assets ratio.

The Bank is currently in discussions with one of its lenders to convert part of the borrowing into subordinated debt (Tier II Capital). Only one key condition precedent remains opens as of this the date of this report. This conversion is expected to improve the total capital ratio of the Group.

Liquidity ratio

The Banks liquidity ratio closed at 22.87% as at end of the year 2021 an improvement from last year's position of 20.90%. This trend is expected to continue in 2022 and with reduced debt obligations in 2022, there will be substantial upside on the liquidity position. In addition, the Group is currently holding investments in treasury bills and bonds amounting to Shs 6,550,168,000. These investments are actively traded in the Nairobi Securities Exchange and can be liquidated on short notice to cover for liquidity needs.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation(continued)

Going concern (continued)

Compliance with regulatory capital and other ratios

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

- as covered above, the tier 2 capital already received from the Group's significant shareholder and the conversion of a loan balance to tier 2 capital will improve tier 2 and total capital

- also as covered above, NPL recovery will reduce the statutory credit risk reserve resulting in a transfer to retained earnings to improve the core tier 1 and total capital;

- sale of Rehani House building by December 2022 will ensure compliance with investment in buildings to core capital and would also result to a one-off gain; and

- the Group in conjunction with the significant shareholder has appointed a transaction advisor to scout for potential investors to provide both tier 1 and tier 2 capital.

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

The Group significant shareholder has confirmed to the Directors that they will continue providing business support to the Group and the Bank for a period of at least 12 months from the date of approval of these financial statements.

Based on the above the directors believe that the going concern assumption is appropriate in the preparation of the financial statements. The Directors expect that the business will continue to generate enough funds internally to finance its operations and any external funding will be invested in further growth of the business.

Changes in accounting policy and disclosures

i) New and amended standards adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2021:

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

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

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

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient In the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

This amendment did not have a material impact on the Group's financial statements

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

Effect of Ibor reform on the Group's financial statements

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's risk exposure that is directly affected by the interest rate benchmark reform is only in reference to the USD LIBOR.

It is currently expected that SOFR (Secured Overnight Financing Rate) will replace USD LIBOR. There remain key differences between USD LIBOR and SOFR. USD LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SOFR is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period.

Furthermore, LIBOR includes a credit spread over the risk-free rate, which SOFR currently does not.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

Effect of Ibor reform on the Group's financial statements (continued)

To transition existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition.

The following table contains details of all of the financial instruments that the Group holds at 31 December 2021 which reference 6 month USD LIBOR and have not yet transitioned to SOFR or an alternative interest rate benchmark as the settings will only be discontinued on 30 June 2023:

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

Further details on the above borrowings can be found under Note 27

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

As at 31 December 2021, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2021.

Property, Plant and Equipment: Proceeds before intended use –Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

Annual Improvements to IFRS Standards 2018–2020 (continued)

The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

IFRS 16 Leases – amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments deferred from 1 January 2022 to 1 January 2023 also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their *material* rather than their *significant* accounting policies. The amendments effective 1 January 2023 define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 *Making Materiality Judgements* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors effective 1 January 2023* clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Notes (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 *Income Taxes* require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("Functional Currency"). The financial statements are presented in Kenya Shillings in thousands (Shs '000) which is the Group's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss account within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within 'other operating income or expenses'.

Notes (continued)

(c) Revenue recognition

Net interest income

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

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

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

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

Non – interest revenue

i. Net fee and commission revenue

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

ii. Trading revenue

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

iii. Other revenue

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

(d) Property and equipment

(i)Recognition and measurement

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

Notes (continued)

2 Significant accounting policies (continued)

(d) Property and equipment (continued)

(i)Recognition and measurement (continued)

Buildings held at fair value are subsequently shown at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

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

(ii)Depreciation

Freehold land is not depreciated.

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

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

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

(iii)Disposal of property and equipment

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

(e) Intangible assets

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

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

Notes (continued)

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

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

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

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

(f) Leases

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

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

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

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

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

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

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

Notes (continued)

2 Significant accounting policies (continued)

(f) Leases (continued)

(i) Group acting as a lessee

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

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

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

Short-term leases and leases of low-value assets

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

(ii) Group acting as a lessor

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

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

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

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

(g) Employee benefits

(i)Employee retirement benefits plan

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

Notes (continued)

2 Significant accounting policies (continued)

(g) Employee benefits (continued)

(i)Employee retirement benefits plan (continued)

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

(ii)Accrued leave

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

(iii)Termination benefits

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

(iv)Short-term benefits

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

(h) Income tax

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

(i)Current income tax

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

(ii) Deferred income tax

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

Notes (continued)

2 Significant accounting policies (continued)

(h) Income tax (continued)

(ii) Deferred income tax (continued)

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

(i) Cash and cash equivalents

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

(j) Financial instruments

Initial recognition and measurement

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

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

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Group and Company classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments

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

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

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

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

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

Business model: The business model reflects how the Group and Company manages the assets in order to generate cash flows. That is, whether the Group and Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group and Company in determining the business model for a group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group and Company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

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

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

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

Equity instruments

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

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

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

(ii) Impairment of financial assets

Expected credit losses (ECL) are recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date, which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL is set out below. ECL is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Stages

Stage 1

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

Stage 2

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

Stage 3 (Credit impaired assets)

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

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

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

Significant increase in credit risk

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

Low credit risk

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

Default

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

• Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
• A breach of contract, such as default or delinquency in interest and/or principal payments
• Disappearance of active market due to financial difficulties
• It becomes probable that the borrower will enter bankruptcy or other financial reorganisation

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(ii) Impairment of financial assets (continued)

Default (continued)

• Where the Group and Company, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group and Company would not otherwise consider
• Exposures which are overdue for more than 90 days are also considered to be in default

Forward-looking information

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

Write-off

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

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

Financial assets measured at amortised cost (including loan commitments)

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

Off-balance sheet exposures (excluding loan commitments)

Recognised as a provision within other liabilities.

Financial assets measured at fair value through OCI

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

(iii) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

(iii) Modification of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

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

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

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

(iv) Derecognition other than on a modification

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

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays

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

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial liabilities

(i) *Classification and subsequent measurement*

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

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group and Company recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments

(ii) *Derecognition*

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

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

Offsetting financial assets and financial liabilities

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

Financial guarantee contracts

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

Notes (continued)

2 Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial guarantee contracts

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

(k) Impairment of non-financial assets

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

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

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

(l) Dividends

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

(m) Deposits from customers

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

(n) Comparatives

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

Notes (continued)

2 Significant accounting policies (continued)

(p) Inventories

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

(q) Contingent liabilities

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

(r) Fiduciary activities

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

(s) Derivative financial assets and liabilities

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

The Group and Company uses the following derivative instruments:

Currency forwards

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

Notes (continued)

2 Significant accounting policies (continued)

(t) Earnings per share

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

(u) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group and Company, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

After initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 Property, Plant and Equipment – cost less accumulated depreciation and less accumulated impairment losses.

(v) Provisions, contingent assets and contingent liabilities

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

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

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

A provision for restructuring is recognised when the Group and Company has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group and Company recognises any impairment loss on the assets associated with that contract.

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

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

Notes (continued)

2 Significant accounting policies (continued)

(w) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

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

(x) Consolidation

i) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

Notes (continued)

2 Significant accounting policies (continued)

(x) Consolidation (continued)

(i) Subsidiaries (continued)

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

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

Notes (continued)

2 Significant accounting policies (continued)

(x) Consolidation (continued)

(ii) Changes in ownership interests

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

(iii) Disposal of subsidiaries

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

(y) Operating segments

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

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

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

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

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

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

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

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

Notes (continued)

2 Significant accounting policies (continued)

(y) Operating segments (continued)

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

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

(z) Joint arrangements

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

Joint operations

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

Joint ventures

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

3 Critical accounting estimates and judgements

Use of estimates and judgements

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

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

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

(a) Measurement of the expected credit loss allowance

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

Notes (continued)

3 Critical accounting estimates and judgements (continued)

Use of estimates and judgements (continued)

(a) Measurement of the expected credit loss allowance (continued)

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

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

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

Judgements

The following represent critical judgements adopted

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

Estimates

The following approach was adopted to determine estimates

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

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

Notes (continued)

4 Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

Management of credit risk

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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

	Note	2021 Shs' 000	2020 Shs' 000
Credit exposures			
On – balance sheet items			
Balances and deposits due from financial institutions*	16	2,202,775	1,725,892
Investment securities	18	6,550,168	7,105,617
Loans and advances to customers	22	34,692,625	36,796,964
Loans and advances to banks	22	-	201,509
Other assets**	23	531,039	477,283
		43,976,607	46,307,265
Off-balance sheet items			
Guarantees		976,588	685,516
Letters of credit, acceptances and other credits		169,046	136,209
		1,145,634	821,725
		45,122,241	47,128,990

Management of credit risk (continued)

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

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

**Other assets are made up of settlement and clearing accounts, refundable deposits and other receivable balances. Prepayments and foreclosed assets have been excluded from other assets balances as they do not bear any credit risk. The balances are settled no more than 12 months after the reporting date. All the balances are non-interest bearing and impairment of Shs 33,890,195 (2020: Shs 24,825,000) has been recognised against them at 31 December 2021.

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

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risk (loans and advances)

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Grade 1 and grade 2 represent loans and advances that are not impaired. Grade 3, grade 4 and grade 5 refer to loans and advances that have been impaired in line with the Group's credit policy and internal model. These represent the loans and advances that the Group cannot collect according to contractual terms of the loan agreements.

Impaired loans
Impaired loans are loans which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank.

Allowances for impairment

The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing
- significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Group writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions are generally based on a product specific past due default history.

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Collateral on loans and advances

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

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

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

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

	Group	
	2021	**2020**
	Shs' 000	**Shs' 000**
Property	87,077,067	71,985,390
Cash	983,125	30,112
	88,060,192	72,015,502

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

	Group	
	2021	**2020**
	Shs' 000	**Shs' 000**
Concentration by segment (Gross)		
Mortgage	24,138,451	26,397,651
Projects	8,955,214	10,780,834
Commercial	3,988,518	2,949,952
Unsecured	936,309	447,981
IPF	30,764	53,290
Micro	10	16
	38,049,266	40,629,724

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

Impairment assessment

The Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

All Stage 3 assets, regardless of the class of financial assets:

- The treasury, trading and interbank relationships (such as due from Banks, cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI)
- Exposures that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

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

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

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Impairment assessment (continued)

The economic scenarios used as at 31 December 2021 included the following ranges of key indicators;

2021 - Significant macroeconomic factors (based on the Bank's segments)

1. Mortgage

Macro-economic variable	Coefficients	**Base** Weighting 66.00%	**Upside** 1.00%	**Downside** 33.00%
Central Bank Rate	0.54142	6.90%	6.90%	6.90%
Housing Price Index	-0.63752	-0.03%	0.50%	-0.56%
Public Debt to GDP	-0.33812	65.00%	66.39%	63.61%

2. Projects

Macro-economic variable	Coefficients	**Base** Weighting 66.00%	**Upside** 1.00%	**Downside** 33.00%
Repo	1.5027	4.80%	4.08%	5.52%
91- Day T-bills	-3.0399	7.34%	7.65%	7.02%
364-Day T-bills	-4.1374	9.13%	9.62%	9%
Central Bank Rate	-9.1649	6.90%	6.90%	7%
Housing Price Index	-2.8164	-0.03%	0.32%	0%
Public Debt to GDP	-0.7828	65.00%	66.39%	64%

3. Commercial

Macro-economic variable	Coefficients	**Base** Weighting 66.00%	**Upside** 1.00%	**Downside** 33.00%
Central Bank Rate	3.1688	6.90%	6.90%	6.90%
Housing Price Index	-2.1427	-0.03%	0.50%	-0.56%
Public Debt to GDP	-1.0824	65.00%	66.39%	63.61%

4. Micro

Macro-economic variable	Coefficients	Weighting 66.00%	1.00%	33.00%
Central Bank Rate	9.8557	6.90%	6.90%	6.90%
Housing Price Index	-4.1814	-0.03%	0.50%	-0.56%

4 Financial risk management (continued)

(a) Credit risk (continued)

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

5. Unsecured		**Base**	**Upside**	**Downside**
		Weighting		
Macro-economic variable	Coefficients	66.00%	1.00%	33.00%
Saving	14.676	4.84%	4.49%	5.18%
Public Debt to GDP	1.511	65.00%	63.61%	66.39%

6.IPF		**Base**	**Upside**	**Downside**
		Weighting		
Macro-economic variable	Coefficients	66.00%	1.00%	33.00%
Housing Price Index	0.19648	-0.03%	-0.56%	0.50%
Public Debt to GDP	0.15781	65.00%	63.61%	66.39%

2020 - Significant macroeconomic factors (based on the Bank's segments)

Micro		Base	Upside	Downside
		Weighting		
Macro-economic variable	Co-efficient	74.50%	1.00%	24.50%
91 Day T-Bills	-43.0878	6.59%	7.02%	6.16%
364 Day T-Bills	23.6285	8.18%	7.35%	9.02%
Housing Price Index	-5.3858	-0.14%	0.22%	-0.49%
Constant	1.4656	-	-	-

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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

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

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

Measurement of ECL

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

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

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

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

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

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

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

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk (continued)

Measurement of ECL (continued)

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

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

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the obligor's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

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

Significant increase in credit risk

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

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

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

Notes (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

Contingent liabilities and commitments

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

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

The nominal values of such commitments are listed below: -

	2021 Shs'000	2020 Shs'000
Undrawn overdrafts	42,562	44,718
Letters of credit	169,046	136,209
Guarantees	976,588	685,516
	1,188,196	866,443
Allowance for impairment losses	(19,984)	(7,662)
	1,168,212	858,781

The loss allowance on outstanding commitments and financial guarantees is carried in other liabilities and therefore no impact on the carrying amounts.

Impairment losses for loans and advances

The reconciliation from the opening to the closing balance of the loss allowance for loans and advances has been disclosed under Note 21.

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

	2021 Shs'000	2020 Shs'000
Against impaired accounts	16,973,983	13,406,969
Against accounts not impaired	71,086,209	58,608,533
	88,060,192	72,015,502

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

Management of liquidity risk

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.
To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk.

This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs.

In accordance with the Group's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposits from banks and borrowings due to mature within the next month.

The Group stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

Exposure to liquidity risk

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

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting period were as follows:

	2021	**2020**
At 31 December	22.97%	20.90%
Average for the year	20.80%	19.03%
Maximum for the year	22.50%	21.98%
Minimum for the year	16.45%	17.50%
Minimum statutory requirement	20.00%	20.00%

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities

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

Year ended 31 December 2021	**Due on demand**	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets						
Balances and deposits due from financial institutions	2,741,385	-	-	-	-	2,741,385
Loans and advances	5,928,051	515,825	927,838	7,297,534	20,023,377	34,692,625
Investment securities	4,666,812	10,098	176,706	413,998	1,151,872	6,419,486
Other assets	-	-	1,074,742	-	-	1,074,742
Total financial assets	13,336,248	525,923	2,179,286	7,711,532	21,175,249	44,928,238
Financial liabilities						
Customer deposits	19,997,064	3,791,994	2,231,607	75,162	11,619,087	37,714,914
Bank deposits	601,606	-	-	-	-	601,606
Borrowings	134,809	192,202	3,953,306	635,192	-	4,915,509
Government income notes *	-	-	-	-	52,860	52,860
Total financial liabilities	20,733,479	3,984,196	6,184,913	710,354	11,671,947	43,284,889
Net liquidity gap	7,397,231	3,458,273	4,005,627	(7,001,178)	(9,503,302)	(1,643,349)

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Year ended 31 December 2021	**Due on demand**	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Off balance sheet exposures						
Letters of credit	-	135,780	-	-	-	135,780
Guarantees	-	286,794	35,285	510,947	176,828	1,009,854
Forward derivatives	-	737,350	574,550	1,077,675	-	2,389,575
Unrecognised loan commitments	-	135,780	-	-	-	135,780
Total commitments and guarantees	-	1,295,704	609,835	1,588,622	176,828	3,670,989
Year ended 31 December 2020						
Financial assets						
Balances and deposits due from financial institutions	2,486,652	-	-	-	-	2,486,652
Loans and advances	7,416,318	796,708	616,038	5,685,497	22,483,912	36,998,473
Investment securities	262,286	242,110	453,956	-	6,147,265	7,105,617
Other assets	-	-	-	983,390	-	983,390
Total financial assets	10,165,256	1,038,818	1,069,994	6,668,887	28,631,177	47,574,132

Notes (continued)

4 Financial risk management

(b) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities (continued)

Year ended 31 December 2020	**Due on demand**	**Due within 3 months**	**Due between 3 and 12 months**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial liabilities						
Customer deposits	22,511,906	3,521,734	2,274,012	14,037	11,695,437	40,017,126
Bank deposits	1,190,118	-	-	-	-	1,190,118
Borrowings	-	167,358	654,423	2,412,760	415,336	3,649,875
Government income notes *	-	-	-	-	53,175	53,175
Total financial liabilities	23,702,024	3,689,092	2,928,434	2,426,797	12,163,948	44,910,295
Net liquidity gap	(13,536,768)	(2,650,274)	(1,858,440)	4,242,090	16,467,230	2,663,838
Off balance sheet items						
Letters of credit	-	136,209	-	-	-	136,209
Guarantees	75,919	92,810	476,800	40,047	-	685,576
Unrecognised loan commitments	-	-	1,284,318	-	-	1,284,318
Total commitments and guarantees	75,919	229,019	1,761,118	40,047	-	2,106,103

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

Notes (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Liquidity reserves

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

Liquidity reserves	2021 Shs'000	2020 Shs'000
Cash at hand	538,629	761,310
Balances with commercial banks	345,779	777,515
Balances with Central Bank of Kenya	1,823,685	745,680
Placements with other banks	33,311	202,697
Government securities	6,550,168	7,105,617
Total liquidity reserves	9,291,572	9,592,819

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Group's Treasury is responsible for the development of detailed market risk management policies and for day-to-day implementation of those policies.

Furthermore, it includes the protection and enhancement of the statement of financial position and statement of profit or loss and other comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

All foreign exchange risk within the Group is managed by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk management is vested in the Board Risk Management Committee. The Finance and Treasury departments in collaboration with the Risk Management department are responsible for the development of detailed market risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk arises from recognised assets and liabilities. The Group's exposure to foreign currency risk arose from assets denominated in US Dollars, EUR and GBP was as follows:

31 December 2021	**US$ Shs' 000**	**GBP Shs' 000**	**Euro Shs' 000**	**Total Shs' 000**
Assets				
Cash and cash equivalents	370,174	(7,171)	52,510	415,513
Loans and advances to customers	3,391,035	39,598	99	3,430,732
Other assets	43,744	749	414	44,907
Total assets	3,804,953	33,176	53,023	3,891,152
Liabilities				
Customer deposits	1,132,793	10,233	27,968	1,170,994
Borrowed funds	2,800,749	-	-	2,800,749
Other liabilities	(192,278)	2,031	2,545	(187,702)
Total liabilities	3,741,264	12,264	30,513	3,784,041
Net financial position	63,689	20,912	22,510	107,111
31 December 2020				
Assets				
Cash and cash equivalents	1,804,078	-	-	1,804,078
Loans and advances to customers	3,313,402	41,091	49	3,354,542
Other assets	281,040	571	433	282,044
Total assets	5,398,520	41,662	482	5,440,664
Liabilities				
Customer deposits	1,470,702	5,753	14,151	1,490,607
Borrowed funds	3,628,227	-	-	3,628,227
Other liabilities	-	91,313	92,589	183,902
Total liabilities	5,098,929	97,066	106,740	5,302,736
Net financial position	299,591	(55,404)	(106,259)	137,928

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

The following significant exchange rates applied during the period:

	Average rates 2021	Closing rates 2021	Average rates 2020	Closing rates 2020
US Dollar	109.65	113.15	106.54	109.20
EUR	129.68	128.19	121.71	134.28
GBP	150.68	152.86	136.79	149.24

Sensitivity analysis on exchange rates

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

	2021			2020		
	Change in currency	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000	Change in currency	Effect on profit before income tax Shs' 000	Effect on equity Shs' 000
US$	10%	6,369	4,458	10%	29,959	22,469
GBP	10%	2,251	1,576	10%	(5,540)	(4,155)
EURO	10%	2,091	1,464	10%	(10,626)	(7,969)

(ii) Sensitivity analysis to interest rate risk

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

Assets	**Interest rate**	**2021 Shs'000**	**2020 Shs'000**
Loans and advances	8.53%	34,692,625	36,998,473
Government securities	11.70%	6,550,168	7,105,617
Placements with banks	3.53%	33,311	202,435
Total liquidity reserves		41,276,104	44,306,525
Liabilities			
Deposits	4.03%	38,316,520	41,134,608
Borrowings	7.39%	4,298,349	3,628,227
Total liquidity reserves		42,614,869	44,762,835
Interest rate sensitivity gap		(1,338,765)	(456,310)

At 31 December 2021, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax loss for the year would have been Shs 2,309,510 (2020: Shs 18,627,103) lower arising mainly as a result of lower interest income and other components of equity would have been Shs 2,309,510 (2020: Shs 18,627,103) lower arising mainly as a result of lower interest income loans and advances.

Notes (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(iii) Other price risk

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

(d) Operational risk

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

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

Risk measurement and control

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

(e) Capital management

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

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

The regulatory capital is analysed in two tiers:

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

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

Notes (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

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

Tier 1 capital	**2021 Shs'000**	**2020 Shs'000**
Ordinary share capital	5,000,000	5,000,000
Share premium	3,513,662	3,513,662
Retained earnings	(4,354,055)	(4,226,070)
Deferred income tax asset	(968,094)	(665,745)
Total tier 1 capital	3,191,513	3,621,847
Tier 2 capital		
Subordinated debt	1,000,000	-
Regulatory reserves	480,411	578,502
Total tier 2 capital	1,480,411	578,502
Total regulatory capital	4,671,924	4,200,349
Risk weighted assets	38,435,563	46,280,127

Capital ratios	**2021**	**2020**
Total regulatory capital expressed as a percentage of total risk-weighted assets	12.29%	9.08%
CBK minimum requirement	14.50%	14.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets	8.42%	7.83%
CBK minimum requirement	10.50%	10.50%

The Group was in breach of the regulatory capital ratios as at 31 December 2021, which were communicated to the Central Bank of Kenya (CBK). No penalties or fines were imposed by the CBK. The Group submitted their capital restoration plan and Bank's turnaround strategy to the CBK. The details of the directors' plans for the future have been detailed under Note 2 (a).

Central Bank of Kenya required the Group to maintain a minimum core capital of Shs 1 billion as at 31 December 2021. The Group is compliant with this requirement. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may limit the amount of dividends paid to shareholders.

Notes (continued)

5 Operating segments

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Others		Totals	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Interest income	3,408,434	2,340,135	685,404	2,061,148	-	-	-	-	-	-	4,093,838	4,401,283
Interest expense	(1,435,283)	(1,337,991)	(669,159)	(1,131,308)	-	-	-	-	-	-	(2,104,442)	(2,469,299)
Net interest income	1,973,151	1,002,144	16,245	929,840	-	-	-	-	-	-	1,989,396	1,931,984
Non-interest income	286,841	350,637	97,184	25,516	78,778	29,704	59,582	60,985	131,752	141,525	522,386	466,843
Depreciation and amortization	-	(283,083)	-	(196,537)	(15,773)	15,886	(992)	(366)	(134)	(132)	(16,765)	(464,100)
Reporting segment profit/(loss) before income tax	1,026,585	(667,235)	(1,690,912)	(330,218)	(290,539)	(785,916)	42,608	26,130	(34,912)	(224,447)	(912,258)	(1,757,257)
Deposits balances	35,192,947	16,571,935	3,201,682	24,624,098			-	-	-	-	38,394,629	41,196,033

Notes (continued)

5 Operating segments

	Retail Banking		Corporate Banking		Property Development		Bancassurance		Others		Totals	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Other non-cash items												
Impairment losses on mortgage loans	(345,688)	(260,696)	-	(129,860)	-	-	-	-	-	-	(345,688)	(390,556)
Capital expenditure	-	53,692	-	45,398	228	-	-	280	-	-	228	99,370
Reportable segment assets	36,469,676	26,399,895	15,628,559	28,078,165	3,229,916	3,297,897	141,279	98,535	9,887,407	9,875,139	55,469,429	57,874,492
Reportable segment liabilities	35,192,947	22,700,763	8,986,835	23,530,190	3,085,798	2,863,240	29,556	12,763	342,843	275,207	47,295,136	49,106,956

Notes (continued)

5 Operating segments (continued)

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

	2021 Shs'000	2020 Shs'000
Net interest income		
Total net interest income for reportable segments	1,989,396	1,931,984
Other interest income adjustments	(125,908)	(81,926)
Consolidated net interest income	1,863,488	1,850,058
Non-interest income		
Total non-interest income for reportable segments	522,386	466,843
Other non-interest income	(19,893)	61,825
Consolidated non-interest income	502,493	528,668
Profit or loss		
Total profit or loss for reportable segments	(912,258)	(1,757,257)
Other profit or loss	36,506	(18,625)
Consolidated profit before income tax	(875,752)	(1,775,882)
Assets		
Total assets for reportable segments	55,469,429	57,874,492
Other assets	(2,565,911)	(2,429,243)
Consolidated total assets	52,903,518	55,445,249
Liabilities		
Total liabilities for reportable segments	47,295,136	49,106,956
Other liabilities	(2,327,938)	(2,223,495)
Consolidated total liabilities	44,967,199	46,883,461

Notes (continued)

6 Interest income and expense

(a) Interest income

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Loans and advances	3,237,688	3,668,778	-	-
Loan origination fees	52,093	16,202	-	-
Financial assets at amortised cost	21,768	41,409	-	-
Financial assets at FVOCI	663,636	555,322	-	-
	3,975,185	4,281,711	-	-

(b) Interest expense

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Deposits from banks	168,375	154,219	-	-
Deposits from customers	1,519,600	1,799,430	-	-
Borrowings	335,647	379,112	-	-
Lease liabilities	71,616	66,488	-	-
	2,095,238	2,399,249	-	-

7 Fee and commission income

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

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Service fees and Commission /Transactional banking	196,146	169,103	-	-
Custodial services	15,267	5,139	-	-
House sales commission	4,522	37,953	-	-
	215,935	212,195	-	-

Notes (continued)

8 Net trading income

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Foreign currency exchange gains	77,332	85,270	-	-
Fair value loss on derivatives	(28,982)	-	-	-
	48,350	85,270	-	-

9 Other income

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Rental income	69,998	104,422	-	-
Gain on sale of investment property	1,150	-	-	-
House sales income	47,783	-	-	-
Other	31,888	26,441	131,752	126,183
Insurance commission	70,887	67,929	-	-
Gain on disposal of equipment	42	7	-	-
	221,748	198,799	131,752	126,183

10 Other operating expenses

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Occupancy expenses	61,322	59,382	-	-
Deposit Protection Fund payment	76,888	57,771	-	-
Cost of sold houses	45,233	-	-	-
Marketing expenses	87,696	69,373	2,985	6,613
Information technology expenses	328,498	401,079	-	-
Legal expenses	123,066	312,260	-	-
Office expenses	169,799	757,474	82,804	282,891
General administration expenses	414,342	268,512	23,880	19,329
	(1,306,844)	1,925,851	109,669	308,833

Notes (continued)

11 Employee benefits

The following items are included in salaries and employee benefits:

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Salaries and other staff costs	1,053,724	1,103,698	38,968	41,414
Remuneration to executive directors	50,293	51,144	16,865	15,027
NSSF contributions	1,656	1,102	4	5
Contributions to the defined contribution retirement scheme	76,863	71,219	182	107
	1,182,536	1,227,163	56,019	56,553
Average number of employees	447	456	2	1

12 Depreciation and amortisation

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Depreciation of property and equipment (Note 19)	113,599	150,162	134	132
Depreciation of investment property (Note 29)	24,545	31,348	-	-
Amortisation of intangible assets (Note 20)	231,139	226,931	-	-
Amortisation of right-of-use asset (Note 35	86,685	91,951	-	-
	455,968	500,392	134	132

13 Income tax

(a) Income tax credit

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Current income tax at 30% (2020: 25%)	24,906	3,447	-	-
Prior year under provision of current tax	(70)	-	-	-
Deferred tax movement (Note 26)	(306,423)	(80,307)	(11,627)	(11,097)
Prior year deferred tax (under)/over provision (Note 26)	(875)	7,841	(946)	-
	(282,462)	(69,019)	(12,573)	(11,097)

Notes (continued)

13 Income tax (continued)

The tax on the Group's and Company's loss before income tax differs from the theoretical amount using the basic tax rate as follows:

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Loss before income tax	(875,753)	(1,775,882)	(34,070)	(239,335)
Tax at the applicable tax rate of 30% (2020: 25%)	(262,726)	(443,971)	(10,221)	(59,834)
Effect of changes in tax rates	-	(13,385)	-	(1,850)
Prior year under provision of current tax	-	-	-	-
Prior year (under)/over provision of deferred tax	(875)	7,841	-	-
Tax effect of non-deductible costs and tax-exempt income	(18,861)	380,496	(2,352)	50,587
Income tax credit	(282,462)	(69,019)	(12,573)	(11,097)

(b) Current income tax recoverable

	Group 2021	Group 2020	Company 2021	Company 2020
At start of year	344,929	151,220	41,682	34,157
Charge for the year	(24,905)	(3,447)	-	-
Paid during the year	7,669	197,157	5,265	7,525
Reclassification from withholding tax	15,053	-	-	-
Prior year under provision	-	-	-	-
At end of year	342,746	344,930	46,947	41,682

14 Earnings per share

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

	2021 Shs'000	2020 Shs'000
Net loss for the year attributable to shareholders	(593,291)	(1,706,863)
Number of ordinary shares in issue (000's)	384,614	384,614
Weighted average number of ordinary shares (000's)	384,614	384,614
Basic earnings per share	(1.54)	(4.44)
Weighted earnings per share	(1.54)	(4.44)

Notes (continued)

15 Dividends

(a) Proposed dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. No final dividend in respect of the year ended 31 December 2021 (2020: Nil) has been proposed. No interim dividend was paid during the year (2020: Nil). Therefore, no dividend has been declared for the year. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2021 (2020: 384,614,168).

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

	2021 Shs'000	2020 Shs'000
At start of year	6,361	13,023
Proposed dividends (prior year)	-	-
Transfer from retained earnings	-	-
Dividends paid during the year	(6,115)	(6,662)
At end of year	246	6,361

16 (a) Cash and balances with banks

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Cash at hand	538,629	761,310	-	-
Balances with commercial banks	345,779	777,515	2,317	20,196
Placements with other banks (Note 17)	33,311	202,697	-	-
Balances with Central Bank of Kenya:				
- Unrestricted	228,073	(942,556)	-	-
- Restricted (Cash Reserve Ratio)	1,595,612	1,688,236	-	-
	2,741,404	2,487,202	2,317	20,196
Allowance for impairment losses	(19)	(550)	-	-
	2,741,385	2,486,652	2,317	20,196

Notes (continued)

16 (a) Cash and balances with banks

	Group		Company	
	2021 Shs'000	2020 Shs'000	2021 Shs'000	2020 Shs'000
Cash and balances with banks	2,708,074	2,284,217	2,317	20,196
Placement with other banks	33,311	202,435	-	-
	2,741,385	2,486,652	2,317	20,196

Movement in restricted balances:	2021 Shs'000	2020 Shs'000
Group		
At start of year	1,688,236	1,949,756
Movement during the year	(92,624)	(261,520)
At end of year	1,595,612	1,688,236

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 2021, the Cash Reserve Ratio was 5.25% (2020: 4.25%) of all deposits. These funds are available for use by the Group in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%. The restricted balances above are not available for use in the Group's day to day operations.

16 (b)Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Group	2021 Shs' 000	2020 Shs' 000
Cash and cash equivalents (Note 16(a))	1,204,273	1,058,416
Liquid investments:		
Investment in government securities (Note 18)	6,550,168	6,845,617
Borrowings - repayable within one year (Note 30)	(779,648)	(2,151,996)
Borrowings - repayable after one year (Note 30)	(3,518,701)	(1,476,231)
Lease liabilities - repayable within one year (Note 35)	(142,810)	(142,921)
Lease liabilities - repayable within one year (Note 35)	(436,593)	(507,830)
Net cash	2,876,689	3,625,055

Notes (continued)

16 (b)Net debt reconciliation (continued)

Group	2021 Shs' 000	2020 Shs' 000
Cash and liquid investments	7,754,441	7,904,033
Gross debt - fixed interest rates	(2,453,584)	(3,318,673)
Gross debt - variable interest rates	(2,424,168)	(960,305)
	2,876,689	3,625,055

	Liquid assets		Borrowings		Leases	Total
	Cash and cash equivalents	Investment securities	Due within 1 year	Due after 1 year	Lease liabilities	
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Year ended 31 December 2021						
At start of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055
Cash flows	126,070	(295,150)	1,372,348	(2,042,470)	142,964	(696,238)
Non-cash movements	-	(299)	-	-	(71,617)	(71,916)
Foreign exchange	1,287	-	-	-	-	1,287
At end of year	1,185,773	6,550,168	(779,648)	(3,518,701)	(579,403)	2,858,189
Year ended 31 December 2020						
At start of year	2,337,779	4,102,869	(1,769,578)	(4,034,145)	(714,751)	(77,826)
Cash flows	(1,293,327)	2,819,800	(382,418)	2,557,914	130,488	3,832,457
Non-cash movements	-	(77,052)	-	-	(66,488)	(143,540)
Foreign exchange	13,964	-	-	-	-	13,964
At end of year	1,058,416	6,845,617	(2,151,996)	(1,476,231)	(650,751)	3,625,055

Notes (continued)

17 Placements with other banks

	Group 2021 Shs'000	2020 Shs'000
Placements with other banks	33,555	202,697
Less: Allowance for impairment losses	(244)	(262)
	33,311	202,435

The weighted average effective interest rate on placements with other banks was 3.53% (2020: 5.97%).

18 Investment in government securities

Held at amortised cost	Group 2021 Shs'000	2020 Shs'000
Treasury bills and bonds	1,825,422	1,941,696
FVOCI		
Treasury bonds	4,724,746	5,163,921
	6,550,168	7,105,617

The weighted average effective interest rate on investment securities at 31 December was 11.70% (2020: 10.58%).

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

Amortised cost	Group 2021 Shs'000	2020 Shs'000
At start of year	1,941,696	628,621
Purchases during the year	1,185,750	1,680,000
Sales/maturities during the year	(1,301,662)	(366,925)
Less: Allowance for impairment losses	(362)	-
At end of year	1,825,422	1,941,696
Fair value through other comprehensive income (FVOCI)		
At start of year	5,163,921	3,974,248
Purchases during the year	8,650,050	2,850,000
Sales/maturities during the year	(9,088,926)	(1,584,555)
(Loss)/gains on fair valuation	(299)	(75,772)
At end of year	4,724,746	5,163,921
Total investment securities	6,550,168	7,105,617

Notes (continued)

18 Investment in government securities (continued)

Maturity analysis for the investments in government securities	**Group**	
	2021	**2020**
	Shs'000	**Shs'000**
Maturing within 90 days	40,000	260,000
Maturing after 90 days	6,510,168	6,845,617
Total	6,550,168	7,105,617

19 Property and equipment

(a) Group	**Freehold land**	**Buildings**	**Furniture, fixtures, equipment & motor vehicles**	**Total**
Year ended 31 December 2021	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost or valuation				
At start of year	62,000	905,183	1,267,451	2,234,634
Additions	-	-	9,727	9,727
Disposals	-	-	(446)	-
At end of year	62,000	905,183	1,276,732	2,243,915
Comprising:				
At cost	10,000	655,183	1,276,732	1,941,915
At valuation	52,000	250,000	-	302,000
	62,000	905,183	1,276,732	2,243,915
Accumulated depreciation				
At start of year	-	36,956	959,998	996,954
Charge for the year	-	15,579	98,020	113,599
Disposals	-	-	(166)	(166)
Transfers	-	-	(437)	(437)
At end of year	-	52,535	1,057,415	1,109,950
Net book value at end of year	62,000	852,648	219,317	1,133,965

Notes (continued)

19 Property and equipment (continued)

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

Notes (continued)

19 Property and equipment (continued)

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

	2021 Shs'000	2020 Shs'000
Free hold land	52,000	52,000
Buildings	555,308	584,350
	607,308	636,350

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

Included in equipment are assets with a gross value of Shs 680,987,412 (2020: Shs 323,926,246) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of Shs 85,123,426 (2020: Shs 64,785,249). Revaluation of the Bank's assets is done after every 3 years.

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

	2021 Shs'000	2020 Shs'000
Motor vehicle	344	516

(b) Company

	Furniture, fixtures, equipment & motor vehicles	
	2021 Shs'000	2020 Shs'000
Cost or valuation		
At start of year	801	801
Additions	118	-
At end of year	919	801
Accumulated depreciation		
At start of year	383	251
Charge for the year	134	132
At end of year	517	383
Net book value at end of year	402	418

Notes (continued)

20 Intangible assets

	Group 2021 Shs'000	2020 Shs'000
Cost:		
At start of year	1,860,391	1,793,711
Additions during the year	47,758	66,680
At end of year	1,908,149	1,860,391
Accumulated amortisation		
At start of year	1,157,137	930,206
Amortisation during the year	231,139	226,931
At end of year	1,388,276	1,157,137
Net book value at end of year	519,873	703,254

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

21 Investments in subsidiary companies and joint ventures

(a) Subsidiaries

		Company 2021 Shs'000	2020 Shs'000
HFC Limited	100%	8,513,662	8,513,662
HF Development and Investment Limited (HFDI)	100%	1,243,912	1,243,912
First Permanent (East Africa) Limited (FPEAL)	100%	5,020	5,020
HF Insurance Agency Limited (HFIA)	100%	5,000.00	100
		9,767,594	9,767,594

Notes (continued)

21 Investments in subsidiary companies (continued)

(b) Investment in Joint ventures & associate

		Group	
		2021	**2020**
At start of year		**Shs'000**	**Shs'000**
Kahawa Downs Limited	50%	119,971	151,474
Precious Heights Limited	50%	88,101	90,906
Richland Development Limited	50%	96,861	155,789
Claycity Limited	33%	489,330	490,604
Theta Dam Estate Limited	50%	840,817	842,441
		1,635,079	1,731,214
Group's share of loss in joint ventures			
Kahawa Downs Limited	50%	(7,870)	(31,503)
Precious Heights Limited	50%	(2,060)	(2,805)
Richland Development Limited	50%	(94)	(58,928)
Claycity Limited	33%	(3,362)	(1,274)
Theta Dam Estate Limited	50%	(2,354)	(1,623)
		(15,740)	(96,133)
Capital reduction Theta Dam Estate		(75,000)	-
At end of year		1,544,339	1,635,079

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

Notes (continued)

21 Investment in subsidiary companies (continued)

(b) Joint ventures (continued)

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

Group Year ended 31 December 2021	Kahawa Development Limited Shs'000	Precious Heights Limited Shs'000	Richland Development Limited Shs'000	Claycity Limited Shs'000	Theta Dam Estate Limited Shs'000	Total Shs'000
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	5,454	373	2,946	177	-	8,950
Operating costs	(21,194)	(6,259)	(2,572)	(10,312)	(4,709)	(45,046)
Income tax expense	-	1,766	(561)	(53)	-	1,152
Loss and other comprehensive income	(15,740)	(4,120)	(187)	(10,188)	(4,709)	(34,944)
Group share of net loss	(7,870)	(2,060)	(93)	(3,362)	(77,355)	(90,740)
Net assets	224,202	172,082	193,535	1,472,630	1,526,923	3,589,372
Groups share of net assets	112,101	86,041	96,768	485,968	763,461	1,544,339
Group's interest in net assets at the beginning of the year	119,971	88,101	96,861	489,330	840,816	1,635,079
Group share of current year total comprehensive income	(7,870)	(2,060)	(93)	(3,362)	(77,355)	(90,740)
	112,101	86,041	96,768	485,968	763,462	1,544,339

Notes (continued)

21 Investments in subsidiary companies (continued)

(b) Joint ventures (continued)

Group **Year ended 31 December 2020**	**Kahawa Development Limited**	**Precious Heights Limited**	**Richland Development Limited**	**Claycity Limited**	**Theta Dam Estate Limited**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
% Holding	**50%**	**50%**	**50%**	**33%**	**50%**	
Revenue	7,462	401	(86,509)	500	-	(78,146)
Operating costs	(38,401)	(8,414)	(30,995)	(5,785)	(3,249)	(86,844)
Income tax expense	(32,066)	2,404	(353)	1,425	-	(28,590)
Loss and other comprehensive income	(63,005)	(5,609)	(117,857)	(3,860)	(3,249)	(193,580)
Group share of net loss	(31,503)	(2,805)	(58,928)	(1,274)	(1,623)	(96,133)
Net assets	239,942	176,202	193,722	1,482,818	1,681,632	3,774,316
Groups share of net assets	119,971	88,101	96,861	489,330	840,816	1,635,079
Group's interest in net assets at the beginning of the year	151,474	90,906	155,789	490,604	842,441	1,731,214
Group share of current year total comprehensive income	(31,503)	(2,805)	(58,928)	(1,274)	(1,623)	(96,133)
	119,971	88,101	96,861	489,330	840,816	1,635,079

Notes (continued)

22 Loans and advances at amortised cost

Group	2021 Shs'000	2020 Shs'000
Gross loans and advances to banks	-	201,650
Less: provision for impairment losses	-	(141)
Net loans and advances to banks	-	201,509
Gross loans and advances to customers	38,049,266	40,428,074
Less: Provision for impairment losses	(3,356,641)	(3,631,110)
Net loans and advances to customers	34,692,625	36,796,964
Maturing:		
Within five years	13,646,339	13,318,023
Over five years to ten years	11,927,124	13,126,505
Over ten years to fifteen years	7,419,557	8,848,199
Over fifteen years	5,056,246	5,336,997
Gross loans and advances	38,049,266	40,629,724

During the year, HFC Limited, the banking subsidiary of the Group, purchased properties worth Shs.152,597,000 (2020: Shs 31,500,000) from distressed borrowers in full realization of the debt owed to the Company. These properties have been classified as investment properties (Refer Note 28).

31 December 2021	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Gross loans and advances	22,086,457	7,290,049	8,672,760	38,049,266
Loss allowance	(13,152)	(399,871)	(2,943,618)	(3,356,641)
Net loans and advances	22,073,305	6,890,178	5,729,142	34,692,625
31 December 2020				
Gross loans and advances	23,272,585	6,558,292	10,798,847	40,629,724
Loss allowance	(78,051)	(349,846)	(3,203,354)	(3,631,251)
Net loans and advances	23,194,534	6,208,446	7,595,493	36,998,473

Notes (continued)

22 Loans and advances (continued)

	Gross 2021 Shs' 000	Gross 2020 Shs' 000	Net 2021 Shs' 000	Net 2020 Shs' 000
Current portion	7,319,683	8,763,992	6,673,953	8,110,768
Non-current portion	30,729,583	31,865,732	28,018,672	28,887,705
	38,049,266	40,629,724	34,692,625	36,998,473

Impairment of loans and advances

Year ended 31 December 2021	Stage 1 12-month ECL Shs' 000	Stage 2 Lifetime ECL Shs' 000	Stage 3 Lifetime ECL Shs' 000	Total Shs' 000
Loss allowance at start of year	78,051	349,846	3,203,354	3,631,251
Movements during the year:				
Transfer to 12 months ECL	61,241	(45,786)	(15,455)	-
Transfer to lifetime ECL not credit impaired	(10,747)	46,772	(36,025)	-
Transfer to lifetime ECL credit impaired	(1,016)	(4,520)	5,536	-
Net remeasurement of loss allowance	(151,196)	(95,805)	1,323,931	1,076,930
Net financial assets originated	52,641	164,883	142,509	360,033
Financial assets derecognised	(15,822)	(15,519)	(893,407)	(924,748)
Write offs	-	-	(786,825)	(786,825)
Loss allowance as at end of year	13,152	399,871	2,943,618	3,356,641
Year ended 31 December 2020				
Loss allowance at start of year	42,984	86,683	3,477,370	3,607,037
Movements during the year:				
Transfer from 12 months ECL	(5,996)	5,603	393	-
Transfer from lifetime ECL not credit impaired	23,949	(26,849)	2,900	-
Transfer from lifetime ECL credit impaired	32,647	111,247	(143,894)	-
Net remeasurement of loss allowance	(51,516)	(86,035)	404,330	266,779
Net financial assets originated	44,208	263,935	83,783	391,926
Financial assets derecognised	(8,225)	(4,738)	(341,850)	(354,813)
Write offs	-	-	(279,678)	(279,678)
Loss allowance as at end of year	78,051	349,846	3,203,354	3,631,251

Notes (continued)

22 Loans and advances at amortised cost (continued)

	2021			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Year ended 31 December 2021	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Gross carrying amount at start of year	23,272,585	6,558,292	10,798,847	40,629,724
Transfer to 12 months ECL	1,614,743	(1,563,171)	(51,572)	-
Transfer to lifetime ECL not credit impaired	(2,193,566)	2,307,147	(113,581)	-
Transfer to lifetime ECL credit impaired	(86,215)	(295,908)	382,123	-
Net remeasurement	(1,942,437)	(131,172)	(333,792)	(2,407,401)
Net financial assets originated	5,381,775	1,486,267	276,304	7,144,346
Financial assets derecognised	(3,960,428)	(1,071,406)	(2,285,569)	(7,317,403)
	(1,186,128)	731,757	(2,126,087)	(2,580,458)
Gross carrying amount at end of year	22,086,457	7,290,049	8,672,760	38,049,266
Year ended 31 December 2020				
Gross carrying amount at start of year	26,351,198	3,719,574	12,316,003	42,386,775
Transfer to 12 months ECL	1,024,611	(576,987)	(447,624)	-
Transfer to lifetime ECL not credit impaired	(1,900,044)	1,900,044	-	-
Transfer to lifetime ECL credit impaired	(103,691)	(129,412)	233,103	-
Net remeasurement	(1,843,644)	219,589	51,941	(1,572,114)
Net financial assets originated	1,763,479	1,799,297	197,970	3,760,746
Financial assets derecognised	(2,019,324)	(373,813)	(1,552,546)	(3,945,683)
	(3,078,613)	2,838,718	(1,517,156)	(1,757,051)
Gross carrying amount at end of year	23,272,585	6,558,292	10,798,847	40,629,724

The weighted average effective interest rate on loan advances to customers as at 31 December 2021 was 13.4% (2020: 10.28%).

Notes (continued)

22 Loans and advances at amortised cost (continued)

Loss allowance on financial instruments

The following table provides a reconciliation between the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income

	Loans and advances to banks Shs'000	Loans and advances to customers Shs'000	Guarantees and letters of credit Shs'000	Cash and cash equivalents Shs'000	Other financial assets and receivables Shs'000	Total Shs'000
Year ended 31 December 2021						
Net re-measurement of loss allowance	-	1,076,930	12,321	(169)	8,942	1,104,399
Financial assets derecognised	-	(924,748)	-	-	-	(924,748)
New financial assets originated or purchased	-	102,564	-	-	-	102,564
Modification losses	-	(1,570)	-	-	-	(1,570)
	-	253,176	12,321	(169)	8,942	280,645
Year ended 31 December 2020						
Net re-measurement of loss allowance	127	266,779	7,040	(434)	26,918	300,430
Financial assets derecognised	-	(354,813)	-	-	-	(354,813)
New financial assets originated or purchased	-	435,205	-	-	-	435,205
Modification losses	-	24,247	-	-	-	24,247
	127	371,418	7,040	(434)	26,918	405,069

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of loans per segment

	2021			2020		
	Gross	Loss allowance	Carrying amount	Gross	Loss allowance	Carrying amount
Segment	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Commercial	3,988,518	(352,472)	3,636,046	2,949,952	(314,438)	2,635,514
IPF	30,764	(997)	29,767	53,290	(1,117)	52,174
Micro	10	(6)	4	16	(11)	5
Mortgage	24,138,451	(927,455)	23,210,996	26,397,651	(1,300,400)	25,097,251
Projects	8,955,214	(1,894,928)	7,060,286	10,780,834	(1,882,243)	8,898,591
Unsecured	936,309	(180,783)	755,526	447,981	(133,042)	314,939
	38,049,266	(3,356,641)	34,692,625	40,629,724	(3,631,252)	36,998,473

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

			2021				
Stage 3	**Mortgage Shs'000**	**Projects Shs'000**	**Commercial Shs'000**	**IPF Shs'000**	**Micro Shs'000**	**Unsecured Shs'000**	**Total Shs'000**
At start of year	1,005,815	1,855,022	229,154	664	11	112,688	3,203,354
Remeasurement	(137,110)	95,378	62,139	(267)	-	26,670	46,810
At end of year	868,705	1,950,400	291,293	397	11	139,358	3,250,164
Stage 1 & 2							
At start of year	294,585	27,219	85,284	453	-	20,356	427,897
Remeasurement	(339,315)	84,666	(86,088)	237	(5)	19,085	(321,420)
At end of year	(44,730)	111,885	(804)	690	(5)	39,441	106,477

Notes (continued)

22 Loans and advances at amortised cost (continued)

Analysis of impairment of loans and advances per segment

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

Notes (continued)

23 Other assets

	Group 2021 Shs'000	Group 2020 Shs'000	Company 2021 Shs'000	Company 2020 Shs'000
Trade receivables	521,542	452,108	16,825	925
Less: Allowance for impairment losses	(40,504)	(24,825)	(6,970)	-
	481,038	427,283	9,855	925
Payment on deposits	-	-	-	-
Prepayments	162,503	168,338	500	720
Receivable from KMRC	50,000	50,000	-	-
Foreclosed assets	381,200	337,769	-	-
	1,074,741	983,390	10,355	1,645
12-month ECL:				
At start of year	(24,825)	(96,269)	-	(57,259)
Re-measurement during the year	(15,679)	71,444	(6,970)	57,259
At end of year	(40,504)	(24,825)	(6,970)	-

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

24 Investment in property fund

	2021 Shs'000	2020 Shs'000
Assets as at start of the year	324,251	788,040
Impairment losses	55,956	(463,789)
As at end of the year	380,207	324,251

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

Notes (continued)

25 Inventories

	Group	
	2021	**2020**
	Shs'000	**Shs'000**
Inventories (housing units)	462,658	514,422

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

Notes (continued)

26 Deferred income tax

(a) Group

Year ended 31 December 2021	At start of year Shs'000	Recognised in profit or loss Shs' 000	Recognised in other comprehensive income Shs'000	Prior year under provision Shs'000	At end of year Shs'000
Property and equipment	(210,895)	63,087	-	-	(147,808)
Revaluation surplus	(53,230)	-	-	(70)	(53,300)
Financial assets at FVOCI	(6,406)	-	90	-	(6,316)
Other general provisions	(9,818)	27,200	-	-	17,382
Right of use asset	(32,815)	126,021	-	-	93,206
Unrealised exchange losses	1	-	-	-	1
Trading losses	568,859	155,505	-	945	725,309
General provision on loans and advances	1,049,363	(65,390)	-	-	983,973
Deferred income tax	1,305,059	306,423	90	875	1,612,447

Notes (continued)

26 Deferred income tax (continued)

(a) Group

Year ended 31 December 2020	**At start of year** Shs'000	**Recognised in profit or loss** Shs' 000	**Recognised in other comprehensive income** Shs'000	**Prior year under provision** Shs'000	**At end of year** Shs'000
Property and equipment	(255,232)	43,160	-	1,177	(210,895)
Revaluation surplus	(46,376)	-	(6,854)	-	(53,230)
Financial assets at FVOCI	(29,138)	-	22,732	-	(6,406)
Other general provisions	13,062	(13,862)	-	(9,018)	(9,818)
Right of use asset	48,895	(81,710)	-	-	(32,815)
Unrealised exchange losses	1	-	-	-	1
Trading losses	334,222	234,637	-	-	568,859
General provision on loans and advances	1,151,281	(101,918)	-	-	1,049,363
Deferred income tax	1,216,715	80,307	15,878	(7,841)	1,305,059

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

Year of origination	**Loss brought forward**	**Taxable losses**	**Loss carried forward**	**Year of expiry**
2016	-	(50,110)	(50,110)	2025
2017	(50,110)	(200,670)	(250,780)	2026
2019	(250,780)	(436,510)	(687,290)	2027
2019	(687,290)	(426,784)	(1,114,074)	2028
2020	(1,114,074)	(782,123)	(1,896,197)	2029
2021				

Notes (continued)

26 Deferred income tax (continued)

(b) Company

Year ended 31 December 2021	At start of year Shs'000	Recognised in profit or loss Shs'000	At end of year Shs'000
Property and equipment	(27)	13	(14)
Trading losses	10,978	(1,512)	9,466
General provisions	26,253	14,071	40,325
Net deferred tax	37,204	12,572	49,777
Year ended 31 December 2020			
Property and equipment	(43)	16	(27)
Trading losses	17,286	(6,308)	10,978
General provisions	8,864	17,389	26,253
Net deferred tax	26,107	11,097	37,204

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

Year of origination	Loss brought forward	Taxable Losses	Loss carried forward	Year of expiry
2020	(57,619)	(57,965)	(115,584)	2029
2021				

27 Deposits from customers

	Group 2021 Shs'000	2020 Shs'000
Government and parastatals:		
Payable within 90 days	2,704,529	2,658,898
Payable after 90 days and within one year	550	526
Payable after one year	4,937,695	4,892,233
Private sector and individuals:		
Payable within 90 days	17,865,571	20,554,622
Payable after 90 days and within one year	5,942,167	5,620,107
Payable after one year	6,264,402	6,218,104
	37,714,914	39,944,490

Notes (continued)

27 Deposits from customers (continued)

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2021 was 4.03% (2020: 7.5%). The carrying value of customer deposits approximates their fair value.

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

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

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

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

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

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

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

Deposits from banks

	Group	
	2021	**2020**
	Shs'000	**Shs'000**
Money market deposits	601,606	1,190,118

The weighted average interest rate on deposits from banks was 4.8% (2020: 5.0%).

Notes (continued)

28 Other liabilities

	Group		Company	
	2021	2020	2021	2020
	Shs'000	Shs'000	Shs'000	Shs'000
House sales deposits	303,827	318,413	-	-
Withholding tax payable	77,154	57,576	-	-
Sundry creditors	35,232	31,611	-	-
Trade creditors	417,786	272,306	-	-
Insurance premium payable	328,637	324,183	-	-
Deferred expenses	-	19,959	-	-
Contractors payables	259,437	225,529	-	-
Deposits due to the property fund	-	-	-	-
Asset retirement obligation – right of use asset	18,383	16,477	-	-
Other payables	250,382	144,600	341,828	267,763
	1,690,838	1,410,654	341,828	267,763

29 Investment property

	Group	
	2021	2020
	Shs'000	Shs'000
Cost or valuation		
At start of year	1,331,347	1,293,499
Additions during the year	171,756	37,848
Disposal	(19,159)	-
At end of year	1,483,944	1,331,347
Accumulated depreciation		
At start of year	68,079	36,731
Charge for the year	24,545	31,348
Disposal	(555)	-
At end of year	92,069	68,079
Net book value at end of year	1,391,875	1,263,268

The investment property includes a commercial property that is leased to third parties and property acquired by the banking subsidiary through foreclosures. The open market value of these properties is Shs 697,100,000. The Bank acquired property worth Shs 143,000,000 during the year.

Notes (continued)

29 Investment property (continued)

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

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

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

	2021 Shs'000	2020 Shs'000
Additions during the year	171,756	37,848

30 Borrowings

	Group	
	2021 Shs'000	2020 Shs'000
European Investment Bank (EIB)	1,523,134	2,012,722
Shelter Afrique	615,376	726,714
East African Development Bank	452,691	655,200
Arab Bank for Economic Development in Africa	209,549	233,991
Britam	1,022,691	-
Kenya Mortgage Refinance Company	474,908	-
	4,298,349	3,628,227
Current	3,888,548	2,151,996
Non-current portion	409,801	1,476,231
	4,298,349	3,628,227
Movement during the year		
At start of year	3,628,227	5,803,723
Receipt	1,514,574	-
Interest expense charged during the year	-	377,649
Payments on interest	-	(377,649)
Payments on principal	(844,452)	(2,175,496)
At end of year	4,298,349	3,628,227

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

Notes (continued)

30 Borrowings (continued)

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

Lender	Covenant	Required limit	HFC ratio at end of year
Shelter Afrique	Capital Adequacy Ratio	Minimum of 14.5%	12.16%
	Cost to income ratio	Maximum of 60%	126.48%
East African Development Bank	Capital Adequacy Ratio	Minimum of 14.5%	12.16%
	Single Obligor Ratio	Maximum of 25%	40.04%
	Single Insider Ratio	Maximum of 20%	65.72%
	Investment in land and Building Ratio	Maximum of 20%	51.68%
Arab Bank for Economic Development in Africa (BADEA)	Capital Adequacy Ratio	Minimum of 14.5%	12.16%
Britam	Capital Adequacy Ratio	Minimum of 14.5%	12.16%
	Single Obligor Ratio	Maximum of 25%	40.04%
	Single Insider Ratio	Maximum of 20%	65.72%
European Investment Bank	Capital Adequacy Ratio	Minimum of 14.5%	12.16%
	Non Performing Loans to Total Loans Ratio	Maximum of 15%	34.53%
	Provisions for non-performing loans	Maximum 25%	20.23%

The Bank has obtained waivers for the covenant breaches from Britam and EADB subsequent to year end. For the other lenders expect EIB, the Bank has obtained waivers however the waivers on some of the ratios do not cover 12 months after year end. Therefore these loans have been disclosed as current as at 31 December 2021, and the required liquidity disclosures have been included under Note 4(b) to these financial statements. The details of the directors' plan to cure the breaches have been disclosed in Note 2(a).

Notes (continued)

30 Borrowings (continued)

31 December 2021 Lender	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Currency	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	1,523,134	1,523,134	-	USD	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	615,376	615,376	-	USD	6 months USD Libor plus a margin of 6.35%.	28 December 2015	31 January 2026
East African Development Bank (EADB)	452,691	452,691	-	USD	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	209,549	209,549	-	USD	6 months USD Libor plus a margin of 5%.	5 March 2018	23 December 2028
Britam	1,022,691	1,022,691	-	KES	12.94%	01 February 2021	01 February 2028
Kenya Mortgage Refinance Company	474,908	65,107	409,801	KES	5.15%	5 March 2018	23 December 2028
	4,298,349	3,888,548	409,801				

Notes (continued)

30 Borrowings (continued)

31 December 2020	Loan balance Shs' 000	Current Shs' 000	Non-current Shs' 000	Currency	Interest rate	Issue date	Maturity date
European Investment Bank (EIB)	2,012,722	536,491	1,476,231	USD	4.321%	24 July 2017	1 October 2026
Shelter Afrique Limited	726,314	726,314	-	USD	6.66%	28 December 2015	31 January 2026
East African Development Bank (EADB)	655,200	655,200	-	USD	7.25%	23 December 2016	23 December 2024
Arab Bank for Economic Development in Africa (BADEA)	233,991	233,991	-	USD	6.20%	5 March 2018	23 December 2028
	3,628,227	2,151,996	1,476,231				

The interest rate for EIB and EADB loan is fixed whereas for the other loans, interest rate is based on Libor + margin.

There are no assets held as security for the borrowings.

31 Capital and reserves

(a) Share capital

	Group 2021 Shs' 000	Group 2020 Shs' 000	Company 2021 Shs' 000	Company 2020 Shs' 000
Authorised – 500,000,000 (2020: 500,000,000) ordinary shares of Shs 5 each	2,500,000	2,500,000	2,500,000	2,500,000
Issued and fully paid - 384,614,168 (2020: 384,614,168) ordinary shares of Shs 5 each	1,923,071	1,923,071	1,923,071	1,923,071
Movement in ordinary shares				
At start and end of year (384,614,168)	384,614	384,614	384,614	384,614
In monetary terms:				
At start and end of year	1,923,071	1,923,071	1,923,071	1,923,071

Notes (continued)

31 Capital and reserves

(a) Share capital (continued)

The holders of ordinary shares rank equally with regard to the Company's residual assets, are entitled to receive dividends declared from time to time and are entitled to one vote per share at general meetings of the Company. Issued and fully paid ordinary shares were 384,614,168 as at 31 December 2021 (2020: 384,614,168). In 2019, 120,000 shares were issued under employee share ownership program at Shs 10 per share leading to a share premium of Shs 600,000 (Shs 5 per share).

(b) Share premium

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

	2021 Shs' 000	2020 Shs' 000
At start of year	4,343,512	4,343,512
Issue of shares at a premium	-	-
At end of year	4,343,512	4,343,512

(c) Revaluation reserve

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

	2021 Shs'000	2020 Shs'000
At start of year	1,012,125	881,903
Change in fair value during the period:		
Revaluation gain on buildings	-	137,076
Deferred income tax	-	(6,854)
At end of year	1,012,125	1,012,125

Notes (continued)

31 Capital and reserves (continued)

(d) Statutory credit risk reserve

The loan loss reserve represents excess of the loans and advances impairment provision determined in accordance with the Central Bank of Kenya's prudential guidelines compared with the requirements of IFRS 9 - *Financial instruments*. These reserves are not available for distribution.

The movement during the year is as below:

	2021 Shs' 000	2020 Shs' 000
At start of year	3,653,888	2,668,069
Transfer	(240,371)	985,819
At end of year	3,413,517	3,653,888

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of debt investments and treasury bonds held at FVOCI until the investment is derecognised when the net changes are recycled to profit or loss.

	2021 Shs'000	2020 Shs'000
At start of year	13,972	67,012
Change in fair value during the year:		
Fair value movement on treasury bonds classified as FVOCI	(299)	(75,772)
Less: Deferred income tax	90	22,732
At end of year	13,763	13,972

32 Government of Kenya income notes and loans

Government of Kenya – Income Notes	52,860	52,860

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

Notes (continued)

33 Cash flows from operating activities

	Note	Group 2021 Shs'000	2020 Shs'000
Loss before income tax		(875,753)	(1,775,882)
Adjustments for:			
Group's share of loss from investments in joint ventures	20	15,740	96,133
Interest expense on lease liabilities	35	71,616	66,488
Depreciation of property and equipment	18	113,599	150,162
Amortisation of right of use asset	35	86,685	91,951
Depreciation of investment property	28	24,545	31,348
Amortisation of intangible assets	19	231,139	226,931
Property fund impairment	23	(55,956)	463,789
Loss on sale of property and equipment		(1,192)	(7)
Unrealised exchange gains on cash		-	(13,964)
Increase in customer and banks deposits	26	(2,818,088)	3,206,371
Increase/(decrease) in balances with Central Bank of Kenya – Cash Reserve Ratio (CRR)	15	92,624	261,520
Movement in loans and advances to customers	21	2,305,848	1,781,265
Purchase of Government securities	17	(9,835,438)	(4,530,520)
Sale of Government securities	17	10,170,588	1,710,720
Decrease in inventory	24	51,784	-
Increase in other assets	22	(91,351)	(72,742)
Increase/ (decrease) in other liabilities	27	280,184	(340,208)
Fair value loss on derivatives	8	28,982	-
Exchange rate difference		1,287	-
Net cash flows from operating activities before tax		(203,177)	1,353,355
Income tax paid		(7,669)	(197,157)
Net cash flows from operating activities		(210,846)	1,156,198

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

	Group 2021 Shs'000	2020 Shs'000
Cash in hand and bank (Note 16 (a))	1,112,462	595,981
Balances due from banking institutions (Note 16 (a))	33,311	202,435
Investments maturing within 90 days (Note 18)	40,000	260,000
	1,185,773	1,058,416

Notes (continued)

33 Cash flows from operating activities (continued)

	Company 2021 Shs'000	2020 Shs'000
Loss before income tax	(34,070)	(239,335)
Depreciation on property and equipment	134	132
Impairment of investment in subsidiaries	-	196,088
Decrease in other assets	(8,712)	68,834
(Decrease) / Increase in other liabilities	41,167	(22,492)
Loss on sales of property and equipment	-	-
Net cash flows from operating activities before tax	(1,481)	3,227
Income tax paid	(5,265)	(7,525)
Net cash flows from operating activities	(6,746)	(4,298)

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

	Company 2021 Shs'000	2020 Shs'000
Cash in hand and bank	2,317	20,196

34 Off-balance sheet contingencies and commitments

(a) Guarantees, letters of credit and commitments

As at 31 December 2021, the Group had issued guarantees and letters of credit in the ordinary course of business to third parties as shown below.

	2021 Shs'000	2020 Shs'000
Guarantees	976,588	685,516
Letters of credit	169,046	136,209
	1,145,634	821,785

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

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

	2021 Shs'000	2020 Shs'000
Loans approved but not yet disbursed	1,214,932	1,284,318

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

	0 - 3 months Shs' 000	3 - 6 months Shs' 000	6 - 12 months Shs' 000	1 - 5 Years Shs' 000	Total Shs' 000
31 December 2021					
Guarantees	36,080	151,015	615,480	174,013	976,588
Letters of credit	-	135,780	33,266	-	169,046
Loans approved but not yet disbursed	-	1,214,932	-	-	1,214,932
	36,080	1,501,727	648,746	174,013	2,360,566
31 December 2020					
Guarantees	75,959	92,810	476,800	40,047	685,616
Letters of credit	136,209	-	-	-	136,209
Loans approved but not yet disbursed	-	1,284,318	-	-	1,284,318
	212,168	1,377,128	476,800	40,047	2,106,143

(b) Other contingent liabilities

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

The significant claims are described below:

ICEA LION Group (ICEA) against HFC Limited and others for a loss of Shs 120 million which were withdrawn by the third defendant, ICEA's former Assistant General Manager, and deposited with N\ Stockbrokers.

Notes (continued)

34 Off-balance sheet contingencies and commitments (continued)

(b) Other contingent liabilities

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

35 Leases

The Group as a lessee

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

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

(a) Right-of-use assets

	2021 Shs' 000	2020 Shs' 000
At start of year	895,594	895,594
Accumulated depreciation	(439,105)	(352,420)
At end of year	456,489	543,174

Notes (continued)

35 Leases (continued)

	Leasehold land Shs '000	Office premises Shs '000	IT equipment Shs '000	Total Shs '000
Year ended 31 December 2021				
Cost				
At start of year and end of year	54,612	621,079	219,903	895,594
	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start of year	(12,432)	(295,361)	(44,627)	(352,420)
Charge for the year	(462)	(58,735)	(27,488)	(86,685)
At end of year	(12,894)	(354,096)	(72,115)	(439,105)
	41,718	266,983	147,788	456,489
Year ended 31 December 2020				
Cost				
At start and of year	54,612	621,079	219,903	895,594
Accumulated depreciation				
At start and end of year	(11,971)	(237,045)	(11,453)	(260,469)
Charge for the year	(461)	(58,316)	(33,174)	(91,951)
At end of year	(12,432)	(295,361)	(44,627)	(352,420)
	42,180	325,718	175,276	543,174

Notes (continued)

35 Leases (continued)

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

At 31 December 2021, the future minimum lease payments under non-cancellable operating leases were payable as follows:

Maturity analysis – Contractual undiscounted cash flows	2021 Shs '000	2020 Shs '000
Less than one year	148,019	139,367
Between one and five years	654,111	720,861
More than five years	30,184	84,141
	832,314	944,369

(b) Amounts recognised in profit or loss

Leases under IFRS 16		
Interest on lease liabilities	71,616	66,488
Interest on asset retirement obligation	1,906	1,684
Depreciation of Right-of-use assets	86,685	91,951

(c) Amounts recognised in statement of cash flows

Total cash outflow for leases	142,964	130,488

(d) Lease liabilities

Current	142,810	142,921
Non-current	436,593	507,830
	579,403	650,751

Movement in lease liabilities		
At start of year	650,751	714,751
Interest expense charged	71,616	66,488
Principal elements of lease payments	(142,964)	(130,488)
At end of year	579,403	650,751

Notes (continued)

35 Leases (continued)

(d) Lease liabilities (continued)

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group as a lessor

The Group leases out part of its property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income earned during the period was Shs.42,342,000 (2020: Shs 50,844,927).

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

Operating leases under IFRS 16	**2021 Shs'000**	**2020 Shs'000**
Within one year	73,923	80,920
One to five years	134,116	198,332
After five years	-	378
	208,039	279,630

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

36 Related parties and related party transactions

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

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

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

Notes (continued)

36 Related parties and related party transactions (continued)

(a) Loans to key management personnel

	Group 2021 Shs' 000	2020 Shs' 000
At start of year	159,741	156,493
Loans disbursed	82,943	34,646
Repayments	(41,751)	(31,398)
At end of year	200,933	159,741
Current	32,637	31,716
Non - current	168,296	128,025
Total	200,933	159,741

(b) Loans to employees

	Group 2021 Shs'000	2020 Shs'000
At start of year	793,613	813,449
Loans advanced during the year	404,169	242,248
Loans repayments received	(425,987)	(262,084)
At end of year	771,795	793,613
Comprising:		
Mortgages and advances	565,842	591,323
Personal loans	193,653	191,686
Staff car loans	12,300	10,604
	771,795	793,613
Current	200,667	202,290
Non - current	571,128	591,323
Total	771,795	793,613

Interest income arising from these employees' facilities amounted to Shs 52,936,000 (2020: Shs 56,557,318).

Notes (continued)

36 Related parties and related party transactions (continued)

(c) Remuneration to directors and key management personnel

	Group	
	2021	**2020**
	Shs' 000	**Shs' 000**
Remuneration to executive directors:		
Company*	50,293	51,144
Group**	16,865	15,027
Remuneration to key management	140,807	133,485
	207,965	199,656

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

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

	Group	
	2021	**2020**
	Shs' 000	**Shs' 000**
Remuneration to key management:		
Salaries and short-term benefits	140,807	133,485
Pension	21162	22,277
	161,969	155,762

Compensation to senior management including executive directors for the year ended 31 December 2021 amounted to Shs xxxx (2020: Shs 155,762,104).

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

	Group	
	2021	**2020**
	Shs' 000	**Shs' 000**
Bank balances held with HFC Limited	64,582	96,246

(e) Transactions with Britam Asset Managers Limited

Bank balances held with HFC Limited	-	1,208,330

Notes (continued)

(f) Transactions with Housing Finance Development and Investment LLP

	Group 2021 Shs'000	2020 Shs'000
Bank balances held with HFC Limited	12,772	13,501
Loans and other receivables	2,168,658	2,093,121
	2,181,430	2,106,622

(g) Transactions with Precious Heights Limited

Bank balances held with HFC Limited	6,889	4,865

(h) Transactions with Kahawa Downs Limited

Bank balances held with HFC Limited	86,263	62,366

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

Bank balances held with HFC Limited	175,792	32,315

(j) Transactions with Pioneer International College

Loans and advances held with HFC Limited	102,288	136,186

(k) Transactions with Agricultural and Industrial Holdings Ltd

Loans and advances held with HFC Limited	97,292	113,137

Notes (continued)

37 Derivative Liabilities

The Bank's derivative financial instruments are entered into for trading purposes. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously. At 31 December 2021 all derivatives are to be settled on a gross basis.

	Notional contract amount	2021	2020
	Shs'000	Shs'000	Shs'000
Foreign exchange contracts	2,507,776	28,982	-