

**DIRECTORS,
OFFICERS AND
ADMINISTRATION**

DIRECTORS

Richard Kemoli

(Chairman) Appointed on 19 April 2000

Peter J W Lewis-Jones*

(Managing) Appointed on 1 March 2001

Walter B M Mukuria

Retired on 23 June 2000

Anne A W Amissabuor (Mrs)

Kung'u Gatabaki

Titus T Naikuni

Appointed on 19 April 2000

Martin L Oduor-Otieno

Michael A Turner*

Mwaghazi Mwachofi

(Alternate to Martin L Oduor-Otieno)

*British

ACTING CHIEF EXECUTIVE

From 23 June 2000 to 28 February 2001

Stuart I Castledine

COMPANY SECRETARY

Samuel W Waiganjo BCom (Hons), FCPA(K), ACIS, CPS(K)

SHARE REGISTRAR

Anne Matu CPS(K)

AUDITORS

KPMG Peat Marwick

Lonrho House, 16th floor

PO Box 40612

Nairobi

CMA - Ke Library



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REGISTERED O.

Rehani House

Kenyatta Avenue/Koinange Street

PO Box 30088

Nairobi

BANKERS

Barclays Bank of Kenya Limited

Citibank NA

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BOARD OF DIRECTORS



- | | | |
|---|----------------------------------|------------------------------------|
| 1 | Richard Kemoli | Chairman |
| 2 | Peter J W Lewis-Jones | Managing |
| 3 | Martin L Oduor-Otieno | |
| 4 | Titus T Naikuni | |
| 5 | Michael A Turner | |
| 6 | Anne A W Amissabuor (Mrs) | |
| 7 | Kung'u Gatabaki | |
| 8 | Mwaghazi Mwachofi | Alternate to Martin L Oduor-Otieno |

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Richard Kemoli (66) BSc (Econ), MBE
Was appointed Chairman of HFCK in April 2000. He is also Chairman of Bamburi Cement, Kenya Capital Partners and Unga Group. Other directorships include E.A. Breweries, CMC Holdings, Kenya Revenue Authority, E.A Bottlers, Johnson Wax, Kenya Airport Authority, Van Leer, Kenchic and Kenya Ear Foundation.

Peter J W Lewis-Jones (55)

Was appointed Managing Director of HFCK from 1 March 2001. Before joining HFCK, Mr Lewis - Jones was the Managing Director of Stanbic Bank in Kenya. He was also a director of Stanbic Bank Uganda, Tanzania and the Democratic Republic of Congo. He has wide experience in banking, having worked in senior positions in Africa, the Arab world and Europe, and is a past Chairman, Kenya Bankers Association.

Martin L Oduor-Otieno (45) BCom (Hons), FCPA(K), CPS(K)

Was appointed as a HFCK director in October 1999. Before becoming Permanent Secretary, Ministry of Finance and Planning, Mr Oduor - Otieno was the Finance Director of Barclays Bank of Kenya. Directorships include organisations where the Kenya Government has interest such as Central Bank of Kenya, East Africa Development Bank, Kenya Commercial Bank, National Bank of Kenya, Co-operative Bank of Kenya, Consolidated Bank, Capital Markets Authority, NSSF, ICDC, Export Promotion Council and Kenya Ports Authority.

Titus T Naikuni (48) BSc (Eng)

Was the Chairman of HFCK from May 1998 to December 1999 when he resigned. He was re-appointed as a director in April 2000. Prior to being appointed as the Permanent Secretary, Ministry of Information, Transport and

Communications, Mr Naikuni was the Managing Director of Magadi Soda Company. Directorships include Kenya Airports Authority, Kenya Broadcasting Corporation, Kenya Ports Authority and Postal Corporation of Kenya.

Michael A Turner (41) BSc (Eng), FCA

Was appointed as a director of HFCK in August 1999. He is the director CDC Capital Partners with responsibility for East Africa. Other directorships include Development Bank of Kenya, Grain Bulk Handlers and Sulmac Company.

Anne A W Amlissabuor (Mrs) LLB, LLM

Was appointed as a director of HFCK in 1995. She is a partner of Oraro & Company Advocates where she is in charge of conveyancing and commercial matters. She is a member of the Law Society of Kenya.

Kung'u Gatabaki (51) BSc (Econ)

Was appointed as a director of HFCK in 1986. He is a manager with CDC Capital Partners in Kenya. Other directorships include Sony Sugar Company, Jacaranda, Development Bank of Kenya, Kenya Safari Lodges & Hotels, Shelter Afrique and Kenya Capital Partners.

Mwaghazi Mwachofi (52) BCom (Hons), MBA

Was appointed alternate director of HFCK, representing Mr Oduor-Otieno, in January 2001. He is the Financial Secretary to the Treasury. Before joining the Government he was the regional director, International Finance Corporation Southern Africa Regional office in Johannesburg. Other directorships include Capital Markets Authority, National Bank of Kenya, Stanbic Bank, NSSF and Retirement Benefits Authority.

**MEMBERS
OF THE
BOARD
PROFILE**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 35TH ANNUAL GENERAL MEETING OF THE HOUSING FINANCE COMPANY OF KENYA LIMITED WILL BE HELD AT THE AMPHITHEATRE, KENYATTA INTERNATIONAL CONFERENCE CENTRE, NAIROBI ON FRIDAY, 20 APRIL 2001 AT 11.00 A.M. FOR THE FOLLOWING PURPOSES:

- 1** To confirm the minutes of the 34th Annual General Meeting held on Friday, 16 June 2000.
- 2** To receive, consider and adopt the accounts for the year ended 31 December 2000 together with Directors' and Auditors' Reports thereon.
- 3** To declare a dividend.
- 4** To elect directors:
 - a)** Mr Kung'u Gatabaki retires by rotation in accordance with Article 78 of the Company's Articles of Association and, being eligible, offers himself for re-election.
 - b)** Mrs Anne A W Amissabuor retires by rotation in accordance with Article 78 of the Company's Articles of Association and, being eligible, offers herself for re-election.
- 5** To fix the remuneration of directors.
- 6** To note that Messrs KPMG Peat Marwick will continue in office as Auditors by virtue of Section 159 (2) of the Companies Act (Cap 486) and to authorise the directors to fix their remuneration.
- 7** To transact any other ordinary business of an Annual General Meeting.

By order of the Board

**SAMUEL W WAIGANJO
COMPANY SECRETARY**

DATE: 16 FEBRUARY 2001

NOTE

- i)** Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a Proxy to attend and vote instead of him. The Proxy form should be completed and returned to the Company Secretary, Rehani House, Nairobi, so as to reach him not later than 24 hours before the time appointed for holding the meeting.
- ii)** A person appointed to act as Proxy need not be a member of the Company.
- (iii)** If the appointer is the Government or any Corporation the Proxy must be under seal or under the hand of an Officer duly authorised in that behalf.

ILANI INATOLEWA HAPA KUWA MKUTANO WA THELATHINI NA TANO WA KILA MWAKA WA HOUSING FINANCE COMPANY OF KENYA LIMITED UTAFAANYIKA KATIKA UKUMBI WA AMPHITHEATRE KENYATTA INTERNATIONAL CONFERENCE CENTRE NAIROBI IJUMAA, TAREHE 20 APRIL 2001 SAA TANO ASUBUHI KWA MADHUMUNI YAFUATAYO:

**ILANI YA
MKUTANO
MKUU WA
KILA MWAKA**

- 1 Kuidhinishwa yaliyosemwa kwenye mkutano mkuu wa 34 wa kila mwaka uliofanyika Ijumaa, tarehe 16 Juni 2000.
- 2 Kupokea, kuchunguza na ikifikiriwa sawa kuidhinisha taarifa ya fedha za mwaka uliomalizikia 31 Desemba 2000 pamoja na taarifa ya wakurugezi na wakaguzi wa hesabu.
- 3 Kuidhinisha mgawo wa faida.
- 4 Kuchagua wakurugenzi:
 - a) Bw. Kung'u Gatabaki anastaaafu kwa zamu kulingana na kanuni 78 ya masharti na kanuni za kampuni na kwa kuwa anastahili anajitolea kuchaguliwa tena.
 - b) Bi. Anne A W Amissabuor anastaaafu kwa zamu kulingana na kanuni 78 ya masharti na kanuni za kampuni na kwa kuwa anastahili anajitolea kuchaguliwa tena.
- 5 Kuamua malipo ya wakurugenzi.
- 6 Kujulisha kwamba Messrs KPMG Peat Marwick wataendelea kushikilia afisi kama wakaguzi wa hesabu kwa mujibu wa sehemu 159(2) ya sheria za kampuni (Ibara 486) na kuidhinisha wakurugenzi kuamua malipo ya wakaguzi wa vitabu vya fedha.
- 7 Kushughulikia jambo lingine lolote linaloweza kushughulikiwa katika mkutano mkuu wa kila mwaka.

Kwa amri ya Halmashauri

**SAMUEL W WAIGANJO
KATIBU WA KAMPUNI**

TAREHE: 16 FEBRUARI 2001

MAELEZO

- i) Mwanachama wa kampuni mwenye haki ya kuhudhuria na kupiga kura katika mkutano huu ana haki ya kuchagua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Fomu akilishi inafaa ikamilishwe na kurudishwa kwa katibu, Rehani House ili imfikie kwa muda usiopungua masaa ishirini na manne kabla wakati uliochaguliwa wa kufanyika mkutano.
- ii) Mtu aliyechaguliwa kama mwakilishi si lazima kuwa mwanachama.
- iii) Ikiwa mchaguaji ni serikali au shirika lolote fomu akilishi lazima iwe na mhuri wa kampuni au sahihi ya afisa wa kampuni aliyeidhinishwa katika mamlaka hayo.

CHAIRMAN'S REPORT

It gives me great pleasure to present to you our year 2000 Group results.



THE ECONOMY AND THE BUSINESS ENVIRONMENT

The economy failed to stabilise during the year 2000. Treasury bill rates, which were around 21% at the beginning of the year, fell to a low of 9% in August, rose to 13.5% by the end of the year and in the first quarter of 2001 are hovering around 15%. Such large fluctuations do nothing to encourage borrower confidence. They also result in depositors taking short-term views about where to place their savings. Both of these factors impact HFCK adversely.

One consequence of the lack of borrower confidence is that the demand for houses is much reduced. Just like any other product,

the true value of property is determined by supply and demand. At present there is excess supply and, consequently, house prices are falling. This affects HFCK adversely because, when customers default and we are forced to realise our security, the money that we receive is often insufficient to cover the balances outstanding and we incur losses.

Since its foundation in 1965, HFCK has helped thousands of people to buy their own homes at a reasonable cost and provided a safe and secure home for the savings of hundreds of thousands of investors. These services continue, but the economic circumstances of the country are making it increasingly difficult for reasonable returns to be made to remunerate shareholders. The profits earned by the shareholders of HFCK and other similar institutions do not support the recent moves in Parliament to control the rates of interest charged and paid by the financial sector. If such controls were to be introduced the supply of credit from reputable private sector organisations is likely to be severely restricted. Additionally the provision of safe places for people to keep their savings will diminish because companies will no longer find such activities to be in the interests of their shareholders.

RESULTS FOR THE YEAR 2000

The profits in the main business of HFCK showed a welcome improvement - a profit of KShs 217.3m compared with KShs 108.6m in 1999. Increased activity in the collections and risk management areas has resulted in only KShs 470.1m of interest needing to be suspended and a reduced charge

Since its foundation in 1965, HFCK has helped thousands of people to buy their own homes at a reasonable cost and provided a safe and secure home for the savings of hundreds of thousands of investors.

of KShs 246.5m for specific mortgage loss provisions. The total provisions and interest suspended of KShs 2,077.0m held at the year-end realistically reflect the difficulties that our borrowers are facing in servicing their loans and the potential losses that exist within the loan portfolio.

Group pre-tax profits of KShs 78.6m are influenced heavily by a one-off loss of KShs 140.1m at our house-building subsidiary, Kenya Building Society Limited.

Our Group results for the year 2000, whilst disappointing, are not unexpected given the prevailing economic conditions.

SUBSIDIARY COMPANIES

Kenya Building Society Limited

Our main subsidiary has been involved in the development of new houses in Nairobi and Mombasa for many years. Sales of houses were extremely slow during the year 2000 due to adverse economic circumstances and instability of interest rates. We have critically reviewed the cost of completing the remaining developments and the likely proceeds that will be realised from selling the finished houses. It is our conclusion that a write-down of KShs 146.0m in the valuation of the company's work in progress is needed, hence the reported loss of KShs 140.1m in this subsidiary company.

Whilst the subsidiary has a large land bank and approved plans for building additional houses at Koma Rock in Nairobi, it is unlikely that any new developments will

be commenced in the immediate future due to adverse market conditions.

First Permanent (East Africa) Limited

This small subsidiary, which owns three houses in Nairobi, all of which are let, reported a pre-tax profit of KShs 1.4m (1999 KShs 0.4m)

DIVIDEND

An interim dividend was not paid in the year 2000 but the Board has decided to recommend the payment of a dividend of 7.5% in respect of the year (10% in total for 1999). This represents a distribution of KShs 43.1m to shareholders.



BOARD

Walter Mukuria retired as Managing Director on 23 June 2000 after 12 years service with the company.

The Board has appointed Mr Peter Lewis-Jones to be Managing Director and Chief Executive Officer with effect from 1 March 2001.

CHAIRMAN'S REPORT

continued

The company has enabled thousands of Kenyans to achieve their dream of home ownership and continues to be committed to its objective.

CHAIRMAN'S REPORT

continued

Stuart Castledine acted as Chief Executive Officer in the period between Mr Mukuria's retirement and Mr Lewis-Jones' appointment.

range of experience and abilities suited to the company's needs.

CORPORATE GOVERNANCE

The Board has resolved to develop corporate governance practices that are in line with world class standards. Following a review of this area, a Corporate Governance policy was adopted in December 2000 and steps have been taken to implement best practice.

The Board constituted an Audit Committee in 1996, which currently meets under Michael Turner's chairmanship, to consider matters relating to accounting, reporting and internal control.

A Staff and Remuneration Committee has also been formed and has responsibility for approving new recruits at the senior level and dealing with policy matters connected with the employment of the company's staff.

Further measures will be implemented to ensure that shareholders continue to be served by a competent and committed Board, consisting of directors with a broad

APPRECIATION

HFCK is undergoing major change to help it meet current challenges and to be well placed to benefit from opportunities in the future. The management team and employees of the company continue to show great commitment to the company's aims - of providing affordable finance for individuals to buy their own homes and to provide a safe home for people's savings. I thank them on behalf of shareholders and customers for this continued commitment.

FUTURE OUTLOOK

HFCK provides much needed services to Kenyan people and, despite the current economic constraints, I remain confident that the group has a bright future ahead of it.

RICHARD KEMOLI
CHAIRMAN

DATE: 16 FEBRUARY 2001

The management team and employees of the company continue to show commitment to the company's aims - of providing affordable finance for individuals to buy their own homes and to provide a safe home for people's savings.

CHIEF MANAGERS



Nina furaha tele kuwasilisha matokea ya mwaka wa 2000 ya kundi letu.

UCHUMI NA MAZINGIRA YA BIASHARA

Katika mwaka wa 2000 uchumi haukuimarika jinsi ilivyotarajiwa. Hati za fedha za serikali zilizokuwa katika kiwango cha asili mia 21% hapo mwanzo wa mwaka, zilipunguka na kufikia asili mia 9% kufikia Agosti, na kufikia mwisho wa mwaka zikaongezeka hadi asili mia 13.5%, na kufikia mwisho wa mwaka na robo ya kwanza ya mwaka 2001 zimefikia asili mia 15%. Panda shuka aina hii ya hati za fedha za serikali huwavunja moyo wakopi. Pia wawekaji akiba hupatwa na wasi wasi jambo ambalo ni pigo kubwa kwa shirika letu la HFCK.

Ukosefu wa matumaini miongoni mwa wawekaji raslimali hufanya hitaji la nyumba kupungua na kama ilivyo kwa bidhaa yoyote ile, bei na thamani ya bidhaa hutegemea mahitaji na kuweco kwa bidhaa kwenye soko. Kwa sasa kuna wingi wa nyumba zaidi kuliko mahitaji, kwa hivyo bei za nyumba zimeanguka. Jambo hili linatuathiri HFCK sana kwa sababu wateja wakishindwa kulipa tunahitajika kutegemea dhamana yetu, na pesa tunazopata hazitoshi kwa shughuli zetu, hivyo tunapata hasara.

Tangu kuanzishwa kwake hapo mwaka wa 1965, HFCK imewasaidia maelfu ya watu kununua nyumba zao binafsi kwa bei bora na pia kuwawezesha kupata nyumba salama ya kuweka akiba kwa mamia ya maelfu ya wawekaji raslimali. HFCK bado inaendelea kutoa huduma hizi lakini hali ngumu ya kiuchumi imekuwa kikwazo

kikubwa cha ufanisi hivi kwamba wenye hisa hawawezi kupata marupurupu. Faida wanayopata wenye raslimali wa HFCK pamoja na mashirika mengine kamwe haiungi mkono juhudi za hivi majuzi za Bunge kutaka kutawala viwango vya faida zinazotozwa na kulipwa na sekta ya kifedha. Endapo hoja hii itapitishwa utoaji wa huduma za kukopesha kutoka kwa mashirika ya kibinafsi yenye sifa bora zitapungua kabisa.

Isitoshe, utoaji wa mahali salama pa watu kuhifadhi akiba zao kutadidimia kwa sababu makampuni hayataona shughuli aina hizi, zikitosheleza haja za wenye raslimali wao.



MATOKEO YA MWAKA 2000

Faida ya biashara kuu ya HFCK iliimarika. Tulipata faida ya KShs 217.3 milioni ikilinganishwa na milioni KShs 108.6 za mwaka wa 1999.

Ongezeko la shughuli za kukusanya pesa na usimamizi wa maeneo ya mashaka imezababisha milioni KShs 470.1 pekee za faida kutupiliwa mbali na kupunguzwa

RIPOTI YA MWENYEKITI

Our main subsidiary has been involved in the development of new houses in Nairobi and Mombasa for many years.

RIPOTI YA MWENYEKITI

Yaendelea

kiwango cho hosoro hodi KShs 246.5 milioni. Jumla ya KShs 2,077.0 milioni zilizotengwa kusimamia wakopi ambao huenda wasilipe mikopo yao kufikia mwisho wa mwaka zaonyesha shida wakopi wanazokabiliana nazo kutika kuhudumia mikopo yao na hasara zilizoko katika idaro hii ya mikopo.

Faida kabla ya ushuru kutozwa ya milioni KShs 78.6 iliathiriwa na hasara kubwa ya milioni KShs 140.1 ya shirika letu saidizi la Kenya Building Society Limited.

Hata ingawa matokeo ya kundi ya mwaka 2000 yatia hofu kiosi, tulitarajia haya kutokana na hali mbaya ya uchumi.

KAMPUNI SAIDIZI

Kenya Building Society Limited



HFCK is a unique organisation in Kenya, having been established in 1965 with the aim of providing finance to individuals who wanted to purchase homes for their own occupation.

Hii ndio kampuni yetu kuu saidizi na kwa miaka mingi imekuwa ikiijishughulisha na ujenzi wa nyumba mpya mjini Nairobi na Mombasa. Uuzaji wa nyumba ulikuwa chini sana mnamo mwaka 2000 kwo sababu ya hali duni ya uchumi na viwango vya faida. Tumekagua kwa kindoni bei zo

kumolizia mijengo iliyobakia no pia pesa tutakozopato kutokana na ujenzi wa nyumba zilizokomilika. Hivyo, tumefikia uamuzi wa kuondoa kutoka kwenye hesabu ya mwaka, jumla ya milioni KShs 146.0 na ndipo tunafikia hasara ya milioni KShs 140.1 ya kampuni saidizi.

Hata ingowa kampuni yetu saidizi ina sehemu kubwa ya ardhi na michoro ya mijengo iliyokamilika ya nyumba za kujengwa katika mtoa wa Koma Rock mjini Nairobi, yaonekana kuwa mradi huu mpya huenda usiendelee kwa sababu ya hali ngumu ya uchumi.

First Permanent (East Africa) Limited

Hii ni kampuni ndogo saidizi na ina nyumba tatu mjini Nairobi za kukodesha na imechangia faida ya kabla ya ushuru milioni KShs 1.4 (1999 KShs 0.4 m)

MGAWO WA FAIDA

Gawio la faida halikulipwa mnamo mwaka 2000 lakini halmashauri imependekeza kulipwo kwa gawio la asili mia 7.5% la mwaka huo (asili mia 10% kwa jumla kwa mwaka 1999)

Hii inawakilisha mgao wa milioni KShs 43.1 kwa wenye hisa.

HALMASHAURI

Bw. Walter Mukuria alistaofu wadhifa wake kama mkurugenzi mkuu mnamo Juni 23 mwaka 2000 baoda ya kuihudumia kampuni hii kwa miaka 12.

Halmashauri imemteua Bw. Peter Lewis-Janes kuchukua wadhifa wa mkurugenzi mkuu kuanzia Machi 1 mwaka 2001.

Bw. Stuart Castledine alishikilia wadhifa wa mkurugenzi mkuu katika kipindi cha kati Bw. Mukuria alipostaafu na Bw. Lewis-Jones kuteuliwa.

USIMAMIZI MKUU

Kufuatia ukaguaji wa usimamizi mkuu ulioanzishwa Desemba 2000, halmashauri imeamua kuendeleza usimamizi wa kiwango cha kimataifa na hatua za kutekeleza mbinu za usimamizi huu tayari zimechukuliwa.

Mnamo mwaka wa 1996 halmashauri ilituwa kamati ya ukaguaji wa fedha ili kushughulikia masuala ya hesabu, matumizi ya fedha kindani mbali na kuripoti. Kwa sasa inasimamiwa na Bw. Michael Turner.

Kamati ya wafanyikazi imeundwa na inalokumu la kuhitimisha wafanyikazi wanya na pia kushughulikia maslahi ya wafanyikazi wa kampuni.

Hatua zaidi zitachukuliwa kuhakikisha kuwa wenye rasimali wataendelea kuhudumiwa na halmashauri iliyo imara yenye wakurugenzi wenye ujuzi na uwezo ambao unaambatana na mahitaji ya kampuni.

SHUKRANI

Kuna mabadiliko mengi yanayofanyika HFCK ili kuweza kukabiliana na hali ya sasa ya uchumi ili kutuwezesha kufaidika kutokana na nafasi za kibiashara za siku za usoni.

Wasimamizi na wafanyikazi wa HFCK watazidi kujitolea kutekeleza malengo ya shirika hili ambayo ni kutaa fedha kwa watu binafsi ili wanunue nyumba zao na wapate mahali salama pa kuhifadhi akiba ya watu.

Nawashukuru nyote kwa niaba ya wenye hisa na wateja kwa kujitolea kwenu.



SIKU ZA USONI

HFCK hutaa huduma zinasohitajika kwa watu wa Kenya na licha ya hali ngumu ya kiuchumi nina hakika kwamba kundi letu litanawiri vilivyo katika siku za usoni.

RICHARD KEMOLI
MWENYE KITI
TAREHE: FEBRUARI 16 2001

RIPOTI YA MWENYEKITI

Yaendelea

Through a gradual process of customer education we are trying to impress on people their obligation to meet their mortgage commitments as a major priority.

CHIEF EXECUTIVE'S REPORT

HFCK is a unique organisation in Kenya, having been established in 1965 with the aim of providing finance to individuals who wanted to purchase homes for their own occupation. The company has enabled thousands of Kenyans to achieve their dream and continues to be committed to its objective. The company is proud to be a leading private sector company in Kenya and to have benefited from the long - term support of CDC Capital Partners since its foundation.

I was pleased to be offered the opportunity to act as Chief Executive Officer following Walter Mukuria's retirement and have been focusing the company's resources to concentrate on the key issues that influence both its short-term and long-term future. The economy in Kenya is in recession and HFCK, as well as many of its customers, is suffering as a result.

MORTGAGE ACCOUNTS IN ARREARS

For a number of years the number of non-performing loans in the company's portfolio has been increasing. During 2000 the initiatives to reverse this trend, which were started in 1999, have been strengthened. By the end of 2000 we had in excess of 40 specially trained staff working on collections activities. The problem is being tackled in two ways :

- By helping customers who miss one or two regular payments to get back up to date as soon as possible, to prevent them having major problems in clearing large arrears.

- By taking firm, but fair, action against customers who are in serious default.

This action has been very successful; at the end of 2000, 58% of accounts were fully up to date, compared to 41% at the end of 1999.

Through a gradual process of customer education we are trying to impress on people their obligation to meet their mortgage commitments as a major priority.

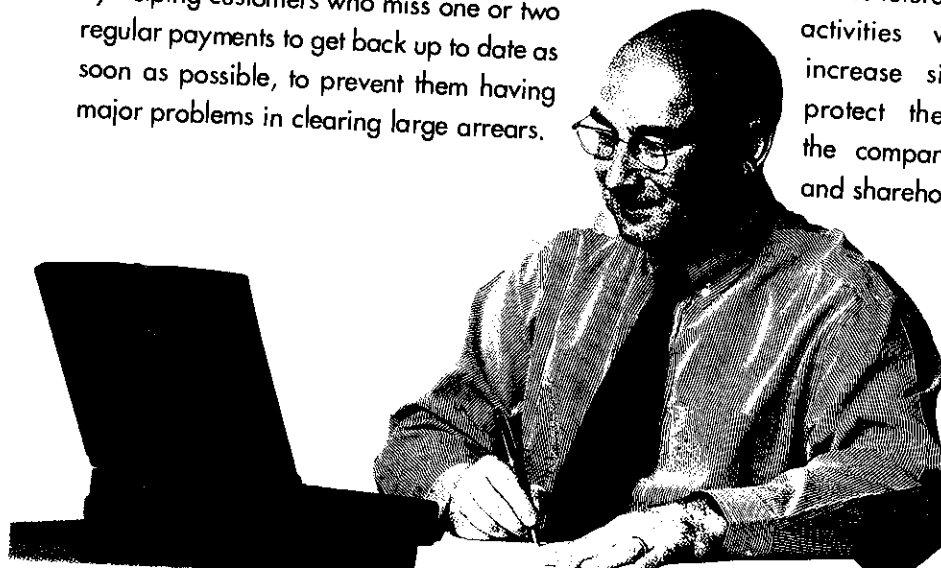
HFCK can only meet its obligations to our savings customers, who trust us with their deposits, if our mortgage customers meet their obligations.

I am encouraged by the reaction and enthusiasm of the staff who are working in the risk and collections areas and also by that of the majority of our customers who, once they are asked, are taking effective measures to reduce their arrears.

Unfortunately some customers are either unable or unwilling to meet their obligations and in this area people have seen a significant shift in HFCK's attitude. During the year we made the decision that in 334 cases we would have to take steps to realise our security. This is a decision that is not taken lightly, and only after borrowers have been given significant time to bring their accounts up to date. Regrettably I see that in the future our realisation

activities will have to increase significantly to protect the interests of the company's depositors and shareholders.

The company is proud to be a leading private sector company in Kenya and to have benefited from the long - term support of CDC Capital Partners since its foundation



MORTGAGE LENDING

In February 2000 the Board approved new lending criteria that re-established HFCK's core activity as lending to individuals who wish to buy their own homes. We now have underwriting criteria that require applicants to demonstrate that they have sufficient sustainable disposable income to meet their obligations under a proposed loan, as well as continuing to have sufficient money to maintain their established lifestyle.

These new criteria have reduced the volume of lending significantly, but the default rate on new loans is also significantly lower than in the past.

DEPOSITS

HFCK provides a safe home to individuals with surplus funds that they wish to save and also to companies and organisations that wish to trade at the interbank level.

Our aim is to provide attractive rates of interest to each segment of the market through a nationwide network of branches. However, we also need to be aware of the cost of raising deposits through branches. In a number of current locations the total cost of deposit mobilisation does not justify their continued operation. Where this occurs our plan is to initially attempt to increase the deposits gathered by the branch. If this proves possible the branch will continue to operate but, if it is not possible, we will have no alternative but to withdraw from some locations to protect shareholders' long-term interests.

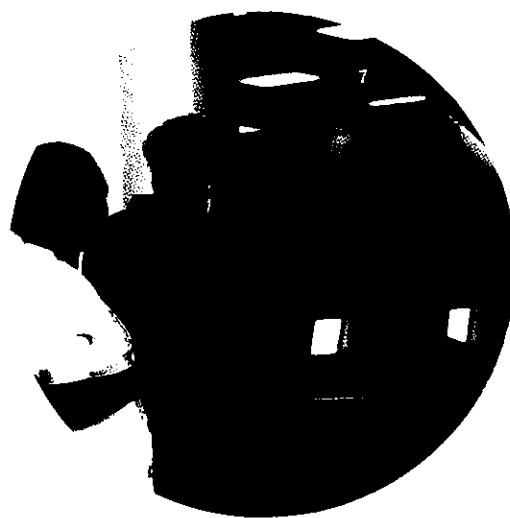
STAFF

An able and motivated work force is essential if a company such as HFCK is to deliver high quality service to its customers. HFCK contains many employees of high quality and ambition. It is a role of the Chief Executive to unleash this potential, and

this is an activity that I have had particular pleasure in pursuing.

During the year we have instituted a training programme, open to members of staff at all grades, to improve basic IT skills. HFCK has computer hardware and software that compares well with the best in the world, but we have not yet learned to use it effectively. The training programmes are aimed at equipping the company's employees with the skills that they need to provide customers with high quality service in a cost-effective way.

We have also held training courses specifically related to collections and mortgage account management skills. Over 80 members of staff, from both head office and branches, have attended these courses and immediate results have been seen in the improved performing loan position mentioned above.



COMPUTER SYSTEMS

The company's latest computer system, BankPlus, was implemented in 1998/9. During 2000 significant work was carried out to improve its operational capability. The system is now robust and allows us to offer our customers consistent on-line service through all of our branches.

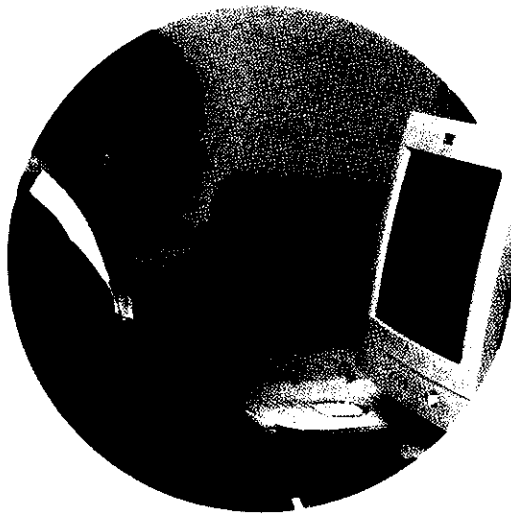
CHIEF EXECUTIVE'S REPORT

continued

HFCK provides a safe home to individuals with surplus funds that they wish to save and also to companies and organisations that wish to trade at the interbank level.

CHIEF EXECUTIVE'S REPORT

continued



During the year we have instituted a training programme, open to members of staff at all grades, to improve basic IT skills.

HOUSE BUILDING

Our subsidiary, Kenya Building Society Limited, experienced significant difficulty during the year. The market for the purchase of new houses became very difficult and, despite the best efforts of KBS staff, the expected levels of sales did not materialise. KBS management have reviewed its plans and concluded that it is in the best interests of the Group to dispose of properties as soon as possible. This change in policy, which the Board has approved, will result in lower sales revenues and, consequently, losses will be made when the sales occur. Provision for these anticipated losses has been made in the year 2000 accounts. KBS has a number of areas of land which are held for future development when conditions permit, including an area for a shopping centre in the Koma Rack estate.

COMMUNITY INVOLVEMENT

HFCK seeks to be a good corporate citizen and, subject to the resources that it is possible to allocate, becomes involved with reputable community organisations. Members of staff participate in the management of a number of trusts and school boards.

During the year donations were made to the Nairobi Hospice, support continued to the Phoenix Players and a decision was made to support AISEC, a national student organisation which provides young people at university and post-university level with an initial exposure to business.

THE FUTURE

I am convinced that with a strong economy and an effective management team, HFCK's future will be bright. There is pent up demand from young, well educated people who wish to purchase their own homes and, once interest rates stabilise at reasonable levels, this demand will be unleashed. HFCK's trusted reputation should result in good levels of quality business.

I concur with the Chairman's view that interference with the free market by setting restrictions on interest rates that can be charged and paid by banking institutions will be to the disadvantage of the Kenyan consumer, despite the initial attractiveness of such ideas. I hope that informed and well thought out discussions between the legislators and providers of banking services will result in an outcome that balances the interests of all stakeholders.

The Board has announced the appointment of Peter Lewis-Jones as Managing Director with effect from 1 March 2001. I wish Peter every success in taking over as the head of one of Kenya's most reputable and secure banking institutions.

STUART CASTLEDINE
ACTING CHIEF EXECUTIVE
DATE: 16 FEBRUARY 2001

HFCK ni shirika la kipekee nchini Kenya na lilianzishwa mnamo mwaka 1965 likiwa na lenga la kuwakopesha fedha watu binafsi waliokuwa na moyo wa kununua nyumba zao. Kampuni hii imewawezesha maelfu ya wakenya kutimiza ndoto zao na inaendelea kutekeleza jukumu hili. Ni fahari ya kampuni hii kuwa kampuni inayaongoza katika sekta ya kibinafsi iliyofaidika kwa kuungwa mkono na CDC Capital Partners tangu ilipoanzishwa.

Nilifurahi sana nilipateuliwa kushikilia wadhifa wa afisa wa ngazi ya juu yaani Chief Executive Officer kufuatia kustaafu kwa Bw. Walter Mukuria na nimekuwa nikizingatia rasimali za kampuni ili kuyalenga masuala ambayo yanaiathiri kwa vipindi vifupi na vipindi virefu vyenye maono ya siku za usani. Hali ya uchumi nchini Kenya ni duni na HFCK na wateja wake wameathiriwa vibaya kutokana na hali hii.

AKAUNTI YA PESA ZA NYUMBA AMBAZO HAZIJALIPWA

Kwa miaka kadhaa idadi ya wenye mikopo wasiotimiza ahadi imeongezeka. Katika mwaka 2000 juhudi za kukwamisha tabia hii zilizoanzishwa hapo mwaka 1999 na zinamarishwa.

Kufikia mwisho wa mwaka 2000 tulikuwa na zaidi ya wafanyi kazi 40 wenye taaluma na mafunza ya jinsi ya kukusanya pesa kutaka kwa wakopi wasiatimiza ahadi zao.

Tatiza hili linatatuliwa kwa njia mbili:

- Kwa kuwasaidia wateja wanaokosa kulipo awamu moja au mbili za malipa ya kawaida waweze kutimiza ahadi za malipo haraka iwezekanavyo na kuwakinga dhidi ya kujitumbukiza kwenye shida za malipo ya deni kubwa.
- Kwa kuchukua hatua thabiti kwa wateja walio na shida kubwa za malipa.

Hatua hii imefaulu sana na kufikia mwisho wa mwaka 2000 asili mia 58% za akaunti zilikuwa zimelipwa sambamba na wakati ikilinganishwa na asili mia 41% kufikia mwisho wa mwaka 1999.

Kupitia utaratibu wa utoaji mafunzo kwa wateja tunajaribu kuwahimiza watu watimize ahadi zao.

HFCK yaweza tu kutekeleza matakwa ya wateja wake wenye akiba ambao wanatuamini na pesa zao ikiwa wateja wenye nyumba za mikopo watatimiza ahadi zao.



Nimetiwa moyo na bidii ya wafanyikazi wanaashughulika na kukusanya malipo, na vile vile wateja ambao baada ya kufahamishwa kuhusu hali yao ya malipa wanajikakamua na kujaribu kupunguza deni walio nayo. Lakini kwa bahati mbaya baadhi ya wateja, ama pengine hawawezi au hawana moyo wa kutimiza ahadi zao na bila shaka sampuli hii ya wateja, kwa sasa wamejiane na kugundua msimamo wa HFCK. Katika mwaka wa 2000 tuliafikiana kuwa wahusika 334 wa kadhaa za kutotii kanuni za ulipaji mikopo ya nyumba watachukuliwa hatua ili tupate dhamana yetu. Jambo hili tutalifuatilia ifaavyo kuhakikisha wahusika wamelipa

RIPOTI YA AFISA WA NGAZI YA JUU

The management is encouraged by the reaction and enthusiasm of the staff who are working in the risk and collections areas and also by that of the majority of our customers who, once they are asked, are taking effective measures to reduce their arrears.

RIPOTI YA AFISA WA NGAZI YA JUU

Yaendelea

madeni yote. Na vile naona siku za usoni, tutawajibika kuinga wateja wetu wanaoweka pesa na sisi na pia wenye hisa wetu.

UKOPESHAJI WA PESA ZA NYUMBA

Mnamo mwezi Februari 2000 halmashauri ilipitisha utaratibu mpya wa ukopeshaji pesa za nyumba jambo ambalo liliimarisha shughuli za HFCK za kuwakopesha watu binafsi pesa ili kununua nyumba zao.

Kwa sasa tuna utaratibu unaowataka wenye kuhitaji nyumba wadhibitishaye yakuwa wana uwezo wa kulipa mikopo bila kujiumiza kiuchumi na huku bado wakiendelea na maisha yao ya kawaida. Utaratibu huu umepunguza ukopeshaji lakini wakopi wanaokwepa kulipa mikopo yao wamepungua.

Our training programmes are aimed at equipping the company's employees with the skills that they need to provide customers with high quality service in a cost-effective way.



UWEKAJI PESA

HFCK ni nyumba iliyo salama kwa watu binafsi wenye akiba ya ziada ya kuweka nasi na pia kwa makampuni na mashirika ambayo yangelitaka kufanya biashara katika kiwango cha kibenki.

Lengo letu ni kutoa viwango vya faida vya kupendeza kwa kiila sehemu ya soko kupitia

matawi yetu. Hata hivyo twahitajika kujua gharama ya uwekaji pesa kupitia kwa matawi. Katika vituo kadhaa gharama ya uwekaji pesa haithibitishi kuendelezwa kwa utoaji huduma kwa matawi hayo. Na hili likitokea mpango wetu ni kujaribu kuongeza uwekaji pesa wa kila tawi. Hii ikiwezekana matawi yataendelea kutoa huduma lakini kama haitawezekana hatutakuwa na lingine ila kuondoa huduma hii kutoka kwa baadhi ya vituo ili kulinda maslahi ya siku za usoni ya wenye hisa.

WAFANYIKAZI

Wafanyikazi wenye uwezo ni muhimu ikiwa kampuni kama vile HFCK itatoa huduma za ubora wa hali ya juu kwa wateja. HFCK ina wafanyikazi wa kiwango cha hali ya juu. Ni jukumu la afisa mkuu kugundua uwezo huu na hili ndilo jukumu ambalo nimekuwa nikifuatilia.

Katika mwaka tunaouzungumzia tulianzisha utaratibu wa kutoa mafunzo kwa wafanyikazi wa viwango vyote ili kuimarisha elimu walionayo ya kompyuta. HFCK ina makompyuta ya kisasa kama yanayopatikana katika nchi zingine za ulimwengu lakini bado hatujaelewa kabisa jinsi ya kutumia kompyuta hizi. Lengo la utaratibu huu wa kutoa mafunzo ni kuwapa wafanyikazi wetu ujuzi ili waweze kutoa huduma za hali ya juu kwa wateja wetu.

Pia tumekuwa tukiwapa mafunzo yanayohusiana na ukusanyaji wa madeni ya wakopi wa nyumba. Zaidi ya wafanyikazi 80 kutoka afisi kuu na matawi yake wamepata mafunzo haya, na tumepata matokeo mema katika kurekebisha hali duni ya mikopa walionayo baadhi ya wateja wetu.

MITAMBO YA KOMPYUTA

Mitambo ya kompyuta aina ya BankPlus iliyoko sasa katika kampuni yetu iliunganishwa mnamo mwaka 1998/9. Katika mwaka wa 2000 mitambo hii

imeshughulikiwa sana ili kuimarisha utendaji wake. Na kwa sasa mitamba hii yatumika vizuri huku tukiwa tunaweza kuwatolea huduma wateja wetu katika matawi yote.

UJENGAJI NYUMBA

Kampuni yetu saidizi, Kenya Building Society Limited ilikabiliana na shida nyingi katika mwaka tunaouzungumzia. Ununuzi wa nyumba umekuwa mgumu licha ya juhudi za wafanyikazi wa KBS, kusudio la ununuzi halikufaulu. Wasimamizi wa KBS wameafikiana kuwa itakuwa ni kwa wema wa kundi ikiwa watauzi nyumba hizo haraka iwezekanavyo. Mabadiliko haya ya mbinu za shirika yamepitishwa na halmashauri na matokeo yatakuwa mauzo kipesa yatapungua na baada ya uuzaji huenda kukawa na hasara. Hali hii ya kutaharuki hasara imeshughulikiwa na kuorodheshwa katika mipango ya kifedha ya mwaka 2000. KBS ina maeneo mengi ya ardhi ya kuendeleza katika siku za usoni hali ya uchumi ikiruhusu. Ardhi hii ni pamoja na eneo la maduka katika mtaa wa Koma Rock.

KUSHIRIKISHA JAMII

Lengo la HFCK ni kuwa mfano bora kwa jamii na tumejishughulisha na miradi kadhaa ya kijamii. Wafanyikazi wetu hushiriki katika usimamizi wa mashirika kadhaa ikiwa ni pamoja na halmashauri za shule mbali mbali.

Katika mwaka tunaouzungumzia tulitoa msaada kwa Nairobi Hospice na pia tukawaunga mkono wanasarakasi wa Phoenix Players na azimio la kusaidia AISEC liliafikiwa. AISEC ni shirika la kitaifa la wanafunzi wa vyuo vikuu linalotoa maarifa ya kibiashara.

SIKU ZA USONI

Nina hakika kuwa tukiwa na uchumi thabiti na usimamizi imara, tutanawiri vyema katika siku za usoni. Kunalo hitaji kubwa

miongoni mwa vijana na watu waliosoma ambao wanalitaka kununua nyumba zao pindi tu viwango vya faida vitakapo tulia. HFCK ina chapa ya jina imara na tuna uwezo wa kupata biashara za hali ya juu na za kuvutia. Nakubaliana na maoni ya mwenyekiti kuwa suala la viwango vya faida kutawaliwa na serikali likipitishwa litawaathiri vibaya wateja wa Kenya.

Ninamatumaini kuwa majadiliano kati ya wabunge na watoaji huduma za kibenki yatakuwa na matokeo mazuri kwa manufaa ya wenye hisa.



Halmashauri imetangaza kuteuliwa kwa Bw. Peter Lewis-Jones kuchukua wadhifa wa meneja mkurugenzi kuanzia tarehe moja mwezi wa Machi mwaka huu. Namtakia kila la kheri katika jukumu la usimamizi wa moja wapo ya mashirika ya fehda lililo mashuhuri humu nchini.

STUART CASTLEDINE
ACTING CHIEF EXECUTIVE
TAREHE: 16 FEBRUARI 2001

RIPOTI YA AFISA WA NGAZI YA JUU

Yaendelea

HFCK seeks to be a good corporate citizen and, subject to the resources that it is possible to allocate, becomes involved with reputable community organisations.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2000

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2000.

1 Principal Activities

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

2 Results and appropriations

	2000 KShs'000	1999 KShs'000
Gross Income	2,514,529	2,442,323
Profit before taxation		
Housing Finance Company of Kenya Limited	217,295	108,571
Kenya Building Society Limited	(140,100)	5,313
First Permanent (East Africa) Limited	1,423	433
Group profit before taxation	78,618	114,317
Taxation	(26,395)	(43,631)
Profit after taxation	52,223	70,686
Retained profit brought forward	445,140	386,824
	497,363	457,510
Dividends - interim paid	-	(28,750)
Dividends - proposed	(43,125)	(28,750)
Excess depreciation transfer	-	2,128
General provision for mortgage advances (charge) / credit	(7,367)	43,002
Retained profit carried forward	446,871	445,140

3 Dividends

The directors recommend to the shareholders the payment of a first and final dividend of 7.5% on issued share capital of KShs 575,000,000 as at 31 December 2000. The dividend for the year amounts to KShs 43,125,000 (1999 - KShs 57,500,000).

4 Directors

The directors who held office since 1 January 2000 are set out on page 1. Mrs Anne A W Amissabuor and Mr Kung'u Gatabaki retire by rotation in accordance with the article 78 and, being eligible, offer themselves for re-election.

5 Auditors

The auditors, KPMG Peat Marwick will continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486) at a fee to be determined by the directors.

By order of the Board

SAMUEL W WAIGANJO
COMPANY SECRETARY

DATE: 16 FEBRUARY 2001

RIPOTI YA WAKURUGENZI YA MWAKA ULIOISHA TAREHE 31 DESEMBA 2000

Wakurugenzi wana furaha kuwasilisha ripoti yao na hesabu za kampuni zilizokaguliwa kwa mwaka ulioisha 31 Desemba, 2000.

1 Shughuli kuu

Kampuni ni taasisi ya rehani iliyoidhinishwa chini ya sheria za benki (Ibara 488) na hujaribu kuhimiza na kuendeleza utumiaji wa akiba zote za kibinafsi na za umma katika kugharamia umilikaji wa nyumba za kuishi.

2 Matokeo na matumizi

Faida kabla ya ushuru

Housing Finance Company of Kenya Limited
Kenya Building Society Limited
First permanent (East Africa) Limited

2000 1999
KSHs'000 KSHs'000

2,514,529 2,442,323

217,295	108,571
(140,100)	5,313
1,423	433

Faida ya kundi kabla ya ushuru

Ushuru
Faida baada ya ushuru
Faida iliyobakishwa na kuletwa mbele

78,618 114,317
(26,395) (43,631)

52,223 70,686

445,140 386,824
497,363 457,510

Mgawo wa faida ya muda

- (28,750)

Mgawo wa faida unaopendekezwa

(43,125) (28,750)

Uhamishaji wa thamani wa ziada

- 2,128

Kiasi cha kijumla kilichotengwa kwa mkopo wa rehani (malipo) / yaliyopatikana

(7,367) 43,002

Faida iliyobakishwa na kupelekwa mbele

446,871 445,140

3 Mgao wa faida

Wakurugenzi wanapendekeza kwa wenye hisa malipo ya mgawo wa kwanza na wa mwisho wa faida wa asili mia 7.5% kwenye rasilimali ya hisa zilizotolewa ya KShs 575,000,000 kufikia 31 Desemba 2000. Jumla ya mgawo wa faida kwa mwaka inakuwa KShs 43,125,000 (1999 - KShs 57,500,000)

4 Wakurugenzi

Wakurugenzi ambao walihudumia kampuni kutaka 1 January 2000 wameorodheshwa katika ukurasa wa kwanza. Bi. Anne A W Amisabur na Bw. Kung'u Gatabaki wastaafu kwa zamu kuambatana na sharti 78 na kwa kuwa wanastahili, wanajitolea kuchaguliwa tena.

5 Wakaguzi wa hesabu

Wakaguzi wa hesabu, KPMG Peat Marwick wataendelea kushikilia afisi kuambatana na sehemu 159(2) ya sheria za kampuni (Ibara 486) kwa malipo yatakayoamuliwa na wakurugenzi.

Kwa amri ya Halmashauri

SAMUEL W WAIGANJO
KATIBU WA KAMPUNI

TAREHE: 16 FEBRUARI 2001

**REPORT OF THE AUDITORS TO THE MEMBERS
OF HOUSING FINANCE COMPANY OF
KENYA LIMITED**

We have audited the financial statements set out on pages 21 to 45 which have been prepared on the basis of the accounting policies set out in Note 1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and to provide a reasonable basis for our opinion. The balance sheet of the company is in agreement with the books of account.

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the company and the group and of the operating results of the group. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company and the group as at 31 December 2000 and of the operating results and cash flows of the group for the year then ended in accordance with International Accounting Standards and comply with the requirements of the Companies Act.

**KPMG PEAT MARWICK
CERTIFIED PUBLIC ACCOUNTANTS**

**PO Box 40612,
NAIROBI.
DATE: 16 FEBRUARY 2001**

**RIPOTI YA WAKAGUZI WA HESABU KWA
WANACHAMA WA HOUSING FINANCE
COMPANY OF KENYA LIMITED**

Tumekagua toarifa za kifedha zilizoonyeshwa katika ukurasa 21 hadi 45 ambaza zimetoyarishwa kwa misingi ya sera za uhasibu inayoonyeshwa katika maelezo 1. Tumepato habari na maelezo yote ambayo kwa kadiri tunavyojua na kuamini yahitajika kutekeleza ukaguzi wetu na kutoa msingi unaafaa kwa maoni yetu. Taarifa za fedha za kampuni zinakubaliana na vitabu vya hesabu.

Wakurugenzi wana jukumu la kutoyarisha taarifa za fedha zinazotoa picha ya kweli na isiyo ya kupendelea ya hali ya shughuli za kampuni na za kundi na za matokeo ya utendaji wa kundi. Jukumu letu ni kutaa maoni yasioyo ya mapendeleo kuhusu toarifa za fedha kufuatia ukaguzi wetu na kuwajulisha maoni yetu.

Tulifanya ukaguzi wetu kuambatana na viwango vya ukaguzi wa hesabu vya kimatoifa.

Viwango hivyo vinahitaji kuwa tupange na kutekeleza ukaguzi wetu ili kupata uhakika ufao kuwa hesabu hizo hazina makosa. Ukaguzi unahusu upimaji ili kupata ushahidi unaohitishwa kiasi kinachoonyeshwa katika taarifa za fedha. Pia ni pamoja na upimaji mbinu zilizotumika na makisio muhimu yaliyofanywa na wakurugenzi na pia utathimini wa wasilisho la taarifa za fedha kwa jumla. Tunaamini kuwa ukaguzi wetu unatoa misingi kwa maoni yetu.

Kwa maoni yetu, vitabu vya hesabu vimewekwa kwa njia sahihi na taarifa za fedha zinaeleza kwa ukweli na bila ya mapendeleo hali ya shughuli za kifedha za kampuni na za kundi kufikia 31 Desemba 2000 na za matokeo ya utendaji na matumizi ya fedha za kundi kwa mwaka ulioisha kulingana na viwango vya ukaguzi wa hesabu za kimataifa na kukubaliana na mahitaji ya sheria za kampuni.

**KPMG PEAT MARWICK
KAMPUNI YA WAHASIBU**

**SLP 40612
NAIROBI
TAREHE: 16 FEBRUARI 2001**

FOR THE YEAR ENDED 31 DECEMBER 2000

**CONSOLIDATED
PROFIT AND
LOSS ACCOUNT**

	Note	2000 KShs '000	1999 KShs '000
Interest income	3	2,161,755	2,062,743
Interest expense	4	(1,159,358)	(1,145,115)
Net interest income		1,002,397	917,628
Provision for mortgage losses	13(b)	(246,522)	(416,362)
Net interest income after provision for mortgage losses		755,875	501,266
Non interest income	5	352,774	379,580
Non interest expenses	6	(1,030,031)	(766,529)
Profit before taxation	7	78,618	114,317
Taxation	8	(26,395)	(43,631)
Net profit after taxation		52,223	70,686
Earnings per share	9	KShs 0.45	KShs 0.61

The consolidated profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 45.

**CONSOLIDATED
BALANCE SHEET**

AT 31 DECEMBER 2000

	Note	2000 KShs '000	1999 KShs '000
ASSETS			
Cash and bank balances		287,941	214,414
Deposits and balances due from banking institutions	11	717,102	936,000
Investment in Government Securities	12	1,432,804	710,923
Mortgage advances to customers	13(a)	9,492,869	9,554,015
Interest receivable		30,870	34,071
Other assets		224,340	270,128
Housing Development Projects	17	482,566	695,413
Investment properties	18	27,000	34,330
Property and equipment	19(a)	386,162	539,652
Deferred tax	15(a)	52,561	7,497
Taxation		-	64,704
TOTAL ASSETS		13,134,215	13,061,147
LIABILITIES			
Balances due to banking institutions	20	97,416	150,430
Customers' deposits	21	11,035,382	10,708,655
Interest payable		116,093	179,197
Tax payable		1,379	-
Other liabilities		307,640	344,404
Retirement benefits obligations	22	11,141	-
Dividends payable		95,634	91,029
		11,664,685	11,473,715
SHAREHOLDERS' EQUITY			
Share capital	23	575,000	575,000
Reserves	24(a)	759,195	866,596
Dividends proposed		43,125	28,750
Shareholders' income notes and loans	25	92,210	117,086
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		13,134,215	13,061,147

The accounts set out on pages 21 to 45 were approved by the Board of Directors on 16 February 2001 and were signed on its behalf by:

Richard Kemoli)	
Michael A Turner)	Directors
Anne A W Amissabuor (Mrs))	
Samuel W Waiganjo		Company Secretary

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 45.

AT 31 DECEMBER 2000

**COMPANY
BALANCE SHEET**

		2000	1999
	Note	KShs '000	KShs '000
ASSETS			
Cash and bank balances		282,996	212,177
Deposits and balances due from banking institutions	11	717,102	936,000
Investments in Government Securities	12	1,432,804	710,923
Mortgage advances to customers	13(a)	9,492,869	9,554,015
Interest receivable		30,870	34,072
Investments in subsidiaries	14	55,020	55,020
Dividend receivable		15,000	15,000
Amounts due from group companies	16	253,547	254,562
Other assets		192,197	262,698
Property and equipment	19(b)	385,628	538,847
Deferred tax	15(b)	8,726	5,657
Taxation		-	44,076
TOTAL ASSETS		12,866,759	12,623,047
LIABILITIES			
Customers' deposits	21	11,035,382	10,708,655
Interest payable		116,093	179,195
Tax payable		21,580	-
Other liabilities		168,228	170,380
Retirement benefits obligations	22	11,141	-
Dividends payable		95,634	91,029
		11,448,058	11,149,259
SHAREHOLDERS' EQUITY			
Share capital	23	575,000	575,000
Reserves	24(b)	708,366	752,952
Dividends proposed		43,125	28,750
Shareholders' income notes and loans	25	92,210	117,086
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12,866,759	12,623,047

The accounts set on page 21 to 45 were approved by the Board of Directors on 16 February 2001 and were signed on its behalf by:

Richard Kemoli)	
Michael A Turner)	Directors
Anne A W Amissabuor (Mrs))	
Samuel W Waiganjo)	Company Secretary

The company balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 45.

**CONSOLIDATED
CASH FLOW
STATEMENT**

FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 KShs '000	1999 KShs' 000
Net cash inflow / (outflow) from operating activities	26(a)	712,791	(93,081)
Return on investments and servicing of finance			
Ordinary dividends paid		(24,145)	(133,221)
Loan interest		(4,581)	(5,991)
Net cash outflow from investments and servicing of finance		(28,726)	(139,212)
Investing activities			
Purchase of property and equipment		(32,781)	(44,309)
Proceeds from sale of equipment		3,116	1,045
Additions to investment properties		-	(430)
Net cash outflow from investing activities		(29,665)	(43,694)
Financing activities			
Shareholders' loan repayments		(24,876)	(8,292)
Net increase / (decrease) in cash and cash equivalents	26(b)	629,524	(284,279)

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 45.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2000

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	General reserve for mortgage advances KShs'000	Dividends proposed KShs'000	Retained profits KShs'000	Total KShs'000
Balance 1 January 1999	575,000	349,661	25,705	91,220	-	377,235	1,418,821
Changes in accounting policy (with respect to deferred tax)	-	-	-	-	-	9,589	9,589
Restated balances 1 January 1999	575,000	349,661	25,705	91,220	-	386,824	1,428,410
Net profit after tax for the year 1999	-	-	-	-	-	70,686	70,686
Dividends proposed	-	-	-	-	-	(57,500)	(57,500)
Excess depreciation transfer	-	(2,128)	-	-	-	2,128	-
General reserve for mortgage advances	-	-	-	(43,002)	-	43,002	-
Balance 1 January 2000	575,000	347,533	25,705	48,218	-	445,140	1,441,596
Reclassification from payables - to comply with policy on note 1 (m)	-	-	-	-	28,750	-	28,750
Restated balances 1 January 2000	575,000	347,533	25,705	48,218	28,750	445,140	1,470,346
Revaluation deficit - Properties	-	(150,793)	-	-	-	-	(150,793)
Revaluation deficit - Investment Properties	-	(7,330)	-	-	-	-	(7,330)
Revaluation surplus - Land bank	-	41,624	-	-	-	-	41,624
Net gains and losses not recognised in the profit and loss account	-	(116,499)	-	-	-	-	(116,499)
Net profit after tax for the year 2000	-	-	-	-	-	52,223	52,223
Dividends paid during the year	-	-	-	-	(24,145)	-	(24,145)
Dividends transferred to payables	-	-	-	-	(4,605)	-	(4,605)
Dividends proposed	-	-	-	-	43,125	(43,125)	-
General reserve for mortgage advances	-	-	-	7,367	-	(7,367)	-
Balance 31 December 2000	575,000	231,034	25,705	55,585	43,125	446,871	1,377,320

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 45.

**NOTES TO THE
FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2000

1 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in accordance with, and comply with, International Accounting Standards. The financial statements are prepared under the historical cost convention and modified to include the revaluation of certain properties.

(b) Consolidation principles

The consolidated accounts comprise the accounts of the parent company and its subsidiaries listed under note 14 all of which are made up to 31 December 2000.

(c) Revenue recognition

Income is recognised in the period in which it is earned. When an account becomes non-performing, interest is suspended until it is realised on a cash basis.

(d) Provision for mortgage losses

Specific provisions for doubtful debts are held in respect of mortgage advances. The provisions are based on periodic appraisal of the advances portfolio, and take account of past loss experience, economic conditions and estimated realisable value of the underlying collateral and are charged to the profit and loss account. In addition, a statutory provision is maintained against the mortgage advances portfolio in compliance with Central Bank of Kenya guidelines and movements are accounted for as appropriations of retained earnings.

(e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the balance sheet date. The resulting realised and unrealised differences from conversion and translations are recognised in the profit and loss account.

(f) Property and equipment

Items of freehold and leasehold land, buildings, motor vehicles and furniture and fittings are stated at cost or valuation less accumulated depreciation and impairment losses.

(f) Property and equipment

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

• Land:	Freehold	Nil
	Long leasehold	Nil
• Buildings		2% p.a. or over the period of the lease
• Office equipment, fixtures, fittings & motor vehicles		5% - 20% p.a.
• Investment properties		Nil

Excess depreciation provided on the surplus over cost of assets at valuation is met by annual transfer from revaluation reserve to retained earnings.

(g) Treasury bills and bonds

Treasury bills and bonds are stated at cost. Interest is credited to income over the period of issue.

(h) Mortgage advances

Mortgages are generally shown at the principal amount adjusted for any provision for losses. The provision for losses is increased by charges to income and decreased by charge-offs (net of recoveries).

(i) Retirement benefits obligations

The company's employees are eligible for retirement benefits under a funded defined benefits plan which is managed by Insurance Company of East Africa Limited.

An Actuarial valuation carried out as at 31 December 1998 reflected a past service deficit of KShs 55,703,000. The Actuary recommended that in order to meet the deficit the total contribution rate should be increased to 14.3% p.a.

In the year 2000, the company implemented IAS 19 (Revised) and accounted for transitional liability as an expense on a straight-line basis over a period of five years. The amount of the liability that remains unrecognised in the balance sheet is disclosed in the notes to the account. (See note 22).

(j) Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

continued

(j) Taxation *continued*

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

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

(k) Cash and cash equivalents

For the purpose of presentation of cash flows in the consolidated financial statements, the cash and cash equivalents include cash in hand and at bank, net balances with banking institutions and investment in Government Securities.

(l) Segmental reporting

Segmental information is based on two segment formats. The primary format represents two business segments - Nairobi and other regions. The secondary format represents the group's three major classes of business - mortgage finance, property development and sales and others (comprising mainly of returns from treasury investments).

Segmental results include revenue and expenses directly attributable to a segment and the relevant portion of the group's revenue and expenses that can be allocated on a reasonable basis to a segment.

Segmental assets comprise those that are directly attributable to the segment or can be allocated on a reasonable basis.

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity in accordance with IAS 10 (Revised), "events after the balance sheet date".

(n) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 SEGMENT REPORTING

a) By Geographical area of operation

In addition to the information on business segments based on the structure of the group, the figures below represent information for geographical segments.

	2000			1999		
	Nairobi	Other regions	Total	Nairobi	Other regions	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	1,814,690	347,065	2,161,755	1,670,822	391,921	2,062,743
Interest charges payable	(966,527)	(192,831)	(1,159,358)	(931,262)	(213,853)	(1,145,115)
Net interest receivable	848,163	154,234	1,002,397	739,560	178,068	917,628
Fees and commission receivable	81,246	26,173	107,419	94,325	22,784	117,109
Other operating income	244,880	475	245,355	213,135	49,336	262,471
Net revenue	1,174,289	180,882	1,355,171	1,047,020	250,188	1,297,208
Operating expenses	(939,189)	(90,842)	(1,030,031)	(620,889)	(145,640)	(766,529)
Provision for mortgage losses	(216,719)	(29,803)	(246,522)	(337,254)	(79,108)	(416,362)
Profit before taxation	18,381	60,237	78,618	88,877	25,440	114,317
Mortgage advances to customers (net)	8,316,789	1,176,080	9,492,869	7,738,752	1,815,263	9,554,015

b) By class of Business - 2000

	Mortgages	House sales	Others	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	1,845,217	223,590	445,722	2,514,529
Assets	9,492,869	583,500	3,057,846	13,134,215

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

3 INTEREST INCOME

Advances to customers
Interest suspended

2000	1999
KShs'000	KShs'000
2,315,292	2,405,372
(470,075)	(636,888)

1,845,217 1,768,484

Treasury bills
Treasury bonds
Government stock
Placements with other banking institutions

123,913	42,971
14,016	16,585
1,067	1,071
177,542	233,632
2,161,755	2,062,743

4 INTEREST EXPENSE

Customers' deposits
Certificates of deposit
Interest on borrowed funds

1,141,086	1,119,785
-	5,756
18,272	19,574
1,159,358	1,145,115

5 NON INTEREST INCOME

House sales
Fees and commission income
Rental income
Other operating income
Profit on sale of equipment

223,590	238,707
70,250	117,109
17,049	16,024
39,062	7,300
2,823	440
352,774	379,580

6 NON INTEREST EXPENSES

Cost of houses sold
Finance and administration costs
attributed to completed projects
Project costs written off
Salaries and employee benefits
Rental expenses
Deposit Protection Fund
General administration expenses
Other expenses

217,771	218,371
17,818	19,214
128,190	-
344,535	294,884
8,621	2,480
17,289	15,957
215,985	167,980
79,822	47,643
1,030,031	766,529

NOTES TO THE FINANCIAL STATEMENTS

continued

The average number of employees in employment during the year was:

	2000	1999
Management	109	107
Unionisable	216	229
Contractual	11	25

Included in salaries and employee benefits are contributions to the defined benefits retirement scheme for employees. During the year, the company made contributions of KShs 21,758,878 (1999 - KShs 19,590,300) to the scheme.

7 PROFIT BEFORE TAXATION

- a) Group profit before taxation is arrived
at after (crediting) / charging

	2000 KShs'000	1999 KShs'000
Crediting:		
Write back of provision on short term deposits	(2,823)	(300) (440)
Profit on sale of equipment		
Charging:		
Directors' remuneration	1,013	960
- Fees	898	858
- Expenses	7,568	10,157
- Executive emoluments	3,451	3,381
Auditors' remuneration	35,185	36,724
Depreciation		

- b) Two directors of the company have outstanding loans, granted in 1995 and 1997. The loans were granted on the same terms as applicable to members of HFCK's permanent staff. The total amount outstanding on the loans at 31 December 2000 was KShs 2,165,687 (1999 - KShs 3,198,334). The repayment schedules on the loans are fully up to date. The Income Tax low interest benefit relating to the loans amounted to KShs 117,000 (1999 - KShs 304,000)

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

8 TAXATION

At 30% on the profit for
the year as adjusted for tax purposes
Deferred tax (credit) / charge

2000 KShs'000	1999 KShs'000
71,459	41,539
(45,064)	2,092
26,395	43,631

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

	2000 KShs'000	1999 KShs'000
Accounting profit before taxation	78,618	114,316
Computed tax using the applicable corporation tax rate	23,585	37,152
Non-deductible costs and depreciation on ineligible assets	2,810	6,653
Deferred tax arising from future reduction in tax rate	-	(174)
Tax expense	26,395	43,631

9 EARNINGS PER SHARE

Net profit for the year attributable to shareholders	52,223	70,686
Number of ordinary shares in issue (in thousands)	115,000	115,000
Earnings per share	KShs 0.45	KShs 0.61

10 DIVIDENDS PER SHARE

Dividends	43,125	57,500
Number of ordinary shares in issue (in thousands)	115,000	115,000
Dividends per share	KShs 0.38	KShs 0.50

11 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Group and Company

	2000 KShs'000	1999 KShs'000
Due within 90 days	717,102	936,000

12 INVESTMENT IN GOVERNMENT SECURITIES

Group and Company

Kenya Government stocks - 2000	9,775	9,775
Treasury bills due within 90 days	1,264,696	601,148
Treasury bonds due within 180 days	100,000	100,000
Treasury bonds due after 180 days	58,333	-
	1,432,804	710,923

The Kenya Government stocks consists of 50,000 units of KShs 200 each at a cost of KShs 195.50. The rate of interest is 10.75% p.a. receivable half yearly on 30 June and 31 December every year up to maturity. The stocks were redeemed in full in January 2001.

The treasury bonds can be discounted at will in the secondary market.

13 MORTGAGE ADVANCES TO CUSTOMERS

Group and Company

a) Mortgage analysis

	2000 KShs'000	1999 KShs'000
Gross mortgage balance	11,569,975	10,914,524
Less:		
Provision for mortgage losses on advances and interest suspended	(2,077,106)	(1,360,509)
	9,492,869	9,554,015
 Maturing:		
Within five years	2,366,767	1,710,098
Over five years to ten years	3,913,457	3,650,395
Over ten years to fifteen years	4,460,223	4,481,555
Over fifteen years	829,528	1,072,476
	11,569,975	10,914,524

NOTES TO THE FINANCIAL STATEMENTS

continued

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

**b) Provision for mortgage losses
and interest suspended**

	Interest suspended KShs'000	Specific mortgage loss provision KShs'000	Total KShs'000
At 1 January 2000	636,888	723,621	1,360,509
Made during the year	470,075	246,522	716,597
At 31 December 2000	1,106,963	970,143	2,077,106

c) Non performing loans and advances

Loans and advances include an amount of KShs 3,943,912,000 net of provisions and suspended interest, (1999 - KShs 4,732,000,000) on which interest is not being accrued as they have been classified as non-performing. The estimated realisable value of securities held against this net balance is KShs 4,168,543,000 (1999 - KShs 4,695,613,000).

**14 INVESTMENT IN WHOLLY
OWNED SUBSIDIARIES**

	2000 KShs'000	1999 KShs'000
Kenya Building Society Limited	50,000	50,000
First Permanent (East Africa) Limited	5,020	5,020
	55,020	55,020

15 DEFERRED TAX

a) Group

Deferred tax asset at 31 December 2000 and 1999 are attributable to the items detailed in the table below:

	2000			1999		
	Carrying value KShs'000	Tax base KShs'000	Temporary difference KShs'000	Carrying value KShs'000	Tax base KShs'000	Temporary difference KShs'000
Plant and equipment	65,624	83,588	(17,964)	64,443	83,568	(19,125)
Tax losses	-	146,101	(146,101)	-	5,865	(5,865)
Provisions	-	11,141	(11,141)	-	-	-
	65,624	240,830	(175,206)	64,443	89,433	(24,990)

Movements in temporary differences between values of certain items for accounting and for taxation purposes can be specified as follows:

	Balance at 1 Jan. 2000 KShs'000	Movement during the year KShs'000	Balance at 31 Dec. 2000 KShs'000
Plant and equipment	(19,125)	1,161	(17,964)
Tax losses	(5,865)	(140,236)	(146,101)
Provisions	-	(11,141)	(11,141)
Total temporary differences	(24,990)	(150,216)	(175,206)
Deferred tax @ 30%	(7,497)	(45,064)	(52,561)

NOTES TO THE FINANCIAL STATEMENTS

continued

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

15 DEFERRED TAX *continued*

b) Company

Deferred tax asset at 31 December 2000 and 1999 are attributable to the items detailed in the table below:

	2000			1999		
	Carrying value KShs'000	Tax base KShs'000	Temporary difference KShs'000	Carrying value KShs'000	Tax base KShs'000	Temporary difference KShs'000
Plant and equipment	65,135	83,083	(17,948)	63,073	81,931	(18,858)
Provisions	-	11,141	(11,141)	-	-	-
	65,135	94,224	(29,089)	63,073	81,931	(18,858)

Movements in temporary differences between values of certain items for accounting and for taxation purposes can be specified as follows:

	Balance at 1 Jan. 2000 KShs'000	Movement during the year KShs'000	Balance at 31 Dec. 2000 KShs'000
Plant and equipment	(18,858)	910	(17,948)
Provisions	-	(11,141)	(11,141)
Total temporary differences	(18,858)	(10,231)	(29,089)
Deferred tax @ 30%	(5,657)	(3,069)	(8,726)

16 AMOUNTS DUE FROM GROUP COMPANIES

Company

	2000 KShs'000	1999 KShs'000
Due from:		
Kenya Building Society Limited	251,532	251,121
First Permanent (East Africa) Limited	2,015	3,441
	253,547	254,562

17 HOUSING DEVELOPMENT PROJECTS

Group	2000 KShs'000	1999 KShs'000
Koma Rock Housing Projects	397,548	517,485
Mombasa Housing Projects	18,368	51,350
	415,916	568,835
Land Bank - cost	25,026	126,578
Revaluation surplus	41,624	-
	66,650	126,578
Total	482,566	695,413

Commitments in respect of these projects, authorised but not paid as at 31 December 2000, amounted to KShs 79,998,854 (1999 - KShs 189,016,784).

The land bank owned by a subsidiary, Kenya Building Society Limited, was professionally valued by the Group's Chief Valuer on 31 December 2000 on an open market basis. The resulting surplus was credited to revaluation reserve.

Company: Nil

18 INVESTMENT PROPERTIES

At valuation	2000 KShs'000	1999 KShs'000
As at 1 January	34,330	33,900
Additions in the year	-	430
Revaluation deficit	(7,330)	-
At at 31 December	27,000	34,330

Investment properties comprise of 3 residential buildings owned by a subsidiary company, First Permanent (East Africa) Limited.

The investment properties were professionally valued by the Group's Chief Valuer on 31 December 2000 on an open market basis. The resulting deficit was debited to revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

continued

NOTES TO THE FINANCIAL STATEMENTS

continued

19 PROPERTY AND EQUIPMENT

a) Group

	Land				
	Freehold KShs'000	Long leasehold term KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation					
At 1 January 2000	16,000	203,900	247,731	303,551	771,182
Additions	-	-	2,665	30,116	32,781
Reclassification	-	-	119	(119)	-
Deficit on revaluation	(9,000)	(79,900)	(76,736)	-	(165,636)
Disposals	-	-	-	(14,178)	(14,178)
At 31 December 2000	7,000	124,000	173,779	319,370	624,149
At cost	-	-	3,779	319,370	323,149
At valuation	7,000	124,000	170,000	-	301,000
Depreciation					
At 1 January 2000	-	-	15,325	216,205	231,530
Charge for the year	-	-	3,253	31,932	35,185
Write back on revaluation	-	-	(14,843)	-	(14,843)
Disposals	-	-	-	(13,885)	(13,885)
At 31 December 2000	-	-	3,735	234,252	237,987
On cost	-	-	3,735	234,252	237,987
On valuation	-	-	-	-	-
Net book value					
At 31 December 2000	7,000	124,000	170,044	85,118	386,162
At 31 December 1999	16,000	203,900	232,406	87,346	539,652

Revaluation of assets

The group's land and buildings were professionally valued by the Group's Chief Valuer on an open market basis on 31 December 2000. The resulting deficit was debited to revaluation reserve.
The net book value (NBV) of the properties at their historical cost is as follows:

	2000 KShs'000	1999 KShs'000
Freehold land	206	206
Long leasehold land	52,891	52,891
Buildings	69,379	71,252

19 PROPERTY AND EQUIPMENT

b) Company

NOTES TO THE FINANCIAL STATEMENTS

continued

	Land				
	Freehold KShs'000	Long leasehold term KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation					
At 1 January 2000	16,000	203,900	245,846	297,838	763,584
Additions	-	-	2,665	29,899	32,564
Deficit on revaluation	(9,000)	(79,900)	(76,736)	-	(165,636)
Disposals	-	-	-	(14,178)	(14,178)
At 31 December 2000	7,000	124,000	171,775	313,559	616,334
At cost	-	-	1,775	313,559	315,334
At valuation	7,000	124,000	170,000	-	301,000
Depreciation					
At 1 January 2000	-	-	13,380	211,357	224,737
Charge for the year	-	-	3,238	31,459	34,697
Write back on revaluation	-	-	(14,843)	-	(14,843)
Disposals	-	-	-	(13,885)	(13,885)
At 31 December 2000	-	-	1,775	228,931	230,706
On cost	-	-	1,775	228,931	230,706
On valuation	-	-	-	-	-
Net book value					
At 31 December 2000	7,000	124,000	170,000	84,628	385,628
At 31 December 1999	16,000	203,900	232,466	86,481	538,847

Revaluation of assets

The company's land and buildings were professionally valued by the Graup's Chief Valuer on an open market basis on 31 December 2000. The resulting deficit was debited to revaluation reserve.

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

	2000 KShs'000	1999 KShs'000
Freehold land	206	206
Long leasehold land	52,891	52,891
Buildings	69,379	71,252

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

20 BALANCES DUE TO BANKING INSTITUTIONS

Group

2000
KShs'000

1999
KShs'000

Due within 90 days

97,416 **150,430**

Company: Nil

The above balance represents bank overdraft and a loan to a subsidiary, Kenya Building Society Limited. The amounts are not secured.

21 CUSTOMERS' DEPOSITS

Group and Company

2000
KShs'000

1999
KShs'000

a) From Government and Parastatals:

Payable within 90 days

773,190 750,633

Payable after 90 days

and within one year

167,181 589,783

Payable after one year

1,216,307 2,251,898

b) From private sector and individuals:

Payable within 90 days

8,278,693 6,001,117

Payable after 90 days

and within one year

465,366 707,739

Payable after one year

134,645 407,485

11,035,382 **10,708,655**

22 RETIREMENT BENEFITS OBLIGATIONS

Group and Company

The company operates a funded defined benefits retirement scheme for all its employees. Effective 1 January 2000, the company adopted IAS 19 (revised). The transitional liability was determined at 31 December 1998 by independent qualified Actuaries using the projected unit credit method.

The amount recognised in the balance sheet is as follows:

	2000 KShs'000
Total present value of obligations	340,649
Less: Fair value of scheme's assets	<u>(284,946)</u>
Net liability	55,703
Unrecognised liability	<u>44,562</u>
Liability recognised in the balance sheet	<u>11,141</u>

The Company has chosen to recognise this liability as an expense on a straight line basis over a period of five years from the date of adoption of IAS 19.

23 SHARE CAPITAL

	2000 KShs'000	1999 KShs'000
Authorised, issued and fully paid		
115,000,000 Ordinary Shares of KShs 5 each	<u>575,000</u>	<u>575,000</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

24 RESERVES

	Revaluation reserve KShs'000	Share premium KShs'000	General reserve for mortgage advances KShs'000	Retained profits KShs'000	Total KShs'000
a) Group					
Balance 1 January 2000	347,533	25,705	48,218	445,140	866,596
Net profit for the year	-	-	-	52,223	52,223
Dividends proposed	-	-	-	(43,125)	(43,125)
Revaluation deficit - Properties	(150,793)	-	-	-	(150,793)
Revaluation deficit - Investment properties	(7,330)	-	-	-	(7,330)
Revaluation surplus - Land bank	41,624	-	-	-	41,624
General reserve for mortgage advances	-	-	7,367	(7,367)	-
Balance 31 December 2000	231,034	25,705	55,585	446,871	759,195
b) Company					
Balance 1 January 2000	323,450	25,705	48,218	355,579	752,952
Net profit for the year	-	-	-	149,332	149,332
Dividends proposed	-	-	-	(43,125)	(43,125)
Revaluation deficit - Properties	(150,793)	-	-	-	(150,793)
General reserve for mortgage advances	-	-	7,367	(7,367)	-
Balance 31 December 2000	172,657	25,705	55,585	454,419	708,366

25 SHAREHOLDERS' INCOME NOTES AND LOANS

Group and Company

	2000 KShs'000	1999 KShs'000
Government of Kenya Income Notes	50,750	50,750
Commonwealth Development Corporation (1975 to 2003) Long term loan	146,000	204,597
	196,750	255,347
Less: Unrealised exchange differences recoverable from the Government of Kenya under a Risk Assumption Agreement	(104,540)	(138,261)
	92,210	117,086

The above amounts are repayable over the following period:

- a) Government of Kenya Income Notes carry no redemption date.
- b) Commonwealth Development Corporation (1975 to 2003).

In respect of CDC Koma Rock loan of Stg £1,250,000, the company has committed to pay to the Government of Kenya a risk assumption fee at the rate of 2.5% per annum on the outstanding loan balance to cover itself fully against future exchange losses on repayments of principal amounts and interest on the due dates. During year 2001 principal loan repayments will amount to KShs 58,400,000 at the rate of exchange on 31 December 2000 of which only KShs 16,583,798 will be payable by the company under the above agreement.

NOTES TO THE FINANCIAL STATEMENTS

continued

**NOTES TO THE
FINANCIAL
STATEMENTS**

continued

26 NOTES TO THE CASH FLOW STATEMENT

**a) Reconciliation of operating profit to net
cash inflow / (outflow) from operating activities**

	2000	1999
	KShs'000	KShs'000
Group profit before taxation	78,618	114,317
Decrease in interest receivable	3,201	9,595
Decrease in interest payable	(63,104)	(101,864)
Mortgage loss provision	246,522	416,362
Interest suspended	470,075	636,888
Depreciation	35,185	36,723
Profit on sale of equipment	(2,823)	(440)
Loan interest	4,581	5,991
Increase in public deposits	326,727	408,528
Mortgage disbursements	(800,950)	(1,653,799)
Mortgage recoveries	145,499	168,576
Decrease / (increase) in other assets	45,788	(114,416)
(Decrease) / increase in other liabilities	(36,764)	57,506
Retirement benefits obligations	11,141	-
(Decrease) / increase in		
Housing Development Projects	254,471	(26,687)
Taxation paid	(5,376)	(50,361)
Net cash inflow / (outflow) from operating activities	712,791	(93,081)

b) Movement in cash and cash equivalents

Represented by increase / (decrease) in:

Cash at bank and in hand	73,527	163,058
Investments in Government Securities	721,881	334,717
Deposits and balances due from banking institutions	(218,898)	(855,074)
Balances due to banking institutions	53,014	73,020
	629,524	(284,279)

27 MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs 541,000,000 (1999 - KShs 1,701,380,000) are analysed below:

	2000 KShs'000	1999 KShs'000
Commitment in principle but not authorised for payment	136,000	991,961
Authorised but not disbursed	405,000	709,419
	<u>541,000</u>	<u>1,701,380</u>

28 CAPITAL COMMITMENTS

Group and Company

Authorised but not contracted

	<u>12,647</u>	<u>37,030</u>
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29 ASSETS PLEDGED AS SECURITY

As at 31 December 2000 there were no assets pledged by the group to secure liabilities and there were no secured group liabilities.

30 RELATED PARTY TRANSACTIONS

The group has entered into transactions with its employees and directors in the normal course of business as follows:

	2000 KShs'000	1999 KShs'000
Balance at 1 January	441,248	485,436
Loans advanced during the year	6,889	486
Reclassified to third party loans	(5,137)	-
Loan repayments during the year	(39,152)	(44,674)
Balance at 31 December	<u>403,848</u>	<u>441,248</u>

The related interest income in 2000 was KShs 22,985,453 (1999 - KShs 24,991,715).

31 INCORPORATION

The company is incorporated as a limited liability company in Kenya under the Companies Act (Cap. 486).

32 CURRENCY

These accounts are expressed in Kenya Shillings.

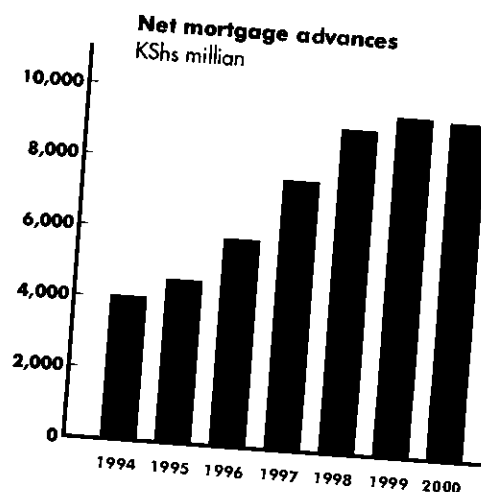
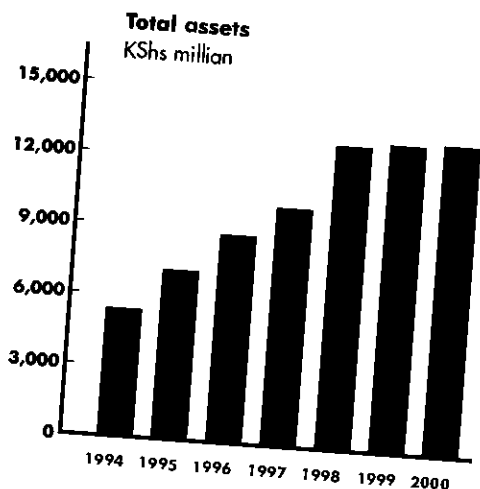
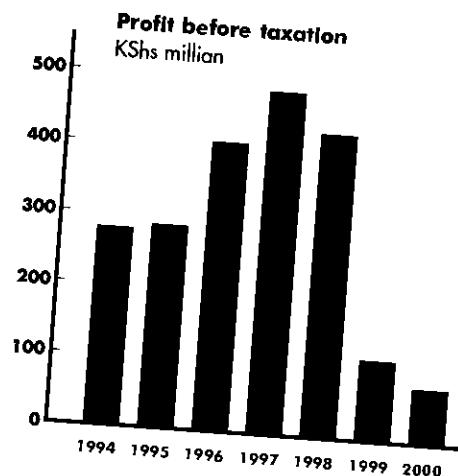
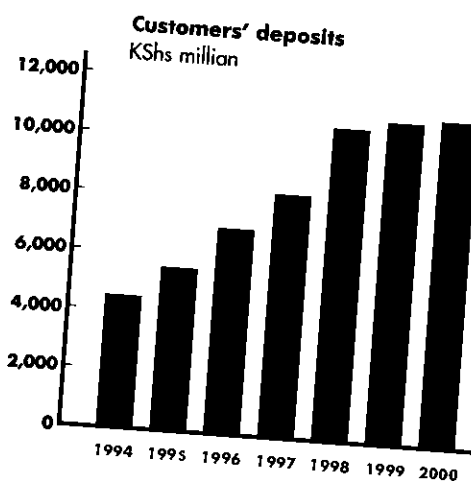
7 YEAR HIGHLIGHTS

a) Consolidated profit & loss account

	1994 KShs'000	1995 KShs'000	1996 KShs'000	1997 KShs'000	1998 KShs'000	1999 KShs'000	2000 KShs'000
Profit before taxation	279,165	286,540	407,894	483,237	428,247	114,316	78,618
Taxation	113,182	105,574	155,017	186,110	142,513	43,631	26,395
Profit after taxation	165,983	180,966	252,877	297,127	285,735	70,685	52,223
Dividends	69,000	69,000	115,000	138,000	172,500	57,500	43,125

b) Main balance sheet items

Customers' deposits	4,471,631	5,513,429	6,951,721	8,224,267	10,581,188	10,887,851	11,035,382
Net mortgage advances	4,032,973	4,582,459	5,825,791	7,581,717	9,122,041	9,554,015	9,492,869
Share capital	345,000	345,000	460,000	460,000	575,000	575,000	575,000
Reserves	343,278	646,158	676,673	844,828	853,411	866,596	759,195
Total assets	5,381,981	7,137,842	8,770,723	10,055,660	12,840,825	13,061,147	13,134,215



Introduction

In December 2000 the Board adopted enhanced policies on corporate governance. The main objective of these policies is to ensure that the company is managed in the long-term interest of its shareholders. Specifically, the policies are aimed at the following:

- Creating a competitive and efficient organisation;
- Enhancing accountability of directors and management to the shareholders;
- Promoting efficient and effective use of the corporate resources; and
- Ensuring profitability and growth of the organisation.

The policies adopted by the Board are consistent with the approach being promoted by the Capital Markets Authority in the exposure guidelines which were issued in December 2000.

The issues covered in the corporate governance policies include:

Relationship between the directors and shareholders

The Board is determined to ensure that communication with the shareholders is regular, reliable and accurate. The information communicated to the shareholders will be on an equal basis irrespective of their significance or otherwise.

Relationship with the stakeholders

The Board recognises that quality customer service is the basis of profitable and sustainable growth. It is the policy of HFCK to

integrate quality management systems (QMS) in all aspect of management and particularly in the key areas of interactions with its business customers.

HFCK is an equal opportunity employer. The Board will ensure that recruitment, development and promotion policies do not discriminate on the basis of gender, religion or race. Employees are an integral part of the success of HFCK. It is the policy of the company to develop a healthy relationship with all staff and their representatives through effective channels of communication.



HFCK policy is to comply with the all provisions of law and regulations within which the company operates unless an official and specific exemption is sought and granted by the relevant regulatory agency.

Policy on directors

Appointments to the Board will comprise of a mix of executive and non-executive directors. Each and every director should add value and bring independent judgement on decision making process.

To effectively discharge its responsibility the Board has formed two committees namely

CORPORATE GOVERNANCE

By the end of 2000 we had in excess of 40 specially trained staff working on collection activities.

CORPORATE GOVERNANCE

continued

the Staff and Remuneration Committee and the Audit Committee. The committees, which are accountable to the Board, deal with on issues that require greater attention than would normally be possible at regular Board meetings.

The Staff and Remuneration Committee, which was formed in October 2000, addresses human resource management and development policies and their implementation, succession planning at senior management levels and corporate remuneration policy.

The Audit Committee has been in operation since 1996. It is responsible for accounting and financial management policies and their implementation. It is also responsible for the systems of internal control including internal audit function, operations management, risk management, corporate compliance with legal and regulatory framework and relationship with external auditors.

The company's latest computer system, BankPlus, was implemented in 1998/9. During 2000 significant work was carried out to improve its operational capability.



Policy on management and institutional development

To safeguard management integrity and ensure effective management of HFCK, the Board has developed an appropriate operation and reporting structure. This structure is in the process of being implemented.

Policy on systems of internal control

The corporate governance code also covers the system of internal control. The Board will endeavour to develop and maintain an effective system of internal controls which will safeguard the company's assets, ensure the accuracy of accounting records and monitor management policies and systems. To achieve this, the Board will regularly review the operating manuals, accounting and financial policies and information systems to ensure consistency with the changes in the operating environment.

Policy on risk management

To safeguard the competitive position of HFCK, the Board and management undertake to continually identify, monitor and benchmark against industry norms all the business risks that may adversely affect the company. This will be achieved by developing risk profiles, and formulating risk management strategies which will be reviewed and approved by the Board annually.

Katibu wa kampuni
Housing Finance Company of Kenya Ltd
Rehani House
Kenyatta Avenue
S.L.P 30088
NAIROBI

Mimi / Sisi
wa S.L.P
nikiwa mwanachama / tukikuwa wanachama wa HOUSING FINANCE COMPANY
OF KENYA LIMITED, namchagua/tunamchagua
wa S.L.P
na akikosa yeye
wa S.L.P
ama akikosa yeye, basi namchagua/tunamchagua Mwenyekiti wa mkutano kama
mwakilishi wangu / wetu kupiga kura kwa niaba yangu / yetu kwenye MKUTANO
MKUU WA MWAKA wa kampuni utakaofanywa Ijumaa, tarehe 20 Aprili 2001 saa
11.00 asubuhi ama wakati wowote ule iwapo mkutano utaahirishwa:

Tarehe 2001

Sahihi

Ukumbusho

- i) Iwapo mwanachama ni Kampuni basi hapo uakilishi lazima uwe na Muhuri (seal) ya kampuni hiyo ama sahihi ya afisa wa Kampuni ama wakili aliyeruhusiwa kufanya hivyo kwa barua.
- ii) Hati hiyo ya kuteua lazima itumwe kwa Katibu, Rehani House, Nairobi ili imfikie kwa muda usiopungua masaa 24 kabla ya muda uliowekwa wa kufanya mkutano huu.

The Secretary
Housing Finance Company of Kenya Ltd
Rehani House
Kenyatta Avenue
P. O. Box 30088
NAIROBI

I / We
of P O Box
being member(s) of HOUSING FINANCE COMPANY OF KENYA LIMITED, hereby
appoint
.....
of P O Box
and failing him
of P O Box
and failing him the Chairman of the meeting as my/our Proxy to vote for me / us and
on my / our behalf at the ANNUAL GENERAL MEETING of the company to be held
on Friday, 20 April 2001 at 11.00 a.m. and at any adjournment thereof:

Dated this day of 2001

Signature

Note

- i) In case of a member being a Corporation the proxy must be under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
- ii) The proxy should be returned to the Secretary Rehani House, Nairobi, so as to reach him not later than 24 hours before the time appointed for holding the meeting.

12/4/01