



Corporate Governance Policy

(Version 3.0)

HF GROUP PLC

APPROVED BY THE BOARD OF DIRECTORS ON

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List of Abbreviations

AGM -- Annual General Meeting

CBK --- Central Bank of Kenya

CMA--- Capital Markets Authority

CPD--- Continuous Professional Development

GNGC - Group Nomination & Governance Committee

HFDI--- HF Development and Investment

ICPAK-- Institute of Certified Public Accountants of Kenya

ICPSK-- Institute of Certified Public Secretaries of Kenya

NSE ---- Nairobi Securities Exchange

1. Introduction

HF Group is an integrated property and financial solutions provider that is registered as a non-operating holding company and regulated by the Central Bank of Kenya (CBK). The Group, which was previously known as Housing Finance, commenced operations on November 18th 1965, and has transitioned from being a mortgage financier to a provider of integrated property and financial solutions with interests in real estate development, commercial banking, property finance and insurance. The Group is also listed on the Nairobi Securities Exchange (NSE). Currently, the Group holds four active and fully owned subsidiaries; HFC Ltd offering fully fledged commercial banking and property finance solutions, HF Development and Investment (HFDI) a property development subsidiary, HF Insurance Agency offering Insurance solutions and HF Foundation for corporate social responsibility.

As a publicly traded institution, HF Group recognizes the need to adhere to best practices in corporate governance. Sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of customers and investors alike. HF Group including all the subsidiaries is committed to practices that are consistent with the CMA Act, CMA regulations, CMA codes of corporate governance, the Banking Act and the CBK prudential guidelines.

The HF Group's Corporate Governance Policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation.

2. Purpose and Objectives

The purpose of this document is to formalize and communicate HF Group's approach to corporate governance and set out the responsibilities of the main stakeholders.

The objectives of this policy are;

- a) To outline the corporate governance standards applicable throughout the HF Group family.
- b) To ensure and maintain full compliance with corporate governance regulatory requirements.

3. Compliance Scope

The policy is applicable to HF Group and all subsidiaries. It is expected that each of the subsidiary will develop, adopt and incorporate practices that are consistent with this policy and ensure compliance with legislations, regulations and other supervisory requirements.

4. HF Group Shareholders

HF Group shareholders shall jointly and severally protect, preserve and actively exercise the supreme authority in general meetings. The specific roles and responsibilities for HF Group shareholders include but not limited to the following:

- To ensure that only credible persons who can add value to the HF Group business are elected or appointed to the board of directors
- To ensure that in general meetings and related forums, the board is constantly held accountable and responsible for the efficient and effective governance of HF Group.
- Approve directors remuneration
- Appoint external auditors
- Approve dividends

No shareholder with more than five percentage (5%) shareholding shall be an executive director or form part of the management of HF Group. HF Group shall also ensure that CBK approvals are obtained before acquisition/transfer/ allotment of shares in excess of 5% of HF Group's share capital.

4.1 HF Group Shareholders Rights

HF Group shall recognize and observe all shareholders rights by ensuring equitable treatment of all shareholders, including the minority. The Board shall recognize, respect and protect the following rights of shareholders:

- All shareholders shall receive relevant information on HF Group's performance through the distribution of annual reports and accounts, and quarterly results as a matter of best practice. Such reports shall be availed across multiple communication channels suitable to shareholders' different media consumption habits. These include websites, postal mail and newspapers.
- All shareholders shall receive relevant sufficient and timely information concerning the date, location and agenda of the Annual General Meeting (AGM) as well as full and

timely information regarding issues to be decided during the AGM. Such information shall be received at least 21 calendar days before the AGM.

- The Board shall make shareholders expenses and convenience a primary criterion when selecting the venue and location of AGM.
- The Board shall ensure that the method of transfer and registration of ownership of shares is secure for the shareholders
- Every shareholder has the right to participate and vote at the general shareholders meeting including the election of directors.
- The Board shall encourage the shareholders to participate in the Annual General Meetings and to exercise their votes.
- The Board shall ensure that shareholders' right to full participation at Annual General Meetings are protected by giving shareholders sufficient information on each subject to be discussed at the Annual General Meeting, sufficient information on voting rules or procedures, proxy models with different voting options, the opportunity to question the management, the opportunity to place items on the agenda at Annual General Meetings, the opportunity to vote in absentia and sufficient information to enable them to consider the costs and benefits of their votes.
- Every shareholder shall be entitled to ask questions, seek clarification on the HF Group's performance as reflected in the annual reports and accounts or on any matter that may be relevant to the company's performance or promotion of shareholders' interests and to receive explanation from the directors and/or management. This right shall be exercised in such a way as not to disrupt the business of an Annual General Meeting.
- Every shareholder is entitled to distributed profit, in form of dividends, and other rights for bonus shares, script dividend or rights issue, as applicable and in the proportion of its shareholding in the company.
- The Board shall maintain an effective communication policy that enables both management and the Board to communicate effectively with shareholders, stakeholders and the public in general.
- The annual report and accounts to the shareholders shall include highlights of the operations of the company, financial performance and status of application of CMA Code of Corporate Governance.

- HF Group shall employ modern communication techniques including the use of teleconferencing, videoconferencing, websites, and emails to communicate with shareholders.
- On an annual basis HF Group shall organize investor briefings to explain the performance and promote interaction with investors.
- The Board shall encourage the establishment and use of the HF Group's website by shareholders to speed up communication and interaction with shareholders.

5. The Board of Directors

HF Group's board has the primary responsibility of supervising the management of all the group's businesses and affairs. The Board is accountable to the shareholders and shall offer the strategic guidance, lead and control the group. The functions of the Board shall be separate from those of the management and shall include the following specific roles;

- Define the HF Group's mission, vision, its strategy, goals, risk policy plans and objectives, including annual budgets approval
- Oversee the group's corporate management and operations, management accounts, major capital expenditures and review corporate performance and strategies at least on a quarterly basis
- Identify the group's corporate business opportunities as well as principal risks in its operating environment, including the implementation of appropriate measures to manage such risks
- Develop appropriate staffing and remuneration policy including the appointment of the Chief Executive Officer and all other senior staff members.
- Review on a regular basis the adequacy and integrity of the group's internal control, acquisition and divestitures and management information systems, including compliance with applicable laws, regulations, rules and guidelines
- Establish and implement a system that provides necessary information to the shareholders, including shareholder communication policy
- Monitor the effectiveness of the corporate governance practices across all companies within the group.
- Take into consideration the interests of all shareholders in decision making process.

5.1 Board Charter

HF Group Board shall formulate, review and approve a Board Charter that outlines, among others:

- The principal role of the Board of Directors
- The demarcation of the roles, functions, responsibilities and powers of the Board, various Board Committees and matters reserved for final decision-making or pre-approval by the Board
- Policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings. The charter require all directors to declare any interests that may give rise to a potential or perceived conflict including multiple directorships, business relationships or other circumstances that could interfere with exercise of objective judgment.
- Define the policy on directorships in other entities by board members and the terms/tenure limits for board members.
- The roles of the Chairman of the Board and the Chief Executive Officer should be clearly outlined and demarcated in the charter

The Charter shall be reviewed periodically and made public by being published on HF Group's website. The Board Charter and the Code of Ethics and Conduct shall be established as two separate documents.

5.2 Board Composition

- HF Group Board shall have at least five directors and be structured in way that it has different skills and expertise within itself.
- HF Group Board shall comprise a balance of executive and non-executive directors, with a majority of non-executive directors.
- Independent non-executive directors shall be at least one third of the total number of Board members.
- The group chief executive shall be one of the Board members.
- HF Group board shall observe diversity on its membership with regard to academic qualifications, technical expertise, relevant industry knowledge, experience, nationality, age, race and gender.
- An HF Group director shall not hold such position in more than three public listed

companies at any one time and in a case where the corporate director has appointed an alternate director, the appointment of such alternate director shall be restricted to two public listed companies at any one time.

- An HF Group executive director shall be restricted to one other directorship of a listed company in Kenya.
- The HF Group chairperson shall not hold such position in more than two public listed companies at any one time, in order to allow the chairperson to devote sufficient time to steering the Board.
- An alternate director shall be nominated by the substantive director but subjected to vetting by the nomination committee.
- The term of office of the members of the Board shall be organized in such a way that they end at different times. This ensures retention of institutional memory and makes it easier to induct new Board members. No more than one third of the Board members shall retire at the same time.
- HF Group Board members shall retire at the age of seventy years. However, the Group board may extend the terms of certain directors possessing specialized industry knowledge, beyond the retirement age. This shall be subjected to members, at an Annual General Meeting, to retain a Board member who is over seventy years through a vote.
- The tenure of office of independent non-executive directors shall be a maximum of NINE (9) YEARS as specified in the Code of Corporate Governance for Issuers of Securities to the Public 2015, as amended from time to time and as per terms of appointment indicated on the letters of appointment.
- The Group Nomination and Governance Committee (GNG) may from time to time make recommendations to co-opt a Director from the Group or any of the Subsidiaries to sit in any of the Group or Subsidiary Board Committees, according to criteria that it determines to be in the best interest of the Company and its shareholders, and the Board shall make a final determination relative to such committee assignments. In making its recommendations to the Board, the Group Nomination and Governance Committee shall take into consideration the need for continuity, subject matter expertise, applicable CBK and CMA requirements, the Companies Act requirements, tenure, and the desires of the individual Board members.

5.3 Appointment of Board Members

The nomination committee is responsible for proposing to the Board qualified candidates that meet the criteria to serve as directors and board members of board committees. In proposing for appointment, the nomination committee shall consider whether board size, diversity and demographics enhances board effectiveness. Diversity applies to academic qualifications, technical expertise, relevant banking knowledge, experience, nationality, age and gender. Following board's endorsement of the nominated candidate, a letter of no objection shall be sought from Central Bank of Kenya before proposing the nominee to the shareholders.

No director shall take up his/her position prior to being cleared by the Central Bank. The Institution shall submit to the Central Bank duly completed form CBK/IF 1-2 annexed to Guideline No. CBK/PG/01 on Licensing of New Institutions.

The following individuals are not eligible to be appointed as directors:

- Professionals (e.g. Lawyers, accountants and valuers) involved in the provision of professional services to HF Group including all the subsidiaries.
- Senior officers and non-executive directors of a government regulatory body where there may be a conflict of interest.

5.4 Board Attendance

Every director has a duty to attend board meetings regularly and to effectively participate in the conduct of the business of the Board. Every member of the board shall attend at least 75% of the board meetings in a financial year.

5.5 Board Induction and Continuous Skills Development

The Chairperson shall ensure that new Board members receive a full, formal and tailored induction on joining the Board. Newly appointed Board members shall be provided with necessary orientation in the area of the HF Group's business. This enables them become familiar with the operations, senior management and the business environment and enhance their effectiveness in the Board. New Board members shall also be introduced to their fiduciary duties and responsibilities.

The chairperson shall regularly review and agree with each Board member on his or her

development needs. Thereafter arrangements shall be made to ensure Board members go through the necessary training. Board members shall be required to secure at least twelve hours of Board development per year on areas of governance from credible sources.

Board members shall have access to programmes of tailored initial training (e.g. induction) and Continuous Professional Development (CPD) on relevant issues. Directors who have acquired professionally recognized CPD (locally or internationally) can be considered to have met the CPD requirements. The Chief Executive Officer shall report to the Central Bank of Kenya on an annual basis the CPD programmes in which the board members participated in together with the board members' annual evaluations.

5.6 Board Evaluation

The Board shall undertake an annual evaluation of its own performance, the performance of the Chairperson, that of its committees, individual members, the Chief Executive Officer and company secretary.

5.7 Resignation/Removal of a Board Members

The resignation of a serving Board member shall be disclosed as follows:

- Two newspapers with national reach immediately it happens
- HF Group's website immediately it happens
- The annual report at the end of the financial year.

Any resignation of a board member from HF Group and HFC Ltd shall be reported to CBK within seven days of the date of resignation.

6. Board Committees

The board shall appoint various board committees in order to allow for a deeper focus in specific areas but the board will remain accountable. Each board committee will have a charter or other instruments that sets out its mandate, scope and working procedures.

6.1 Nomination Committee

The Board shall appoint a nomination committee consisting mainly of independent non-executive Board members. The committee shall be chaired by an independent non-executive director and its key responsibilities will include:

- Regular review of structure, size and composition of the board and make

recommendations on any adjustments deemed necessary. At least on annual basis the committee shall review the required skills mix and expertise that the executive directors as well as independent and non-executive directors bring to the Board. This shall be disclosed in the annual reports.

- Identify, nominate and recommend for the approval of the board, candidates to fill board vacancies as and when they arise.
- Satisfy itself with regard to succession planning, that processes and plans are in place with regard to both board and senior management appointments.
- To recommend the continuation (or not) in service of any director who has reached the retirement age limit.
- To attend to any other tasks that may be assigned by the board from time to time.

The scope of the committee's mandate extends to all HF Group subsidiaries.

6.2 Audit and Risk Committee

The board shall appoint a board audit and risk committee to achieve the following objective:

- To provide independent oversight of HF Group's financial reporting and internal control system by ensuring checks and balances are in place.
- Ensure quality, integrity and reliability of HF Group's risk management.

The composition structure of the committee shall be as follows:

- The Committee to comprise of non-executive directors only with at least three members
- The majority of the members to be independent non-executive directors
- The committee to be chaired by an independent director
- The Chairman of the board should neither be the chairperson nor a member of the committee.
- At least one member to have accounting expertise or experience in the field of finance and be a member of the Institute of Certified Public Accountants of Kenya (ICPAK) or an equivalent institute recognized by the East Africa Community member states, or an equivalent international institute recognized by ICPAK.

The roles and responsibilities of the committee shall be documented in the committee's terms of reference. However, the committee is required to observe the following:

- The chairperson of the Board, Chief Executive Officer and the finance director may attend meetings of the committee upon invitation.
- At least once a year, the Committee shall meet with the external auditors without members of Management being present.
- The Committee to meet regularly, with adequate notice of the issues to be discussed and to record its conclusions.
- The Board to disclose, in an informative way, details of the activities of Committee, the number of meetings held in a year and details of attendance of each member.

7. Company Secretary

The Board shall appoint a suitably qualified and competent company secretary who is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) in good standing. The Board shall empower the company secretary to enable him or her effectively carry out his or her role. The company secretary shall not be a member of the Board.

The responsibilities of the Company Secretary shall include but not limited to the following;

- Provide guidance to the Board on its duties and responsibilities and on other matters of governance.
- Advise the Board on procedural and regulatory matters
- To timely prepare and circulate the Board and Committee minutes and other relevant papers.
- Assist the Board with evaluation exercise.
- Coordinate the governance audit process.
- Have custody of the organization's seal and shall account to the Board for its use and maintain a record of its use.
- Maintain and update the register of conflict of interest.
- Facilitate effective communication between the organization and the shareholders.

8. External Auditors

The shareholders shall appoint independent (external) auditors for HF Group including all the subsidiaries at each Annual General Meeting in line with company law. The auditor

shall be a member of the Institute of Certified Public Accountants of Kenya (ICPAK) in good standing and shall comply with the International Auditing Standards. The caliber of the auditor must be of good reputation, adequate size and well-resourced to audit HF Group. The following must be evaluated and presented to Board Audit Committee for consideration:

- The firm or any of its partners do not operate an account or has not been granted any type of facilities in the institution, except in the normal course of business and at an arms-length. The facility must have been approved by the full board.
- The firm or its partners do not represent directly or indirectly the interests of the shareholders or directors of the institution in any business ventures.
- The registered public accounting firm has adequate resources, capacity and ability to perform its duties with professional competence and due care in accordance with approved professional auditing standards and applicable legal and regulatory requirements.
- Where the firm or its partners have been subject to any disciplinary action by any professional body, clearance has been obtained from that body.
- The audit fees from the institution shall not exceed 10% of the total gross income of the firm.
- There has been no element of misconduct in the performance of the registered public accounting firm's duties in other firms whether in its auditing, accounting, secretarial, trustee nominee services or otherwise.
- The firm maintains adequate quality control measures.
- The registered public accounting firm is not disqualified in terms of Section 24(7) of the Banking Act.

A registered public accounting firm shall not be considered if the firm or its partners are involved directly or indirectly in other non-audit services including:

- Book-keeping or other services related to the accounting records or financial statements of the audit client
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports
- Actuarial services

- Internal audit outsourcing services
- Management functions or human resources (including head hunting services)
- Broker or dealer, investment adviser, or investment banking services
- Legal services and expert services unrelated to the audit.

An audit firm, audit partners or audit managers, who have offered any of the above non audit services to an institution, can only be allowed to audit the institution if three (3) years have lapsed from when they ceased offering the services.

The Board shall recommend to the shareholders in an Annual General Meeting the rotation of auditors for a period up to five years in order to improve their independence, objectivity and professional critique. This shall be subject to annual performance review by the Board Audit Committee.

HF Group shall seek CBK's written approval prior to rotating and appointing a new registered public accounting. All applications for approval of newly appointed external auditors should be received by the Central Bank by 30th June of each year and prior to the commencement of the interim audit. The application will be accompanied by the extract of the Annual General Meeting (AGM) resolution approving the appointment of the external auditor. In case of reappointment of the existing audit, HF Group to notify CBK within fifteen days of reappointment by submitting the Annual General Meeting minutes.

Resolution reappointing the audit firm together with the valid annual license for the audit firm from the Institute of Certified Public Accountants of Kenya. Where there is a change in the lead or reviewing partner or audit manager, HF Group shall inform the Central Bank of the change at least 30 days before the change takes effect.

9. Governance Audit

The Board shall subject HF Group to an annual governance audit by a competent and recognized professional accredited for that purpose by the Institute of Certified Public Secretaries of Kenya (ICPSK), in order to check on the level of compliance with sound governance practices.

The governance audit shall among other areas cover the company's governance practices in the following parameters;

- Leadership and strategic management
- Transparency and disclosure
- Compliance with laws and regulations
- Communication with stakeholders
- Board independence and governance
- Board systems and procedures
- Consistent shareholder and stakeholders' value enhancement
- Corporate social responsibility and investment.

The Board shall provide an explicit statement on the level of compliance after undergoing the governance audit.

10. Application and Review

This policy will be effective on approval by the board and will be subject to regular reviews but not less than once in every two years.

APPROVED BY THE BOARD 29TH JULY 2020