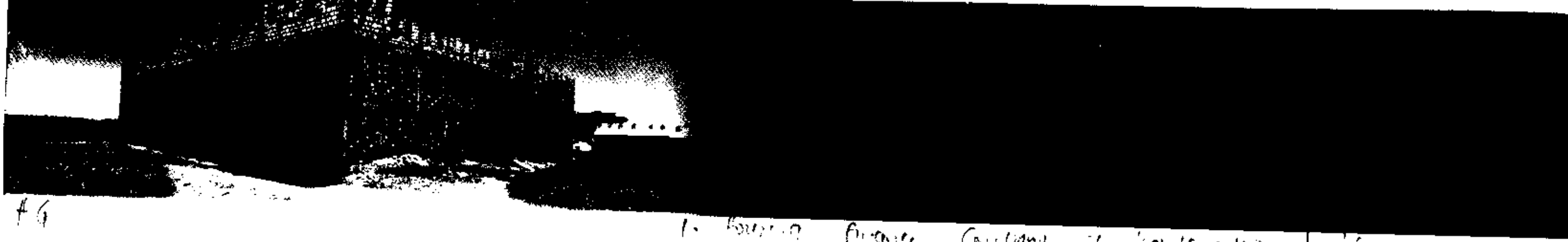
OUR VISION & MISSION

Our Vision

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

Our Mission

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



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DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Kung'u Gatabaki	Chairman
Frank Ireri	Managing Director
Anne A. W. Amissabuor	
David R. Ansell*	
The Permanent Secretary to the Treasury	
Anne K. Mugo	Alternate to the Permanent Secretary to the Treasury
Naftali Mogere	
Mary Kimotho M'Mukindia	(Resigned 26 February 2008)
Ken Wathome	(Appointed 19 April 2007)
Beatrice Sabana	(Appointed 19 April 2007)

* American

COMPANY SECRETARY
Fiona C. Fox
Chunga Associates
7th Floor, Rahimtulla Tower
Upper Hill
P.O. Box 41968
00100 Nairobi GPO

SHARE REGISTRAR
Anne Matu, CPS(K)
Housing Finance Company of Kenya Limited
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi GPO

AUDITORS
KPMG Kenya
16th Floor, Lonrho House
Standard Street
P.O. Box 40612
00100 Nairobi GPO

PRINCIPAL LEGAL ADVISORS
Kaplan and Stratton Advocates
Williamson House
4th Ngong Avenue
P.O. Box 40111
00100 Nairobi GPO

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

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

BANKERS
Barclays Bank of Kenya Limited
Barclays Plaza
P.O. Box 46661
00100 Nairobi GPO

Citibank NA
Upper Hill Road
P.O. Box 30711
00100 Nairobi GPO

SUBSIDIARIES
Kenya Building Society Limited
First Permanent (EA) Limited

BOARD OF DIRECTORS

Kung'u Gatabaki
Chairman

Frank Ireri – Managing Director

Anne A. W. Amissabuor (Mrs)

Naftali Mogere

David R. Ansell

Mary M'Mukindia (Mrs)

Joseph Kinyua
The Permanent Secretary to the Treasury

Beatrice Sabana

Ken Wathome

MEMBERS OF THE BOARD PROFILE

Kung'u Gatabaki

Mr. Gatabaki was appointed Chairman in 2004. He previously worked for 30 years with Actis/CDC (formerly Commonwealth Development Corporation) where he acquired wide experience in project finance, portfolio management and corporate board business. He serves on various company boards including: Chairman of Micro Kenya, Director of Mumias Sugar Co., TPSEA (Serena Hotels), Development Bank of Kenya, Grain Bulk Handlers Ltd., Jacaranda Hotels, Kenya Safari Lodges & Hotels and Shelter Afrique, among others. He studied economics, project finance and management at Legon and Bradford Universities. He is married with 4 grown up children.

Frank Ireri

B.Com (Hons), CPA (K)

Frank Ireri was appointed Managing Director in July 2006. He is a seasoned Banker of more than 18 years standing and joined from Barclays Bank of Kenya where he was Head of Barclay Card Africa, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Citibank and Commercial Bank of Africa. During his banking career, he has had international exposure in Poland, Sri Lanka and Zambia.

Mr. Ireri is a Honorary Counsel member of AIESEC and previously held the role of Chairman to the AIESEC Board of Advisors. Between 2001 and 2002 he was also the Chairman of the Kenya Institute of Bankers. He is married with 2 children.

David R. Ansell

BA Mathematics

David Ansell was appointed Director in October 2001. He retired from Citibank in February 2001, after over 30 years of service, including an assignment as Director of Citibank's African businesses based in Nairobi. He was also previously Managing Director of Ecobank Transnational Inc. based in Lome, Togo. He also serves on the Advisory Board of the Private Equity New Markets fund managed by BankInvest, the largest asset Manager in Denmark. He is married with 2 grown up children.

Naftali Mogere

Naftali Mogere was appointed Director in July 2004. He was formerly the Managing Trustee of NSSF, and is currently the Managing Director of National Cereals and Produce Board. He has a wide experience in Finance, having served on various company boards including: Consolidated Bank, Bamburi Cement Ltd, EA Portland Cement, National Bank of Kenya, International Board of Social Security - Geneva - for 4 years and Finance and Administration Director in COMESA for 10 years. He was Finance and Administration Director of Preferential Trade Area Reinsurance Company for 10 years and Finance Director/Company Secretary of African Medical Research Foundation (AMREF) for 5 years. He has been the Chief Accountant with Kenya Reinsurance Corporation and Principal Accountant at IDB.

He is member of Kenya Institute of Management (K.I.M.) and the British Institute of Management (B.I.M.). He studied Accounting at University of Nairobi and is a Certified Public Accountant (C.P.A.) and a Certified Public Secretary (C.P.S.). He is married with 5 children.

Anne A. W. Amissabour (Mrs)

LLB, LLM

Mrs Anne Amissabour was appointed Director in 1995. She is currently a member of the International Bar Association (IBA) Section on Business Law, which includes Banking Law, Section on Legal Practice and on Human Rights She is also a member of the Private Sector Corporate Governance Trust (PSCGT), Good Corporate Governance, Member of Federation of Kenya Women Lawyers (FIDA), Director of Institute of Directors (K) and Member of Law Society of Kenya.

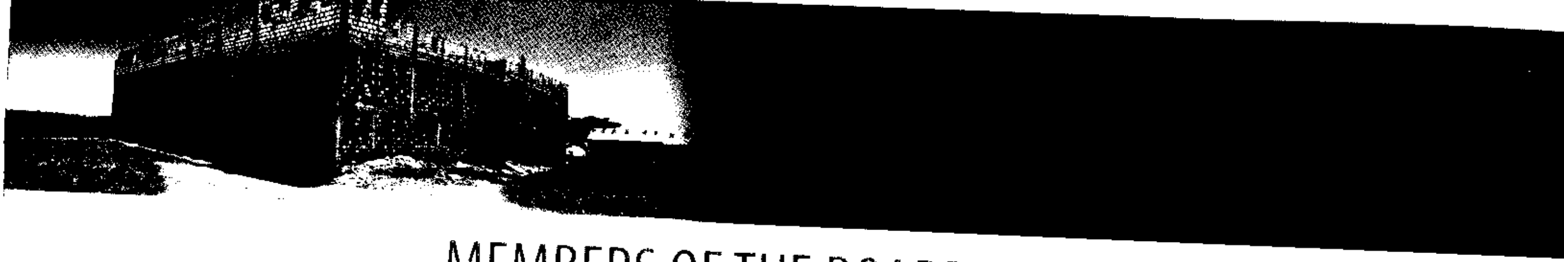
Joseph Kanja Kinyua

MA (Econ)

Mr. Joseph K. Kinyua began his career as an Assistant Lecturer at Nairobi University in 1978. He joined the Central Bank of Kenya in 1980 and worked his way through the ranks from an Economist to Director of Research. He also worked as an economist on a fixed term appointment with the International Monetary Fund (IMF) during 1985-1990, after which he returned to the Central Bank of Kenya.

He was appointed Financial Secretary to the Treasury in June 1995, a position he held until July 1999 when he rejoined the Central Bank of Kenya as Director of Financial Markets. In October 2000, he was appointed the Chief Economist of the Central Bank of Kenya and in September 2002, he was appointed the Permanent Secretary to the Treasury, a position he held until January 2003 when he was appointed Permanent Secretary in the Ministry of Planning and National Development. In July 2003, he was appointed Permanent Secretary in the Ministry of Agriculture. He remained there until July 2004, when he was once again appointed Permanent Secretary to the Treasury, where he is currently engaged.

Mr. Kinyua has served as a Director on several Boards of State Corporations. He has also served as a member of the Programme Committee of the African Economic Research Consortium (AERC) and is currently a member of the Board of Governors of AERC and Alternate Governor, World Bank Board of Governors. He holds BA (Econ) and MA (Econ) degrees from Nairobi University.



MEMBERS OF THE BOARD PROFILE

Mary Kimotho M'Mukindia (Mrs)
Bcom. (Hons)

Mary Kimotho M'Mukindia is a Bachelor of Commerce Honors graduate from the University of Nairobi in Kenya and began her career in the Oil Industry, which she has served for over 25 years in various capacities with Exxon Mobil, the Petroleum Institute of East Africa, as an Energy consultant with Enercon, and as the Managing Director with the National Oil Corporation of Kenya.

Mary is particularly active in Private Sector Organisations, both commercial and charity, and serves on several Boards that include Kenya School of Professional Studies (KSPS), the Petroleum Institute of East Africa (PIEA), the Kenya Petroleum Refineries, Mombasa (KPRL) and Watoto Kwanza Trust - a UNICEF initiated charity trust. Mary, has served as Vice Chairman of the Kenya member committee to the World Energy Council and as the NEPAD liaison for the World Energy Council - Africa Region Committee. In Dec 2006, Mary was conferred a Moran of the Order of the Burning Spear by H.E. The President for her outstanding performance at National Oil and her contribution to the industry as a whole.

Mary has also been involved, and continues to be involved, in various government appointed Task Forces which include, The Petroleum Bill - 2000, The Marine Laws Review Task Force - 2002, The Economic Recovery Strategy - 2003 and The Kenya Energy Sector Development Strategy Task Force, The East Africa Community Private Sector Development Strategy Study - as a steering committee member, and in 2003/2004, the Integrated National Transport Policy Committee.

Mary is married with two young children - a son, Mwenda, and a daughter, Kui-Mukami.

Ms. Anne Kagure Mugo
Alternate Director to PS, Treasury

Anne Mugo joined the Board in March 2007 as the Alternate Director to the Permanent Secretary, Ministry of Finance. She is currently the Secretary/Director of Pensions and has had over 20 years professional experience both in the private and public sectors including ICEA, Standard Chartered Bank and the RBA. Anne has an MBA in Finance from the City University Business School. She also has intensive training in investment, administration of pension funds from the World Bank, Crown Agents and the Public Administrative Institute, London.

She is a member of a number of professional bodies including the Institute of Directors, the Chartered Insurance Institute (London), AAPAM and the Nairobi Baptist Church among others. She also serves on a number of public service pensions committees and task forces.

Ms. Beatrice Sabana

Beatrice Sabana joined the Board of Housing Finance on 19th April 2007. Beatrice has an MBA in Finance and is currently pursuing her PHD, her doctoral thesis being on the Microfinance industry in Kenya. Beatrice is currently a Consultant, specializing in Microfinance. Her previous working experience has been as CEO of the Association of Microfinance Institutions Kenya, a microfinance finance specialist for the World Bank, an Assistant Professor at the USIU University and lecturer at JKUAT and Kenyatta University. Beatrice has also worked with the Standard Chartered Bank and a short stint with the Ministry of Commerce and Industry in the early 80's.

Beatrice brings to Housing Finance her invaluable expertise in the microfinance field.

Mr. Ken Wathome

Ken Wathome also joined the Board on 19th April 2007. He is currently a partner and CEO of NW Realite Ltd, a property consultancy firm in Kenya, East Africa including Rwanda. Ken has a BA in Land Economics and has worked previously with a number of property firms in the country. Ken is also the Chairman of Faulu Kenya and a Director in Faulu Uganda and Tanzania. He also sits on the Boards of Food for the Hungry, NEGST, Ashbhu Securities and is a past Honorary Treasurer of the Insitute of Surveyors of Kenya. He is also a past Chairman of the Elders Court of the Nairobi Chapel.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 42nd Annual General Meeting of the Company will be held at the **Amphitheatre, Kenyatta International Conference Centre, Harambee Avenue, Nairobi** on **Wednesday, 21 May 2008** at **11.00am** to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2007 together with the Chairman's, the Directors' and Auditors' Reports thereon.
4. To declare a final dividend of KShs 0.25 per share for the financial year ended 31 December 2007 and approve the closure of the Register of Members on 22 May 2008 for one day only.
5. To elect Directors
   a) Mr Naftali Mogere retires by rotation in terms of Article 105 of the Company's Articles of Association and, being eligible, offers himself for re-election.
   b) Mrs Anne A. W. Amissabuor retires by rotation in terms of Article 105 of the Company's Articles of Association and, being eligible, offers herself for re-election.
   c) Mr Ken Wathome who was appointed as a director on 19 April 2007 retires in accordance with Article 104 of the Company's Articles of Association and, being eligible, offers himself for re-election.
   d) Ms Beatrice Sabana who was appointed as a director on 19 April 2007 retires in accordance with Article 104 of the Company's Articles of Association and, being eligible, offers herself for re-election.
6. To approve the Directors' Remuneration.
7. To note that the auditors, KPMG Kenya, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and Section 24(1) of the Banking Act (Cap 488) and to authorise the directors to fix their remuneration.

BY ORDER OF THE BOARD

Fiona C. Fox

SECRETARY

26 February 2008

P.O. Box 41968

00100

NAIROBI.

NB

In accordance with Section 136 (2) of the Companies Act (Cap 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, P.O. Box 30088, 00100 GPO, Nairobi, to arrive not later than 48 hours before the meeting or any adjournment thereof.

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

ILANI YA MKUTANO MKUU WA KILA MWAKA

NOTISI INATOLEWA HAPA KWAMBA, mkutano wa 42 mkuu wa kila mwaka wa shirika utafanyika katika ukumbi wa **Amphitheatre, Kenyatta International Conference Centre, Harambee Avenue**, mjini **Nairobi Jumatano Mei 21, 2008** kuanzia **saa tano kamili asubuhi** ili kuangazia maswala yafuatayo:-

1. Kuorodhesha mawakala na kuzingatia kiwango cha idadi ya waliohudhuria kuwezesha mkutano kufanyika.
2. Kusoma sababu za kuitwa kwa mkutano.
3. Kupokea na endapo itaidhinishwa kupitisha mizania (balance sheet) iliyofanyiwa ukaguzi pamoja na ripoti ya matumizi ya pesa kwa kipindi cha mwaka uliomalizikia Desemba 31, 2007 pamoja na ile ya Mwenyekiti, Meneja Mkurugenzi na wahasibu.
4. Kuidhinisha mgawo wa mwisho wa faida wa Shilingi 0.25 kwa kila hisa kwa kipindi cha mwaka uliomalizikia Desemba 31, 2007 na kupitisha kufungwa kwa rejista ya wanachama mnamo Mei 22, 2008 kwa siku moja tu.
5. Kuwachagua wakurugenzi:
   a) Bw. Naftali Mogere anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za kampuni na kwa kuwa hali inamruhusu , amejitokeza kuchaguliwa tena.
   b) Bi. Anne A. W. Amissabuor anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za kampuni na kwa kuwa hali inamruhusu, amejitokeza kuchaguliwa tena.
   c) Bw. Ken Wathome ambaye alichaguliwa kama Mkurugenzi Aprili 19, 2007 anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za kampuni na kwa kuwa hali inamruhusu, amejitokeza kuchaguliwa tena.
   d) Bi. Beatrice Sabana ambaye alichaguliwa kama Mkurugenzi Aprili 19, 2007 anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za kampuni na kwa kuwa hali inamruhusu, amejitokeza kuchaguliwa tena.
6. Kupitisha malipo ya wakurugenzi.
7. Kufahamu kwamba, wakaguzi wa pesa KPMG Kenya wataendelea mbele na shughuli hizi kwa mujibu wa sehemu ya 159 (2) ya sheria za kampuni (kifungu nambari 486) na sehemu ya 24 (1) ya sheria za Benki (kifungu nambari 488) na kuwapa ruhusa wakurugenzi kuamua malipo yao.

KWA AMRI YA HALMASHAURI

Fiona C. Fox

SECRETARY

Imenukuliwa Februari 26, 2008

Slp 41968

00100

NAIROBI.

MUHIMU:

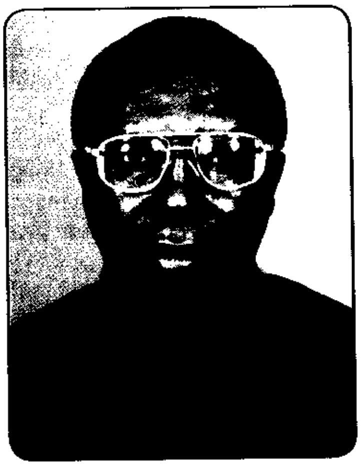
Kwa mujibu wa sehemu ya 136 (2) ya sheria za Kampuni (kifungu nambari 486), kila mwanachama aliye na haki ya kuhudhuria na kupiga kura katika mkutano uliotajwa hapo juu anaruhusiwa kumteua wakala /Mwakilishi ili kumwakilisha kwa niaba yake. Si lazima kwa wakala/mwaklishi huyo kuwa mwanachama. Fomu ya wakala imeambatanishwa hapa na inafaa kuwasilishwa kwa msajili, Housing Finance Company of Kenya Limited, Jumba la Rehani, barabara ya Kenyatta Slp 30088, 00100 GPO, Nairobi ili kumfikia saa 48 kabla ya kuanza kwa mkutano mkuu wa mwaka au kuahirishwa kwake.

Endapo aliyeteuliwa ni kampuni au ofisi ya serikali, fomu ya kumteua wakala/mwaklishi itakuwa na mhuri wa kawaida au sahihi ya afisa wa mamlaka au wakili aliyehalalishwa kutoka shirika au afisi hiyo.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI

Dear Members,

We have completed yet another good year in the resurgence of Housing Finance as the premier player in the property industry. I take great pleasure at the opportunity to reveal to you the notable occurrences in 2007, in addition to manifesting the things we are doing to keep the company focused in its strategic direction. The decision to move the company into the next frontier as a 'property conglomerate' is on course and we are encouraged by the achievements so far. The Managing Director in his statement later on in this report makes a more detailed presentation of the activities and results. I will make my comments more general and consistent with the expectations of a board's responsibility.



Kung'u Gatabaki
Chairman

Financial Results 2007

In spite of a remarkable improvement in some of the key business drivers, we recorded a drop in group profit before tax of 20%. In 2007 the new loans approved were in excess of Kshs 5 Bn, up from Kshs 2 Bn in 2006. This tells the story of what is happening in the creation of an increased and stable future stream of high quality revenue generating assets. The continued recovery of distressed facilities also reduced the proportion of our assets that negatively impact our total income. Costs were contained within a structure of stringent and prudent spending, a discipline we have now formalized within the company. The reduced profit performance in 2007 therefore reflects the total cost of refocusing the business to ensure it acquires and builds up on a future business stream that will generate credible returns for you, the members.

Strategic Direction

You will have noticed that the new Vision and Mission statements of the company have been included in this report. The purpose is to ensure you also know and support the direction taken to energize the company to new heights. We have been the mortgage leaders for many years and our dominance of that sector is well known. We expanded our playing space under a total property solution, making us an end to end provider of the needs of the market as far as property is concerned. Much has already been achieved through the introduction of new products during the year. We are all excited by the line up of even more linkages and products already in the pipeline, and whose implementation will generate the financial success we have been pursuing as we rebranded and reorganized the company.

I intimated last year that the group companies which had been long dormant would find relevance in our new direction and this is now a reality. Each has been given the challenge of recreating its relevance in the current market

Wanachama wapendwa,

Tumemaliza kipindi kingine cha mwaka mwema wa mabadiliko kwa kampuni ya Housing Finance kama kiongozi katika biashara ya uwekezaji raslimali. Nachukua fursa hii kuwafichulia matukio muhimu ya mwaka 2007 bali na mambo tunayofanya kuiwezesha kampuni kuwa na shabaha katika mwelekeo wa mkakati wake. Hatua ya kuiwezesha kampuni kuingia kipindi kingine kama 'mkusanyiko wa raslimali.' iko kwenye mkondo na tumepata hamasisho kutokana na matokeo tuliyopata hadi sasa. Kupitia taarifa yake, Meneja Mkrugenzi ameeleza kwa mapana kuhusu shughuli na matokeo. Nitaelekeza vidokezo vyangu kwa jumla na zaidi kuhusu matarajio ya wajibu wa Halmashauri.

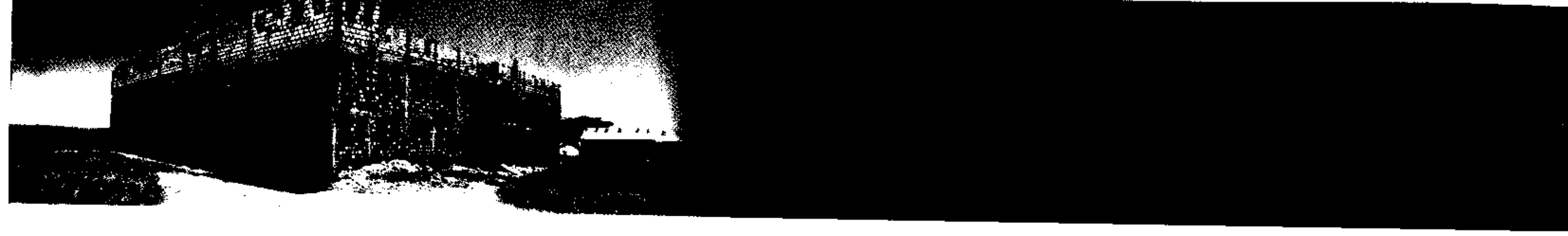
Matokeo ya kifedha mwaka 2007

Bali na kuimarika kwa baadhi ya vipengele muhimu vya biashara, tuliripoti kushuka kwa kiwango kidogo cha faida kabla ya ushuru cha asilimia 20 (20%). Mnamo mwaka 2007, mikopo mipya iliyoidhinishwa ilizidi kwa Shilingi Bilioni 5 kutoka kiwango cha shilingi Bilioni 2 mwaka 2006. Hili ni dhidhirisho la yale yanayofanyika katika kubuni mbinu thabiti na raslimali zitakazozalisha mapato. Mpango unaoendelea wa kudai madeni sumbufu ulipunguza uwiano wa raslimali ambazo zimekuwa zikiathiri mapato ya jumla ya kampuni. Gharama za uendeshaji zilidhibitiwa chini ya mfumo bora wa matumizi maadili ambayo kwa sasa tumeyafanya rasmi katika kampuni. Kwa hivyo, matokeo ya faida iliyopungua mwaka 2007 yanaashiria gharama za jumla kuangazia upya biashara ili kuhakikisha kwamba tumejenga msingi imara wa biashara ambayo italeta faida kubwa kwenu wanachama.

Mwelekeo wa Mkakati

Mtafahamu kwamba taarifa ya maono na azima mpya ya kampuni imejumuishwa pamoja na ripoti hii. Madhumuni yake ni kukuwezesha kufahamu na kuunga mkono mwelekeo unaotekelezwa kuiwezesha kampuni kuingia hatua mpya. Tumekuwa viongozi katika biashara ya rehani kwa muda wa miaka mingi na utawala wetu katika sekta hii unajulikana. Tulipanua nafasi ya utekelezaji shughuli zetu chini ya suluhu jipya la raslimali na kutufanya kuwa watoaji wa mahitaji ya masoko ya raslimali. Tayari tumeafikia mengi kupitia uzinduzi wa huduma mpya wakati wa kipindi hiki cha mwaka. Sote tumefurahia miungano mingi na huduma ambazo tayari zimo kwenye laini na ambazo kuzinduliwa kwake kutapelekea ufanisi wa kifedha ambao tumekuwa tukifuatilia huku tunapoipanga upya kampuni na kuipa sura mpya.

Mwaka jana nilitoa vitisho kwamba kampuni tanzu ambazo kwa muda mrefu zimekuwa hazifanyi vyema zitatupiliwa mbali katika mwelekeo huu mpya hali ambayo kwa sasa ni halisi. Kila moja ya kampuni hizi imepewa nafasi kudhihirisha umuhimu wake katika mazingira ya sasa ya soko na tuna furaha kuripoti kwamba moja kati ya kampuni



CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI

environment and we are happy to report that one of them is contributing a profit to our operations, and the other is on course to change its fortunes in a year or so.

Capital Raising

We are very encouraged by the overwhelming response you members gave our rights issue proposal at the last years AGM. With the resolutions passed, we embarked on the actual capital raising phase through the capital markets. I want to emphasize that we are on course and the conclusion of this process will be completed by the second quarter of 2008. The process was made engaging because of the desire of CDC plc, our previous single largest shareholder, to sell its interest in Housing Finance. We opined that an anchor shareholding would be in the best interest of the company so we began a process of identifying a party, or parties working in synch, that would replace CDC. It is a pleasure to now have Equity Bank Ltd and British American Investments Company Ltd as our new shareholders. We believe that these new partners will embrace our vision and be a catalyst to our future plans.

Business Environment

I expect many of you have heard varied opinions on the prospects for Kenya after the post election difficulties we faced. I choose for the purposes of this statement to remain hopeful and optimistic of a speedy return to economic and socio-political normalcy. We met as a board and I wish to convey our message of hope to all who were affected by the unfortunate events that unfolded. But Kenya was built by all of us, and we remain committed to continuing the same efforts. The strong fundamentals that underlie the economic recovery we were all enjoying have not gone and we can pick up the business energies easily if we remain dedicated and focused in our service to each other. One of the key challenges we continue to follow is the development of low cost and affordable homes for Kenyans. We have formed key partnerships with institutions that share the same passions, both from government(s) and NGO's as well as players involved through acts of benevolence for the under privileged. The national landscape will change tremendously as we all find a common and acceptable solution to make housing available to the next level of Kenyans. And with our move to embrace strategic commercial lending, we shall ensure that the amenities, e.g. schools, trading centers, dispensaries, etc. that accompany urban development are financed and built to exacting standards as well.

Board

In response to the changes in shareholding, we made some changes to the board. I am pleased to welcome Mr. Benson Wairegi, the Group Managing Director of British American Investments Company Ltd as a board member. Benson is a very accomplished executive member of the insurance industry in Kenya and we know there will be significant scope for us to tap into his knowledge and contacts. We also

hizo inachangia faida katika shughuli zetu huku nyingine ikiwa kwenye hatua kubadili hali yake chini ya muda wa mwaka mmoja.

Kuinua Mtaji

Tumehamasishwa zaidi na mwito wenu wanachama kuhusiana na mswada wa swala la haki miliki wakati wa mkutano wa pamoja wa mwaka jana. Huku hoja hizo zikiwa zimepitishwa, tuliingilia awamu ya ukusanyaji mtaji kupitia Halmashauri ya soko la Hisa. Ningependa kutilia mkazo kwamba tuko katika mkondo na hitimisho la hatua hii litamalizika muhula wa pili mwaka 2008. Hatua hii ilifanywa kuwa ndefu kutokana na nia ya CDC plc ambayo awali ilikuwa mwanahisa mkubwa wa kipekee kuuza faida zake zake katika Housing Finance. Kwa maoni yetu, tulionelea ni vyema mwanahisa mwanahisa mkuu atakuwa ni kwa manufaa ya Kampuni kwa sababu hiyo tulianza hatua za kutambua mshirika au makundi ambayo yangechukua nafasi ya CDC. Ni fahari kuwa na benki ya Equity Bank Ltd. Na kampuni ya uwekezaji ya British American Investment Company Ltd. kama wanahisa wetu wapya. Tunaimani kwamba washiriki hawa wapya watatumia mwito wetu na kuwa kichocheo cha mipango yetu ya siku za usoni.

Mazingira ya Biashara

Natumai kwamba wengi wenu mmesikia maoni mbali mbali kuhusu mikakati ya Kenya kutokana na hali ngumu tunayokabiliana nayo baada ya vita vya uchaguzi. Kwa minajili ya taarifa hii, nimechagua kuwa na matumaini na imani ya kurejea kwa haraka kwa hali ya kawaida ya kiuchumi na kijamii. Kama halmashauri, tulikutana na ningependa kueneza ujumbe wa matumaini kwa wote walioathiriwa na hali hii iliyotokea. Lakini taifa la Kenya lilijengwa nasi sote na tumejitolea kuendeleza juhudi hizi. Misingi imara ambao ni imani ya ufufuzi wa uchumi ambayo tulikuwa tukijivunia haijapotea na kwa urahisi, tunaweza kuweka pamoja nguvu zetu kibiashara endapo tutawajibika na kuwa na mtazamo wakati wa utoaji huduma kwa kila mmoja wetu. Mojawapo wa changamoto kuu tunayozidi kufuatilia ni ujenzi wa makao ya gharama za chini kwa wakenya wote. Tumebuni ushirikiano muhimu na taasisi ambazo zina msimamo sawa kutoka serikalini na mashirika yasiyo ya kiserikali pamoja na wahusika wanaosaidia watu wasiobahatika katika jamii. Sura ya taifa itabadilika mara moja endapo sote tunapotafuta suluhu litakalokubalika kuwezesha wakenya wote wa vizazi vijavyo kuwa na makao. Kupitia hatua yetu ya kutambua mkakati wa ukopeshaji kibiashara, tutahakikisha kwamba vituo kama vile shule, vituo vya biashara, zahanati n.k ambavyo vinaambatana na ustawi wa maendeleo maeneo ya mijini vimefadhiliwa na kujengwa katika viwango vinavyohitajika.

Halmashauri

Kufuatia mabadiliko ya umiliki wa hisa, halmashauri ilifanyiwa mabadiliko kadhaa. Ni fahari yangu kumkaribisha Bw. Benson Wairegi Meneja Mkurugenzi wa British American Investment Company Ltd. Kama mwanachama wa Halmashauri. Benson ni mwanachama mkakamavu katika biashara ya Bima nchini Kenya na tunajua kwamba kuna mengi tutakayopata kutokana na ujuzi wake. Tunataraji

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI

expect to receive Equity Bank's board nominee in the near future.

We also faced the resignation of a very key member of our board, Ms. Mary M'Mukindia. Mary accepted a very senior position with an international agency and was therefore unable to continue in service as our board member. Mary has been a very valuable member of the board and we have benefitted immensely from her participation at Housing Finance, both on the main board and also as a member of the constituent board sub committees. As we bid her farewell and commiserate her departure, we also celebrate her success and wish her the best in her new challenge.

Corporate Social Responsibility

We continue to serve in our previous theme of making housing and housing services available to the under-privileged. We have this year done several build projects in partnership with Habitat Housing for Humanity, as well as sponsoring various initiatives by self help groups that have sought to better their living standards in the major towns in Kenya. Most of the inputs are by volunteer services by our staff, a facet of which we are most proud and thankful, as well as making modest financial contribution within our means. As we embark on rebuilding the areas that were hardest hit by the unrest in the early part of the year, we are sure we shall be making an even more significant impact through these programs.

Dividend

I have over the years assured you all that we would return the company to a profitability level that would enable us distribute some of the profits to you. I am happy to inform you that that time has come and we will be proposing a full and final dividend of 25cts per share from the results of 2007. The amount may appear modest but we as a board are guided by the fact that the year started uncomfortably for the country and we need to be prudent, given that the full effects of the unrest are yet to be established. So far we have made an evaluation of the direct challenges to any of the properties charged to us as loan securities in areas we could access and these are very minor. We however want to retain enough reserve to cope with any unforeseen circumstances. I am sure you are all happy to be receiving a dividend after such a patient wait and we are confident this is the beginning of a generous distribution policy in the years to come.

I thank you all for the patience and commitment you have shown to this company. We are all responsible for providing a strong heritage and country to the future generations of Kenyans and I'm sure we shall embrace this challenge as credible patriots.

Thank you and God Bless you all.

Chairman

Kung'u Gatabaki

kupokea mwaklishi kutoka Benki ya Equity hivi karibuni.

Pia, tulikabiliwa na kujiuzulu kwa mwanachama muhimu katika halmashauri Bi. Mary M'Mukindia. Mary alikubali kuchukua wadhifa wa juu katika shirika moja la kimataifa na kwa sababu hiyo hangeweza kuendeleza huduma zake kama mwanachama wa Halmashauri. Mary amekuwa mwanachama muhimu katika halmashauri na tumefaidi sana na ushiriki wake katika Housing Finance iwe ni katika halmashauri kuu au kamati ndogo. Huku tunapomuaga na kusikitia kuondoka kwake, pia, tunasherehekea ufanisi wake na kumtakia kila la heri anapochukua jukumu jipya.

Wajibu wa kampuni kwa jamii.

Tunazidi kutekeleza majukumu yetu chini ya mwito wa awali wa kufanya huduma za makao kupatikana kwa watu wasiobahatika katika jamii. Mwaka huu, tumetekeleza miradi mbali mbali ya makao kwa ushirikiano na mradi wa makao unaojulikana kama Habitat Housing For Humanity. Pia tumefadhili mikakati mbali mbali ya makundi ya kibnafsi ambayo yamenuia kuinua viwango vya hali yao ya maisha katika miji mkuu nchini Kenya. Mchango mkubwa umetolewa kupitia huduma za kujitolea kutoka kwa wafanyakazi wetu jambo ambalo sote tunafaharia, kushukuru na kutoa mchango wa kifedha ambao tunaweza. Huku tunaporejelea kujenga upya maeneo yaliyoathiriwa vibaya na ghasia mapema mwaka huu, tuna hakika kwamba tutakuwa tunatoa mchango mkubwa kupitia mipango hii.

Mgawo wa faida

Kwa muda wa miaka iliyopita, nimewahakikishia ninyi nyote kwamba tutairejesha kampuni katika viwango vya kuleta faida ambavyo vitatuwezesha kusambaza baadhi ya faida kwenu. Nina furaha kuwafahamisha ninyi kwamba, wakati umewadia na tutakuwa tukipendekeza na kupitisha mgawo kamili na wa mwisho wa senti 25 kwa kila hisa kutokana na matokeo ya mwaka 2007. Kiwango hiki chaweza kuonekana kama kisicho cha kufaharia lakini sisi kama halmashauri tunaongozwa na ukweli kwamba nchi ilianza mwaka vibaya na tunahitaji kuwa na busara huku ikizingatiwa kwamba, athari kamili za ghasia zinasubiri kufichukiwa. Hadi sasa, tumefanya tathmini kuhusu changamoto za moja kwa moja kuhusiana na raslimali zozote zilizotolewa kwetu kama dhamana ya mkopo maeneo ambayo tunaweza kuyafikia na haya ni madogo sana. Hata hivyo, tunataka kuweka hazina ya kutosha ambayo itatuwezesha kukabiliana na janga lolote. Nina hakika kwamba nyote mna furaha kupokea mgawo wa faida baada ya kipindi kirefu cha uvumilivu na tuna imani kwamba huu ni mwanzo wa sera ya usambazaji miaka inayokuja.

Nawashukuru nyote kwa uvumilivu na kwa uwajibikaji ambao mmedhihirishia kampuni. Sote tuna wajibu wa kuandaa taifa thabiti kwa vizazi vijavyo vya taifa la Kenya na nina hakika kwamba kama wazalendo tutakabiliana na changamoto hizi.

Ahsanteni na Mungu awabariki nyote.

Mwenyekiti

Kung'u Gatabaki

MANAGING DIRECTORS' REPORT/RIPOTI YA MENEJA MKURUGENZI

The past year was one of significant changes across our business as we rolled out our new 5 year strategy in March. This is aimed at transforming our company into a property conglomerate by simultaneously consolidating and entrenching our dominant position in mortgage financing and, becoming a developer of large scale properties such as schools, hospitals, shopping malls and housing estates among others. In line with this we changed our Vision to be **"The leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya."**

Frank Ireri
Managing Director

Mwaka uliopita tulikuwa na mabadiliko makubwa katika biashara yetu tulipoanzisha mpango wetu wa miaka mitano ijayo mwezi wa Machi. Mabadiliko hayo yanakusudia kuibadilisha na kuimarisha kampuni yetu ili itoe huduma pana. Kadhalika, tunakusudia kudumisha nafasi ya mbele katika ufadhili wa ujenzi na kuibuka kuwa mstawishaji maarufu wa miradi mikubwa kama shule, hospitali, maduka makubwa na mitaa ya makazi na mingine mingi. Kuambatana na malengo haya, tulibadilisha Ndoto yetu na ikawa; "Kuongoza katika utoaji wa suluhisho pana la kupata, kustawisha na kuboresha mali nchini Kenya."

Financial results

I acknowledge that the bottom line did not improve in 2007, but on the same note an appreciation of some of the changes that took place within the key business drivers will illuminate the reasons for our financial confidence.

Overall, Profit before tax for the Group dropped 20% from Kshs 141 million to Kshs 113 million. Some of the key highlights of this performance are:

- Mortgage interest income on our performing loan book increased by 30 % from Kshs 537 million to Kshs 696 million. This was driven by the increase of 54% in loan disbursements.
- Mortgage interest income on our non performing loans decreased by 49% from Kshs 318 million to Kshs 161 million as a result of a 36% reduction in our non performing loans. We continue to aggressively work on reducing our non performing portfolio while growing our performing loan portfolio.
- Impairment losses on our loan book reduced by 28% from Kshs 104 million to Kshs 74 million mainly as a result of our reduced non performing loan book
- Total costs over the period increased by 10% mainly as a result of recruiting senior staff to drive our strategic agenda. The reorganization of our business focus can be expensive but we have selected and prioritized the growth strategies to ensure we better match the costs we incur to the timing of the anticipated revenues.

These improvements in the underlying performance should provide you with the comfort that we have created the right environment for our future growth and prosperity.

Matokeo ya fedha

Nakubali kuwa hatukuimarika mnamo 2007, ingawa wakati uo huo natilia maanani kuwa baadhi ya mabadiliko yaliyofanyika katika biashara muhimu yataangaza sababu zetu za kuwa na imani katika msingi wetu wa kifedha.

Kwa jumla, faida kabla ya kutozwa ushuru ulipunguka kwa asilimia 20 (20%) kutoka Ksh141 milioni hadi Ksh113 milioni. Baadhi ya matokeo yetu bora ni:

- Mapato ya faida kutokana na rehani yaliongezeka kwa asilimia 30 (30%) kutoka Ksh537 milioni hadi Ksh696 milioni. Hili lilitokana na ongezeko la asilimia 54 (54%) katika utoaji wa mikopo.
- Mapato ya faida kutokana na mikopo ya rehani isiyolipiwa yalipunguka kwa asilimia 49 (49%) kutoka Sh318 milioni hadi Sh161 milioni kufuatia upungufu wa asilimia 36 (36%) kwa mikopo isiyolipiwa. Tunaendelea kujitahidi kupunguza mikopo ambayo hailipwi wakati huo huo tukitoa mikopo zaidi.
- Hasara kwa mikopo yetu ilipunguka kwa asilimia 28 (28%) kutoka Sh104 milioni hadi Sh74 milioni kutokana na jitihada zetu za kupunguza mikopo isiyolipiwa.
- Jumla ya gharama kipindi hicho iliongezeka kwa asilimia 10 hasa kutokana na kuajiri wafanyakazi wapya kutekeleza ajenda ya mpango wetu. Marekebisho ya malengo ya biashara yanaweza kuwa ghali lakini tumechagua na kuweka mbele mipango ya ustawi ili kuhakikisha tunaambatanisha gharama tunazopata na wakati ambao tunatarajia mapato.

Harakati hizi za uboreshaji katika matokeo ambayo tumetaja hazina budi kuwapa moyo kwamba tumetoa mazingira mema kwa ustawi na ufanisi wetu siku zijazo.

Innovative products

During the year we launched several new products in line with our new strategy. In March we set up a **Project Finance** team to provide solutions and financing for the growing base of developers in the market. In April 2007 we launched the first home ownership plan in the market dubbed **1st HOP**. This will enable first time home buyers to save for their dream and offers income tax savings for them. In July, we launched the **Property Point**. This is a one-stop shop for property developers, estate agents, suppliers of housing and construction materials and customers designed to make the process of property acquisition easier. In November, we launched **Makao** targeting owners of plots wishing to construct homes. It makes the process of construction easier and cheaper by providing a seamless end to end solution through the involvement of a consortium of building professionals to oversee the construction.

We have also rolled out products intended to expand our revenue base through partnerships with businesses that require cash services. We signed on with Safaricom as an M-PESA agent and with Faida Investment Bank as an agent for the purchase and sale of shares.

Strategic Partnerships

In May, we entered into a mortgage brokerage agreement with AAR Credit Services which enables customers of AAR to access mortgage facilities from Housing Finance. This partnership is a key feature of our commitment to offer innovative products and services to the Kenyan market

Towards the end of the year, Equity Bank and British American Investments Company received regulatory approvals to purchase CDC's 24.9% shareholding in Housing Finance. Our choice of Equity Bank and BAICL was motivated by the strong synergistic possibilities combining our mortgage financing competence with Equity's unique emotional bond with over 1.6 million customers and BAICL's insurance and investment know-how.

Process efficiency

It is instructive that an efficient operation both saves costs and improves market effectiveness. I reported last year that the investment in automation and systems was adequate and we would be increasing our exploitation of that capacity. We are well down that road in conjunction with developing our Staff through various training programs. Several business improvement initiatives are on-going and I'm sure you have

Ubunifu wa Huduma

Mwaka huu, tulizindua huduma kadha kuambatana na mpango wetu mpya. Mnamo Mwezi Machi, tulianzisha kundi la Mradi wa Fedha kupata suluhisho kwa ufadhili ya idadi ya wateja wetu wanaoongezeka. Mnamo Aprili 2007, tulizindua mpango wa kwanza wa kumiliki nyumba uliobandikwa jina 1st HOP. Mpango huu utahakikisha kwamba wanunuzi wa nyumba kwa mara ya kwanza wanaweka pesa ili kutimiza ndoto yao na wakati huo kuwawekea akiba ya ushuru wa mapato. Mnamo mwezi Julai, tulianzisha bidhaa kwa jina Property Point. Hiki ni kituo kimoja cha wastawishaji, maajenti wa nyumba, wauzaji bidhaa za nyumba na ujenzi. Mradi huu unakusudiwa kurahisisha mfumo wa ununuzi wa mali. Mnamo Novemba mwaka Jana, tulizindua mpango wa Makao unaowalenga wenye ploti wanaotaka kujenga nyumba. Unarahisisha na kupunguza gharama za ujenzi kwa kutoa suluhisho thabiti kwa kuhusisha wataalamu mbalimbali wa ujenzi kusimamia ujenzi huo.

Tumeanzisha huduma zinazolenga kupanua mtaji wetu kwa kushirikiana na biashara nyingine zinazohitaji huduma za pesa taslimu. Tumeweka muafaka na maajenti wa Safaricom wa M-Pesa na Benki ya Faida Investment kuwa ajenti wa kununua na kuuza hisa.

Mikakati ya ushirikiano

Mnamo mwezi Mei, tulitia sahihi mkataba wa rehani na kampuni ya AAR Credit Services ambao unawawezesha wateja wa AAR kupokea huduma za mikopo kutoka Housing Finance.Ushirikiano huu ni dhihirisho kuu la uwajibikaji wetu la kutoa bidhaa na huduma katika soko la humu nchini.

Mwishoni mwa mwaka, Benki ya Equity na kampuni ya uwekezaji ya American Investments Company zilipokea idhini rasmi kununua asilimia 24.9 ya umiliki wa hisa za CDC's kutoka kampuni ya Housing Finance. Chaguo letu la Benki ya Equity na BAICL lilihamasishwa na uwezo wetu wa kuweka pamoja ufadhili wa mikopo ya ujenzi na Benki ya Equity yenye wateja zaidi ya milioni 1.6 na kampuni ya utoaji huduma za Bima ya BAICL inayofahamika.

Ukamilifu wa utaratibu wetu

Ni jambo lisiloweza kupuuzwa kwamba utaratibu wa utenda kazi unaofanywa kikamilifu hupunguza gharama na kuimarisha utoaji wa huduma katika soko.

MANAGING DIRECTORS' REPORT/RIPOTI YA MENEJA MKURUGENZI (cont.)

picked the customer buzz around our changed attitudes and turn around times. All these things count for our business' sustained prosperity.

Future Plans

I'm sure that the insights I have given you point to a very promising future for the company. To use a popular economics phrase, the pre-conditions for take off are in place. I expect that we shall be increasing and improving our future growth prospects with proportionately less internal investment. The Board has been very supportive of our strategic initiatives and we as a management team and staff have been able to begin our transformation journey. Such reform sometimes manifests itself in small initial increments which well sustained will become our financial success over the years to come. Of concern is the effects and impact (short or otherwise) that the political uncertainty early in 2008 will have on our property and money markets going forward. They are real and not fully revealed as yet, but we remain hopeful and optimistic that the worst is behind us.

Thank you and best wishes to you all.

Frank Ireri.

Kama nilivyoarifu mwaka uliotangulia kwamba, uwekezaji katika mifumo ya tarakilishi ilitosha na tutaendelea kuongeza matumizi ya mitambo hiyo. Tunaendelea vyema na mpango huu sambamba na kuimarisha hali ya wafanyakazi wetu kupitia mipango mbali mbali ya utoaji mafunzo. Mikakati mbali mbali ya kuendeleza biashara yetu inatekelezwa na nina hakika kwamba mmepata msisimko wa kuwahudumia wateja kupitia mabadiliko ya utenda kazi kwa minajili ya ufanisi wa biashara. Haya yote yanasimamia msingi wa ustawi wa biashara yetu.

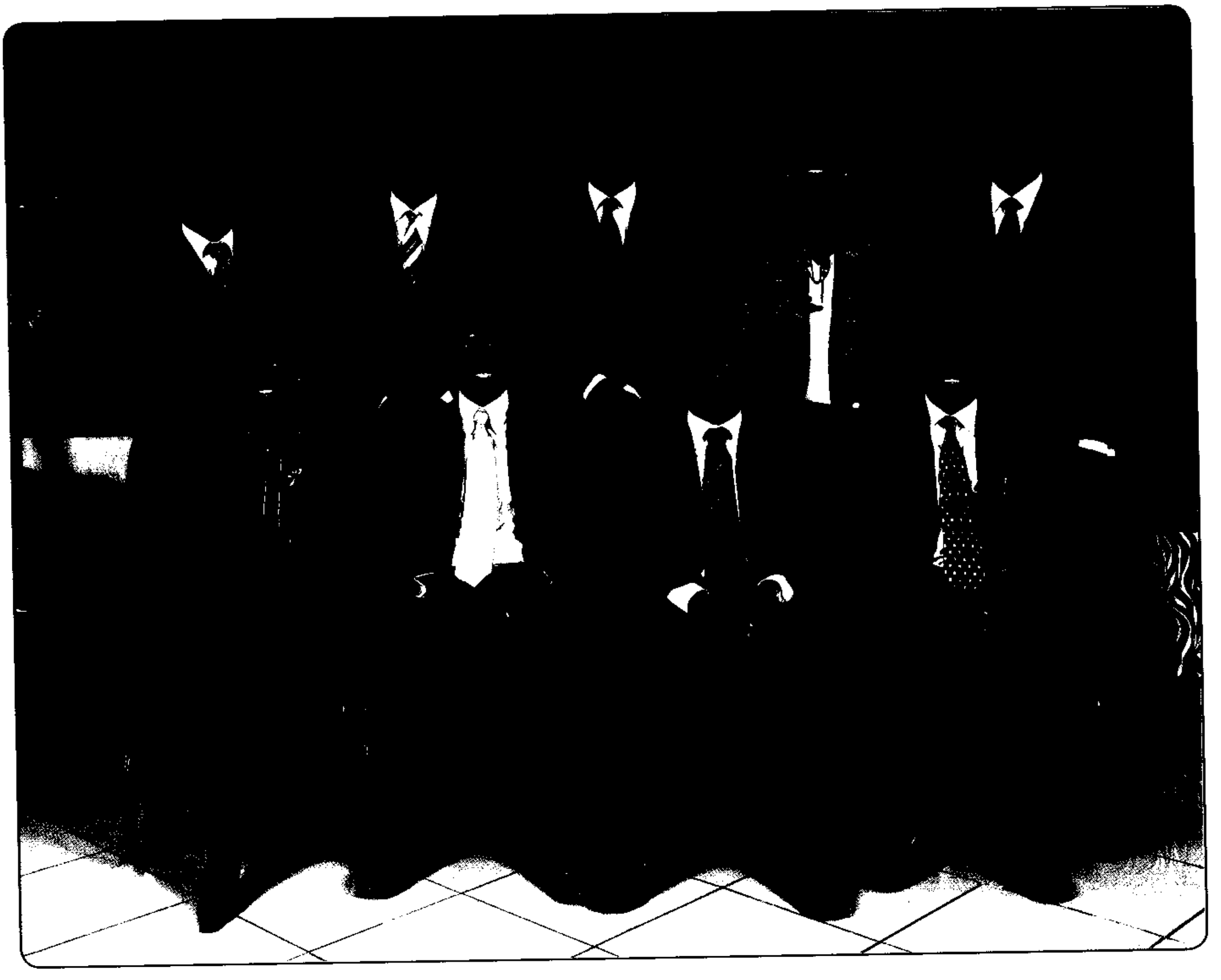
Mipango ya Baadaye

Nina hakika kwamba vidokezo nilivyowapa vitatuelekeza katika mustakabali bora wa kampuni yetu. Viegezo vyote vya kujikwamua vimewekwa tayari kuanza kazi.Nataraji kwamba tutaongeza fursa zetu za upanuzi kwa ajili ya siku za baadaye huku tukitumia mtaji mdogo kwa shughuli za ndani Halmashauri imekuwa ikiunga kwa dhati mikakati na mbinu zetu nasi kama timu ya wasimamizi na maafisa tumeweza kuanza safari yetu ya mabadiliko.Wakati mwingine, mabadiliko kama haya hudhihirishwa kupitia ongezeko la idadi ndogo ya mapato ambayo endapo yatadhibitiwa vyema, yatakuwa msingi wa ufanisi wa kibiashara miaka inayokuja. La muhimu ni athari (za muda mfupi au vingine) za kisiasa mapema mwaka 2008 zitakavyoathiri raslimali na masoko yetu ya pesa siku zinazokuja. Ni dhahiri lakini hazijavumbuliwa bado, lakini tuna matumaini na imani kwamba mabaya yamepita.

Asante na nawatakia kila la kheri.

Frank Ireri.

SENIOR MANAGEMENT



Front row from left to right

1. Cynthia Kantai – Product Development and Marketing Manager
2. Frank Ireri – Managing Director
3. Sam Waweru – Internal Audit Manager
4. Julius Muia – Finance and Administration Director

Back row from left to right

1. Charles Kamari – Credit Risk Director
2. Patrick Mbabuh – Operations Director
3. Moses Wekesa – Property Supply Manager
4. Rose Simani – Human Resources Director
5. Ken Kinyua – Retail and Corporate Sales Director

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2007

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2007.

1. Principal activities

The company is licensed to operate as a mortgage finance institution under the Banking Act (Cap.488) and seeks to encourage and promote the flow of both private and public savings into financing home ownership.

The subsidiaries' principal activities are development and selling of residential houses and offering property-advisory services.

2. Results and appropriations

	31 December 2007 KShs'000	31 December 2006 KShs'000
Gross income	1,157,625	**1,206,389**
Profit/ (Loss) before taxation		
Housing Finance Company of Kenya Limited	110,723	126,749
Kenya Building Society Limited	(2,257)	4,932
First Permanent (East Africa) Limited	4,931	9,555
Group profit before taxation	**113,397**	**141,236**
Taxation	(39,889)	(40,187)
Profit after taxation	**73,508**	**101,049**
Retained profit brought forward	110,746	137,579
	184,254	**238,628**
Dividends – proposed	(28,750)	-
Transfer to statutory reserve	(30,363)	(127,882)
Retained profit carried forward	**125,141**	**110,746**

3. Dividend

The directors recommend the payment of a dividend of KShs 28,750,000 (KShs 0.25 per share). (2006 – Nil).

4. Directors

The directors who served during the year are set out on page 4.

5. Auditors

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

6. Approval of financial statements

The financial statements set out on pages 25 to 59 were approved at a meeting of Directors held on 11 March 2008.

BY ORDER OF THE BOARD

Company Secretary:

Date:

RIPOTI YA WAKURUGENZI

KWA KIPINDI CHA MWAKA ULIOMALIZIKIA DESEMBA 31, 2007

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa iliyokaguliwa kwa kipindi cha mwaka uliomalizikia Desemba 31, 2007.

1. Shughuli Muhimu

Kampuni imepewa leseni kuendesha shughuli za utoaji mkopo wa ujenzi wa nyumba chini ya sheria za benki (kifungu 488) na imejitolea kushinikiza na kusaidia uwekaji Akiba kwa watu binafsi na umma ili kugharamia ujenzi wa makao yao.

Shughuli nyingine ndogo ni pamoja na ustawishaji na uuzaji wa nyumba za kuishi na pia kutoa huduma za ushauri kuhusu umiliki wa raslimali.

2. Matokeo na Matumizi

	Desemba 31 2007 KShs'000	Desemba 31 2006 KShs'000
Mapato kwa jumla	**1,157, 625**	**1, 206, 389**
Faida/(Hasara) kabla ya ushuru		
Housing Finance Company of Kenya Limited	110,723	126,749
Kenya Building Society Limited	(2,257)	4,932
First Permanent (East Africa) Limited	4,931	9,555
Faida ya kampuni kabla ya ushuru	**113,397**	**141,236**
Ushuru	(39,889)	(40,187)
Faida baada ya ushuru	**73,508**	**101,049**
Jumla ya faida iliyowasilishwa	110,746	137,579
	184,254	**238,628**
Mgawo wa faida uliopendekezwa	(28,750)	-
Mchango kwa hazina ya serikali	(30,363)	(127,882)
Faida iliyohifadhiwa na kuwasilishwa mbele	**125,141**	**110,746**

3. Mgawo wa Faida

Wakurugenzi wanapendekeza malipo ya mgawo wa faida wa Shilingi 28,750,000 (Kshs. 0.25 kwa kila hisa). (2006 – sufuri)

4. Wakurugenzi

Wakurugenzi waliohudumu mwaka huu wameangaziwa kupitia ukurasa wa nne.

5. Wahasibu

Wakaguzi wa hesabu, KPMG Kenya wameonyesha nia ya kutaka kuendelea na jukumu hili kwa mujibu wa kifungu nambari 159 (2) cha sheria za makampuni za Kenya (aya ya 486) na kwa mujibu wa sehemu ya 24 (1) ya sheria za benki (aya 488).

6. Kuidhinishwa kwa taarifa ya matumizi ya pesa

Taarifa kuhusu matumizi ya fedha zilizoko ukurasa wa 25 hadi 59 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 11 Machi 2008.

KWA AMRI YA HALMASHAURI

Katibu wa Kampuni:

Imenukuliwa Tarehe:

CORPORATE GOVERNANCE

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

In recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2006 under Section 33(4) of the Banking Act and The Guidelines on Corporate Governance Practises by Public Listed Companies in Kenya issued by the Capital Markets Authority in May 2002 under Cap 485 A of the Capital Markets Authority Act.

1. The Board of Directors

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

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

Composition of the Board

The Board is composed of eight non-executive Directors including the Chairman, Mr. Frank Ireri is the Managing Director. The Directors have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

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

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

2. Board and Management Committees

The Board has constituted 4 sub-committees chaired by Non-Executive Directors, namely Audit, Risk Management, Nominating and Remuneration and the Credit Committee.

Audit Committee

This is composed of five non-executive Directors:

- David Ansell (Chairman)
- Anne K. Mugo
- Mary Kimotho M'Mukindia (Resigned 26 February 2008)
- Beatrice Sabana
- Ken Wathome

CORPORATE GOVERNANCE (Continued)

All the members of this committee are independent non-executive directors. The Board considers that each member has appropriate professional qualifications and brings broad experience and knowledge of financial reporting to the Committee's deliberations.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements, circulars to shareholders and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements contained within them. The Committee also reviews the appropriateness of the Group's accounting policies, recommendations for provisions against bad or doubtful loans and other credit exposures. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board.

At least once a year, the Audit Committee meets separately with the external auditor and the Head of Internal Audit without management being present to discuss any issues arising from the audit.

In relation to the Internal Audit function, the Committee's responsibilities include:

- Monitoring and assessing the role and effectiveness of the Internal Audit function and receiving reports on these matters; and
- Considering the appointment, resignation or dismissal of the Head of Internal Audit.

In relation to the Group's external auditor, the Committee's responsibilities include:

- Considering and making recommendations to the Board on the appointment, re-appointment, resignation or dismissal of the external auditor;
- Approving the terms of engagement, nature and scope of the audit; and
- Reviewing the findings of the audit including any major issues that arose during the course of the audit.

Risk Management Committee

This committee is composed of three non-executive Directors and the Managing Director:

- Naftali Mogere (Chairman)
- Anne K. Mugo
- Ken Wathome
- Frank Ireri

The Risk Management committee's primary responsibility is to ensure the quality, integrity and reliability of the Company's risk management framework. The Committee reviews and assesses the integrity of the risk control systems and ensures that the risk policies and strategies are effectively managed.

The basic principles of risk management that are followed and enforced through the Risk Management committee include:

- The Board assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies;
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities;
- Risk issues are taken into consideration in all business decisions;
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management; and
- Appropriate, effective controls exist for all processes entailing risks.

CORPORATE GOVERNANCE (Continued)

Nomination and Remuneration Committee

The members of the Nomination and Remuneration committee are:

- Beatrice Sabana (Chairperson)
- Anne K. Mugo
- Frank Ireri
- Mary Kimotho M'Mukindia (Resigned 26 February 2008)
- Anne Amissabuor

All the committee members are independent non-executive directors with the exception of the Managing Director.

The Committee's responsibilities include:

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

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

Credit Committee

This is a Board Committee comprising of four Non-Executive Directors:

- David Ansell (Chairman)
- Naftali Mogere
- Beatrice Sabana
- Anne Amissabour

The primary responsibilities of the Board Credit Committee are:

- Review and oversee the overall Credit policy and ensure that the risk lending limits are reviewed annually as and when the environment so dictates;
- Deliberate and consider loan applications beyond the limits of Management Lending Committee;
- Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Company's credit risk management;
- Ensure that the credit policy sets out acceptable levels of exposure to the various economic sectors, currencies and maturities as well as target markets, diversification and concentration of the credit portfolio.

This is the only Board Committee that carries out its duties without formally constituted meetings. All the business of the Board Credit Committee is carried out via circulation of papers and virtual meetings.

CORPORATE GOVERNANCE (Continued)

Attendance of Individual Directors

The following table shows the number of Board Meetings held during the year and the attendance of individual directors:

	Board Meetings					Total Attendance
(Date of meetings in 2007)	27/2	19/4	24/7	23/10	11/12	
Kungu Gatabaki	✓	✓	✓	✓	✓	5/5
David R. Ansell	✓	✓	✓	✓	✓	5/5
Mary K. M'Mukindia	✓	✓	✗	✗	✗	2/5
Anne W. Amissabour	✓	✓	✗	✓	✓	4/5
Naftali Mogere	✓	✗	✓	✗	✗	2/5
Frank Ireri	✓	✓	✓	✓	✓	5/5
Paul B. Ngugi	✓	n/a	n/a	n/a	n/a	1/1
Anne K. Mugo	n/a	✓	✓	✗	✓	3/4
Ken Wathome	n/a	✓	✓	✓	✓	4/4
Beatrice M. Sabana	n/a	✓	✓	✓	✓	4/4

✓ Attended

✗ Absent with apology

A number of Management committees have been established by the Board to oversee operations in some critical areas. These are:

- Executive committee (EXCO)
- Asset and Liability committee
- Risk Management committee
- Lending committee
- Arrears Management committee
- Information Technology Steering committee

The Board appoints other committees as and when necessary.

3. Internal audit function

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

4. Communication with shareholders

The company is committed to:

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

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

CORPORATE GOVERNANCE (Continued)

5. Directors benefits and loans

All the non-executive Directors have continued to receive Directors' fees. The aggregate amount of Directors' fees is disclosed in Note 6 to the financial statements.

6. Major shareholders as at 31 December 2007

	Name	No of shares	% age shareholding
1	Equity Bank Limited	23,000,000	20.00
2	National Social Security Fund	9,056,234	7.87
3	Permanent Secretary Treasury	8,422,850	7.32
4	Barclays (Kenya) Nominees Ltd 9347	5,635,000	4.90
5	Northbound Holdings Ltd	5,287,436	4.60
6	Steel Son Ltd	4,080,068	3.55
7	Nomura Nominees ltd A/C JMM	3,621,026	3.15
8	Ndungu, Paul Wanderi	2,702,600	2.35
9	Kibuwa Enterprises Limited	1,045,929	0.91
10	Kirinyaga Construction (Kenya) Limited	599,400	0.52
	TOTAL	**63,450,543**	**55.17**

7. Distribution of shareholders as at 31 December 2007

Shareholder (Number of shares)	No of shareholders	No of shares held	% age Shareholding
1-500	10,857	3,329,927	2.90
501-1,000	4,964	4,327,296	3.76
1,001-10,000	12,099	29,185,664	25.38
10,001-50,000	360	7,118,411	6.19
50,001-100,000	36	2,504,649	2.18
100,001 – 500,000	23	5,083,590	4.42
500,001 – 1,000,000	1	599,400	0.52
Over 1,000,000	9	62,851,063	54.65
TOTAL	**28,349**	**115,000,000**	**100**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of Housing Finance Company of Kenya Limited set out on pages 25 to 59 which comprise the balance sheets of the group and the company at 31 December 2007, and the group's income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors responsibility includes: determining that the basis of accounting described in Note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

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

Approval of the financial statements

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

Directors:
Kung'u Gatabaki
David R. Ansell
Frank Ireri

Date: 11 March 2008

TAARIFA KUHUSU WAJIBU WA WAKURUGENZI

Wakurugenzi wana wajibu wa kuandaa na kutoa taarifa ya matumizi ya pesa ya Kampuni ya Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kutoka Uk. 25 hadi 59 ambayo inajumuisha pamoja mizania (Balance Sheet) ya kampuni, mapato ya kundi kufikia Desemba 31, 2007 na taarifa kuhusu mabadiliko ya ulinganifu na mapato halisi ya kampuni kwa kipindi cha mwaka uliomalizika na vile vile muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 1 ni mbinu inayokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kwa hali ilivyo ; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu katika uandaalizi na utoaji wa taarifa hii ya matumizi ya pesa ambayo haina undanganyifu wowote, hila au makosa, kutenga na kutumia sera mwafaka za ukaguzi wa pesa na kuweka makadirio ya maana ya uhasibu

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

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

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

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

Kuidhinishwa kwa taarifa ya matumizi ya pesa

Taarifa ya matumizi ya pesa kama ilivyoonyeshwa hapo juu iliidhinishwa na Halmashauri ya Wakurugenzi na kutiwa sahihi kwa niaba yake na :-

Wakurugenzi:
Kung'u Gatabaki
David R. Ansell
Frank Ireri

Tarehe: 11 Machi 2008

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF HOUSING FINANCE COMPANY OF KENYA LIMITED

We have audited the Group financial statements of Housing Finance Company of Kenya Limited set out on pages 25 to 59 which comprise the balance sheets of the Group and the company at 31 December 2007, and the Group's income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 23, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the company at 31 December 2007, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

(iii) The balance sheet of the company is in agreement with the books of account.

KPMG KENYA
CERTIFIED PUBLIC ACCOUNTANTS
PO BOX 40612
NAIROBI
Date: 11 March 2008

RIPOTI YA WAHASIBU WA KUJITEGEMEA

KWA WANACHAMA WA HOUSING FINANCE COMPANY OF KENYA LIMITED

Tumeandaa taarifa kuhusu matumizi ya pesa ya Housing Finance Company kwa kipindi cha mwaka uliomalizika Desemba 31, 2007 kama ilivyoonyeshwa kupitia kurasa za 25 hadi 59 na kujumuisha pamoja mizania (Balance Sheet) ya kampuni, matokeo ya mapato ya kundi, taarifa kuhusu mabadiliko ya ulinganifu na mapato halisi ya kampuni kwa kipindi cha mwaka kilichomalizika, na muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa wakurugenzi kuhusiana na taarifa ya matumizi ya pesa

Kama ilivyoelezwa kupitia ukurasa wa 23, wakurugenzi wana-jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa. Wajibu huu unahusu, kuandaa, kubuni, kuanzisha na kudumisha maingizo ya fedha ambayo yatatumika kuandaa taarifa ya fedha isiyo danganyifu iwe ni kwa hila au makosa ; kutenga na kutumia sera zinazohitajika za uhasibu na kutoa makadirio ya pesa ya maana kulingana na hali ilivyo.

Wajibu wa wakaguzi wa hesabu

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

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

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

Maoni

Kwa maoni yetu, rekodi ya vitabu imetunzwa vyema na kwamba taarifa ya uhasibu ya kampuni na kundi kwa kipindi kilichomalizika Desemba 31, 2007 inadhihirisha hali halisi ya matokeo na shughuli za matumizi ya pesa na, inaafikiana na viwango vya kimataifa na kwa mujibu wa sheria za makampuni za Kenya.

Ripoti kuhusu mahitaji mengine ya kisheria

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

(i) Tumekusanya habari zote na fafanuzi ambazo kwa hekima yetu na imani zilikuwa muhimu kufanya ukaguzi wetu wa fedha

(ii) Kwa maoni yetu, kampuni imehifadhi vyema rekodi ya vitabu kama ilivyodhihirika kupitia uchunguzi wetu wa vitabu hivyo na;

(iii) Mizania (balance sheet) ya kampuni inaafikiana na vitabu vya hesabu.

KPMG KENYA
KAMPUNI YA WAHASIBU
S.L.P 40612
NAIROBI
Imenukuliwa Tarehe: 11 Machi 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 KShs'000	2006 KShs'000
INTEREST INCOME	3	980,589	1,023,357
INTEREST EXPENSE	3	(297,128)	(349,042)
NET INTEREST INCOME		683,461	**674,315**
IMPAIRMENT LOSSES ON MORTGAGE ADVANCES	13(b)	(74,792)	(104,284)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON MORTGAGE ADVANCES		**608,669**	**570,031**
NON INTEREST INCOME	4	177,036	183,032
NON INTEREST EXPENSES	5	(672,308)	(611,827)
PROFIT BEFORE TAXATION	6	113,397	**141,236**
TAXATION	7	(39,889)	(40,187)
NET PROFIT AFTER TAX		**73,508**	**101,049**
BASIC AND DILUTED EARNINGS PER SHARE	8	**KShs 0.64**	**KShs 0.88**
DIVIDENDS PER SHARE	9	**KShs 0.25**	-

The notes set out on pages 30 to 59 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Note	2007 KShs'000	2006 KShs'000
ASSETS			
Cash and bank balances	11	116,604	179,455
Placements with other banks		1,344,578	1,015,618
Investment in Government Securities	12	478,590	896,754
Mortgage advances to customers (Net)	13(a)	7,746,060	6,345,349
Other assets	16	159,662	114,593
Housing Development Projects	17	12,850	9,683
Property and equipment	18(a)	363,742	337,269
Prepaid operating lease rentals	19	50,545	51,188
Intangible assets	20	30,691	49,299
Deferred tax asset	21(a)	62,277	52,584
Tax recoverable		3,656	30,072
Defined benefit asset	22	-	51,967
TOTAL ASSETS		**10,369,255**	**9,133,831**
LIABILITIES			
Customers' deposits	23	8,776,826	7,618,723
Other liabilities	24	146,158	132,128
Deferred tax liability	21(a)	-	10,217
		8,922,984	7,761,068
SHAREHOLDERS' EQUITY			
Share capital	25	575,000	575,000
Reserves	25	820,521	747,013
Shareholders' income notes and loans	26	50,750	50,750
		1,446,271	1,372,763
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,369,255**	**9,133,831**

The financial statements set on pages 25 to 59 were approved by the Board of Directors on 11 March 2008 and were signed on its behalf by:

Directors:
Kung'u Gatabaki
David R. Ansell
Frank Ireri

Company Secretary
Fiona C Fox
The notes set out on pages 30 to 59 form an integral part of these financial statements.

COMPANY BALANCE SHEET

AT 31 DECEMBER 2007

	Note	2007 KShs'000	2006 KShs'000
ASSETS			
Cash and bank balances	11	116,564	179,425
Placement with other banks		1,344,578	1,015,618
Investment in Government securities	12	478,590	896,754
Mortgage advances to customers (Net)	13(a)	7,746,060	6,345,349
Investment in subsidiaries	14	130,020	130,020
Other assets	16	137,923	85,166
Property and equipment	18(b)	357,440	330,893
Prepaid operating lease rentals	19	43,094	43,556
Intangible assets	20	30,601	49,299
Dividend receivable		20,000	-
Deferred tax asset	21(b)	9,670	-
Tax recoverable		-	13,458
Defined benefit asset	22	-	51,967
TOTAL ASSETS		**10,414,540**	**9,141,505**
LIABILITIES			
Customers' deposits	23	8,787,945	7,619,250
Amounts due to subsidiary company	15	19,655	18,259
Other liabilities	24	129,593	126,103
Tax payable		17,379	-
Deferred tax liability	21(b)	-	10,217
		8,954,572	7,773,829
SHAREHOLDERS' EQUITY			
Share capital	25	575,000	575,000
Reserves	25	834,218	741,926
Shareholders' income notes and loans	26	50,750	50,750
		1,459,968	1,367,676
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,414,540**	**9,141,505**

The financial statements set on pages 25 to 59 were approved by the Board of Directors on 11 March 2008 and were signed on its behalf by:

Directors:
Kung'u Gatabaki
David R. Ansell
Frank Ireri

Company Secretary
Fiona C Fox
The notes set out on pages 30 to 59 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 KShs'000	2006 KShs'000
Net cash flows from operating activities	27(a)	(24,580)	**(494,597)**
INVESTING ACTIVITIES			
Purchase of property and equipment		(53,775)	(66,585)
Proceeds from sale of prepaid operating lease rentals		-	23,823
Proceeds from sale of property and equipment		-	24,542
Purchase of intangible assets		(3,271)	(7,376)
Net cash flow from investing activities		(57,046)	**(25,596)**
Net decrease in cash and cash equivalents	27(b)	(81,626)	**(520,193)**

The notes set out on pages 30 to 59 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Total KShs'000
At 1 January 2006	**575,000**	**193,418**	**25,705**	-	**289,262**	**137,579**	**1,220,964**
Net profit after taxation	-	-	-	-	-	101,049	101,049
Transfer to statutory reserve	-	-	-	-	127,882	(127,882)	-
At 31 December 2006	**575,000**	**193,418**	**25,705**	-	**417,144**	**110,746**	**1,322,013**
Net profit after taxation	-	-	-	-	-	73,508	73,508
Proposed dividends	-	-	-	28,750	-	(28,750)	-
Transfer to statutory reserve	-	-	-	-	30,363	(30,363)	-
At 31 December 2007	**575,000**	**193,418**	**25,705**	**28,750**	**447,507**	**125,141**	**1,395,521**

The notes set out on pages 30 to 59 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Total KShs'000
At 1 January 2006	**575,000**	**193,418**	**25,705**	-	**289,262**	**156,853**	**1,240,238**
Net profit after taxation	-	-	-	-	-	76,688	76,688
Transfer to statutory reserve	-	-	-	-	127,882	(127,882)	-
At 31 December 2006	**575,000**	**193,418**	**25,705**	-	**417,144**	**105,659**	**1,316,926**
Net profit after taxation	-	-	-	-	-	92,292	92,292
Proposed dividends	-	-	-	28,750	-	(28,750)	-
Transfer to statutory reserve	-	-	-	-	30,363	(30,363)	-
At 31 December 2007	**575,000**	**193,418**	**25,705**	**28,750**	**447,507**	**138,838**	**1,409,218**

The notes set out on pages 30 to 59 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(ii) Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

(iii) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 34.

(b) Consolidation principles

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries made up to 31 December 2007. Subsidiaries are entities controlled by the company. Control exists when the company has power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. A listing of the subsidiaries is set out on Note 14.

(c) Revenue recognition

Income is recognised on an accrual basis.

(i) Interest

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

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

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis and interest on available-for-sale investment securities on an effective interest basis.
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the income statement.

(c) Revenue recognition (continued)

(ii) Fees and commission income

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

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

(d) Foreign currencies

(i) Functional and presentation currency

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

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya Shillings.

(ii) Foreign currency transactions

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

(e) Property and equipment

Freehold land and buildings and buildings on leasehold land are included in the financial statements at their historical cost or amount of any subsequent valuation less accumulated depreciation and impairment losses.

Freehold land is not depreciated.

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

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

Buildings on leasehold land are depreciated over the remaining period of the lease. Buildings on freehold land are depreciated over fifty years.

The residual value, if not insignificant is reassessed annually.

(f) Intangible assets

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

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

(g) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases arrangements (whether pre-paid or post paid) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Employee benefits

(i) Employee Retirement Benefits Plan

Up to 31 December 2006 the Group operated a funded defined benefit plan for all permanent employees. With effect from 1 January 2007, the scheme was converted to a defined contribution scheme with the approval of the Retirement Benefits Authority. At the date of the transfer the defined benefit asset of KShs 61,818,000 was transferred to the company. This was based on an actuarial valuation carried out as at this date.

The funds for the new defined contribution scheme 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 the profit and loss account in the year to which they relate.

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

(ii) Employee Share Ownership Plan (ESOP)

Approval to establish an ESOP was given by the shareholders on 26 July 2006. Arrangements are in place to operationalise the Plan.

(iii) Accrued leave

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

(i) Taxation

Tax on the operating results for the year comprises the current charge and change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that future taxable profit is expected to be available against which the unused tax losses can be utilized.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Cash and cash equivalents

For the purpose of presentation of cash flows in the consolidated financial statements, the cash and cash equivalents include cash in hand and at bank, net balances with banking institutions and investment in government securities with a maturity period within three months from date of acquisition.

(k) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables

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

(k) Financial assets (continued)

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock.

(iv) Available-far-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the'financial assets at fair value through profit or loss' category are included in the income statement in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

(l) Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

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

Impairment of financial assets (continued)

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

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

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(m) Impairment for non financial assets

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

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

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

(n) Segmental reporting

Segment information is presented in respect of the Group's business segments, which is the primary format and is based on the nature of products and services which the Group offers. The Group has no distinguishable geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arms length basis.

(o) Dividends

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

(p) Earnings per share

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

(q) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and 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.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(r) Offsetting

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements because the company has not entered into any public – to – private service concession.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements because the company does not have any customer loyalty programmes.
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 becomes mandatory for the Group's 2008 financial statements, with retrospective application required is not expected to have an effect on the consolidated financial statements because during the year the company converted its defined benefit scheme to a defined contribution scheme.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

2. SEGMENT REPORTING

Business segments

The Group is organised in three main business segments: Mortgage, Real Property Development and Estate Advisory services.

31 December 2007:	Mortgage business KShs'000	Property development KShs'000	Estate advisory services KShs'000	Eliminations KShs'000	Total 31.12.07 KShs'000
Gross revenue (external)	**1,150,489**	**79**	**7,057**	**-**	**1,157,625**
Segment profit/(loss) before tax	130,723	(2,257)	4,931	(20,000)	113,397
Taxation	(38,431)	23	(1,481)	-	(39,889)
Segment profit/(loss) after tax	**92,292**	**(2,234)**	**3,450**	**(20,000)**	**73,508**
Other information:					
Segment assets	10,414,540	108,654	48,730	(202,004)	10,369,920
Segment liabilities	8,954,572	5,365	31,249	(40,283)	8,950,903
Depreciation/amortisation expense	(49,562)	(258)	(4)	-	(49,824)
Capital expenditure	56,949	49	48	-	57,046

31 December 2006:	Mortgage business KShs'000	Property development KShs'000	Estate advisory services KShs'000	Eliminations KShs'000	Total 31.12.06 KShs'000
Gross revenue (external)	**1,196,524**	**-**	**14,291**	**(4,426)**	**1,206,389**
Segment profit/(loss) before tax	126,749	4,932	13,981	(4,426)	141,236
Taxation	(35,062)	(1,213)	(3,912)	-	(40,187)
Segment profit/(loss) after tax	**91,687**	**3,719**	**10,069**	**(4,426)**	**101,049**
Other information:					
Segment assets	9,141,505	110,927	42,129	(160,730)	9,133,831
Segment liabilities	7,773,829	5,405	8,101	(26,267)	7,761,068
Depreciation/amortisation expense	(51,105)	(325)	-	-	(51,430)
Capital expenditure	73,961	-	-	-	73,961

Geographical segments

The Group's operations are all within Kenya. Geographical analysis is not relevant.

3. INTEREST INCOME

	2007 KShs'000	2006 KShs'000
Advances to customers	857,587	855,029
Treasury bills	4,263	34,434
Treasury bonds	34,398	38,161
Placements with other banks	84,341	95,733
	980,589	**1,023,357**

Included in interest income on mortgage advances for the year is a total of KShs 161,197,981 (2006 – KShs 318,581,144) accrued on impaired assets. Interest income on treasury bills and treasury bonds relates to investment securities that are held to maturity.

INTEREST EXPENSE

	2007 KShs'000	2006 KShs'000
Customer deposits	292,941	344,856
Interest on borrowed funds	4,187	4,186
	297,128	**349,042**

4. NON INTEREST INCOME

Fees and commission income	135,115	108,117
Rental income	25,751	21,674
Other operating income	16,170	25,240
Gain on sale of investment property, property and equipment and prepaid operating lease rentals	-	28,001
	177,036	**183,032**

5. NON INTEREST EXPENSES

Salaries and employee benefits	383,485	326,736
Rental expenses	24,342	23,331
Deposit Protection Fund	12,164	12,155
General administration expenses	252,317	249,605
	672,308	**611,827**

The following items are included with salaries and employee benefits:

Compulsory social welfare contributions	554	521
Contributions to the defined contribution retirement scheme	24,473	-
Contributions to the defined benefit retirement scheme	-	27,265
Increase in the defined benefit scheme asset (Note 22(a))	(9,851)	(32,083)

NOTES TO THE FINANCIAL STATEMENTS (cont.)

6. PROFIT BEFORE TAXATION

The profit before taxation is arrived at after charging/(crediting):

	2007 KShs'000	2006 KShs'000
Directors' remuneration:		
- Fees	2,472	1,990
- Expenses	2,005	1,700
- As executives	20,808	10,095
Auditors' remuneration	4,990	5,446
Amortisation of prepaid operating lease rentals	643	690
Amortisation of intangible assets	21,879	20,672
Depreciation	27,302	30,068
Profit on sale of property and equipment, leasehold land and non-current assets held for sale		(28,001)

7. TAXATION

Current tax at 30%	60,085	24,811
Prior year over provision	(286)	-
	59,799	24,811
Deferred tax (credit)/charge (Note 21(a))	(19,910)	15,376
	39,889	**40,187**

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

	2007 KShs'000	2006 KShs'000
Accounting profit before taxation	113,397	141,236
Tax at the applicable corporation tax rate of 30%	34,019	42,371
Utilisation of unrecognised tax losses brought forward	(286)	(287)
Tax effect of non-deductible costs and non-taxable income	6,156	(1,897)
	39,889	**40,187**

8. EARNINGS PER SHARE

Basic

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

	2007 KShs'000	2006 KShs'000
Net profit for the period/year attributable to shareholders	73,508	101,049
Number of ordinary shares in issue (in thousands)	115,000	115,000
Basic earnings per share	KShs 0.64	KShs 0.88
Diluted earnings per share	KShs 0.64	KShs 0.88

9. DIVIDEND PER SHARE

Dividend	28,750	-
Number of ordinary shares (000's)	115,000	115,000
Dividends per share	KShs 0.25	KShs 0.00

NOTES TO THE FINANCIAL STATEMENTS (cont.)

10. FINANCIAL ASSETS AND LIABILITIES

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

(a) Group

	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
31 December 2007				
Cash and cash equivalents	-	-	116,604	116,604
Placements with banks	-	-	1,344,578	1,344,578
Investment in government securities	478,590	-	-	475,782
Mortgage advances	-	7,746,060	-	7,746,060
	478,590	**7,746,060**	**1,461,182**	**9,683,024**
Customer deposits	-	-	**8,776,826**	**8,776,826**
31 December 2006				
Cash and cash equivalents	-	-	179,455	179,455
Placements with banks	-	-	1,015,618	1,015,618
Investment in government securities	896,754	-	-	823,535
Mortgage advances	-	6,345,349	-	6,345,349
	896,754	**6,345,349**	**1,195,073**	**8,363,957**
Customer deposits	-	-	**7,618,723**	**7,618,723**

(b) Company

	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
31 December 2007				
Cash and cash equivalents	-	-	116,564	116,564
Placements with banks	-	-	1,344,578	1,344,578
Investment in government securities	478,590	-	-	475,782
Mortgage advances	-	7,746,060	-	7,746,060
	478,590	**7,746,060**	**1,461,142**	**9,682,984**
Customer deposits	-	-	**8,787,945**	**8,787,945**
31 December 2006				
Cash and cash equivalents	-	-	179,455	179,455
Placements with banks	-	-	1,015,618	1,015,618
Investment in government securities	896,754	-	-	823,535
Mortgage advances	-	6,345,349	-	6,345,349
	896,754	**6,345,349**	**1,195,073**	**8,363,957**
Customer deposits	-	-	**7,618,723**	**7,618,723**

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

The fair value of loans and advances has not been disclosed as this cannot be determined reliably because of lack of a developed market for securitised assets.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

11. CASH AND BANK BALANCES

	2007 Group KShs'000	2007 Company KShs'000	2006 Group KShs'000	2006 Company KShs'000
Cash at hand	113,971	113,964	76,067	76,067
Current account balances	2,633	2,600	103,388	103,358
	116,604	**116,564**	**179,455**	**179,425**

12. INVESTMENT IN GOVERNMENT SECURITIES

Group and Company	2007 KShs'000	2006 KShs'000
Held to Maturity		
Treasury bills due within 90 days	-	347,735
Treasury bonds due within 90 days	-	-
Treasury bonds due within 180 days	-	9,019
Treasury bonds due after 180 days	478,590	540,000
	478,490	**549,019**
	478,590	**896,754**

The weighted average effective interest rate on government securities as at 31 December 2007 was 6.87% (2006 – 6.30%).

13. MORTGAGE ADVANCES TO CUSTOMERS

Group and Company

(a) Mortgage advances at amortised cost	2007 KShs'000	2006 KShs'000
Mortgages	8,963,498	8,331,178
Less: Provision for impairment losses (Note 13b)	(1,217,438)	(1,985,829)
	7,746,060	**6,345,349**
Maturing:		
Within five years	1,851,808	1,897,531
Over five years to ten years	3,358,781	2,701,108
Over ten years to fifteen years	2,167,791	1,669,006
Over fifteen years	367,680	77,704
	7,746,060	**6,345,349**

(b) Reserve for impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2006	**3,416,159**	**16,451**	**3,432,610**
Impairment made in the year	101,707	2,577	104,284
Written off against balance	(1,551,065)	-	(1,551,065)
At 31 December 2006	**1,966,801**	**19,028**	**1,985,829**
Impairment made in the year	64,953	9,839	74,792
Written off against balance	(843,183)	-	(843,183)
At 31 December 2007	**1,188,571**	**28,867**	**1,217,438**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

13. MORTGAGE ADVANCES TO CUSTOMERS (Continued)

(c) Mortgage advances

Included in the mortgage is interest yet to be received in cash from mortgage advances classified as impaired mortgages as shown below:

	2007 KShs'000	2006 KShs'000
Interest on impaired mortgages which has not yet been received in cash	1,180,157	1,924,062

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2007 was 12.23% (2006 – 14.11%).

14. INVESTMENT IN SUBSIDIARIES

	Shareholding	2007 KShs'000	2006 KShs'000
Kenya Building Society Limited	100%	125,000	125,000
First Permanent (East Africa) Limited	100%	5,020	5,020
		130,020	**130,020**

15. AMOUNTS DUE TO SUBSIDIARIES

Company:		
First Permanent (East Africa) Limited	**19,655**	**18,259**

16. OTHER ASSETS

	2007		2006	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	30,364	30,364	34,334	34,328
Prepayments	16,254	16,254	23,431	13,432
Deposits and rent receivable	3,035	3,035	B,318	8,296
Other receivables	110,009	88,270	4B,510	29,110
	159,662	**137,923**	**114,593**	**85,166**

Included in staff debtors is staff car loans of KShs 28,845,483 (2006 – KShs 33,293,212).

17. HOUSING DEVELOPMENT PROJECTS

Group:	2007 KShs'000	2006 KShs'000
Housing projects		
Komarock Housing Projects	**12,850**	**9,683**

Commitments in respect of these projects authorised but not paid as at 31 December 2007 amounted to nil (2006 – Nil).

NOTES TO THE FINANCIAL STATEMENTS (cont.)

18. PROPERTY AND EQUIPMENT

(a) Group

2007:	**Freehold land KShs'000**	**Buildings KShs'000**	**Furniture, fixtures, equipment & motor vehicles KShs'000**	**Total KShs'000**
Cost or valuation:				
At 1 January 2007	7,000	233,651	434,723	675,374
Additions	-	-	53,775	53,775
At 31 December 2007	7,000	233,651	488,498	729,149
Comprising:				
At cost	-	20,651	488,498	509,149
At valuation	7,000	213,000	-	220,000
	7,000	233,651	488,498	729,149
Depreciation:				
At 1 January 2007	-	6,413	331,692	338,105
Charge for the year	-	3,262	24,040	27,302
At 31 December 2007	-	9,675	355,732	365,407
Net book value:				
At 31 December 2007	**7,000**	**223,976**	**132,766**	**363,742**
At 31 December 2006	**7,000**	**227,238**	**103,031**	**337,269**
2006:				
Cost or valuation:				
At 1 January 2006	7,000	233,651	389,495	630,146
Additions	-	-	66,585	66,585
Disposals	-	-	(21,357)	(21,357)
At 31 December 2006	7,000	233,651	434,723	675,374
Comprising:				
At cost	-	20,651	434,723	455,374
At valuation	7,000	213,000	-	220,000
	7,000	233,651	434,723	675,374
Depreciation:				
At 1 January 2006	-	3,148	324,908	328,056
Charge for the year	-	3,265	26,803	30,068
Disposals	-	-	(20,019)	(20,019)
At 31 December 2006	-	6,413	331,692	338,105
Net book value:				
At 31 December 2006	**7,000**	**227,238**	**103,031**	**337,269**
At 31 December 2005	**7,000**	**230,503**	**64,587**	**302,090**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

18. PROPERTY AND EQUIPMENT (Continued)

The Group's land and buildings were professionally valued by the Group's valuer on an open market basis on 31 December 2005. The resulting surplus was credited to revaluation reserve.

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

	2007 KShs 000	2006 KShs '000
Freehold land	206	206
Buildings	47,720	50,907

Included in equipment are assets with a gross value of KShs 307,224,490 (2006 – KShs 240,594,359) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 53,032,610 (2006 – KShs 40,749,184).

(b) Company

2007:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2007	7,000	225,055	429,357	661,412
Additions	-	-	53,775	53,775
At 31 December 2007	**7,000**	**225,055**	**483,132**	**715,187**
Comprising:				
At cost	-	12,055	483,132	495,187
At valuation	7,000	213,000	-	220,000
	-	225,055	483,132	715,187
Depreciation:				
At 1 January 2007	-	4,193	326,326	330,519
Charge for the year	-	3,188	24,040	27,228
At 31 December 2007	-	7,381	350,366	357,747
Net book value:				
At 31 December 2007	**7,000**	**217,674**	**132,766**	**357,440**
At 31 December 2006	**7,000**	**220,862**	**103,031**	**330,893**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

18. PROPERTY AND EQUIPMENT (Continued)

2006:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2006	7,000	225,055	384,129	616,184
Additions	-	-	66,585	66,585
Disposals	-	-	(21,357)	(21,357)
At 31 December 2006	7,000	225,055	429,357	661,412
Comprising:				
At cost	-	12,055	429,357	441,412
At valuation	7,000	213,000	-	220,000
	7,000	225,055	429,357	661,412
Depreciation:				
At 1 January 2006	-	1,003	319,542	320,545
Charge for the year	-	3,190	26,803	29,993
Disposals	-	-	(20,019)	(20,019)
At 31 December 2006	-	4,193	326,326	330,519
Net book value:				
At 31 December 2006	**7,000**	**220,862**	**103,031**	**330,893**
At 31 December 2005	**7,000**	**224,052**	**64,587**	**295,639**

The company's land and buildings were professionally valued by the Group's valuer on an open market basis on 31 December 2005. The resulting surplus was credited to revaluation reserve.

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

	2007 KShs 000	2006 KShs '000
Freehold land	206	206
Buildings	47,720	50,907

Included in equipment are assets with a gross value of KShs 299,855,186 (2006 – Kshs 233,225,055) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 51,883,369 (2006 – KShs 40,012,254).

19. PREPAID OPERATING LEASE RENTALS

	2007		2006	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost				
At 1 January	54,612	45,706	57,932	45,706
Disposals in the year	-	-	(3,320)	-
	54,612	45,706	**54,612**	**45,706**
Amortisation:				
At 1 January	3,424	2,150	3,193	1,642
Charge for the year	643	462	690	508
Disposals	-	-	(459)	-
	4,067	2,612	**3,424**	**2,150**
At 31 December	**50,545**	**43,094**	**51,188**	**43,556**

As at 31 December 2007 the un-expired lease period ranges from 66 to 88 years.

20. INTANGIBLE ASSETS

	2007		2006	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost				
At January	121,875	121,875	114,499	114,499
Additions during the year	3,271	3,174	7,376	7,376
	125,146	125,049	**121,875**	**121,875**
Amortisation				
At January	72,576	72,576	51,904	51,904
Amortisation during the year	21,879	21,872	20,672	20,672
As at 31 December	94,455	94,448	**72,576**	**72,576**
Net book value as at 31 December	**30,691**	**30,601**	**49,299**	**49,299**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

21. **DEFERRED TAX ASSETS AND LIABILITIES**

Deferred tax assets and liabilities are attributable to the following:

(a) Group

31 December 2007:

	01.01.2007 KShs'000	**Recognised in income KShs'000**	**31.12.2007 KShs'000**
Arising from:			
Plant and equipment	869	(269)	600
Other general provisions	(655)	350	(305)
General provision on mortgages	(5,708)	(4,391)	(10,099)
Defined benefit asset	15,590	(15,590)	-
Tax losses carried forward	(52,463)	(10)	(52,473)
Net deferred tax	**(42,367)**	**(19,910)**	**(62,277)**
Comprising:			
Deferred tax asset	**52,584**		**62,277**
Deferred tax liability	**10,217**		-

31 December 2006:

	01.01.2006 KShs'000	**Recognised in income KShs'000**	**31.12.2006 KShs'000**
Arising from:			
Plant and equipment	777	92	869
Other general provisions	(385)	(270)	(655)
General provision on mortgages	(10,424)	4,716	(5,708)
Defined benefit asset	5,965	9,625	15,590
Tax losses carried forward	(53,676)	1,213	(52,463)
Net deferred tax	**(57,743)**	**15,376**	**(42,367)**
Comprising:			
Deferred tax asset	**57,743**		**52,584**
Deferred tax liability	-		**10,217**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

21. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

(b) Company

31 December 2007:	01.01.2007 KShs'000	Recognised in income KShs'000	31.12.2007 KShs'000
Arising from:			
Plant and equipment	834	(100)	734
Other general provisions	(499)	194	(305)
General provision on mortgages	(5,708)	(4,391)	(10,099)
Defined benefit asset	15,590	(15,590)	-
	10,217	**(19,887)**	**(9,670)**

31 December 2006:	01.01.2006 KShs'000	Recognised in income KShs'000	31.12.2006 KShs'000
Arising from:			
Plant and equipment	744	90	834
Other general provisions	(230)	(269)	(499)
General provision on mortgages	(10,424)	4,716	(5,708)
Defined benefit asset	5,965	9,625	15,590
	(3,945)	**14,162**	**10,217**

22. EMPLOYEE BENEFITS

(a) Retirement benefits asset

Group and Company

An actuarial valuation was undertaken as at 31 December 2006 and the previous one was at 31 December 2003 is shown below:

	31.12.2007 KShs'000	31.12.2006 KShs'000
Present value of funded obligations	-	350,754
Fair value of scheme assets	-	(466,833)
Net under funding in the scheme	-	(116,079)
Unrecognised actuarial loss	-	64,112
Net asset in the balance sheet	-	**(51,967)**

Movements in the net asset recognised in the balance sheet are as follows:

	2007 KShs'000	2006 KShs'000
Net asset at 1 January 2007 and 2004	(51,967)	(19,884)
Net income recognised in the income statement	(9,851)	32,083
Employer contributions – Current year	-	(27,265)
– Prior years	-	(36,901)
Received from the pension fund	61,818	-
Net asset in the balance sheet at 31 December	-	**(51,967)**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

22. EMPLOYEE BENEFITS (Continued)

With effect from 1 January 2007, the Group's defined benefit plan was converted to a defined benefit contribution. The resulting scheme surplus of KShs 9,851,000 over the retirement benefit asset was offset against staff costs in the Group income statement.

Historical information	**2007 KShs'000**	**2006 KShs'000**	**2005 KShs'000**	**2004 KShs'000**	**2003 KShs'000**
Present value of funded obligations	-	350,754	297,187	250,358	239,655
Fair value of scheme assets	-	466,833	365,091	291,635	273,037
Net under funding in funded plan	**-**	**(116,079)**	**(67,904)**	**(41,277)**	**(33,382)**
Unrecognised actuarial gain/(loss)	-	64,112	28,938	14,004	13,498
Net liability in the balance sheet	**-**	**(51,967)**	**(38,966)**	**(27,273)**	**(19,884)**

(b) Employee Share Option Plan (ESOP)

On 26 July 2006, the shareholders gave approval for an Employee Share Ownership Plan (ESOP) to be set up to facilitate the ownership of shares in Housing Finance Company of Kenya Limited by employees of the company. There after, steps have been taken to operationalise the Plan.

23. CUSTOMERS' DEPOSITS

	2007		**2006**	
	Group KShs'000	**Company KShs'000**	**Group KShs'000**	**Company KShs'000**
Government and parastatals:				
Payable within 90 days	539,069	539,069	348,210	348,210
Payable after 90 days and within one year	174,312	174,312	109,054	109,054
Payable after one year	633,682	633,682	799,814	799,814
Private sector and individuals:				
Payable within 90 days	2,954,380	2,965,499	2,674,653	2,675,180
Payable after 90 days and within one year	3,201,773	3,201,773	3,313,131	3,313,131
Payable after one year	1,273,610	1,273,610	373,861	373,861
	8,776,826	**8,787,945**	**7,618,723**	**7,619,250**

(a) Included in customers' deposits is KShs 1,284,581 (2006 – KShs 527,488) due to a subsidiary, Kenya Building Society Limited and KShs 9,834,200 (2006 – Nil) due to subsidiary, First Permanent (East Africa) Ltd.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2007 was 3.98% (2006 – 3.70%).

24. OTHER LIABILITIES

	2007 Group KShs'000	2007 Company KShs'000	2006 Group KShs'000	2006 Company KShs'000
Interest payable on the Government of Kenya Income Notes	2,093	2,093	2,093	2,093
House sales deposits	1,524	-	1,564	-
Project costs accruals	-	-	2,467	-
Withholding tax payable	10,977	10,977	9,959	9,959
Unclaimed dividends	11,137	11,137	11,272	11,272
Sundry creditors	45,376	45,376	42,759	42,759
Other liabilities	75,051	60,010	62,014	60,020
	146,158	**129,593**	**132,128**	**126,103**

25. CAPITAL AND RESERVES

Group and company:	2007 KShs'000	2006 KShs'000
(a) Share capital		
Authorised, issued and fully paid		
115,000,000 Ordinary shares of KShs 5.00 each	**575,000**	**575,000**

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual and general meetings of the company.

(b) Share premium

These reserves arose at a time when the shares of the company were issued at a price higher than the nominal (Par) value. These will be applied towards capital in future.

(c) Revaluation reserve

Revaluation reserves arise from the periodic revaluation of freehold land and buildings. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

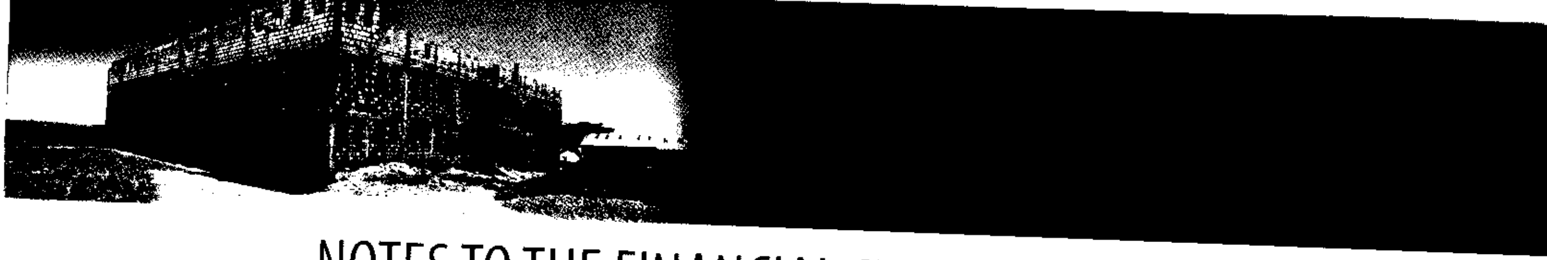
(d) Statutory reserve

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

26. SHAREHOLDERS' INCOME NOTES AND LOANS

	2007 KShs'000	2006 KShs'000
Group and company:		
Government of Kenya – Income Notes	**50,750**	**50,750**

The Government of Kenya – Income Notes carry no redemption date and is charged interest at a fixed rate of 8.25% per annum (2006 – 8.25%).



NOTES TO THE FINANCIAL STATEMENTS (cont.)

27. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash flows from operating activities

	2007 KShs'000	2006 KShs'000
Group profit before taxation	113,397	141,236
Depreciation	27,302	30,068
Amortisation of intangible asset	21,879	20,672
Amortisation of prepaid operating lease rentals	643	690
Profit on sale of prepaid operating lease rentals	-	(20,962)
Profit on sale of non-current asset held for sale, property and equipment	-	(7,039)
Increase/(decrease) in customer deposits	1,158,103	(814,780)
Net movement in mortgage advances to customers	(1,400,711)	98,506
Investment in Government securities	70,429	147,177
Increase in other assets	(45,069)	(25,626)
Increase/(decrease) in liabilities	14,030	(23,733)
Decrease/(increase) in defined benefit asset	51,967	(32,083)
Increase in housing projects	(3,167)	(253)
Net cash flows from operating activities before tax	**8,803**	**(486,127)**
Tax paid	(33,383)	(8,470)
Net cash flows from operating activities	**(24,580)**	**(494,597)**

(b) Analysis of cash and cash equivalents

	2007 KShs'000	2006 KShs'000	Change in the year KShs'000
Cash in hand and bank	116,604	179,455	(62,851)
Balances due from banking institutions	1,344,578	1,015,618	328,960
Investment in government securities	-	347,735	(347,735)
	1,461,182	**1,542,808**	**(81,626)**

28. CONTINGENT LIABILITIES

As at 31 December 2007, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 6.686 million (2006 – KShs 6.59 million).

NOTES TO THE FINANCIAL STATEMENTS (cont.)

29. OPERATING LEASE ARRANGEMENTS

Group and company

The bank as a lessor

Rental income earned during the year was KShs 25,752,195 (2006 – KShs 21,673,706). At the balance sheet date, the bank had contracted with tenants for the following future lease receivables:

	2007 KShs'000	2006 KShs'000
Within one year	22,408	10,536
In second to fifth year inclusive	102,017	26,552
After five years	26,114	34,245
	150,539	**71,333**

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

The bank as a lessee

At the balance sheet date, the bank had outstanding commitments under operating leases which fall due as follows:

	2007 KShs'000	2006 KShs'000
Within one year	9,256	491
In second to fifth year inclusive	40,478	13,202
After five years	10,472	13,401
	60,206	**27,094**

Operating lease payments represent rentals payable by the bank for its office premises. Leases are negotiated for an average term of 6 years.

30. MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs 2,399,224,000 (2006 – KShs 1,245,085,000) are analysed below:

	2007 KShs'000	2006 KShs'000
Commitment in principle but not authorised for payment	1,849,449	566,685
Authorised but not paid	549,775	678,400
	2,399,224	**1,245,085**

31. CAPITAL COMMITMENTS

Group and company	2007 KShs'000	2006 KShs'000
Authorised but not contracted	**15,000**	**84,848**

32. ASSETS PLEDGED AS SECURITY

As at 31 December 2007, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

33. RELATED PARTY TRANSACTIONS

Group and company

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

(a) Loans

	2007 KShs'000	2006 KShs'000
At 1 January	179,648	157,287
Loans advanced during the year	95,182	57,196
Reclassified third party loans	-	(1,036)
Loans repayments received	(19,635)	(33,799)
At 31 December	**255,195**	**179,648**
Comprising:		
Mortgage advances	224,831	145,314
Staff car loans	28,845	33,293
Other	1,519	1,041
At 31 December	**255,195**	**179,648**

Included in the related party are staff car loans of KShs 28,845,483 (2006 – KShs 33,293,212). The related interest income in 2007 was KShs 14,872,711 (2006 – KShs 18,071,141).

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

(b) Remuneration to directors is disclosed under Note 6.

(c) Compensation to senior management for the year ended 31 December 2007 amounted to KShs 60,226,619 (2006 – KShs 48,325,922).

34. FINANCIAL RISK MANAGEMENT

Principles

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

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

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

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.

34. FINANCIAL RISK MANAGEMENT (Continued)

- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Company and divisional levels, as well as by enforcing consistent operating limits for individual business activities.
- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate, effective controls exist for all processes entailing risks.

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

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

(i) 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 company or if an obligor otherwise fails to perform as agreed.

Management of credit risk

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

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

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

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

At the management level, there is a Credit Risk Division staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this division there is a fully fledged mortgage recoveries and rehabilitation unit with the responsibility for formulating workout solutions and restructured mortgages in distress.

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

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

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

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. This is assessed on a collective basis for groups of homogeneous assets in respect of losses that have been incurred. A collective basis is applied because there are no individually significant accounts.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

34. FINANCIAL RISK MANAGEMENT (Continued)

Use of estimates and judgements – Key source of estimation uncertainty

The Group assesses the impairment loss on impaired mortgage accounts on a collective basis. This is determined using an impairment model which relies on management estimates of the expected future cash flows as informed by past collection statistics. The estimation of the future cash flows is a key assumption in the determination of the impairment loss recognised in the income statement.

To estimate the cash flows management considers what they expect to receive from the repayments from customers and what will be received from the realisation of the securities. This is done on a collective basis and is informed by past statistics on collections from impaired loans. The effective rate of interest applied in discounting the cash flows is determined as the weighted average interest rate for the impaired portfolio.

Write-off policy

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

Exposure to credit risk	**Mortgage advances**		**Investment securities**	
	2007 KShs'000	**2006 KShs'000**	**2007 KShs'000**	**2006 KShs'000**
Impaired loans	2,593,354	3,951,178	-	-
Gross amount allowance for impairment	(1,188,571)	(1,966,468)	-	-
Carrying amount	**1,404,783**	**1,984,710**	-	-
Neither past due nor impaired (normal and watch)	6,370,144	4,379,667	478,590	896,754
Allowance for impairment incurred but not reported	(28,867)	(19,028)	-	-
Carrying amount	**6,341,277**	**4,360,639**	**478,590**	**896,754**
Net carrying amount	**7,746,060**	**6,345,349**	**478,590**	**896,754**

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

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

	2007 KShs'000	**2006 KShs'000**
Against impaired accounts	2,132,782	3,065,848
Against accounts not impaired	13,736,066	10,239,917
	15,868,848	**13,305,765**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

34. FINANCIAL RISK MANAGEMENT (Continued)

(i) *Liquidity risk*

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

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

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

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 banks, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2007	**2006**
At 31 December	20.00%	26.27%
Average for the period	23.13%	28.98%
Maximum for the period	26.25%	31.95%
Minimum for the period	20.00%	26.00%

34. **FINANCIAL RISK MANAGEMENT (Continued)**

Contractual maturity analysis of financial assets and liabilities

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

	Due on Demand KShs '000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
31 December 2007						
Financial Assets						
Cash and bank balances	116,604	-	-	-	-	116,604
Placements with other banks	-	994,578	350,000	-	-	1,344,578
Investment in Government securities	-	-	8,590	470,000	-	478,590
Net mortgage advances to customers	-	416,942	161,572	1,273,294	5,894,252	7,746,060
Total	**116,604**	**1,411,520**	**520,162**	**1,743,294**	**5,894,252**	**9,685,832**
Financial liabilities						
Customer deposits	-	3,493,449	3,376,085	1,840,082	67,210	8,776,826
Government income notes	-	-	-	-	50,750	50,750
Total	**-**	**3,493,449**	**3,376,085**	**1,840,082**	**117,960**	**8,827,576**
Unrecognised mortgage commitments	**-**	**549,775**	**1,849,449**	**-**	**-**	**2,399,224**
At 31 December 2007	**116,604**	**(2,631,704)**	**(4,705,372)**	**(96,788)**	**5,776,292**	**(1,540,968)**
31 December 2006						
Financial Assets						
Cash and bank balances	76,067	103,388	-	-	-	179,455
Placements with other banks	300,000	715,618	-	-	-	1,015,618
Investment in Government securities	-	347,735	79,019	470,000		896,754
Net mortgage advances to customers	-	432,904	314,763	1,149,864	4,447,818	6,345,349
Total	**376,067**	**1,599,645**	**393,782**	**1,619,864**	**4,447,818**	**8,437,176**
Financial liabilities						
Customer deposits	165,873	2,856,990	3,422,185	1,119,071	54,604	7,618,723
Government income notes	-	-	-	-	50,750	50,750
Total	**165,873**	**2,856,990**	**3,422,185**	**1,119,071**	**105,354**	**7,669,473**
Unrecognised mortgage commitments	-	678,400	566,685	-	-	1,245,085
At 31 December 2006	**210,194**	**(1,935,745)**	**(3,595,088)**	**500,793**	**4,342,464**	**(477,382)**

Customer deposits under due on demand band relate mostly to savings accounts and short notice term deposits. Although classified in this band, previous experience has shown that customers do not generally withdraw significant amounts and are therefore of a long term nature.

(iii) Market risk

Management of market risk

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

34. FINANCIAL RISK MANAGEMENT (Continued)

Exposure to interest rate risk

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

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

	Average interest rate %	Due on Demand KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
31 December 2007							
Financial Assets							
Cash and bank balances	2.00	116,604	-	-	-	-	116,604
Placements with other banks	7.60	-	994,578	350,000	-	-	1,344,578
Investment in Government securities	6.75	-	-	8,590	470,000	-	478,590
Net mortgage advances to customers	6.27	-	416,942	161,572	1,273,294	5,894,252	7,746,060
Total		**116,604**	**1,411,520**	**520,162**	**1,743,294**	**5,894,252**	**9,685,832**
Financial liabilities							
Customer deposits	3.37	-	3,493,449	3,376,085	1,840,082	67,210	8,776,826
Government income notes	8.27	-	-	-	-	50,750	50,750
Total		-	**3,493,449**	**3,376,085**	**1,840,082**	**117,960**	**8,827,576**
Unrecognised mortgage commitments		-	**549,775**	**1,849,449**	-	-	**2,399,224**
At 31 December 2007		**116,604**	**(2,631,704)**	**(4,705,372)**	**(96,788)**	**5,776,292**	**(1,540,968)**
31 December 2006							
Financial Assets							
Cash and bank balances	2.00	76,067	103,388	-	-	-	179,455
Placements with other banks	6.36	300,000	715,618	-	-	-	1,015,618
Investment in Government securities	6.30	-	347,735	79,019	470,000		896,754
Net mortgage advances to customers	6.63	-	432,904	314,763	1,149,864	4,447,818	6,345,349
Total		**376,067**	**1,599,645**	**393,782**	**1,619,864**	**4,447,818**	**8,437,176**
Financial liabilities							
Customer deposits	3.70	165,873	2,856,990	3,422,185	1,119,071	54,604	7,618,723
Government income notes	8.25	-	-	-	-	50,750	50,750
Total		**165,873**	**2,856,990**	**3,422,185**	**1,119,071**	**105,354**	**7,669,473**
Unrecognised mortgage commitments		-	678,400	566,685	-	-	1,245,085
At 31 December 2006		**210,194**	**(1,935,745)**	**(3,595,088)**	**500,793**	**4,342,464**	**(477,382)**

NOTES TO THE FINANCIAL STATEMENTS (cont.)

34. FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity analysis interest rate risk

At 31 December 2007, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax profit for the year would have been KShs 13.729 million (2006 - KShs 30.674 million) higher arising, mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been KShs 9.61 million (2006 - KShs 22.085 million) higher arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held to maturity.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been KShs 11.262 million lower, arising mainly as a result of higher interest expense on variable borrowings and other components of equity would have been KShs 7.883 million (2006 - KShs 4.845 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held to maturity.

Profit is more sensitive to interest rate decreases than increase because of borrowing with capped interest rates.

Sensitivity analysis foreign currency exchange risk

The Group's assets and liabilities are held in the local currency and therefore fluctuations in the foreign exchange rate are not expected to have any significant impact on the Group.

(iv) 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 Audit committee and senior management of the Group.

Risk measurement and control

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

(v) Capital management

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

The regulatory capital is analysed in two tiers:

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

34. FINANCIAL RISK MANAGEMENT (Continued)

The company'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 company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There has been no material changes in the Group's management of capital during the year.

The company's regulatory capital position as at 31 December was as follows.

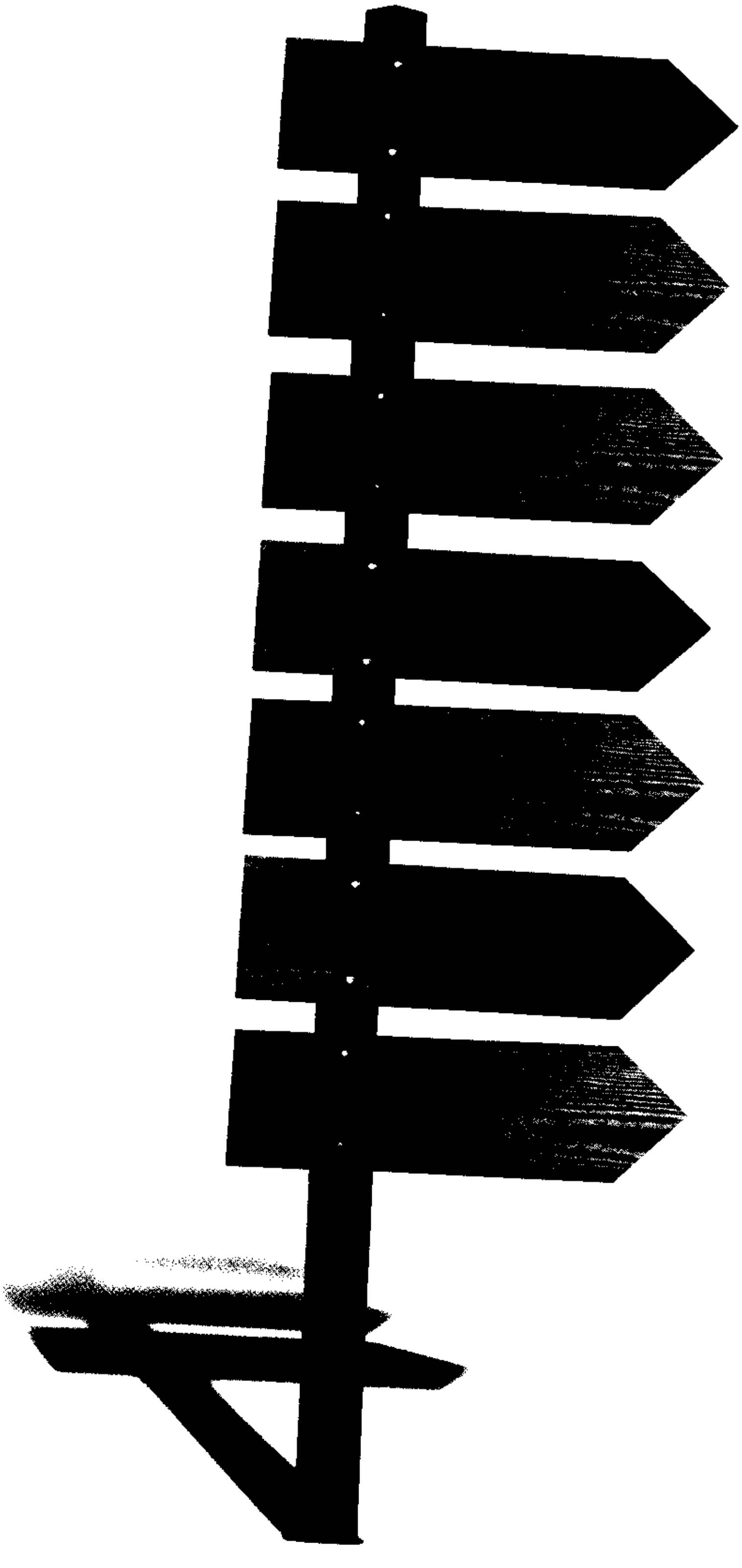
	2007 KShs'000	2006 KShs'000
Tier 1 capital		
Ordinary share capital	575,000	575,000
Share premium	25,705	25,705
Retained earnings	138,838	105,659
	739,543	**706,364**
Tier 1 capital		
Collective allowances for impairment	70,479	67,411
Qualifying subordinated liabilities	99,105	99,105
	169,584	**166,516**
Total regulatory capital	**909,127**	**872,880**
Risk weighted assets		
Capital ratios	**2007**	**2006**
Total regulatory capital expressed as a percentage of total risk-weighted assets	16.12%	16.19%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	13.12%	13.10%

35. INCORPORATION

The company is incorporated as a limited company in Kenya under the Kenyan Companies Act.

36. POST BALANCE SHEET EVENTS

The post-election disturbances that have occurred in Kenya have resulted in political instability and heightened uncertainty that have in turn affected business and social activities. Normalcy has not been fully restored yet. Whilst the disturbances have not had noticeable significant impact on the group's' operations, in the directors' opinion, it is not possible to quantify the potential impact on the business in future.



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To: The Registrar

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue

PO Box 30088

00100 NAIROBI GPO

Housing Finance

PROXY FORM

I/We ____

of ____

being a member/members of HOUSING FINANCE COMPANY OF KENYA LIMITED hereby appoint

____

of ____

or failing him ____

of ____

as my/our proxy to vote for me/us on my/our behalf at the 42nd Annual General Meeting of the Company to be held on the Twenty first day of May 2008 and at any adjournment thereof.

Number of Shares held ______________________________

Account number: ______________________________ (if known)

Signed this ____________________ day of ____________________ 2008

____

Signed

____

Note:

1 If you wish you may appoint the Chairman of the meeting as your proxy

2 In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.

3 The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

Kwa: **Kwa Msajili,**

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue

S.L.P 30088

00100 NAIROBI GPO

Housing Finance

FOMU YA UAKILISHI

Mimi/Sisi____

Kutoka____

Kama mwanachama/wanachama wa HOUSING FINANCE COMPANY OF KENYA LIMITED twamteua

____

Kutoka____

Au akikosekana ____

Kutoka____

Kama wangu/wetu kupiga kura kwa niaba yangu/yetu wakati wa mkutano mkuu wa 42 wa mwaka utakaofanyika Mei 21, 2008 au kuahirishwa kwake.

Idadi ya hisa zilizohifadhiwa ______________________________

Nambari ya akaunti______________________________(endapo inajulikana)

Imetiwa sahihi siku hii ________________ tarehe ________________ 2008

____

Sahihi

____

Kumbuka:

1. Kwa hiari yako unaweza kumteua Mwenyekiti kama wakala wako wakati wa mkutano
2. Endapo mwanachama ni shirika wakala lazima awe ametiwa muhuri na kutiwa sahihi na afisa au wakili aliyeruhusiwa
3. Fomu ya wakala ijazwe na kuwasilishwa chini ya muda wa saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.