Housing Finance

Turning dreams into homes

'Our strong foundation will take us to greater heights'

Annual Report &
Financial Statements 2011

THE CONNECTING LINK

You know it's a key development when a current account is considered a precision instrument by the building industry

The Housing Finance Current Account

It's about linking you with property development professionals to carry out your projects. It's about time your current account worked harder.

To find out more call 3262292/ 3262299/ 2362600 or email: relationship.support@housing.co.ke

www.housing.co.ke

Housing Finance

Turning dreams into homes

Contents

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.

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Steve O Mainda, EBS	Chairman
Frank Ireri, EBS	Managing Director
David R Ansell*	
Benson Wairegi	
Peter K Munga, EBS	
Shem Migot-Adholla, EBS	
Arthur Odera	

* American

COMPANY SECRETARY

Joseph Kania, CPS (K)
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi GPO

SHARE REGISTRAR

Joseph Kania, 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 & 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

Equity Bank Limited
NHIF Building, Community
P.O. Box 75104
00200 Nairobi City Square

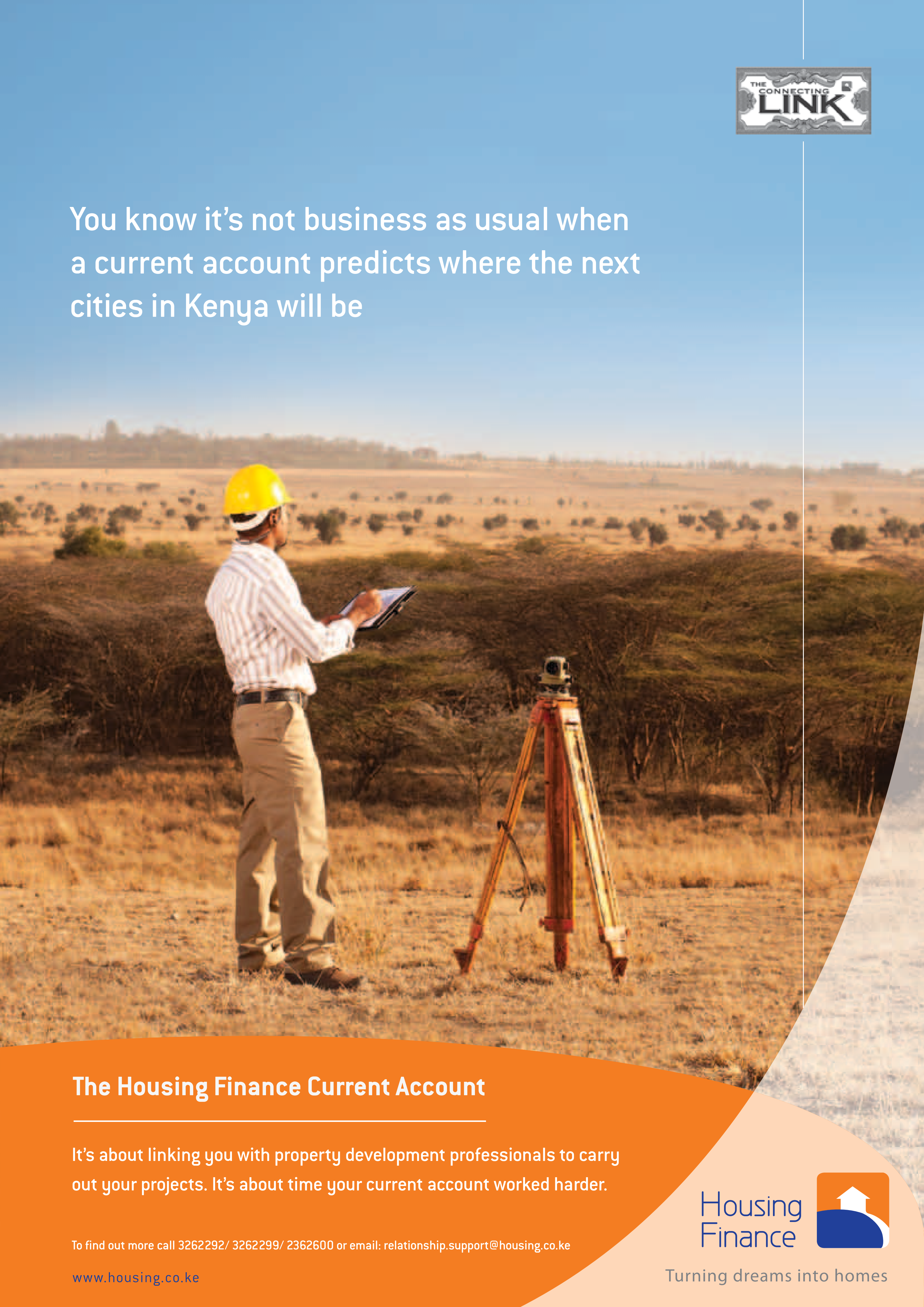
Standard Chartered Bank Kenya Ltd
Kenyatta Avenue
P.O. Box 40310
00100 Nairobi GPO

Barclays Bank of Kenya Ltd
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 (East Africa) Ltd


THE CONNECTING LINK
You know it's not business as usual when a current account predicts where the next cities in Kenya will be
The Housing Finance Current Account
It's about linking you with property development professionals to carry out your projects. It's about time your current account worked harder.
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Housing Finance
Turning dreams into homes

Board Members' Profiles

Steve Omenge Mainda, EBS.
Chairman

Mr. Steve Omenge Mainda, EBS was appointed as the Chairman of the Board of Directors on 27th April, 2010.

He has vast experience in Finance, Insurance, Investment, Education and Management. He is also the Chairman of Insurance Regulatory Authority. He holds Directorships in Fina Bank, Ryce Motors, Africa Investment Capital and First Capital Partners among others.

Mr. Mainda is a Fellow of the Institute of Directors of London and holds an M.A., B.A., Diplomas from the Universities of Princeton, Cambridge and Makerere.

David R. Ansell

David Ansell was appointed Director in October 2001. He serves as the chairman of the Board of Equity Bank Uganda, Rwanda and Tanzania, institutions that are 100% owned by Equity Bank Kenya. He is also on the Advisory Board of the Private Equity New markets fund managed by BankInvest, the largest Asset Manager in Denmark. He retired from Citibank in February 2001, after 30 years of Service, including an assignment as Director of Citibank's African Businesses based in Nairobi. He was previously Managing Director of Ecobank Transnational Inc. based in Lome, Togo. He is married with 2 grown up children.

Benson I Wairegi

Benson is currently Group Managing Director of British American Investments Company (Kenya) Ltd. Benson joined British American Insurance Company (Kenya) Ltd in 1980 as Chief Accountant . He had previously worked with PriceWaterhouse the forerunner to Pricewaterhousecoopers. Benson holds a Bachelor of Commerce degree in Accounting and an MBA in Strategic Management from Nairobi University. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Benson's other Directorships are in Equity Bank Ltd and Chairman, Kenyatta University Council.

Peter K Munga, EBS

Mr. Peter Munga is the founder and Chairman of Equity Building Society Ltd, the predecessor of Equity Bank Ltd where he also serves as Board Chairman. Peter is a qualified Certified Public Secretary. Among other Directorships, Peter is also Chairman of Pioneer International College, Chairman of National Oil Corporation and also sits on the Board of British American Insurance Company Ltd. In his spare time, Peter enjoys reading and travelling.

Board Members' Profiles

Frank Ireri, EBS
Managing Director

Frank Ireri was appointed Managing Director in July 2006. He is a seasoned Banker with more than 20 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 an Honorary Counsel member of AIESEC , a member of the Sub-Saharan Africa Chamber of Commerce Advisory Board and a member of the Madison 'Who's Who'. Between 2001 and 2002 he was also the Chairman of the Kenya Institute of Bankers. He is married with 2 children.

Arthur Odera

Arthur is a Chartered Banker, with over 10 years experience in banking, working for Barclays Bank. While working for Barclays he won several national and Africa-wide performance awards. He left banking to pursue his passion for leadership development. He now runs a consulting company that specialises in leadership development and performance management. He is also a Trustee of the National Social Security Fund. He chairs the Operations, Investment and Strategy Committee of NSSF which is responsible for an investment portfolio of over KShs 80bn. He has had a stint as a Graduate Assistant at university before launching into his banking career. Within Housing Finance, he is a member of the Strategy, Credit and Risk Committees of the Board.

Prof. Shem Migot-Adholla, EBS

Prof Shem Migot-Adholla is a renowned Sociologist, with broad and extensive experience on land policy, agriculture, rural development and environmental issues. He is currently a Non-Executive Director of Equity Bank Kenya Limited. He is a former Vice Chairman of Kenya Wildlife Service (KWS) and Chairman of the Board of Directors at the Institute of Policy Analysis and Research (IPAR), director of the Board of the Centre of Corporate Governance (CCG), and holds membership in various professional organisations. He previously served as Lead Specialist in Land Policy and Administration at the World Bank Headquarters and as Permanent Secretary, Ministry of Agriculture and Rural Development, Government of Kenya. Prof. Migot-Adholla holds a Doctor of Philosophy in Sociology of Development from the University of California, Los Angeles, and a Master of Arts in Sociology from the same University. He was a Special Graduate Student in Agricultural Economics at the Michigan State University and was awarded a Bachelor of Arts (Honors) degree from the University College, Dar es Salaam, University of East Africa.

NOTICE OF ANNUAL GENERAL MEETING

To the Shareholders of Housing Finance Company of Kenya Limited

NOTICE IS HEREBY GIVEN that the 46th Annual General Meeting of the Company will be held at Nairobi on Friday 27 April 2012 at **Bomas of Kenya Auditorium** at **11.00 am** to conduct the following business:

1 To table the proxies and note the presence of a quorum.

2 To read the notice convening the meeting.

3 To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2011 together with the Chairman's, the Directors' and Auditor's Reports thereon.

4 To declare a final dividend of Kshs.0.70 Per share for the financial year ended 31 December 2011 and approve the closure of the Register of Members at the close of business on 28 June 2012.

5 To elect Directors:

a) Mr. Peter Munga retires by rotation in accordance with Article 105 of the Company's Articles of Association and, being eligible offers himself for re-election.

b) Mr. Steve Omenge Mainda retires by rotation in accordance with Article 105 of the Company's Articles of Association and being eligible offers himself 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 authorize the Directors to fix their remuneration.

BY ORDER OF THE BOARD

Joseph Kania
Company Secretary
Date:
P.O. Box 30088, GPO 00100
NAIROBI

NB:

1. 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, GPO 00100, 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 authorized attorney of such corporation or Government office.

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

NOTISI KUHUSU MKUTANO WA PAMOJA WA MWAKA (AGM)

Kwa Wanahisa wa Housing Finance Company Of Kenya Limited.

NOTISI INATOLEWA HAPA KWAMBA, Mkutano Mkuu wa Pamoja wa Mwaka wa 46 wa Kampuni utafanyika jijini Nairobi Ijumaa Aprili 27, 2012 katika Ukumbi wa **Bomas Auditorium** kuanzia **saa tano Asubuhi** ili kuangazia maswala yafuatayo kibiashara:

1) Kuwatambua wawakilishi na kukagua idadi ya waliohudhuria

2) Kusoma notisi ya kuitishwa kwa mkutano

3) Kupokea na endapo itapitishwa, kuidhinisha mizania (balance sheet) iliyokaguliwa pamoja na hesabu ya pesa kwa kipindi cha mwaka kilichomalizika Desemba 31, 2011 na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wahasibu.

4) Kutangaza malipo ya mwisho ya mgawo wa faida ya senti 0.70 kwa kila hisa kwa kipindi kilichomalizika Desemba 31, 2011 na kupitisha kufungwa kwa rejista ya wanachama kufikia Juni 28, 2012.

5) Kuwachagua wakurugenzi :

   a) Bw. Peter Muga anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu, anajitokeza kuchaguliwa tena.

   b) Bw. Steve Omenge Mainda anastaafu kwa zamu kwa mujibu wa kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu, anajitokeza ili kuchaguliwa tena.

6) Kupitisha marupurupu ya wakurugenzi.

7) Kutambua kwamba, wakaguzi wa pesa KPMG Kenya wataendelea mbele na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za kampuni (Cap 486) na sehemu ya 24 (1) ya sheria za mabenki (cap 488) na kuwapa uhuru Wakuru genzi kuamua malipo yao.

KWA AMRI YA HALMASHAURI

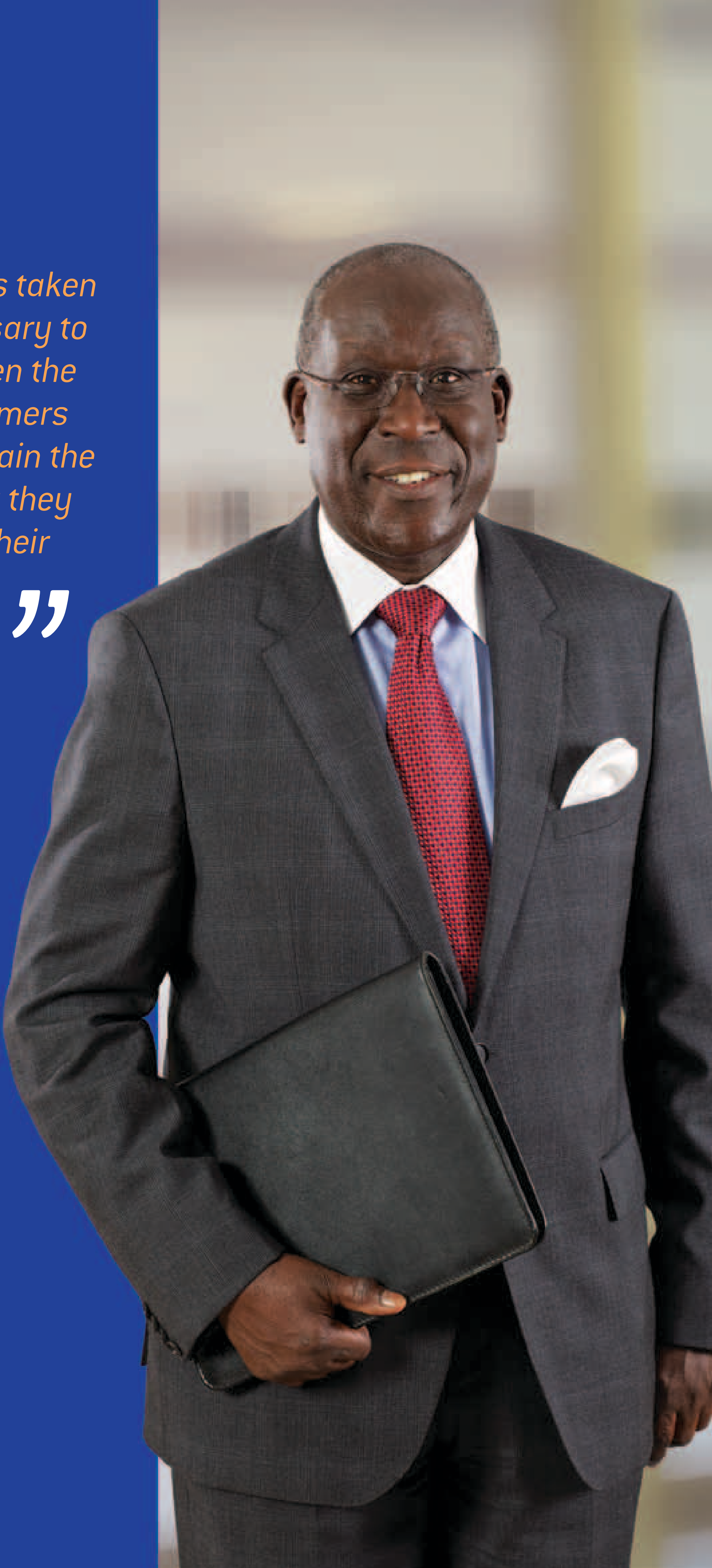
Joseph Kania
Katibu wa Kampuni
Imenukuliwa tarehe:
SLP 30088, GPO
NAIROBI

MUHIMU:

1) Kwa mujibu wa sehemu ya 136 (2) ya sheria za makampuni (Cap 486) kila mwanachama aliye na uwezo wa kuhudhuria mkutano uliotajwa hapo juu na kupiga kura ana uhuru kumteua wakala wake kumwakilisha na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama. Fomu ya uwakilishi imeambatanishwa na ripori hii na inafaa kurud ishwa kwa Msajili, Housing Finance Company Of Kenya, jumba la Rehani, barabara ya Kenyatta Avenue Slp 30088, GPO 00100 Nairobi ili kupokelewa saa 48 kabla ya mkutano kufanyika au kuahirishwa kwake endapo mteuzi ni shirika au ofisi ya serikali, nakala itakayomteua mwakilishi sharti iwe imepigwa mhuri au kuwasilishwa na afisa au wakili wa shirika au ofisi ya serikali.

2) Nakala kuhusu notisi hii, ripoti kamili ya ripoti hii ya mwaka pamoja na hesabu za pesa zinaweza kupatikana kupitia wavuti wa kampuni : www.housing.co.ke au nakala iliyotolewa chapa inaweza kupatikana kupitia ofisi ya kampuni iliyosajiliwa katika jumba la Rehani , barabara ya Kenyatta/ Koinange Slp 30088-00100 GPO Nairobi au kupitia matawi yetu yote yaliyosajiliwa kote nchini.

"Housing Finance has taken all measures necessary to ensure that we lessen the burden on our customers and to help them retain the valuable investment they have in the form of their home or property."



Mr. Steve O. Mainda, EBS
CHAIRMAN

Chairman's Report For The 2011 Annual Report

Dear Shareholders,

On behalf of the Board of Directors, it is my honour and pleasure to present to you the Annual Report and Accounts of your company. I am equally delighted to present to you a review of the company's business environment in the financial year ended 31st December 2011. It has been another successful year for the company, despite several challenges in the macro-economic environment as I will highlight in my report. Housing Finance has been prudent with clear and focused business strategy that lays emphasis on development of its core activities coupled with cautious diversification and striking a healthy balance between risk and returns. This simple approach has enabled us to achieve better results in 2011 than the previous year in spite of global economic turmoil. As a Board and Management, we remain committed to continuing our growth momentum as we embark on this new phase of the company's journey.

In its journey of 46 years, Housing Finance has led and catalysed the growth of housing finance markets in the country. The housing finance sector has evolved through various stages with Housing Finance Company as the anchor institution. Affordable housing for all remains the corporate goal of Housing Finance. Expansion with stability has been the underlying theme of Housing Finance programmes and strengths of turning 'dreams into homes' through its multi-functional role. Housing shortage in the lower and middle income segments of the market is acute. Housing Finance is dedicated to serve this particular segment of the market. In general, the housing sector has enormous developmental impact in terms of social stability and economic empowerment at the individual level and larger economic development at the sector level.

Financial Results

The year 2011 was a very successful year for Housing Finance as you will see from the financial statements in this report. The financial indicators recorded impressive growth in all key areas. Significantly, the company posted a pre-tax profit of Kshs 976 million, an impressive 74% growth from last year and a testament to the hard work and efforts of the Management Team and Board of Housing Finance.

This growth came in a year when the business and general macro-economic environment experienced several challenges in the form of high cost of living and high inflationary pressure brought on by increasing costs of goods and services. In the second half of the year, and especially the 4th quarter of 2011, the country was faced with a highly fluctuating shilling leading to significant increases in bank interest rates and thus the cost of borrowing for both individuals and corporate organisations.

Ladies and gentlemen, the situation outlined above is one that has a direct impact on the business of Housing Finance and cannot be over-emphasized. Housing Finance is in the business of long-term lending and a situation that leads to a rise in interest rates can be particularly difficult for our customers. I am pleased to report that despite the tough economic conditions, Housing Finance has taken all measures necessary to ensure that we lessen the burden on our customers and to help them retain the valuable investment they have in the form of their home or property. We continue to watch the situation closely to ensure that it does not adversely affect our business and growth plans.

Strategy

2011 brings to an end the five year strategy that the company has been operating on which was launched in 2007. As highlighted in the Managing Director's statement, this was a turn-around strategy. Shareholders will recall the challenges that the company faced in 2006 when the strategy was crafted. The company was holding a large non-performing debt portfolio which was stifling its capacity to grow. We had not paid out a dividend to our shareholders for the preceding 7 years and there was a great need to re-focus Housing Finance's business.

Chairman's Report For The 2011 Annual Report (Continued)

I am pleased to report here that the 2007-2011 strategy was extremely successful as evidenced by the growth the company has experienced in the last 5 years. We paid out our first dividend in 2007 and have continued to increase this year on year, thus giving an improving return to our shareholders who believed in the company even in the difficult times.

The next phase of our journey begins in 2012 with the launch of the 2012 to 2016 five year strategy. This strategy, as highlighted in the Managing Director's statement, is a growth strategy. The company is on the right footing to pursue growth not only nationally but also in the East African region where numerous opportunities exist to provide housing and property solutions. Our outlook is also driven by Vision 2030 which identifies shelter as a key pillar of the development goals for the country. Additionally, our new constitution offers many opportunities for growth, especially in shaping and providing solutions within a devolved system of governance. Ladies and gentlemen, we look towards this new future with confidence and excitement at the role we can play in it.

Dividend

In the light of the foregoing, I take great pleasure in announcing that the Board has proposed a full and final dividend of 70 cents. This dividend comes on the back of the interim dividend of 50 cents paid out earlier in the year thus bringing the full dividend payment in 2011 to Kshs 1.20, a 45% improvement on the previous year.

Acknowledgement

Let me end by firstly, acknowledging with appreciation the support and understanding of all distinguished shareholders. I also wish to thank the Management and Staff for their unflinching loyalty, dedication and commitment to our collective determination to remain the leading housing mortgage institution and one of the best in the continent. Finally, I wish to express my profound gratitude to my colleagues on the Board for the confidence they have in me. The task ahead as delineated in the Housing Finance Strategic Plan 2012-2016 is challenging and onerous and I would like to count on your support and co-operation as we together chart the course that will take Housing Finance to greater heights.

Mr. Steve O. Mainda EBS
CHAIRMAN

“Housing Finance imezingatia hatua zote zinazohitajika kuhakikisha kwamba tunapunguza mzigo kwa wateja wetu na kuwasaidia kuhifadhi thamani muhimu ya uwekezaji walio nao kwa mfano wa makao yao au mali.”

Mr. Steve O. Mainda, EBS
CHAIRMAN

Ripoti Ya Mwaka 2012 Kutoka Kwa Mwenyekiti

Kwa wanahisa,

Kwa niaba ya Halmashauri ya Wakurugenzi, ni furaha yangu kuwatangazia ripoti ya mwaka na hesabu ya pesa ya kampuni yenu. Nina furaha kuwatangazia mtazamo wa mazingira ya kibiashara ya kampuni kwa kipindi cha mwaka uliomalizika Desemba 31, 2011. Huu umekuwa ni mwaka mwingine wenye ufanisi kwa kampuni licha ya changamoto mbali mbali katika mazingira ya biashara za chumi ndogo ndogo kama nitakavyoangazia kupitia ripoti yangu. Housing Finance imekuwa ikizingatia kwa kina mikakati ya kibiashara ambayo inasisitiza maendeleo ya majukumu yake muhimu ikiandamana na mbinu za kujihami na kuweka uwiano baina ya hasara na mapato. Mfumo huu rahisi umetuwezesha kupata mafanikio bora mwaka 2011 ikilinganishwa na ule uliotangulia licha ya matatizo ya kiuchumi duniani. Kama halmashauri na usimamizi, tutaendelea na hatua za ukuaji wetu tunaporejelea awamu hii mpya ya safari ya kampuni.

Katika safari yake ya miaka 46, Housing Finance imeongoza na kuchochea ukuaji wa ufadhili wa soko la ujenzi wa nyumba nchini. Sekta ya ufadhili wa ujenzi wa nyumba imepitia mabadiliko ya hatua mbali mbali huku Housing Finance ikiwa kama taasisi inayotoa mwongozo. Kuwepo kwa makao nafuu kwa wote imesalia kuwa lengo la kampuni ya Housing Finance. Upanuzi na uthabiti zimekuwa msingi wa mwito wa mipango ya Housing Finance na uwezo wa kubadili " ndoto kuwa makao" kupitia wajibu wake mpana. Uhaba wa makao kwa makundi ya watu wanaopata mapato ya chini na kadri kwenye masoko ni mkubwa. Housing Finance imejitolea hasa kuwajibikia kitengo masoko cha masoko haya. Kwa ujumla, sekta ya makao ina athari kubwa za maendeleo kwa mujibu wa uthabiti wa jamii na uwezo wa kiuchumi katika kitengo cha mtu binafsi na maendeleo pana ya kiuchumi katika kitengo cha sekta.

Matokeo ya kifedha

Mwaka 2011 ulikuwa wenye ufanisi mkubwa kwa Housing Finance kama mtakavyoona kupitia taarifa ya matumizi ya pesa iliyoko kwenye ripoti hii. Viashirio vya kifedha vilirekodi ukuaji wa kuvutia maeneo yote muhimu. Muhimu, kampuni ilipata faida kabla ya ushuru ya Ksh. Milioni 976 hili likiwa ni ongezeko la asilimia 74 (74%) ikilinganishwa na mwaka jana . Huu ulikuwa ni ushahidi wa kazi kubwa na juhudi za timu ya usimamizi na Halmashauri ya Housing Finance.

Ukuaji huu ulikuja mwaka ambao mazingira ya biashara na chumi ndogo ndogo kwa jumla zilikuwa zikikumbana na changamoto mbali mbali kwa mfumo wa gharama za juu za maisha na mfumuko mkubwa wa bei za bidhaa kutokana na kuongezeka kwa gharama za bidhaa na huduma. Wakati wa kipindi cha pili cha mwaka, na hasa muhula wa nne wa mwaka 2011, taifa lilikumbana na kudorora kwa thamani ya shilingi ya Kenya na kusababisba benki kuongeza viwango vya riba kutokana na mikopo na hivyo kupelekea kupanda kwa gharama za kuomba mikopo kwa watu binafsi na mashirika.

Mabibi na mabwana, hali iliyofafanuliwa hapo juu ni mojawapo wa athari za moja kwa moja katika biashara ya Housing Finance na haziwezi kupuuzwa.Housing Finance iko katika biashara ya ukopishaji kwa muda mrefu na hatua ambayo inaweza kusababisha viwango vya riba kupanda juu inaweza kuwa ngumu kwa wateja wetu. Nina furaha kuripoti kwamba, licha ya hali ngumu za kiuchumi, Housing Finance imezingatia hatua zote zinazohitajika kuhakikisha kwamba tunapunguza mzigo kwa wateja wetu na kuwasaidia kuhifadhi thamani muhimu ya uwekezaji walio nao kwa mfano wa makao yao au mali. Tunaendelea kuangalia hali hii kwa karibu kuhakikisha kwamba haiathiri vibaya biashara yetu na mipango ya ukuaji.

Mkakati

Mwaka 2011 umefikisha kikomo mkakati wa miaka mitano ambao kampuni imekuwa ikiendesha na uliozinduliwa mwaka 2007. Kama ilivyoelezewa kupitia taarifa ya Meneja Mkurugenzi, huu ulikuwa mkakati wa kubadilisha mambo. Wanahisa watakumbuka changamoto ambazo Kampuni ilikumbana nazo mwaka 2006 wakati mkakati ulipoundwa. Kampuni ilikuwa ikishikilia sehemu kubwa ya madeni ambayo yalikuwa yakikwamiza uwezo wake kukua. Hatukuwa tumeweza kutoa malipo ya mgawo wa faida kwa wanahisa wetu kwa kipindi cha miaka 7 na kulikuwa na haja kubwa ya kubadili mtazamo wa biashara za Housing Finance.

Nina furaha kutangaza hapa kwamba, mkakati wa mwaka 2007- 2011 ulifaulu sana kama inavyoshuhudiwa na ukuaji wa kampuni kwa kipindi cha miaka 5 iliyopita. Tulitoa malipo yetu ya kwanza ya mgawo wa faida mwaka 2007 na tumekuwa tukiongeza malipo haya

Ripoti Ya Mwaka 2012 Kutoka Kwa Mwenyekiti

mwaka baada ya mwingine hivyo kuongeza faida kwa wanahisa wetu ambao wamekuwa wakiamini kampuni hata nyakati ngumu. Awamu ya safari yetu nyingine inaanza mwaka 2012 kwa uzinduzi wa mkakati wa miaka mitano wa mwaka 2012 hadi 2016. Kama ilivyofafanuliwa kupitia taarifa ya Meneja Mkurugenzi, huu ni mkakati wa ukuaji. Kampuni iko katika mkondo bora wa ukuaji sio hapa nchini tu bali eneo la Afrika Mashariki ambapo bado kuna nafasi mbali mbali zinazohitaji suluhu la makao na raslimali. Pia, mtazamo wetu unaongozwa na ruwaza ya 2030 ambayo inatambua makao kama nguzo muhimu ya malengo ya ukuaji kwa taifa hili. Zaidi ya hayo, katiba yetu mpya inatoa nafasi nyingi za ukuaji hasa kwa kutoa mwongozo na suluhu chini ya mfumo wa serikali ya ugatuzi. Mabibi na mabwana, tunatazamia siku hizi za usoni tukiwa na imani na msisimko kuhusiana na wajibu tunaoweza kuutekeleza.

Mgawo wa Faida

Kwa mujibu wa hali ilivyo, nachukua fursa hii kutangaza kwamba, Halmashauri imependekeza kutolewa kwa malipo kamili na ya mwisho ya mgawo wa faida ya senti 70. Malipo haya yanakuja baada ya kutolewa kwa mgawo wa awali wa faida wa senti 50 mapema mwaka huu na hivyo kufanya malipo kamili ya mgawo wa faida mwaka 2011 kuwa Ksh. 1.20 hili likiwa ongezeko la asilimia 45 (45%) ikilinganishwa na mwaka uliotangulia.

Shukrani

Kwanza, wacha nimalize kwa kutambua kwa dhati mchango na ufahamu kutoka kwa wanahisa wote wapendwa. Pia, ningependa kushukuru usimamizi na wafanyakazi kutokana na uaminifu wao, kujitolea na kuwajibikia imani yetu ya kuzidi kuwa viongozi kama taasisi inayotoa huduma za mikopo ya ujenzi wa nyumba na mojawapo wa zilizo bora barani. Mwisho, ningependa kutoa shukrani zangu kwa wenzangu kwenye Halmashauri kutokana na imani waliyo nayo kwangu. Jukumu lililoko mbele kama lilivyoonyeshwa kupitia mkakati wa Housing Finance wa mwaka 2012-2016 lina changamoto na linahitaji jitihada nyingi na ningependa kutegemea mchango kutoka kwa kila mmoja wenu na ushirikiano tunapotafuta kwa pamoja njia ambazo Housing Finance itatumia kupiga hatua za juu zaidi.

Bw. Steve O. Mainda EBS
MWENYEKITI.

“the company has turned around and is now poised for growth.”

Frank Ireri, EBS
MANAGING DIRECTOR

Managing Director's Report

Dear shareholders,
I am pleased to report that 2011 was another successful year for Housing Finance. Pre-tax profit grew to Kshs 976 million, an increase of 74% from the Kshs 560 million posted the previous year. The highlights of this growth are as follows:

- Mortgage Sales grew by 37% from Kshs 10.7B in 2010 to Kshs 14.6B while disbursements grew by 27% to Kshs 10.7B. This resulted in a loan book growth of 29% from Kshs 19.5b to Kshs 25.2b
- Customer deposits grew to Kshs 18.5B, up from Kshs 15.9B in 2010.
- On the back of increased operational efficiency, prudent cost management and in spite of escalating inflation, our cost: in come ratio improved by 10% from 52% to 47%
- Our continued focus on credit risk management and prudent lending resulted in our Gross Non Performing Assets: Gross Advances ratio improving from 7.4% to 6.1%

2011 marked the end of the 2007 – 2011 five year strategic period. This report will mainly focus on this 5 year strategy and will highlight the milestones achieved. In addition, I will outline our plans for the next 5 years, 2012-2016 which we have termed our growth strategy.

The 2007-2011 strategy was essentially a turn-around strategy for Housing Finance. As shareholders you will recall that the period preceding that was characterised by several challenges which had hampered growth of the company. As a result, the company had been unable to pay dividends for a period of seven years. I am pleased to report that the strategy which we have just concluded has achieved full turn-around for Housing Finance and placed us on a good footing to pursue the next strategy which as mentioned above is a growth strategy. Housing Finance paid out its first dividend after a 7 year lull in 2007 and has since consistently paid out a dividend with an increase on the amount paid year on year. In addition, in the last two years, Housing Finance was able to pay both an interim as well as final dividend thus increasing returns to shareholders.

Allow me now to highlight some of the initiatives undertaken by management that enabled us to achieve the success necessary to ensure these returns to our shareholders.

Business Performance

The 2007-2011 strategy identified product innovation as a key driver for growth and the last five years has demonstrated the success of this approach. As a result of the focus on product innovation, the company was able to develop a methodology that enables us to identify market needs and to turn them into product solutions for our customers. This has produced several successful products such as Makao, a convenient building solution that aims to help home owners build a home cost-effectively by bringing together a consortium of professionals to the construction project , Home Freedom, our pension-backed mortgage product and savings products that link savers directly to mortgage such as 1st HOP and Crossover. These and other products have led to increased product penetration and thus increased sales as evident from the graphs at the end of this report, and also recognition as the best bank in product innovation two years in a row at the banking awards.

In the last five years, Housing Finance has also focused on the customer through organisation of our business around unique customer groups. These include SME's, the diaspora, civil servants, developers and the middle to lower-middle income segments of the market among others. Through our Project Finance division, we have enabled Kenyans to invest in the real estate industry and contribute to increasing the supply of housing in the country. Our Property Point has also facilitated the purchase and sale of property for numerous individuals, including purchase of plots for future development. The numbers help to tell the story as our mortgage sales in the last five years have had a compounded annual growth rate of 31% from Kshs 1.8B in 2006 to Kshs 9.2B in 2011. Project sales have also grown from Kshs 1.14B at inception of the unit in 2007 to Kshs 5.38B in 2011.

Many of our successes have also been supported by strong lobbying efforts to create a conducive playing field for business growth. Lobbying efforts opened the way for products such as 1st HOP, the first home ownership plan built around tax incentives on saving towards home ownership. Lobbying has also enabled us to offer pension-backed mortgages as well current accounts which we recently launched. Lobbying will continue to be a key thrust of our strategy going forward.

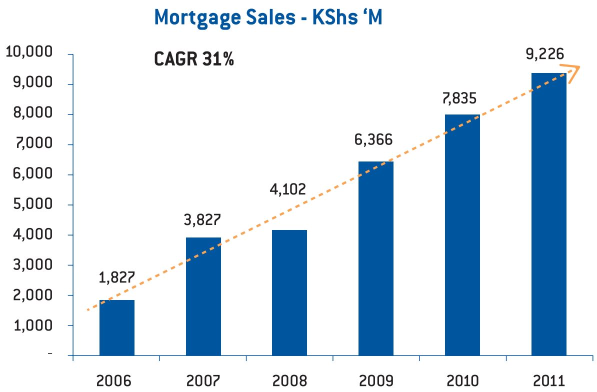
Operational Improvements

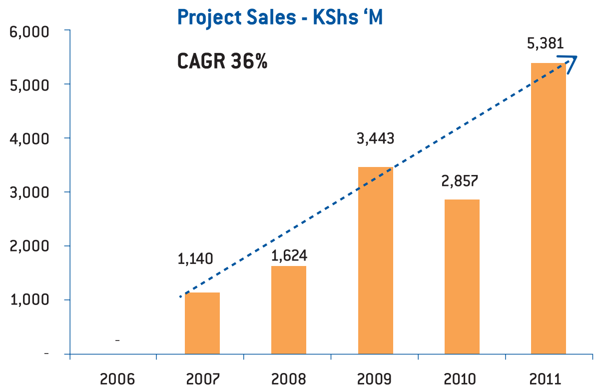
The above growth would not have been possible without a sound capital base for growth. In 2008, the company successfully carried out a rights issue to raise Kshs 2.3B which was oversubscribed by 103%. In addition, in 2007, we welcomed our anchor shareholders Equity Bank and British American Investments Company Ltd who have been very active in harnessing the company for growth. In 2010, Housing Finance was also successful in raising Kshs 7B through an infrastructure bond that was oversubscribed by 140%.

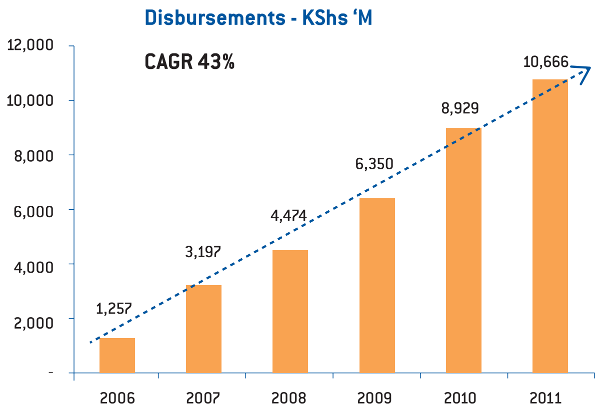
Underpinning the growth through sales and funding mechanisms outlined above has been a strong focus on risk management and operational efficiency through various cost management initiatives. Our focus on risk management has improved our regulatory rating over the period from fair to satisfactory for the last three years. Aggressive Credit Risk management has led to a reduction in our non-performing loans portfolio on an annual basis of 11%. This has been achieved through a focus on recoveries as well prudent provisioning. Our cost management initiatives have resulted in a cost-income ratio of 46.98% in 2011, down from 74.54% in 2006.

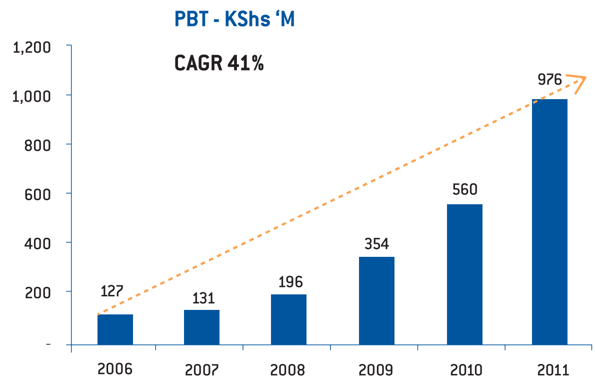
Managing Director's Report (Continued)

From a staff perspective, the company has ensured the setting up of staff recognition and incentive schemes to ensure that we have a satisfied and productive workforce. This has been achieved through staff bonus schemes pegged to performance and employee ownership through the ESOP implemented two years ago. Management has also focussed on staff retention through continuous training and development, succession planning, and an organisational culture built around our core values of trust, unity and innovation. We continue to focus on staff as the key resource in our organisation and this will remain a critical piece in our 2012-2016 strategy.









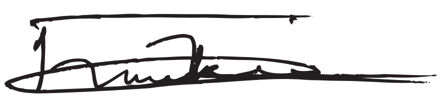
2012-2016 Strategy

I would now like to touch briefly on our next five year strategy which we launched in January 2012. As stated above, the company has turned around and is now poised for growth. The next strategy is built around some key themes. The company is focusing on expansion into new markets, both national and regional. We will also focus on connecting with our customers through building strong relationships and providing personalised and targeted solutions for their investment needs. In 2012-2016, Housing Finance will also focus on building internal capabilities and capacity through embracing new technology and disseminating knowledge and expertise in the property business.

Finally, we have identified brand strategy as being the key to achieving our business strategy. As an organisation, we embarked on a brand building strategy in 2010 which culminated in a defined brand proposition and internalisation of this brand by our staff in 2011. We are now and in the next five years putting the brand at the centre of our strategy to drive how we do our business. I look forward to giving you more updates on this in the coming period.

Ladies and gentlemen, we anticipate the implementation of the new five year strategy with full confidence and look forward to your support.

Thank you and best wishes.



Frank Ireri
Managing Director.

> *kampuni imebadilisha sura na sasa inatarajiwa kukua.*

Frank Ireri, EBS
MENEJA MKURUGENZI

Ripoti Ya Mwaka 2011 Kutoka Kwa Meneja Mkurugenzi

Wanahisa Wapendwa,

Nina furaha kuripoti kwamba, 2011 ulikuwa mwaka mwingine wenye ufanisi kwa Housing Finance. Faida kabla ya ushuru iliongezeka hadi Kshs. 976 milioni kiwango ambacho kiliongezeka kwa asilimia 74 (74%) ikilinganishwa na faida ya milioni 560 iliyopatikana mwaka uliotangulia. Muhtasari wa ukuaji huu ni kama ufuatao:-

- Mauzo kutokana na rehani yaliimarika kwa asilimia 37 (37%) kutoka bilioni 10.7 mwaka 2010 hadi bilioni 14.6 huku utoaji wa mikopo ukiimarika kwa asilimia 27 (27%) hadi bilioni 10.7 (10.7). Hali hii ilipelekea ukuaji wa mikopo kwa asilimia 29 (29%) kutoka bilioni 19.5 hadi bilioni 25.2.
- Akiba ya wateja iliimarika hadi bilioni 18.5 kutoka bilioni 15.9 mwaka 2010.
- Kutokana na kuimarika kwa shughuli za utenda kazi, udhiti imara wa gharama za utekelezaji kazi licha ya mfumuko wa bei za bidhaa na gharama zetu, kiwango cha uwiano wa mapato kiliongezeka kwa asilimia 10 (10%) kutoka asilimia 52 (52%) hadi asilimia 47 (47%).
- Juhudi zetu kuendelea kuangazia udhibiti wa hatari za mikopo na utaratibu wa utoaji mikopo ulipelekea kiwango cha jumla cha raslimali zetu zisizoleta faida: uwiano baina ya jumla ya mikopo kutoka asilimia 7.4 (7.4%) hadi asilimia 6.1 (6.1%).

Mwaka 2011 ulifikisha kikomo kipindi cha mkakati wa miaka mitano wa 2007 hadi 2011. Ripoti hii itaangazia zaidi mkakati wa miaka 5 na pia mafanikio makubwa yaliyoafikiwa. Zaidi ya hayo, nitaguzia kipindi cha mipango yetu ya muda wa miaka 5 ijayo 2012- 2016 ambacho tumelenga mkakati wa ukuaji wetu.

Mkakati wa mwaka 2007- 2011 ulikuwa muhimu wa ukuaji wa Housing Finance. Kama wanahisa, mtakumbuka kwamba, kipindi kilichotangulia kilikumbwa na changamoto kadha wa kadha ambazo ziliathiri kiwango cha ukuaji wa Kampuni. Kutokana na hili, kampuni haingeweza kutangaza kutolewa kwa malipo ya mgawo wa faida kwa muda wa miaka saba. Nina furaha kuripoti kwamba, mkakati ambao tumemaliza hivi punde umepelekea kupatikana kwa mabadiliko katika Housing Finance na kutuweka katika nafasi nzuri kuangazia mkakati unaofuata ambao kama ilivyotajwa hapo awali ni mkakati wa ukuaji. Housing Finance ilitoa malipo yake ya kwanza ya mgao wa faida baada ya miaka saba mwaka 2007 na tokea wakati imekuwa ikitoa kiwango cha mgao huo unaoongezeka mwaka baada ya mwaka. Zaidi ya hayo, miaka miwili iliyopita, Housing Finance iliweza kulipa mgao wa awali wa faida na malipo ya mwisho ya mgao huo na hivyo kuongeza mapato kwa wanahisa.

Kwa sasa, naomba ruhusa kuangazia baadhi ya vidokezo vya mikakati iliyotekelezwa na usimamizi ambayo ilituwezesha kupata mafanikio muhimu na kutoa hakikisho la manufaa kwa wanahisa wetu.

Matokeo ya Kibiashara

Mkakati wa mwaka 2007-2011 ulitambua ubunifu wa bidhaa kama njia muhimu ya ukuaji na kipindi cha miaka mitano iliyopita, kimeonyesha mafanikio katika mkakati huu. Kutokana na kuangazia ubunifu wa bidhaa, kampuni iliweza kubuni njia itakayotuwezesha kutambua mahitaji kwenye masoko na kuyageuza kuwa suluhu la kibiashara kwa wateja wetu. Hali hii imesababisha kuibuka kwa bidhaa zilizofaulu kama vile Makao, suluhu la kuridhisha la ujenzi ambalo linalenga kuwasaidia wamiliki wa nyumba kujenga makao kwa gharama nafuu kwa kuyaleta pamoja mashirika ya wataalamu kwenye mradi wa ujenzi, House Freedom, bidhaa yetu mkopo wa rehani inayosimamiwa na pensheni, 1st HOP na Crossover zote zikiwa ni bidhaa zinazowaunganisha wawekaji akiba moja kwa moja na rehani. Bidhaa hizi na nyinginezo zimepelekea kupenyeza kwa bidhaa na hivyo kusababisha kupanda kwa mauzo kama inavyoonekana kupitia vielelezo vilivyoko mwishoni mwa ripoti hii na pia kutambuliwa kama benki bora zaidi katika ubunifu wa bidhaa kwa muda wa miaka miwili mfufululizo kwenye matuzo ya benki.

Kwa muda wa miaka 5 iliyopita, Housing Finance imewaangazia wateja kupitia mpangilio wa biashara chini ya makundi maalumu. Hii ni pamoja na makundi madogo ya uwekezaji (SME's) masoko ya ulaya, watumishi wa umma, wawekezaji kwenye biashara ya ujenzi na vitengo vya watu wanaopata mapato ya kadiri na chini kwenye masoko miongoni mwa wengine. Kupitia kitengo chetu cha kufadhili miradi, tumewawezesha wakenya kuwekeza kwenye biashara ya ujenzi wa nyumba na kuchangia kwenye ongezeko la mahitaji ya makao nchini. Kituo chetu cha raslimali pia kimesaidia katika ununuzi na uuzaji wa raslimali kwa watu wengi binafsi ikiwemo ununuzi wa ploti kwa ujenzi wa siku za baadae. Idadi hii ni ushahidi wa mauzo ya rehani kwa muda wa miaka 5 iliyopita ambapo tumekuwa na ukuaji wa mwaka wa asilimia 31 (31%) kutoka bilioni 1.8 mwaka 2006 hadi bilioni 9.2 mwaka 2011. Mauzo kutokana na mradi pia yamekua kutoka bilioni 1.14 wakati wa uzinduzi wa kitengo mwaka 2007 hadi bilioni 5.38 mwaka 2011.

Pia, ufanisi mkubwa ambao tumepata umetokana na mchango wa juhudi za ushawishi kubuni mazingira bora ya ukuaji wa biashara. Juhudi za ushawishi zilifungua milango ya bidhaa kama vile 1st HOP ambao ni mpango wa kwanza wa umiliki nyumba kutokana na marupurupu ya ushuru ya uwekaji akiba katika umiliki wa nyumba. Pia, ushawishi umetuwezesha kutoa huduma za rehani kutokana na akiba ya uzeeni pamoja na akaunti za hundi ambazo tulizindua hivi karibuni. Ushawishi utaendelea kuwa kiungo muhimu kwenye mkakati wetu tunapoendelea mbele.

Maendeleo Kwenye Shughuli

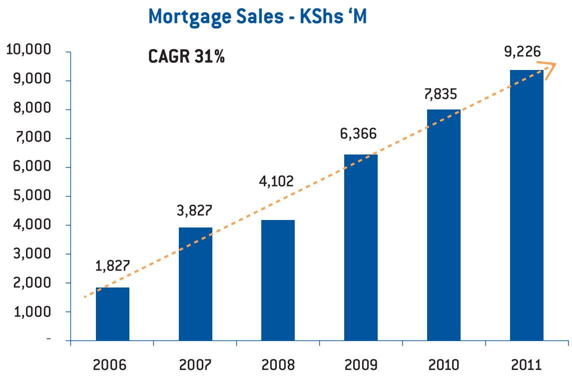
Ukuaji uliotajwa hapo juu haungepatikana bila ya kuwepo kwa kiwango bora cha mtaji. Mnamo mwaka 2008, kampuni ilitekeleza zoezi la uuzaji wa hisa ili kupata kiwango cha Kshs 2.3 bilioni ambacho kilikuwa ni cha juu kwa asilimia 103 (103%). Tulitoa mwaliko kwa manahodha waelekezi wetu Equity Bank na British American Investments Company Limited ambao wamekuwa wakitekeleza jukumu kubwa katika ukuaji wa kampuni. Mwaka 2010, Housing Finance ilifaulu kupata kiwango cha Kshs bilioni 7 kupitia dhamana za muundo msingi ambazo zilinunuliwa na kupita kwa asilimia 140 (140%).

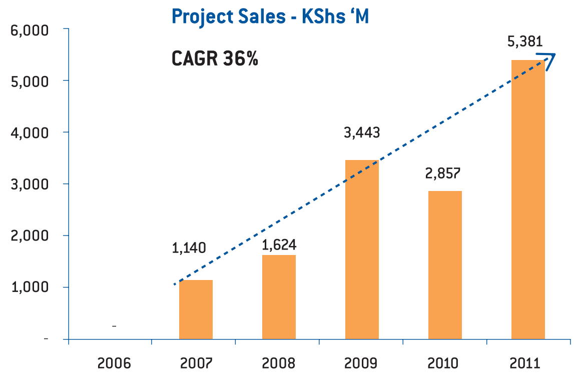
Uendelezaji wa biashara na ukuaji wa mauzo kupitia mbinu za ufadhili zilizotajwa hapo juu, zimekuwa kigezo maalumu cha udhibiti wa

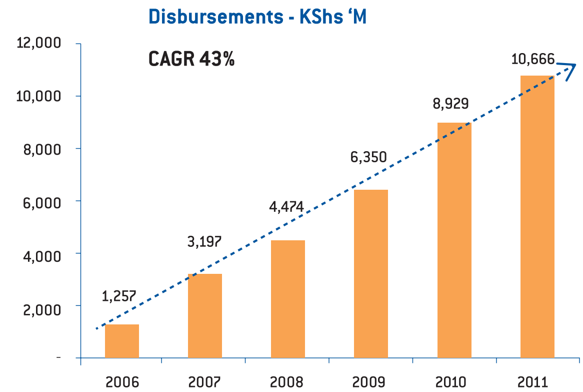
Ripoti Ya Mwaka 2011 Kutoka Kwa Meneja Mkurugenzi

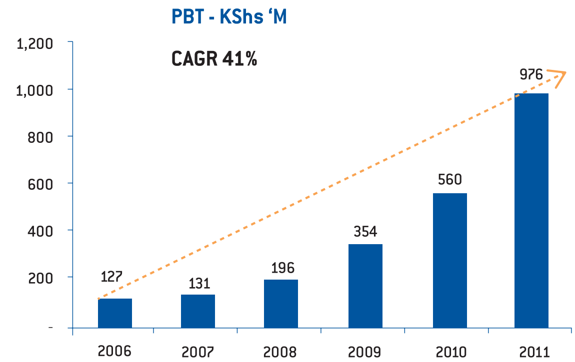
hatari za kibiashara na utekelezaji bora wa shughuli kupitia mifumo mbali mbali ya kuthibiti gharama. Angazio letu kuhusu usimamizi wa hatari zinazokabili biashara limeimarisha viwango vyetu vya udhibiti wakati wa kipindi hiki kutoka hali ya kawaida hadi hali inayoridhisha kwa miaka mitatu. Usimamizi mkali wa hatari za mikopo umepelekea kupungua kwa mikopo isiyolipika hadi asilimia 11 (11%) kwa mwaka. Hili limeafikiwa kupitia angazio la ukusanyaji madeni na mtazamo bora wa siku za usoni. Mbinu zetu za kudhibiti gharama zimepelekea kupungua kwa uwiano baina ya gharama na mapato kutoka asilimia 46.98 (46.98%) mwaka 2011 na kushuka kutoka asilimia 74.54 (74.54%) mwaka 2006.

Kwa mtazamo wa wafanyakazi, kampuni imetoa hakikisho la kuanzisha mpango wa kuwatambua wafanyakazi na vichocheo ili kuhakikisha kwamba kuna kikosi kinachodhirisha na kinacholeta matokeo mema. Hili limeafikiwa kupitia utoaji wa marupurupu kwa wafanyakazi kupitia kigezo cha matokeo yao na umiliki wa wafanyakazi kazi kupitia ESOP iliyozinduliwa miaka miwili iliyopita. Pia, usimamizi umeangazia uhifadhi wa wafanyakazi kupitia utoaji wa mafunzo ya mara kwa mara na maendeleo, mipango ya urithi na tamaduni za kimashirika zinazotegemea maadili yetu muhimu ya uaminifu, umoja na ubunifu. Tunazidi kuangazia wafanyakazi wetu kama raslimali muhimu ya shirika na hili litaendelea kuwa sehemu muhimu kwenye mkakati wetu wa mwaka 2012-2016.









Mkakati wa mwaka 2012- 2016

Kwa muhtasari, ningependa kuguzia kuhusu mkakati wetu wa miaka mitano tuliozindua mwezi Januari, 2012. Kama ilivyotajwa hapo juu, kampuni imebadilisha sura na sasa inatarajiwa kukua. Mkakati unaofuata utakuwa ni wa kuweka pamoja mbinu muhimu. Kampuni inaangazia upanuzi kwenye masoko mapya kitaifa na kanda.Pia, tutaangazia kuungana na wateja wetu kupitia kubuni miungano dhabiti itakayotoa suluhu la mahitaji kwa uwekezaji wao. Mwaka 2012-2016, Housing Finance itaangazia uimarishaji wa uwezo wake wa ndani na nafasi kupitia matumizi ya teknolojia mpya na usambazaji wa mafunzo na utaalamu kwenye biashara ya uwekezaji kwenye raslimali.

Mwisho, tumetambua mkakati wa alama ya bidhaa kama sehemu muhimu ya kuafikia mkakati wetu kibiashara. Kama shirika, tulirejelea mkakati wa kubuni alama ya bidhaa mwaka 2010 ambao kilele chake kilifafanuliwa kupitia uwiano na uasilia wa bidhaa hii na wafanyakazi wetu mwaka 2011. Kwa sasa, na kwa muda wa miaka 5 ijayo, tumeweka alama ya bidhaa yetu katikati mwa mkakati wetu ili kutuongoza jinsi tutakavyofanya biashara yetu. Natarajia kuwapa vidokezo zaidi kuhusu mpango huu kipindi kinachokuja.

Mabibi na Mabwana, tunatazamia kwa imani kamili kuzinduliwa kwa mkakati mpya wa miaka mitano na twatarajia kupata mchango wenu.

Asanteni na kila la heri.

Frank Ireri
Meneja Mkurugenzi.

Senior Management

STANDING L - R

1.	James Karanja	-	General Manager, Project Finance
2.	Caroline Armstrong	-	General Manager, Shared Services
3.	Sam Waweru	-	Director, Finance and Administration
4.	Julius Ngugi	-	General Manager, Branch Business
5.	Cynthia Kantai	-	Assistant General Manager, Marketing
6.	Joseph Ngari	-	Assistant General Manager, Internal Audit

STANDING L - R

7.	Frank Ireri	-	Managing Director
8.	Geoffrey Kimaita	-	General Manager, Credit
9.	Constantine Barasa	-	Assistant General Manager, Risk
10.	Joseph Kania	-	Company Secretary & Assistant General Manager, Legal
11.	David Maveke	-	General Manager, Mortgage Finance
12.	Winnie Kathurima-Imanyara	-	Director, Change & Strategy

Ass. General Manager Marketing, Cynthia Kantai receives the Business Initiative Directions (B.I.D.) Quality Crown Award in London for an initiative by Housing Finance to introduce green building standards.

Managing Director, **Frank Ireri** received the **EBS** award from His Excellency Hon. Mwai Kibaki, President of the Republic of Kenya.

Working with the community

Housing Finance partners with Habitat for Humanity as part of its CSR initiatives to build affordable homes for the community.

Kitengela: Housing Finance launches its first sales and service centre in Kitengela.

Staff Sports Day: Housing Finance staff enjoy a day of team building activities during a sports day.

Mai Mahiu: Housing Finance staff at the Mai Mahiu IDP camp where they spent the day building and providing support to the IDP's.

Brand Kenya: Brand Kenya and Housing Finance partner in an initiative that ensures towns and cities in Kenya are positively branded.

EADB Signing: Housing Finance signs an agreement with East African Development Bank (EADB) to jointly co-finance large scale projects.

Fun Day: Treasure Account Customers are treated to a day of fun activities. The Treasure Account is Housing Finance's children's account.

Kisumu: The 'laying of the stone' ceremony of Kajulu Gardens, a housing Project financed by Housing Finance in Kisumu City.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2011. The report discloses the state of affairs of the Group and the Company.

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.

2. **Results and appropriations**

	2011 KShs'000	2010 KShs'000
Gross income	**3,755,698**	**2,730,010**
Profit before taxation		
Housing Finance Company of Kenya Limited	975,552	560,235
Kenya Building Society Limited	243	793
First Permanent (East Africa) Limited	-	-
Group profit before taxation	975,795	561,028
Taxation	(353,517)	(181,497)
Profit after taxation	622,278	379,531
Retained profit brought forward	475,040	174,216
	1,097,318	**553,747**
Dividends – Interim Paid	(115,200)	(80,500)
– Final proposed	(161,298)	(80,500)
Change in fair value of available for sale investments	(34,000)	-
Transfer from statutory reserve	166,028	82,293
Retained profit carried forward	**952,848**	**475,040**

3. **Dividend**

The directors recommend a final dividend payment of KShs 161,297,500 (2010 – KShs 80,500,000). An interim dividend amounting to KShs 115,200,000 (2010 – KShs 80,500,000) was paid during the year. The total dividend for the year is therefore KShs 1.20 per share (2010 – KShs 0.70), amounting to a total of KShs 276,497,500 (2010 – KShs 161,000,000).

4. **Directors**

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

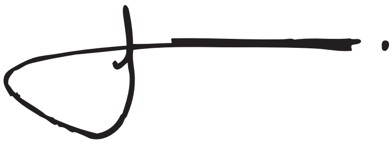
5. **Auditors**

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

6. **Approval of financial statements**

The financial statements set out on pages 42 to 90 were approved at a meeting of the Directors held on 21 February 2012.

BY ORDER OF THE BOARD



Company Secretary

Date: 21 February 2012

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2011

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2011. Ripoti hii inafichua hali ya kundi na kampuni.

1. **Shughuli Muhimu**

Kampuni imepewa leseni kuendesha shughuli za utoaji mikopo 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.

2. **Matokeo na Matumizi**

	2011 KShs'000	2010 KShs'000
Mapato Kwa jumla	**3,755,698**	**2,730,010**
Faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	975,552	560,235
Kenya Building Society Limited	243	793
First Permanent (East Africa) Limited	-	-
Faida ya kundi kabla ya ushuru	975,795	561,028
Ushuru	(353,517)	(181,497)
Faida baada ya ushuru	622,278	379,531
Jumla ya faida iliyowasilishwa	475,040	174,216
	1,097,318	**553,747**
Mgawo wa faida – uliotolewa awali	(115,200)	(80,500)
– uliopendekezwa mwisho	(161,298)	(80,500)
Kudhoofika kwa wa raslimali za kifedha	(34,000)	-
Mchango kwa hazina ya serikali	166,028	82,293
Faida iliyohifadhiwa na kuwasilishwa	**952,848**	**475,040**

3. **Mgawo wa Faida**

Wakurugenzi wanapendekeza kutolewa kwa malipo ya mwisho ya mgawo wa faida ya KShs. 161, 297, 500 (2010- KShs. 80, 500, 000). Malipo ya muda ya mgawo wa faida ya jumla ya KShs. 115, 200, 000 (2010- KShs. 80, 500,000) yalitolewa wakati wa kipindi hiki cha mwaka. Kwa sababu hiyo, Jumla ya mgawo wa faida kwa kipindi hiki cha mwaka ni senti 1.20 kwa kila hisa (2010 senti 0.70) na kufanya jumla ya KShs. 276, 497, 500 (2010 KShs. 161, 000, 000)

4. **Wakurugenzi**

Wakurugenzi waliohudumu wakati wa kipindi hiki cha mwaka wameelezewa kupitia ukurasa wa nne.

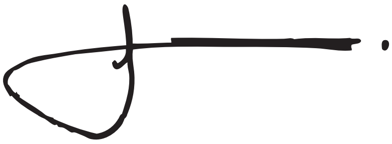
RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2011(Iliyoendelezwa)

5. **Wakaguzi wa pesa**

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

6. **Kuidhinishwa kwa Taarifa za Matumizi ya Pesa**
   Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 42 hadi 90 ziliidhinishwa wakati wa mkutano wa wakuru genzi uliofanyika 21 Februari 2012.

KWA AMRI YA HALMASHAURI



Katibu wa Kampuni

Imenukuliwa tarehe: 21 Februari 2012

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 six non-executive Directors including the Chairman and one executive Director. 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 5 sub-committees chaired by Non-Executive Directors, namely Audit, Risk Management, Nomination and Remuneration, Credit and Strategy.

Audit Committee
This is composed of three non-executive Directors:

- David Ansell (Chairman)
- Shem Migot-Adholla
- Benson Wairegi

CORPORATE GOVERNANCE (Continued)

Audit Committee (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 Group'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 two non-executive Directors and the Managing Director:

- Shem Migot-Adholla (Chairman)
- Arthur Odera
- Frank Ireri

The Risk Management committee's primary responsibility is to ensure the quality, integrity and reliability of the Group'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:

- Peter Munga (Chairman)
- Benson Wairegi
- Frank Ireri

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 Group;
- Identifying and nominating for the approval of the Board a suitable candidate for any Board vacancy which may arise;
- Monitoring the development of succession plans for the Group relating to senior executive management;
- Reviewing the emoluments of both executive and non executive Directors, and senior management.

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

Credit Committee

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

- David Ansell (Chairman)
- Steve O Mainda
- Arthur Odera

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.

Board Strategy Committee
This committee is composed of four Non-Executive Directors and the Managing Director.

- Benson Wairegi (Chairman)
- Steve Mainda
- Peter K Munga
- Arthur Odera
- Frank Ireri

The principal roles of the committee are to:

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

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

Board meetings attendance for the year ended 31 December 2011	Board meetings					Total attendance
Dates	23/2	27/4	19/7	29/10	29/11	
Steve Mainda	√	√	√	√	X	**4**
David R. Ansell	√	√	√	√	√	**5**
Benson Wairegi	√	√	X	√	√	**4**
Peter Munga	√	√	√	√	√	**5**
Shem Migot- Adholla	√	√	√	√	√	**5**
Arthur P. Odera	√	√	√	X	X	**3**
Frank Ireri	√	√	√	√	√	**5**

√ **Attended**
x **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 (ALCO), Risk Management committee, Lending committee, Arrears Management committee, Information Technology Steering committee and Management Strategy committee (STRAT-COM). The Board appoints other committees as and when necessary.

3. **Board effectiveness evaluation**

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

In February 2012, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

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

4. **Internal audit function**

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

CORPORATE GOVERNANCE (Continued)

5. **Communication with shareholders**

The company is committed to:

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

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

6. **Directors benefits and loans**

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

	Name	**No of shares**	**%age shareholding**
1	Equity Bank Ltd	57,270,000	24.85
2	British American Insurance Company (Kenya) Ltd	28,897,745	12.54
3	Equity Nominees Limited A/C 00104	18,769,400	8.14
4	National Social Security Fund	15,716,448	6.82
5	Permanent Secretary Treasury	8,422,850	3.66
6	Steel Son Limited	4,080,068	1.77
7	The Jubilee Insurance Company of Kenya Limited	2,514,772	1.09
8	Ndungu Paul Wanderi	2,480,900	1.08
9	Kibuwa Enterprises	1,491,858	0.65
10	Phoenix of East Africa Assurance Co. Limited	1,233,450	0.54
	TOTAL	**140,877,491**	**61.14**

8. **Distribution of shareholders as at 31 December 2011**

Number of shares	**No. of shareholders**	**No. of shares held**	**% age shareholding**
1-500	9,835	2,727,263	1.18
501-1,000	4,860	4,190,251	1.82
1,001-10,000	13,197	36,985,918	16.05
10,001-50,000	1,004	19,549,112	8.48
50,001-100,000	99	7,159,294	3.11
100,001-1,000,000	74	18,935,671	8.22
Over 1,000,000	10	140,877,491	61.14
TOTAL	**29,079**	**230,425,000**	**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 42 to 90 which comprise the statements of financial position of the Group and the Company at 31 December 2011, and the Group's statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 21 February 2012
and were signed on its behalf by:

Director

Director

TAARIFA KUHUSU WAJIBU WA WAKURUGENZI

Wajibu wa Wakurugenzi ni kuandaa na kutoa taarifa kuhusu matumizi ya pesa ya Housing Finance Company of Kenya Limited kama ilivyoelelezwa kupitia Ukurasa 42 hadi 90 ambayo inajumuisha hali ya kifedha ya Kundi na Kampuni kufikia Desemba 31, 2011 na taarifa ya kina ya Kundi kuhusiana na mapato,mabadiliko kuhusu umiliki wa hisa na mtiririko wa fedha kwa kipindi cha mwaka uliomalizika na pia muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa Wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni mbinu inayokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kulingana na hali ilivyo ; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu kuhusiana na mandaalizi na utoaji wa taarifa hii ya matumizi ya pesa ambayo haina udanganyifu wowote, hila au makosa.

Chini ya sheria za makampuni nchini Kenya, wakurugenzi wanahitajika kuandaa taarifa ya matumizi ya pesa kwa kila kipindi cha matumizi ya pesa ambayo itatonyesha sura halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na pia matokeo ya shughuli mwaka huo. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi za hesabu ambazo zitafichua hali halisi ya kifedha kwa kampuni na kundi.

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

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

Wakurugenzi wamefanya uchunguzi wa kundi na uwezo wa kampuni kuendelea na shughuli zake na hawana tashwishi kuamini kwamba kundi na kampuni zitaweza kuendelea mbele bila kusitisha 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 iliyoonyeshwa hapo juu iliidhinishwa na Halmashauri ya Wakurugenzi tarehe 21 Februari 2012.
na kutiwa sahihi kwa niaba yake na :-

Mkurugenzi | Mkurugenzi

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 42 to 90 which comprise the statement of financial positions of the Group and the Company at 31 December 2011, and the Group's statement of comprehensive income, statement of changes in equity and statement of cash flows 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 37, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Kenya, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, 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 OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HOUSING FINANCE COMPANY OF KENYA LIMITED

Report on other legal requirements

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

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

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

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

KPMG Kenya

KPMG

KPMG KENYA, CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 40612 NAIROBI

Date: 21 February 2012

RIPOTI YA WAHASIBU WA KUJITEGEMEA

KWA WANACHAMA WA HOUSING FINANCE COMPANY OF KENYA LIMITED.

Tumetayarisha ukaguzi kuhusu taarifa ya matumizi ya pesa ya Housing Finance Company kama ilivyoonyeshwa kupitia ukurasa wa 42 hadi 90 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2011 pamoja na taarifa ya kina kuhusu mapato ya kundi, taarifa kuhusu mabadiliko ya umiliki wa hisa na taarifa kuhusu mtiririko wa pesa kwa kipindi cha mwaka uliomalizika na pia muhtasari wa sera maalumu za uhasibu na vidokezo vingine.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa

Kama ilivyoelezwa kupitia ukurasa wa 38, wakurugenzi wa Kampuni wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa na kwa njia inayohitajika na sheria za makampuni nchini Kenya na kwa ukaguzi wa ndani wa pesa ambao wakurugenzi wataona unafaa kuwezesha utayarishaji wa taarifa za matumizi ya pesa ambazo hazina udanganyifu wowote iwe ni ni kwa udanganyifu au makosa.

Wajibu wa Wakaguzi wa Hesabu

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

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

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

Maoni

Kwa maoni yetu, taarifa za matumizi ya pesa zinatoa mtazamo wa kweli na halisi kuhusu hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2011 na pia matokeo ya kifedha ya kundi na mtiririko wa pesa mwaka uliomalizika kuambatana na viwango vya kimataifa na sheria za makampuni kuhusu utoaji wa ripoti za ukaguzi wa pesa.

Ripoti Kuhusu Mahitaji Mengine ya kisheria

Kama inavyohitajika kupitia sheria za makampuni nchini Kenya na kwa kutegemea ukaguzi wetu wa pesa, tunaripoti kwenu kwamba;

- i) Tumekusanya maelezo na fafanuzi zote ambazo kwa ufafahamu na imani yetu zilikuwa muhimu kwa madhumuni ya ukaguzi huu.
- ii) Kwa maoni yetu, Kampuni imekuwa ikihifadhi vyema rekodi ya vitabu vya hesabu kama inavyoonyesha kupitia ufafanuzi wa vitabu hivyo; na
- iii) Taarifa ya kifedha kuhusu hali ya kampuni inawiana na vitabu vya kuhifadhi hesabu.

KPMG Kenya

KPMG

KPMG KENYA, CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 40612 NAIROBI

Imenukuliwa tarehe: 21 Februari 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Interest income	7	3,464,079	2,475,814
Interest expense	7	(1,562,517)	(1,074,826)
Net interest income		**1,901,562**	**1,400,988**
Impairment losses on mortgage advances	18(c)	(186,297)	(238,445)
Net interest income after impairment losses on mortgage advances		**1,715,265**	**1,162,543**
Non interest income	8	291,619	254,196
Non interest expenses	9	(1,031,089)	(855,711)
Profit before taxation	10	**975,795**	**561,028**
Income tax expense	11	(353,517)	(181,497)
Net profit after tax for the year		**622,278**	**379,531**
Other comprehensive income			
Change in fair value of available-for-sale investments	22	(34,000)	-
Revaluation of property and equipment	24	63,129	-
Total comprehensive income for the year		**651,407**	**379,531**
Basic and diluted earnings per share	12	**KShs 2.70**	**KShs 1.65**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and bank balances	15	384,034	420,390
Placements with other banks	16	4,724,183	7,866,266
Investment in Government securities	17	379,847	539,835
Mortgage advances to customers (Net)	18(a)	25,222,836	19,503,400
Other assets	21	246,178	200,208
Equity investments	22	56,000	-
Housing development projects	23	20,130	20,130
Property and equipment	24(a)	705,208	600,417
Prepaid operating lease rentals	25	47,973	48,615
Intangible assets	26	2,578	3,085
Deferred tax asset	27(a)	81,949	76,050
TOTAL ASSETS		**31,870,916**	**29,278,396**
LIABILITIES			
Customers' deposits	29	18,671,586	15,943,341
Other liabilities	30	329,927	321,598
Tax payable		135,934	26,337
Loans from banks	31	847,507	1,573,369
Corporate bond	32	7,168,598	7,156,344
		27,153,552	**25,020,989**
SHAREHOLDERS' EQUITY			
Share capital	33	1,152,125	1,150,000
Reserves		3,514,489	3,056,657
Shareholders' income notes and loans	34	50,750	50,750
		4,717,364	4,257,407
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,870,916**	**29,278,396**

The financial statements set on pages 42 to 90 were approved by the Board of Directors on 21 February 2012 and were signed on its behalf by:

Director: ____________ **Director:** ____________

Director: ____________ Company Secretary: ____________

The notes set out on pages 50 to 90 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
ASSETS			
Cash and bank balances	15	384,022	420,377
Placement with other banks	16	4,724,183	7,866,266
Investment in Government securities	17	379,847	539,835
Mortgage advances to customers (Net)	18(a)	25,222,836	19,503,400
Investment in subsidiaries	19	130,020	130,020
Other assets	21	250,300	203,819
Equity investments	22	56,000	-
Property and equipment	24(b)	699,208	594,341
Prepaid operating lease rentals	25	41,249	41,710
Intangible assets	26	2,571	3,068
Deferred tax asset	27(b)	81,877	23,006
TOTAL ASSETS		**31,972,113**	**29,325,842**
LIABILITIES			
Customers' deposits	29	18,674,4211	5,945,317
Amounts due to subsidiary company	20	14,958	14,958
Other liabilities	30	324,374	315,882
Loans from banks	31	847,507	1,573,369
Corporate Bond	32	7,168,598	7,156,344
Tax payable		160,037	50,441
		27,189,895	**25,056,311**
SHAREHOLDERS' EQUITY			
Share capital	33	1,152,125	1,150,000
Reserves		3,579,343	3,068,781
Shareholders' income notes and loans	34	50,750	50,750
		4,782,218	**4,269,531**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,972,113**	**29,325,842**

The financial statements set on pages 42 to 90 were approved by the Board of Directors on 21 February 2012 and were signed on its behalf by:

Director: ______________________ **Director:** ______________________

Director: ______________________ Company Secretary: ______________________

The notes set out on pages 50 to 90 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 KShs'000	2010 KShs'000
Net cash flows from operating activities	35(a)	**(2,812,166)**	**6,118,593**
INVESTING ACTIVITIES			
Purchase of property and equipment		(88,829)	(60,862)
Purchase of equity investments		(90,000)	-
Purchase of intangible assets		(2,021)	(1,659)
Proceeds from sale of equipment		2,548	222
Net cash flow from investing activities		**(178,302)**	**(62,299)**
FINANCING ACTIVITIES			
Employee Share Ownership Plan		4,250	-
Dividend paid		(192,221)	(195,896)
Net cash flow from financing activities		**(187,971)**	**(195,896)**
Net increase in cash and cash equivalents	35(b)	**(3,178,439)**	**5,860,398**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

2010:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2010	**1,150,000**	**449,202**	**1,549,173**	**115,000**	**585,035**	**174,216**	**-**	**4,022,626**
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	379,531	-	379,531
Transfer from statutory reserve	-	-	-	-	(82,293)	82,293	-	-
Total comprehensive income	-	-	-	-	(82,293)	461,824	-	379,531
Transactions with owners, recorded directly in equity								
Dividend paid - 2009	-	-	-	(115,000)	-	-	-	(115,000)
Interim dividend paid - 2010	-	-	-	-	-	(80,500)	-	(80,500)
Proposed dividends	-	-	-	80,500	-	(80,500)	-	-
Total transactions with owners for the year	**-**	**-**	**-**	**(34,500)**	**-**	**(161,000)**	**-**	**(195,500)**
Balance as at 31 December 2010	**1,150,000**	**449,202**	**1,549,173**	**80,500**	**502,742**	**475,040**	**-**	**4,206,657**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

2011:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2011	1,150,000	449,202	1,549,173	80,500	502,742	475,040	-	4,206,657
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	622,278	-	622,278
Revaluation of assets	-	63,129	-	-	-	-	-	63,129
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(34,000)	(34,000)
Transfer from statutory reserve	-	-	-	-	(166,028)	166,028	-	-
Total comprehensive income	**-**	**63,129**	**-**	**-**	**(166,028)**	**788,306**	**(34,000)**	**651,407**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,125	-	2,125	-	-	-	-	4,250
Dividend paid - 2010	-	-	-	(80,500)	-	-	-	(80,500)
Interim dividend paid - 2011	-	-	-	-	-	(115,200)	-	(115,200)
Proposed dividends	-	-	-	161,298	-	(161,298)	-	-
Total transactions with owners for the year	**2,125**	**-**	**2,125**	**80,798**	**-**	**(276,498)**	**-**	**(191,450)**
Balance as at 31 December 2011	**1,152,125**	**512,331**	**1,551,298**	**161,298**	**336,714**	**986,848**	**(34,000)**	**4,666,614**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

2010:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2010	**1,150,000**	**449,202**	**1,549,173**	**115,000**	**585,035**	**185,071**	**-**	**4,033,481**
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	380,800	-	380,800
Transfer from statutory reserve	-	-	-	-	(82,293)	82,293	-	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**(82,293)**	**463,093**	**-**	**380,800**
Transactions with owners, recorded directly in equity								
Dividend paid-2009	-	-	-	(115,000)	-	-	-	(115,000)
Interim dividend paid -2010	-	-	-	-	-	(80,500)	-	(80,500)
Proposed dividends	-	-	-	80,500	-	(80,500)	-	-
Total transactions with owners for the year	**-**	**-**	**-**	**(34,500)**	**-**	**(161,000)**	**-**	**(195,500)**
Balance as at 31 December 2010	**1,150,000**	**449,202**	**1,549,173**	**80,500**	**502,742**	**487,164**	**-**	**4,218,781**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

2011:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2011	1,150,000	449,202	1,549,173	80,500	502,742	487,164	-	4,218,781
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	675,008	-	675,008
Revaluation of assets	-	63,129	-	-	-	-	-	63,129
Change in fair value of available for sale investments	-	-	-	-	-	-	(34,000)	(34,000)
Transfer from statutory reserve	-	-	-	-	(166,028)	166,028	-	-
Total other comprehensive income	-	63,129	-	-	(166,028)	841,036	(34,000)	704,137
Transactions with owners,recorded directly in equity								
Employee Share Ownership Plan	2,125	-	2,125	-	-	-	-	4,250
Dividend paid - 2010	-	-	-	(80,500)	-	-	-	(80,500)
Interim dividend paid - 2011	-	-	-	-	-	(115,200)	-	(115,200)
Proposed dividends	-	-	-	161,298	-	(161,298)	-	-
Total transactions with owners for the year	**2,125**	**-**	**2,125**	**80,798**	**-**	**(276,498)**	**-**	**(191,450)**
Balance as at 31 December 2011	**1,152,125**	**512,331**	**1,551,298**	**161,298**	**336,714**	**1,051,702**	**(34,000)**	**4,731,468**

The notes set out on pages 50 to 90 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. REPORTING ENTITY

Housing Finance is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of the company's registered office is shown on Page 4. The consolidated financial statements of the Group as at and for the year ended 31 December 2011 include the company and its subsidiaries (together referred as the "Group" and individually as "Group entities". The Group is primarily involved in mortgage lending.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where otherwise stated in the accounting policies below.

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period 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 6.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation principles

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries made up to 31 December 2011. 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 right that presently are exercisable are taken into account. A listing of the subsidiaries is set out on Note 19.

The accounting policies of subsidiaries have been changed where necessary to align them with the accounting policies adopted by the Group.

Transactions eliminated on consolidation

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

(b) Revenue recognition

Income is recognised on an accrual basis.

(i) ***Interest***

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

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

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

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

(ii) ***Non interest income***

i. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (Continued)

(ii) Non interest income - continued

i. *Fees and commission income - continued*

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

ii. *Other income*

Other income comprises of rental income, gains on disposal of equipment, other operating income and foreign exchange differences. Other income is recognized when the right to receive income is established.

(c) Foreign currency transactions

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

(d) Property and equipment

(i) ***Recognition and measurement***

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

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

(ii) ***Depreciation***

Freehold land is not depreciated.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment (Continued)

(ii) Depreciation - continued

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

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

(iii) *Disposal of property and equipment*

Gains and losses on disposal of property and equipment are determined by reference to the carrying amount and are recognised in the statement of comprehensive income in the period in which they arise.

(e) Intangible assets

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

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

(f) 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 statement of comprehensive income on a straight-line basis over the period of the lease.

(g) Employee benefits

(i) *Employee Retirement Benefits Plan*

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits (Continued)

(ii) ***Employee Share Ownership Plan (ESOP)***

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

(iii) ***Accrued leave***

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

(iv) ***Termination benefits***
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) ***Short-term benefits***
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Taxation

Tax on the operating results for the year comprises current tax and the 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 recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Financial assets and liabilities

(i) ***Recognition***

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

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

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

(ii) ***Classification***

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

(ii) Classification - 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-for-sale*

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held –to-maturity or (c) financial assets at fair value through profit and loss. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (Continued)

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

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 the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

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

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.

(iv) ***Derecognition***

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment for non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. 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.

(l) Segmental reporting

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

(m) Dividends

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

(n) Earnings per share

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

(o) Provisions

Provisions are recognised when the Group 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.

(p) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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 2011, and have not been applied in preparing these consolidated financial statements. These are summarised below and are not expected to have a significant impact on the consolidated financial statements of the Group:

- IFRS 9 *Financial Instruments.* IFRS 9 will become mandatory for the Group's 2015 consolidated finan cial statements.
- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 *Employee Benefits (Amended)* (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

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 risks, the quantification of the Group's risk exposure, actions to limit risk and the constant monitoring of risk.

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

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

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

All these principles are enshrined in the 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Management of credit risk

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

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

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 loan management).

At the management level, there is a Credit Risk Department staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this department there is a fully fledged mortgage recoveries and rehabilitation unit with the responsibility of formulating workout solutions and restructuring 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 statement of financial position. The Group is also exposed to credit risk on debt investments. The current credit exposure in respect of the instruments is equal to the carrying amount of these assets in the statement of financial position.

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

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

Impaired mortgage advances

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

Past due but not impaired mortgages

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Exposure to credit risk

	Mortgage advances		Investment in government securities		Investment in equities		Placement with other banks	
	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000	2011 KShs'000	2010 KShs'000
Impaired loans Gross amount	1,579,576	1,467,815	-	-	-	-	-	-
allowance for impairment	(480,768)	(382,378)	-	-	-	-	-	-
Carrying amount	**1,098,808**	**1,085,437**	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	24,197,426	18,470,033	379,847	539,535	56,000	-	4,724,183	7,866,266
Allowance for impairment incurred but not reported	(73,398)	(52,070)	-	-	-	-	-	-
Carrying amount	**24,124,028**	**18,417,963**	**379,847**	**539,535**	**56,000**	**-**	**4,724,183**	**7,866,266**
Net carrying amount	**25,222,836**	**19,503,400**	**379,847**	**539,535**	**56,000**	**-**	**4,724,183**	**7,866,266**

In addition to the above, the Group has entered into lending commitments of KShs 8,912,165,247 (2010 – KShs 6,585,885,192) with various counter parties.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

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

	2011 KShs'000	2010 KShs'000
Against impaired accounts	2,654,837	2,049,810
Against accounts not impaired	67,779,150	43,021,535
	70,433,987	**45,071,345**

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

	2011 KShs'000	2010 KShs'000
Properties	**70,433,987**	**45,071,345**

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

(ii) *Liquidity risk*

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

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

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

The Group has access to a diverse funding base. Funds are raised mainly from deposits, share capital, corporate bond and loans. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall 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 financial institutions and commitments maturing within the next 91 days. Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting year were as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (Continued)

	2011	2010
At 31 December	29.10%	55.73%
Average for the year	44.78%	38.35%
Maximum for the year	58.08%	64.61%
Minimum for the year	28.02%	28.84%

Contractual maturity analysis of financial assets and liabilities

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

31 December 2011:	**Due on demand KShs '000**	**Due within 3 months KShs '000**	**Due between 3 and 12 months KShs '000**	**Due between 1 and 5 years KShs '000**	**Due after 5 years KShs '000**	**Total KShs '000**
Financial assets						
Cash and bank balances	384,034	-	-	-	-	384,034
Placements with other banks	-	3,608,915	1,115,268	-	-	4,724,183
Investment in Government securities	-	-	6,288	373,559	-	379,847
Equity investments	-	-	-	-	56,000	56,000
Net mortgage advances **to customers**	**-**	**536,657**	**1,931,688**	**2,570,509**	**20,183,982**	**25,222,836**
Total	**384,034**	**4,145,572**	**3,053,244**	**2,944,068**	**20,239,982**	**30,766,900**
Financial liabilities						
Customer deposits	6,502,854	6,254,214	2,920,832	91,776	2,901,910	18,671,586
Loans from banks	-	85,777	668,887	92,843	-	847,507
Corporate bond	-	-	137,698	-	7,030,900	7,168,598
Government income notes	-	-	-	-	50,750	50,750
Total	**6,502,854**	**6,339,991**	**3,727,417**	**184,619**	**9,983,560**	**26,738,441**
Unrecognised mortgage commitments	**-**	**3,173,895**	**5,738,270**	**-**	**-**	**8,912,165**
At 31 December 2011	**(6,118,820)**	**(5,368,314)**	**(6,412,443)**	**2,759,449**	**10,256,422**	**(4,883,706)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

(ii) Liquidity risk (Continued)

At 31 December 2010:	Due on demand KShs '000	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
Financial assets						
Cash and bank balances	420,390	-	-	-	-	420,390
Placements with other banks	-	6,599,080	1,267,186	-	-	7,866,266
Investment in Government securities	-	-	9,835	530,000	-	539,835
Net mortgage advances to customers	-	324,479	1,069,660	2,295,392	15,813,869	19,503,400
Total	**420,390**	**6,923,559**	**2,346,681**	**2,825,392**	**15,813,869**	**28,329,891**
Financial liabilities						
Customer deposits	-	6,199,573	2,744,267	4,591,549	2,407,952	15,943,341
Loans from banks	-	78,858	646,771	847,740	-	1,573,369
Corporate bond	-	-	125,444	-	7,030,900	7,156,344
Government income notes	-	-	-	-	50,750	50,750
Total	**-**	**6,278,431**	**3,516,482**	**5,439,289**	**9,489,602**	**24,723,804**
Unrecognised mortgage commitments	-	2,384,128	4,201,757	-	-	6,585,885
At 31 December 2010	**420,390**	**(1,739,000)**	**(5,371,558)**	**(2,613,897)**	**6,324,267**	**(2,979,798)**

(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.

Exposure to interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

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 between3 and 12 months KShs '000	Due between 1 and 5years KShs '000	Due after 5 years KShs '000	Total KShs '000
31 December 2011:							
Financial assets							
Cash balances	-	384,034	-	-	-	-	384,034
Placements with other banks	15.04%	-	3,608,915	1,115,268	-	-	4,724,183
Investment in Government securities	11.90%	-	-	6,288	373,559	-	379,847
Net mortgage advances to customers	14.63%	-	536,657	1,931,688	2,570,509	20,183,982	25,222,836
Total		**384,034**	**4,145,572**	**3,053,244**	**2,944,068**	**20,183,982**	**30,710,900**
Financial liabilities							
Customer deposits	10.25%	6,502,854	6,254,214	2,920,832	91,776	2,901,910	18,671,586
Loans from banks	13.30%	-	85,777	668,887	92,843	-	847,507
Corporate bond	8.88%	-	-	137,698	-	7,030,900	7,168,598
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**6,502,854**	**6,339,991**	**3,727,417**	**184,619**	**9,983,560**	**26,738,441**
Unrecognised mortgage commitments		**-**	**3,173,895**	**5,738,270**	**-**	**-**	**8,912,165**
At 31 December 2011		**(6,118,820)**	**(5,368,314)**	**(6,412,443)**	**2,759,449**	**10,200,422**	**(4,939,706)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

	Average Interest rate	Due on demand KShs '000	Due within 3 months KShs '000	Due between3 and 12 months KShs '000	Due between 1 and 5years KShs '000	Due after 5 years KShs '000	Total KShs '000
31 December 2010:							
Financial assets							
Cash balances	-	420,390	-	-	-	-	420,390
Placements with other banks	4.70%	-	6,599,080	1,267,186			7,866,266
Investment in Government securities	6.92%	-	-	9,835	530,000	-	539,835
Net mortgage advances to customers	5.41%		324,479	1,069,660	2,295,392	15,813,869	19,503,400
Total		**420,390**	**6,923,559**	**2,346,681**	**2,825,392**	**15,813,869**	**28,329,891**
Financial liabilities							
Customer deposits	3.91%	4,495,580	6,199,573	2,744,267	95,969	2,407,952	15,943,341
Loans from banks	7.92%	-	78,858	646,771	847,740	-	1,573,369
Corporate bond	7.32%	-	-	125,444	-	7,030,900	7,156,344
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**4,495,580**	**6,278,431**	**3,516,482**	**943,709**	**9,489,602**	**24,723,804**
Unrecognised mortgage commitments		**-**	**2,384,128**	**4,201,757**	**-**	**-**	**6,585,885**
At 31 December 2010		**(4,075,190)**	**(1,739,000)**	**(5,371,558)**	**1,881,683**	**6,324,267**	**(2,979,798)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

Sensitivity analysis interest rate risk

At 31 December 2011, 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 10.070 million (2010 – KShs 10.186 million) lower arising mainly as a result of lower interest income and other components of equity would have been KShs 7.049 million (2010 – KShs 7.130 million) lower arising mainly as a result of lower interest income mortgages.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been KShs 10.070 million (2010 - KShs 10.186 million) higher, arising mainly as a result of higher interest income on mortgage lending and other components of equity would have been KShs 7.049 million (2010 – KShs 7.130 million) higher, arising mainly as a result of higher interest income mortgages.

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 Board Audit committee and senior management of the Group.

Risk measurement and control

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

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(v) Capital management (Continued)

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 adjust ments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserves relating to unrealized gains on equity instruments classified as available for sale.

The 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 change in the Group's management of capital during the year.

The company's regulatory capital position as at 31 December 2011 and 31 December 2010 was as follows:

	2011 KShs'000	2010 KShs'000
Tier 1 capital		
Ordinary share capital	1,152,125	1,150,000
Share premium	1,551,298	1,549,173
Retained earnings	1,017,703	487,164
	3,721,126	**3,186,337**
Tier 2 capital		
Collective allowances for impairment	217,112	163,468
Qualifying subordinated liabilities	1,972,863	1,705,469
	2,189,975	**1,868,937**
Total regulatory capital	**5,911,101**	**5,055,274**
Risk weighted assets	**17,368,931**	**13,077,391**
Capital ratios	**2011**	**2010**
Total regulatory capital expressed as a percentage of total risk-weighted assets	34.03%	38.66%
Total tier 1 capital expressed as a percentage of risk-weighted assets	21.42%	24.37%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(v) Capital management (Continued)

Central Bank of Kenya requires the Company to maintain a minimum core capital of KShs 350 million. However, the Central Bank of Kenya amended the Banking Act in 2009 to require banks to increase their core capital as follows:

Compliance date	Minimum core capital
31 December 2011	700 million
31 December 2012	1,000 million

The company is already compliant with this new requirement.

5. OPERATING SEGMENTS

The Group is organised in two main reporting segments: Mortgages and Deposits mobilisation. This is based on the Group's management and internal reporting structure. The mortgage segment is further split between Retail mortgages, Schemes mortgages and Projects, while deposits mobilisation segment is further split between Retail deposits and Corporate deposits.

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

- **Retail mortgages:** This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers and it forms the major proportion of the mortgage lending of the Group.

- **Schemes mortgages:** This segment is mainly responsible for arranging corporate mortgage packages with employers such that the employees of the participating companies can enjoy preferential interest rates on their mortgage loans.

- **Projects:** This segment provides lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.

- **Retail Deposits:** This segment plays a critical role in the operations of the Group sourcing for deposits from retail customers which are then used to finance the Group's mortgage products.

- **Corporate Deposits:** This segment is responsible for sourcing for deposits from corporate organizations.

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

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

5. OPERATING SEGMENTS (Continued)

	Mortgage Lending						Deposits Mobilisation							
External revenues	**Retail**		**Schemes**		**Projects**		**Corporate**		**Retail**		**Others**		**Totals**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Interest income	1,592,827	1,251,923	748,989	505,107	404,507	288,905	552,738	254,024	-	-	165,018	175,855	**3,464,079**	**2,475,814**
Interest expense:														
- Retail	-	-	-	-	-	-	-	-	(225,484)	(233,181)	-	-	**(225,484)**	**(233,181)**
- Corporate	-	-	(61,698)	(50,822)	-	-	(562,866)	(509,469)	-	-	(712,513)	(281,381)	**(1,337,077)**	**(841,672)**
Net interest income	**1,592,827**	**1,251,923**	**687,291**	**454,285**	**404,507**	**288,905**	**(10,128)**	**(255,445)**	**(225,484)**	**(233,181)**	**(547,495)**	**(105,526)**	**1,901,518**	**1,400,961**
Non interest income	107,932	77,795	-	-	44,210	25,791	-	-	59,728	63,391	78,009	85,479	**289,879**	**252,456**
Depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	(49,521)	(44,448)	**(49,521)**	**(44,448)**
Reporting segment profit/ (loss) before income tax	817,182	511,913	352,607	185,758	207,527	118,134	(5,196)	(104,452)	(115,682)	(95,348)	(280,886)	(55,770)	**975,552**	**560,235**
Loan disbursements	6,230,028	4,987,788	1,731,570	2,044,962	2,703,964	1,896,133	-	-	-	-	-	-	**10,665,562**	**8,928,883**
Loan sales	7,430,603	5,586,375	1,795,229	2,248,897	5,381,200	3,367,821	-	-	-	-	-	-	**14,607,032**	**11,203,093**
Deposits balances	-	-	2,901,910	2,407,953	-	-	8,050,826	6,568,517	7,721,685	6,968,847	-	-	**18,674,421**	**15,945,317**
Other material non cash items														
Impairment losses on mortgage loans	154,401	228,586	23,616	7,250	8,280	2,609	-	-	-	-	-	-	**186,297**	**238,445**
Capital expenditure	-	-	-	-	-	-	-	-	-	-	39,484	40,177	**39,484**	**40,177**
Reportable segment assets	12,500,830	9,608,475	8,137,592	6,255,367	3,559,004	2,606,191	5,488,052	8,826,478	-	-	2,286,635	2,029,331	**31,972,113**	**29,325,842**
Reportable segment liabilities	-	-	2,901,910	2,407,953	-	-	8,050,826	6,473,230	7,721,686	6,967,435	8,566,223	9,258,443	**27,240,645**	**25,107,061**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

5. OPERATING SEGMENTS (Continued)

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

	2011 KShs'000	2010 KShs'000
Net interest income		
Total net interest income for reportable segments	1,901,518	1,400,961
Other interest income adjustments	44	27
Consolidated net interest income	**1,901,562**	**1,400,988**
Non interest income		
Total non interest income for reportable segments	289,879	252,456
Other non interest income	1,740	1,740
Consolidated non interest income	**291,619**	**254,196**
Profit or loss		
Total profit or loss for reportable segments	975,552	560,235
Other profit or loss	243	793
Consolidated profit before income tax	**975,795**	**561,028**
Assets		
Total assets for reportable segments	31,972,113	29,325,842
Other assets	(101,197)	(47,446)
Consolidated total assets	**31,870,916**	**29,278,396**
Liabilities		
Total liabilities for reportable segments	27,240,645	25,107,061
Other liabilities	(87,093)	(35,322)
Consolidated total liabilities	**27,153,552**	**25,071,739**

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

(i) *Allowances for credit losses*

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

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

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

(ii) *Income taxes*

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

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

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

- The classification of financial assets;
- Whether assets are impaired; and
- Depreciation rates for property and equipment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

7. INTEREST INCOME AND INTEREST EXPENSE

	2011 KShs'000	2010 KShs'000
Interest income		
Arising from:		
Advances to customers	2,911,341	2,221,791
Treasury bonds	36,222	35,222
Placements with other banks	516,516	218,801
	3,464,079	**2,475,814**

Included in interest income on mortgage advances for the year is a total of KShs 165,018,405 (2010 – KShs 144,992,807) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are held to maturity.

	2011 KShs'000	2010 KShs'000
Interest expense		
Arising from:		
Customer deposits	850,003	793,444
Interest on borrowed funds	712,514	281,382
	1,562,517	**1,074,826**

8. NON INTEREST INCOME

	2011 KShs'000	2010 KShs'000
Arising from:		
Fees and commission income	210,367	168,480
Rental income	39,252	40,958
Other operating income	40,268	44,536
Gain on sale of property and equipment	1,732	222
	291,619	**254,196**

9. NON INTEREST EXPENSES

	2011 KShs'000	2010 KShs'000
Arising from:		
Salaries and employee benefits	601,450	489,608
Rental expenses	6,949	13,131
Deposit Protection Fund	25,649	23,942
General administration expenses	397,041	329,030
	1,031,089	**855,711**
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions	634	611
Contributions to the defined contribution retirement scheme	43,045	32,619

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

10. PROFIT BEFORE TAXATION

	2011 KShs'000	2010 KShs'000
The profit before taxation is arrived at after charging/(crediting):		
Directors' remuneration:		
- Fees	2,682	3,039
- Expenses	21,205	8,182
- As executives	43,049	31,640
Auditors' remuneration	7,800	7,004
Amortisation of prepaid operating lease rentals	642	642
Amortisation of intangible assets	2,528	2,720
Depreciation	46,351	41,352
Profit on sale of equipment	1,732	222

11. TAXATION

	2011 KShs'000	2010 KShs'000
Current tax at 30% – Current year	359,416	182,644
– Prior year under provision	-	4,160
	359,416	186,804
Deferred tax credit (Note 27(a)) – Current year	(5,899)	(4,915)
– Prior year	-	(392)
	(5,899)	(5,307)
	353,517	**181,497**

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

	2011 KShs'000	2010 KShs'000
Accounting profit before taxation	**975,795**	**561,028**
Tax at the applicable corporation tax rate of 30%	292,739	168,308
Prior year under provision – corporation tax	-	4,160
Tax effect of non-deductible costs and non-taxable income	8,160	7,290
Deferred tax asset not recognised	52,618	2,181
Prior year over provision – deferred tax	-	(392)
	353,517	**181,497**

12. EARNINGS PER SHARE

Basic

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

	2011 KShs'000	2010 KShs'000
Net profit for the year attributable to shareholders	**622,278**	**379,531**
Number of ordinary shares in issue (000's)	**230,425**	**230,000**
Weighted average number of ordinary shares	**230,150**	**-**
Basic earnings per share	**KShs 2.70**	**KShs 1.65**
Diluted earnings per share	**KShs 2.70**	**KShs 1.65**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. A final dividend in respect of the year ended 31 December 2011 of KShs 0.70 per share (2010: KShs 0.35) amounting to a total of KShs.161, 297,500 (2010 - KShs 80,500,000) has been proposed. During the year an interim dividend of KShs 0.50 per share, amounting to a total of KShs 115,200,000 was paid. The total dividend for the year is therefore KShs 1.20 per share (2010 - KShs 0.70), amounting to a total of KShs 276,497,500 (2010 - KShs 161,000,000). Issued and fully paid ordinary shares were 230,425,000 as at 31 December 2011 (2010 – KShs 230,000,000).

14. FINANCIAL ASSETS AND LIABILITIES

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

(a) **Group**

31 December 2011:	**Held-to-maturity KShs'000**	**Loans and advances KShs'000**	**Other amortised cost KShs'000**	**Fair value KShs'000**
Financial Assets				
Cash and cash equivalents	-	-	384,034	384,034
Placements with banks	-	-	4,724,183	4,724,183
Investment in government securities	379,847	-	-	371,222
Equity investments	-	-	56,000	56,000
Mortgage advances	-	25,222,836	-	25,222,836
	379,847	**25,222,836**	**5,164,217**	**30,758,275**
Financial Liabilities				
Customer deposits	-	-	18,671,586	18,671,586
Corporate Bond	-	-	7,168,598	7,168,598
Loans from banks	-	-	847,507	847,507
	-	**-**	**26,687,691**	**26,687,691**

31 December 2010:				
Financial Assets				
Cash and cash equivalents	-	-	420,390	420,390
Placements with banks	-	-	7,866,266	7,866,266
Investment in government securities	539,835	-	-	548,938
Mortgage advances	-	19,503,400	-	19,503,400
	539,835	**19,503,400**	**8,286,656**	**28,338,994**
Financial Liabilities				
Customer deposits	-	-	15,943,341	15,943,341
Corporate Bond	-	-	7,156,344	7,156,344
Loans from banks	-	-	1,573,369	1,573,369
	-	**-**	**24,673,054**	**24,673,054**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) **Company**

	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
31 December 2011:				
Financial Assets				
Cash and cash equivalents	-	-	384,022	384,022
Placements with banks	-	-	4,724,183	4,724,183
Investment in government securities	379,847	-	-	371,222
Equity investments	-	-	56,000	56,000
Mortgage advances	-	25,222,836	-	25,222,836
	379,847	**25,222,836**	**5,164,205**	**30,758,263**
Financial Liabilities				
Customer deposits	-	-	18,674,421	18,674,421
Corporate bond	-	-	7,168,598	7,168,598
Loans from banks	-	-	847,507	847,507
	-	**-**	**26,690,526**	**26,690,526**
31 December 2010:				
Financial Assets				
Cash and cash equivalents	-	-	420,377	420,377
Placements with banks	-	-	7,866,266	7,866,266
Investment in government securities	539,835	-	-	548,938
Mortgage advances	-	19,503,400	-	19,503,400
	539,835	**19,503,400**	**8,286,643**	**28,338,981**
Financial Liabilities				
Customer deposits	-	-	15,945,317	15,945,317
Corporate bond	-	-	7,156,344	7,156,344
Loans from banks	-	-	1,573,369	1,573,369
	-	**-**	**24,675,030**	**24,675,030**

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

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

15. CASH AND BANK BALANCES

	2011 Group KShs'000	2011 Company KShs'000	2010 Group KShs'000	2010 Company KShs'000
Cash at hand	119,721	119,721	101,224	101,224
Current account balances	264,313	264,301	319,166	319,153
	384,034	**384,022**	**420,390**	**420,377**

16. PLACEMENTS WITH OTHER BANKS

Group and Company:

	2011 KShs'000	2010 KShs'000
Placements with commercial banks	**4,724,183**	**7,866,266**

17. INVESTMENT IN GOVERNMENT SECURITIES

Group and Company:

	2011 KShs'000	2010 KShs'000
Held to Maturity		
Treasury bonds due after 180 days	**379,847**	**539,835**

The weighted average effective interest rate on government securities as at 31 December 2011 was 11.90% (2010 – 6.92%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

18. MORTGAGE ADVANCES TO CUSTOMERS

Group and Company:

(a) Mortgage advances at amortised cost

	2011 KShs'000	2010 KShs'000
Mortgages	25,777,002	19,937,848
Less: Provision for impairment losses (Note 18(b))	(554,166)	(434,448)
	25,222,836	**19,503,400**
Maturing:		
Within five years	5,419,088	3,689,531
Over five years to ten years	4,166,985	4,560,441
Over ten years to fifteen years	10,973,778	6,849,438
Over fifteen years	4,662,985	4,403,990
	25,222,836	**19,503,400**

(b) Reserve for impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2010	596,490	32,312	628,802
Impairment made in the year	34,386	19,758	254,144
Provisions no longer required	(15,699)	-	(15,699)
Written off against balance	(432,799)	-	(432,799)
At 31 December 2010	**382,378**	**52,070**	**434,448**
Impairment made in the year	171,701	21,328	193,029
Provisions no longer required	(6,732)	-	(6,732)
Written off against balance	(66,579)	-	(66,579)
At 31 December 2011	**480,768**	**73,398**	**554,166**

(c) Impairment losses

	Specific impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
2011			
Impairment made in the year	171,701	21,328	193,029
Provisions no longer required	(6,732)	-	(6,732)
At 31 December 2011	**164,969**	**21,328**	**186,297**
2010			
Impairment made in the year	234,386	19,758	254,144
Provisions no longer required	(15,699)	-	(15,699)
At 31 December 2010	**218,687**	**19,758**	**238,445**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

18. MORTGAGE ADVANCES TO CUSTOMERS (continued)

(d) **Mortgage advances**

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

	2011 KShs'000	2010 KShs'000
Interest on impaired mortgages which has not yet been received in cash	234,433	283,632

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2011 was 14.15% (2010 – 12.80%).

19. INVESTMENT IN SUBSIDIARIES

	Shareholding	2011 KShs'000	2010 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

20. AMOUNTS DUE TO/ (FROM) SUBSIDIARIES

	2011 KShs'000	2010 KShs'000
Company:		
Kenya Building Society Limited	(48)	(48)
First Permanent (East Africa) Limited	15,006	15,006
	14,958	14,958

21. OTHER ASSETS

	2011		2010	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	62,033	62,033	27,665	27,665
Prepayments	135,799	135,800	123,737	123,737
Deposits and rent receivable	6,022	6,022	5,995	5,995
Other receivables	42,324	46,445	42,811	46,422
	246,178	250,300	200,208	203,819

Included in staff debtors are staff car loans of KShs 11,002,370 (2010 – KShs 17,835,916) and staff personal loans of KShs 48,402,595 (2010 – KShs 8,188,696).

22. EQUITY INVESTMENTS

Group and Company:

	2011 KShs'000	2010 KShs'000
Equity Investments		
Available for sale investments	56,000	-

During the year, the company participated in the British American Initial Public Offer and bought 10 million shares at price of KShs 9 per share. Total cost for the shares amounted to KShs 90m. The shares are listed in the Nairobi Securities Exchange and were trading at KShs 5.60 per share on 31 December 2011. The decrease in the fair value of KShs 34 million was recognised in available for sale reserve which is an equity component.

23. HOUSING DEVELOPMENT PROJECTS

Group:

	2011 KShs'000	2010 KShs'000
Housing projects		
Komarock Housing Projects	20,130	20,130

No commitments in respect of these projects were authorised both in 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

24. PROPERTY AND EQUIPMENT

(a) Group

2011:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2011	7,000	475,596	551,616	20,685	1,054,897
Additions	-	-	39,484	49,345	88,829
Revaluation	-	-	(382,909)	-	(382,909)
Disposals	-	-	(8,691)	-	(8,691)
At 31 December 2011	7,000	475,596	199,500	70,030	752,126
Comprising:					
At cost	-	20,651	39,484	70,030	130,165
At valuation	7,000	454,945	160,016	-	621,961
	7,000	475,596	199,500	70,030	752,126
Depreciation:					
At 1 January 2011	-	9,574	444,906	-	454,480
Charge for the year	-	7,132	39,219	-	46,351
Revaluation	-	-	(446,038)	-	(446,038)
Disposals	-	-	(7,875)	-	(7,875)
At 31 December 2011	-	16,706	30,212	-	46,918
Net book value:					
At 31 December 2011	**7,000**	**458,890**	**169,288**	**70,030**	**705,208**
2010:					
Cost or valuation:					
At 1 January 2010	7,000	475,596	515,119	-	997,715
Additions	-	-	40,177	20,685	60,862
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	7,000	475,596	551,616	20,685	1,054,897
Comprising:					
At cost	-	20,651	551,616	20,685	592,952
At valuation	7,000	454,945	-	-	461,945
	7,000	475,596	551,616	20,685	1,054,897
Depreciation:					
At 1 January 2010	-	2,443	414,365	-	416,808
Charge for the year	-	7,131	34,221	-	41,352
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	-	9,574	444,906	-	454,480
Net book value:					
At 31 December 2010	**7,000**	**466,022**	**106,710**	**20,685**	**600,417**

The Group's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2009. The resulting surplus was credited to revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

24. PROPERTY AND EQUIPMENT (Continued)

(a) Group - continued

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

	2011 KShs 000	2010 KShs '000
Freehold land	206	206
Buildings	34,972	38,159

Included in equipment are assets with a gross value of KShs 7,369,304 (2010 – KShs 304,112,531) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 1,149,240 (2010 – KShs 58,510,242).

(b) Company

2011:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2011	7,000	467,000	546,250	20,685	1,040,935
Additions	-	-	39,484	49,345	88,829
Revaluation	-	-	(382,909)	-	(382,909)
Disposals	-	-	(8,691)	-	(8,691)
At 31 December 2011	7,000	467,000	194,134	70,030	738,164
Comprising:					
At cost	-	54,055	39,484	70,030	163,569
At valuation	7,000	412,945	154,650	-	574,595
	7,000	467,000	194,134	70,030	738,164
Depreciation:					
At 1 January 2011	-	7,056	439,538	-	446,594
Charge for the year	-	7,056	39,219	-	46,275
Revaluation	-	-	(446,038)	-	(446,038)
Disposals	-	-	(7,875)	-	(7,875)
At 31 December 2011	-	14,112	24,844	-	38,956
Net book value:					
At 31 December 2011	**7,000**	**452,888**	**169,290**	**70,030**	**699,208**
2010:					
Cost or valuation:					
At 1 January 2010	7,000	467,000	509,753	-	983,753
Additions	-	-	40,177	20,685	60,862
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	7,000	467,000	546,250	20,685	1,040,935
Comprising:					
At cost	-	54,055	546,250	20,685	620,990
At valuation	7,000	412,945	-	-	419,945
	7,000	467,000	546,250	20,685	1,040,935
Depreciation:					
At 1 January 2010	-	-	408,997	-	408,997
Charge for the year	-	7,056	34,221	-	41,277
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	-	7,056	439,538	-	446,594
Net book value:					
At 31 December 2010	**7,000**	**459,944**	**106,712**	**20,685**	**594,341**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

24. PROPERTY AND EQUIPMENT (Continued)

(b) Company - Continued

The Company's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2009. The resulting surplus was credited to revaluation reserve.

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

	2011 KShs 000	2010 KShs '000
Freehold land	206	206
Buildings	34,972	38,159

Included in equipment are assets with a Nil gross value (2010 – KShs 296,743,227) which are fully depreciated and still in use. Such assets would have attracted a Nil notional depreciation (2010 – KShs 51,140,938). This was as a result of revaluation of the company assets during the year.

25. PREPAID OPERATING LEASE RENTALS

	2011		2010	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At 1 January	54,612	45,706	54,612	45,706
Amortisation:				
At 1 January	5,997	3,996	5,355	3,535
Charge for the year	642	461	642	461
	6,639	4,457	5,997	3,996
At 31 December	**47,973**	**41,249**	**48,615**	**41,710**

As at 31 December 2011 the un-expired lease period ranges from 63 to 85 years. Leasehold land is recognised at cost. The land was valued professionally on 31 December 2009 at KShs 225,000,000.

26. INTANGIBLE ASSETS

	2011		2010	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At January	127,066	126,994	125,407	125,310
Reclassification	-	-	-	25
Additions during the year	2,021	2,021	1,659	1,659
	129,087	129,015	127,066	126,994
Amortisation:				
At January	123,981	123,926	121,261	121,216
Amortisation during the year	2,528	2,518	2,720	2,710
As at 31 December	126,509	126,444	123,981	123,926
Net book value:				
As at 31 December	**2,578**	**2,571**	**3,085**	**3,068**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

27. DEFERRED TAX ASSETS AND LIABILITIES

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

(a) **Group**

2011:	**01.01.2011 KShs'000**	**Prior year under provision KShs'000**	**Recognised in income KShs'000**	**Unrecognised tax assets KShs'000**	**31.12.2011 KShs'000**
Arising from:					
Plant and equipment	7,254	-	4,510	-	11,764
Other general provisions	212	-	2,192	-	2,404
General provision on mortgages	15,621	-	52,160	-	67,781
Tax losses carried forward	52,963	-	-	(52,963)	-
Net deferred tax	**76,050**	**-**	**58,862**	**(52,963)**	**81,949**

2010:	**01.01.2010 KShs'000**	**Prior year under provision KShs'000**	**Recognised in income KShs'000**	**Unrecognised tax assets KShs'000**	**31.12.2010 KShs'000**
Arising from:					
Plant and equipment	5,882	(42)	1,414	-	7,254
Other general provisions	2,335	-	(2,123)	-	212
General provision on mortgages	9,693	-	5,928	-	15,621
Tax losses carried forward	52,833	434	1,877	(2,181)	52,963
Net deferred tax	**70,743**	**392**	**7,096**	**(2,181)**	**76,050**

(b) **Company**

2011:	**01.01.2011 KShs'000**	**Prior year under provision KShs'000**	**Recognised in income KShs'000**	**Unrecognised tax assets KShs'000**	**31.12.2011 KShs'000**
Arising from:					
Plant and equipment	7,173	-	4,519	-	11,692
Other general provisions	212	-	2,192	-	2,404
General provision on mortgages	15,621	-	52,160	-	67,781
	23,006	**-**	**58,871**	**-**	**81,877**

2010:	**01.01.2010 KShs'000**	**Prior year under provision KShs'000**	**Recognised in income KShs'000**	**Unrecognised tax assets KShs'000**	**31.12.2010 KShs'000**
Arising from:					
Plant and equipment	5,790	42	1,341	-	7,173
Other general provisions	154	-	58	-	212
General provision on mortgages	9,694	-	5,927	-	15,621
	15,638	**42**	**7,326**	**-**	**23,006**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

27. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Unrecognised tax losses

Deferred tax assets have not been recognised in respect of the following items:

	2011 KShs 000	2010 KShs '000
Tax losses - Kenya Building Society Limited	176,543	-
Tax losses - First Permanent (East Africa) Limited	-	7,270
	176,543	**7,270**

The tax losses expire in 2014. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits therefrom.

28. EMPLOYEE BENEFITS

Employee Share Ownership Plan (ESOP)

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

	2011 Number of shares	2010 Number of shares
Outstanding at start of year	-	-
Granted during the year	575,000	-
Lapsed	-	-
Exercised	(425,000)	-
Outstanding at end of year	**150,000**	**-**
Exercise price per share – KShs	**10.00**	**-**

Options may be exercised at the price of KShs 10. The trading price of Housing Finance Company of Kenya Limited share as at 31 December 2011 on the Nairobi Securities Exchange was KShs 12.40.

Back ground of Employee Share Ownership Plan

On 26 July 2006, the shareholders gave approval for an Employee Share Ownership Plan (ESOP) to be set up to facilitate the ownership of shares in Housing Finance Company of Kenya Limited by employees of the company. Approval to issue additional shares, listing of shares and allotment to the Employee Share Ownership Plan (ESOP) was approved by Capital Market Authority on 20 December 2010. The total number of shares approved under the ESOP amount to 5,750,000. The ESOP became operational in 2011 with a total of 575,000 options being granted out of which 425,000 options were exercised at a price of KShs 10 per share during the period leaving 150,000 options outstanding as at 31 December 2011. The ESOP is for Company employees (excluding non executive board directors) who have attained the age of 18 years, have completed the probationary period and have been confirmed as employees of the Company in accordance with their contract of employment. However, the right to exercise an Option shall terminate immediately upon the Option holder ceasing to be an eligible employee, unless the holder of an unexercised Option dies before exercising a subsisting Option, where the Option may be exercised by his personal representatives within 12 months of the date of death. The eligible employees pay for the units by cash at a price determined by Trustees either in full or by instalments until price is paid in full. The Unit holder is not allowed to sell, transfer or otherwise dispose of Units registered in his name to another Unit holder or to any third party whatsoever. The administrative offices of the ESOP – Unit Trust are the Principal Offices of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

29. CUSTOMERS' DEPOSITS

	2011		2010	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Government and parastals:				
Payable within 90 days	384,265	384,265	652,446	652,446
Payable after 90 days and within one year	243,559	243,559	202,920	202,920
Payable after one year	1,649,629	1,649,629	1,326,248	1,326,248
Private sector and individuals:				
Payable within 90 days	12,372,805	12,375,640	5,546,355	5,548,331
Payable after 90 days and within one year	2,677,273	2,677,273	2,541,347	2,541,347
Payable after one year	1,344,055	1,344,055	5,674,025	5,674,025
	18,671,586	**18,674,421**	**15,943,341**	**15,945,317**

(a) Included in customers' deposits is KShs 2,834,772 (2010 – KShs 1,976,527) due to a subsidiary, Kenya Building Society Lim ited and KShs Nil (2010 – Nil) due to a subsidiary, First Permanent (East Africa) Limited.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2011 was 10.25% (2010 – 3.91%).

30. OTHER LIABILITIES

	2011		2010	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Interest payable on the Government of Kenya income notes	2,093	2,093	2,093	2,093
House sales deposits	1,524	-	1,524	-
Withholding tax payable	21,555	21,555	19,609	19,609
Unclaimed dividends	21,209	21,209	17,730	17,730
Sundry creditors	72,512	72,512	91,175	91,175
Other liabilities	211,034	207,005	189,467	185,275
	329,927	**324,374**	**321,598**	**315,882**

31. LOANS FROM BANKS

Group and company:	2011 KShs'000	2010 KShs'000
Loans from banks	**847,507**	**1,573,369**

This balance relates to two loan facilities of KShs 400 million from Standard Chartered Bank Kenya Limited and KShs 447,506,636, from Equity Bank Ltd respectively. The Standard Chartered Bank Kenya Limited loan is for three years at a rate of 2.75% plus the Treasury bill rate of the last auction day immediately preceding the end of every month while the loan from Equity Bank Limited is at 8.5% per annum for three years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

32. CORPORATE BOND

Group and company:	2011 KShs'000	2010 KShs'000
Corporate bond	7,030,900	7,030,900
Interest payable on Corporate bond	137,698	125,444
	7,168,598	**7,156,344**

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

33. CAPITAL AND RESERVES

Group and company:

(a) Ordinary share capital	2011 KShs'000	2010 KShs'000
235,750,000authorised ordinary shares of KShs 5.00 each	**1,178,750**	**1,178,750**
Issued and fully paid:		
At 1 January: 230,000,000 ordinary shares of KShs 5.00 each	1,150,000	1,150,000
425,000 (2010 – Nil) ordinary shares of KShs 5.00 each issued in the year	2,125	-
At 31 December 230,425,000 (2010 – 230,000,000) Ordinary shares of KShs 5.00 each	**1,152,125**	**1,150,000**

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 general meetings of the company. Issued and fully paid ordinary shares were 230,425,000 on as at 31 December 2011 (2010 – 230,000,000). During the year, 425,000 ordinary shares were issued at KShs 10 per share lead to a share premium of KShs 5.00 per share issued.

(b) **Share premium**
These reserves arise at a time when the shares of the company are issued at a price higher than the nominal (Par) value.

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

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

(e) **Available-for-sale reserve**
The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

34. SHAREHOLDERS' INCOME NOTES AND LOANS

	2011 KShs'000	2010 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 are charged interest at a fixed rate of 8.25% per annum (2010 – 8.25%).

35. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2011 KShs'000	2010 KShs'000
Group profit before taxation	975,795	561,028
Depreciation	46,351	41,352
Amortisation of intangible asset	2,528	2,720
Amortisation of prepaid operating lease rentals	642	642
Profit on sale of property and equipment	(1,732)	(222)
Increase in customer deposits	2,728,245	3,723,892
Net movement in mortgage advances to customers	(5,719,436)	(5,008,192)
Investment in Government securities	159,988	(30,328)
Increase in other assets	(45,970)	(117,005)
Increase in other liabilities	4,850	101,551
Increase in funds from corporate bonds	-	7,030,900
Increase in interest payable on corporate bond	12,254	125,444
Decrease in loans from banks	(725,862)	(126,631)
Net cash flows from operating activities before tax	**(2,562,347)**	**6,305,151**
Income tax paid	(249,819)	(186,558)
Net cash flows from operating activities	**(2,812,166)**	**6,118,593**

(b) **Analyses of cash and cash equivalents**

	2011 KShs'000	2010 KShs'000	Change in the year KShs'000
Cash in hand and bank	384,034	420,390	(36,356)
Balances due from banking institutions	4,724,183	7,866,266	(3,142,083)
	5,108,217	**8,286,656**	**(3,178,439)**

36. CONTINGENT LIABILITIES

(a) **Guarantees**

As at 31 December 2011, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 1.033million (2010 – KShs 1.033 million).

(b) **Other contingent liabilities**

In the ordinary course of business, the company and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements. The significant claims are described below:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

36. CONTINGENT LIABILITIES (Continued)

(b) Other contingent liabilities (continued)

Kenya Building Society Limited (KBS) is a 100% owned subsidiary of Housing Finance. The company entered into a joint venture agreement with Santack Limited for the development of a housing project in Komarock (Komarock Phase V). KBS terminated the contract because Santack Limited was unable to perform as per the contract. Upon termination of the contract Santack has raised a claim of KShs 340 million being their estimated loss following the termination of the contract. Housing Finance has also raised a counter claim of KShs 74 million. The matter has been referred for arbitration as provided for in the joint venture agreement. The proceedings are ongoing. Housing Finance is optimistic that the case will be ruled in their favour.

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

In 2010, Kenya Revenue Authority carried out a tax audit of Housing Finance for the years 2006 – 2009 and raised a claim of KShs 61,369,382 (including penalties and interest). Housing Finance appealed against KRA's assessments for KShs 6,743,448 at the Local Committee and the appeal succeeded. However, KRA appealed against the local Committee decision at the High Court and case is currently on-going. Housing Finance paid KShs 3,483,800 and balance of KShs 51,142,134 is under negotiations with KRA.

Additionally, during the year KRA also conducted a Value Added Tax (VAT) compliance inspection and raised a claim of KSh 80,174,990 (including interest) as VAT assessment on self-supply on commercial rent for the period January 2008 to June 2011. Housing Finance has appealed against KRA decision at the VAT Tribunal.

37. OPERATING LEASE ARRANGEMENTS

Group and company:

The bank as a lessor

Rental income earned during the year was KShs 39,251,575 (2010 – KShs 40,957,788). At the reporting date, the bank had contracted with tenants for the following future lease receivables:

	2011 KShs'000	2010 KShs'000
Within one year	31,946	31,182
In second to fifth year inclusive	92,570	83,878
After five years	7,341	-
	131,857	115,060

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

	2011 KShs'000	2010 KShs'000
Within one year	4,966	13,335
In second to fifth year inclusive	23,592	30,726
After five years	22,391	10,670
	50,949	54,731

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

38. MORTGAGE COMMITMENTS

Group and Company:

Mortgage commitments amounting to KShs 8,912,165,247 (2010 – KShs 6,585,885,192) are analysed below:

	2011 KShs'000	2010 KShs'000
Commitment in principle but not authorised for payment	8,912,165	6,585,885
Authorised but not paid	-	-
	8,912,165	**6,585,885**

39. CAPITAL COMMITMENTS

Group and company:

	2011 KShs'000	2010 KShs'000
Authorised but not contracted	**71,219**	**60,655**

40. ASSETS PLEDGED AS SECURITY

As at 31 December 2011, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2010 – Nil).

41. RELATED PARTY TRANSACTIONS

Group and company:

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

(a) **Loans**

	2011 KShs'000	2010 KShs'000
At 1 January	459,861	318,845
Loans advanced during the year	226,500	205,197
Loans repayments received	(79,958)	(64,181)
At 31 December	**606,403**	**459,861**
Comprising:		
Mortgage advances	544,183	432,121
Personal loans	48,403	8,189
Staff car loans	11,002	17,836
Other	2,815	1,715
At 31 December	**606,403**	**459,861**

Included in related party are staff car loans of KShs 11,002,370 (2010 – KShs 17,835,916) and staff personal loans of KShs 48,402,595 (2010 – KShs 8,188,696). The related interest income for staff car loans and staff personal loans in 2011 was KShs 973,413 (2010 – KShs 1,289,155) and KShs 2,521,072(2010 – KShs 136,162) respectively.

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 10.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

41. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation to senior management for the year ended 31 December 2011 amounted to KShs 100,585,987 (2010 KShs 71,241,980).

(d) **Transactions with Equity Bank Limited**

	2011 KShs'000	2010 KShs'000
At 1 January	773,369	700,000
Loans received during the year	-	300,000
Loan repayments	(325,862)	(226,631)
At 31 December	**447,507**	**773,369**

Interest expense on the Equity Bank loan for the year ended 31 December 2011 amounted to KShs 55,518,962 (2010 – KShs 85,080,269).

SHAREHOLDER'S PROXY

To: **The Registrar,**
Housing Finance Company of Kenya Limited
Rehani House, Kenyatta Avenue,
P.O. Box 30088 - 0100 Nairobi, GPO

I/We____

of ____

bieng 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 46th Annual General Meeting of the Company to be held on the 27th day of April 2012 and at any adjournment thereof.

Number of shares held ____

Account number:____(if known)

Signed this ___________________________________day of________________________2012

____

____

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.

Housing Finance

CUT HERE

FOMU YA UAKILISHI

Kwa: Msajili,
Housing Finance Company of Kenya Limited
Rehani House, Kenyatta Avenue,
S.L.P. 30088 - 0100 Nairobi, GPO

Mimi/Sisi____

kutoka____

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

____

kutoka____

au akikosekana____

kutoka ____

kama wakala wangu/wetu kupiga kura kwa niaba yangu/yetu wakati wa mkutano mkuu wa 46 wa mwaka utakaofanyika Aprili 27 2012 au kuahirishwa kwake.

Idadi ya hisa zilizohifadhiwa ___________________________________

Nambari ya akaunti:___________________________________
(endapo inajulikana)

Imetiwa sahihi siku hii ________________________

tarehe________________2012

____

____

Sahihi

____

Kumbuka:

1) Kwa hiari yako, unaweza kumteuwa 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.

NOTES

NOTES

Housing Finance

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