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AR0381

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2007/0381



DIRECTORS

Richard Kemoli	Chairman
Peter J W Lewis-Jones*	Managing
Anne A W Amisabuur (Mrs)	
Kung'u Gatabaki	Resigned 18 th October 2001
Titus T Naikuni	
Martin L Oduor-Otieno	Resigned 5 th June 2001
Michael A Turner*	
David R Ansell**	Appointed 18 th October 2001
The Permanent Secretary to the Treasury	Appointed 4 th December 2001
Andrew Okello	(Alternate to the Permanent Secretary to the Treasury)
	Appointed 4 th December 2001

*British

**American

COMPANY SECRETARY

Samuel Waiganjo
Housing Finance Company of Kenya Ltd.
Rehani House
Kenyatta Avenue/Koinange Street
PO Box 30088
Nairobi

Resigned 18th October 2001

Chunga Associates
Rahimtullah Tower
PO Box 41968
Nairobi

Appointed 18th October 2001

SHARE REGISTRAR

Anne Matu CPS(K)
Housing Finance Company of Kenya Ltd.
Rehani House
Kenyatta Avenue/Koinange Street
PO Box 30088
Nairobi

AUDITORS

KPMG Peat Marwick
Lonrho House, 16th Floor
PO Box 40612
Nairobi.

REGISTERED OFFICE

Plot No. LR 209/9054
Rehani House
Kenyatta Avenue/Koinange Street
PO Box 30088
Nairobi.
Tel: 333910

BANKERS

Barclays Bank of Kenya Limited
Citibank NA

Peter J W Lewis-Jones

David R Ansell

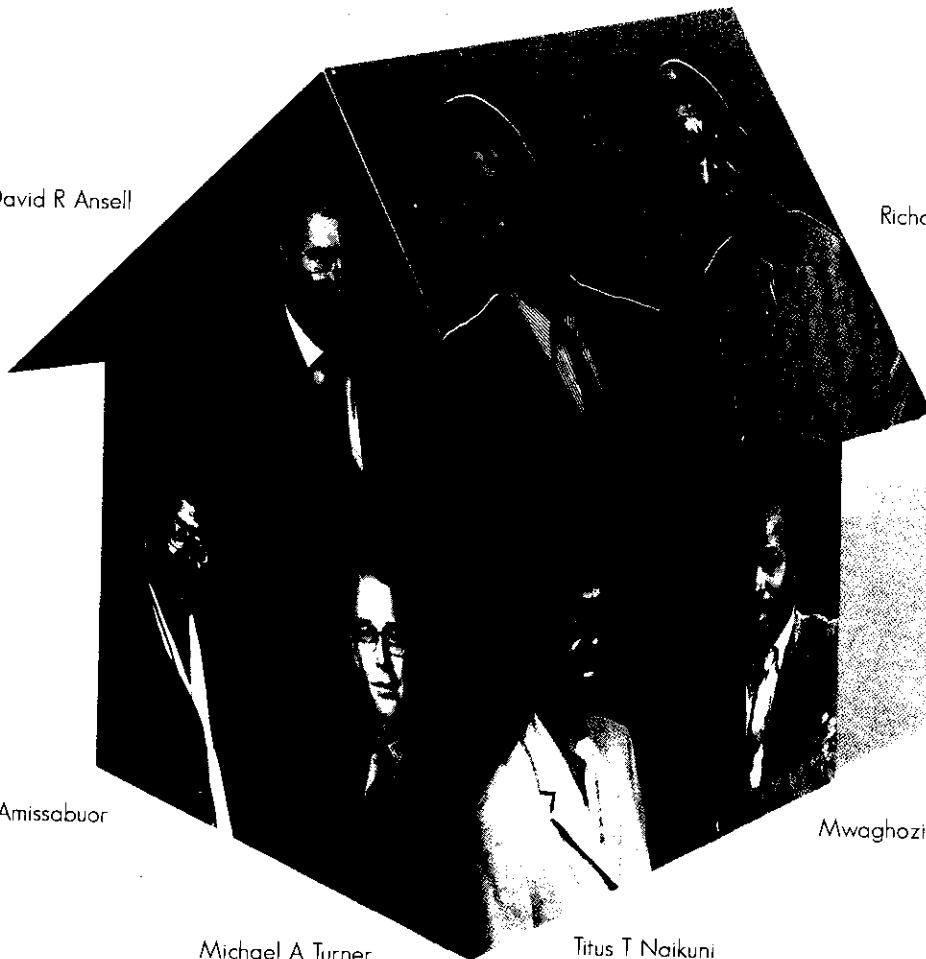
Richard Kemoli

Anne A W Amissabuor

Mwaghozi Mwachofi

Michael A Turner

Titus T Naikuni



Richard Kemoli BSc (Econ) London, MBE

Was appointed Chairman in April 2000. He is also Chairman of Bamburi Cement, Kenya Capital Partners and Unga Group. Other Directorships include E.A. Breweries, CMC Holdings, Johnsan Wax, Van Leer, Kenchic and Kenya Ear Foundation.

Peter J W Lewis-Jones

Was appointed Managing Director from 1 March 2001. Mr. Lewis-Jones was previously 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.

Anne A W Amisaburor (Mrs) LLB, LLM

Was appointed as a Director 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 and FIDA.

Permanent Secretary to the Treasury

(Mwaghazi Mwachofi) BCom (Hons), MBA

Was appointed alternate Director representing Mr Oduar-Otieno, in January 2001. He is the Permanent 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 Central Bank of Kenya, Kenya Commercial Bank, Kenya Revenue Authority, Kenya Ports Authority, Kenya Airways, Capital Markets Authority, National Bank of Kenya, Stanbic Bank, NSSF and Retirement Benefits Authority.

Titus T Naikuni BSc (Eng)

Was the Chairman 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 and Magadi Railway Company. Directorships include Brunner Mond (South Africa), Magadi Soda and Magadi Railway Boards. He has since resumed his previous role in Magadi.

Michael A Turner BSc (Eng), FCA

Was appointed as a Director in August 1999. He is the Director of CDC Capital Partners with responsibility for East Africa. Other Directorships include Grain Bulk Handlers and Sulmac Company.

David R Ansell BA Mathematics

Was appointed Director in October 2001. He retired from Citibank in February 2001, after over 30 years service, including an assignment as Director of Citibank's African businesses, based in Nairobi. He was also previously Managing Director of Ecobank Transnational Inc., based in Lomé Togo.



NOTICE OF ANNUAL GENERAL MEETING

5

NOTICE IS HEREBY GIVEN that the 36th Annual General Meeting of the Company will be held at the Amphitheater, Kenyatta International Conference Center, Nairobi on Monday 29th April 2002 at 11:00am to conduct the following business:

- 1** To table the proxies and note the presence of a quorum.
- 2** To read the notice convening the meeting.
- 3** To approve the minutes of the 35th Annual General Meeting held on Friday, 20 April 2001.
- 4** To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2001 together with the Chairman's, the Directors' and Auditors' Reports thereon.
- 5** To elect Directors:
 - a** Mr D R Ansell who was appointed a director on 18th October 2001 retires in accordance with Article 84 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - b** The Permanent Secretary to the Treasury who was appointed a director on 4th December 2001, retires in accordance with Article 84 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - c** Mr M A Turner retires by rotation in terms of Article 77 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - d** Mr T T Naikuni retires by rotation in terms of Article 77 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, Messrs KPMG Peat Marwick, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and Section 24(1) of the Banking Act (Cap 488) and to authorise the Directors to fix their remuneration.

8 Any other business which may be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

For CHUNGA ASSOCIATES

SECRETARIES

Date 26th February 2002

P O Box 41968

Nairobi

NB

In accordance with Section 136(2) of the Companies Act (Cap 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, P O Box 30088, Nairobi to arrive not later than 24 hours before the meeting or any adjournment thereof.

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

ILANI INATOLEWA HAPA KUWA mkutano wa Thelathini na sita wa kila mwaka utafanyika katika Amphitheatre, Kenyatta International Conference Centre, Nairobi Jumatatu tarehe 29 Aprili, 2002 saa Tano Mchana kwa madhumuni yafuatayo:

- 1 Kuwasilisha wakala na wenye kuhudhuria.
- 2 Kusama ilani ya kuitisha mkutano.
- 3 Kuidhinisha yaliyosemwa kwenye mkutano wa 35 wa kila mwaka uliofanyika Ijumaa tarehe 20 Aprili 2001.
- 4 Kupokea na ikihitimishwa, kuidhinisha Taarifa za Fedha za mwaka uliomalizika tarehe 31 Desemba 2001, pamoja na Taarifa za Mwenyekiti, Wakurugenzi na Wakaguzi wa hesabu.
- 5 Kuchagua Wakurugenzi:
 - a Bw. D R Ansell aliyeteuliwa kuwa Mkurugenzi mnamo tarehe 18 mwezi Oktoba mwaka 2001 anastaafu kulingana na Kanuni 84 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
 - b Katibu Mkuu wa Hazina aliyeteuliwa kuwa Mkurugenzi mnamo tarehe 4 mwezi wa Desemba mwaka 2001 anastaafu kulingana na Kanuni 84 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
 - c Bw. M A Turner anastaafu kwa zamu kulingana na Kanuni 77 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
 - d Bw. T T Naikuni anastaafu kwa zamu kulingana na Kanuni 77 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
- 6 Kuamua malipo ya Wakurugenzi.

7 Wakaguzi wa hesabu, KPMG Peat Mawick, wataendelea kushikilia ofisi kuambatana na Sehemu 159(2) ya Sheria za Makampuni (Ibara 486) na Sehemu 24(1) ya Sheria za Benki (Ibara 488) kwa malipo yatakayo amuliwa na Wakurugenzi.

8 Kushughulika jambo lingine lolote linaloweza kuwasilishwa katika Mkutano Mkuu wa kila mwaka.

KWA AMRI YA HALMASHAURI

CHUNGA ASSOCIATES

MAKATIBU

Tarehe 28 Februari, 2002

SLP 41968

Nairobi

Maelezo

Kwa mujibu wa Kifungu cha Sheria 136(2) za Masharti na Kanuni za Kampuni (Cap 486) mwanachama wa kampuni mwenye haki ya kuhudhuria na kupiga kura katika mkutano huu ana haki ya kuchagua mwakilishi kuhudhuria na kupiga kura badala yake. Mtu aliyechaguliwa kama mwakilishi si lazima awe ni mwanachama. Fomu ya wakala imefungwa pamoja na barua hii na inafaa ikamilishwe na kurudishwa kwa Msajili, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, Slp 30088, Nairobi na imfikie kwa muda usiopungua masaa ishirini na manne kabla wakati uliochaguliwa wa kufanyika mkutano.

Ikiwa mchaguaji ni Serikali au shirika lolote, fomu akitishi lazima iwe na muhuri wa kampuni au sahihi ya afisa wa kampuni aliyeidhinishwa katika mamlaka hayo.



Ladies and Gentlemen,

RESULTS

As anticipated, the year 2001 proved to be a challenging one for the property and mortgage finance sector. Uncertainties relating to the Central Bank of Kenya (Amendment) Act 2000 and the depressed economy, which is expected to have grown by 0.8%, adversely affected the performance of your company.

The loss after tax of Shs. 186 Million (Shs. 38 Million loss in 2000) is largely explained by the charge for suspended interest and specific and general provisions for losses on advances of Shs. 1,578 Million (Shs. 846 Million in 2000) together with the Shs. 158 Million cost of the Voluntary Early Retirement (VER) Scheme.

A higher level of gross mortgage advances resulted in a 13% increase in gross interest income whereas interest expense fell by 20% due to lower interest rates and a fall in customers' deposits occasioned mainly by the departure of pension funds following the enactment of the RBA Act. Cost containment initiatives employed in the year led to savings in operating expenses in spite of inflation.

ECONOMIC ACTIVITY AND OPERATIONS

During the year under review, the economy continued to perform poorly and the decline in per capita income was accentuated by a reduction in purchasing power occasioned by retrenchments in the private and public sectors. This in turn led to a significant decrease in the demand for mortgage loans and the ability of existing borrowers to service their loans. Furthermore the building and construction sector remained depressed as demonstrated by a decline of 13.7% in cement consumption.

The country's level of savings, which is the source of customers' deposits, was negatively affected. In the 12 months to December 2001 net bank advances and loans declined by 8.6% whereas customers' deposits recorded a decrease of 0.9%.

Earlier on I alluded to the problem of non-performing loans, which have continued to bedevil the banking sector in Kenya. In its recent Monthly Economic Review, the Central Bank of Kenya indicated that as at 31st December 2001 the country had a total of Shs. 117.6 Billion in non performing loans, which is 42.1% of the gross advances. This high level of non performing loans is as a result of the poor economic performance



and impediments in the legal process resulting in slower recovery of debts. The impact of the non-performing loan scenario on our business has further been worsened by the continuing fall in property values, the underlying security of all the company's lending. Although our lending is secured by the mortgaged property, a substantially higher level of provision was taken into the books this year in line with the principle of prudence. This was intended to cater for interest suspense and specific provision on non-performing loans, as well as the resulting exposure where mortgage values were assessed to have declined. The net effect of this action was to increase

the level of provision to Shs. 3.8 Billion (Shs. 2.3 Billion in year 2000). This amount is now 31% (2000 was 19%) of gross mortgage advances which is above the industry average of 23%.

Looking into the future your Board has taken appropriate action and has put in place mechanisms to maximise the recovery and realisation process to manage the impact of non-performing loans.

Your Board continued with the activity of strengthening and reviewing the business processes and internal structures. To this end a major re-alignment of the company's functions was carried out in an effort to improve operational efficiencies for better service delivery. Three key support functions of Information Technology, Internal Audit and Procurement were revamped and strengthened. The VER exercise carried out at a cost of Shs. 158 Million was intended to prepare the organisation for further changes. Additionally a number of senior Staff appointments were made to further strengthen the Staff complement.

BOARD

Following the departure of Mr. Kung'u Gatabaki from the Board on 18th October 2001, Mr. David Ansell was appointed in his place and took on the mantle of

chairing the Board Audit Committee. David is a Kenyan resident and comes with a wealth of banking experience including 30 years with Citibank, some of which was as Director of Citibank's African businesses based in Kenya. I take this opportunity to welcome him to the Board.

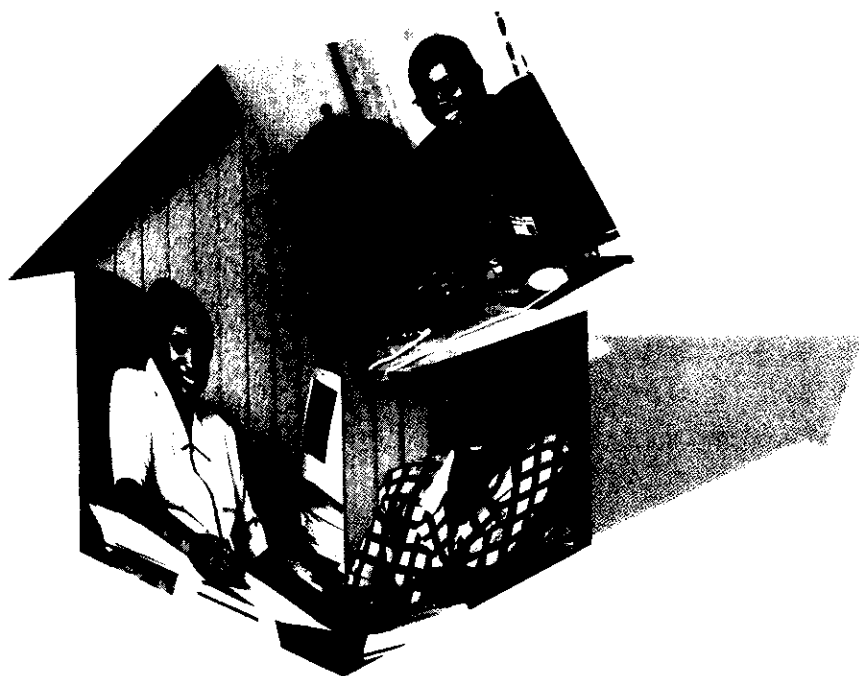
FUTURE PLANS & STRATEGY

Since inception in 1965, your company has consolidated its position in the mortgage sector and together with its subsidiary Kenya Building Society, it has contributed immensely in enabling many Kenyans to own homes. The current market share of over 50% of Non Banking Financial Sector net assets attests to this fact. Your company's aim is to continue in its core business by strengthening its operations in this very important segment of the economy. Your Board is aware that success in the housing finance sector requires continued availability of fairly priced loanable funds and the provision of suitable and affordable mortgage loans.

We will continue to review the company's financial base in order to align it to the changing needs while giving a fair return to the providers of funds. In the same vein continued attention is being focussed on the range and character of loans in response to changes in the market place.

A key element in the company's business plans is the strengthening and reorganisation of internal business processes. In addition to the people aspect, change and innovation are being driven by Technology. I am happy to report that the process of selecting a bespoke core business software to enable the provision of improved services is now at an advanced stage.

I have already hinted at changes in the organisation structure. Of particular importance is the creation of a Business Development Division whose thrust will be to address customer service delivery and the



establishment of the all-important link between the organisation and our business partners. Our depositors and borrowers come at the top of this list.

because of the adverse economic conditions. The number of units sold during the year exceeded the previous year by 28%.



Another pillar in your company's future plans is improving the level of Staff performance, morale and competence. It is appropriate at this stage to mention that initiatives to address these goals are in high gear. Performance Management, Job Evaluation and Customer Care programmes are some of the activities in this line.

It is your Board's sincere belief that these plans combined with the on-going image change should return the company to profitability and serve as the engine for a vibrant organisation.

PROPERTY BUSINESS

Kenya Building Society has been involved in the development of houses for sale in Nairobi and Mombasa for a number of years. During the year concerted efforts were made in finalising the construction of the projects which had been started in earlier years. There were no new development projects commenced during the year.

The process of selling completed houses continued in earnest in the year although the market was very slow

In recognition of the existence of an unsatisfied need for house ownership in the country your Board will continue to encourage suitable house development projects by providing mortgage funds.

PEOPLE

The success of any organisation depends on the performance of the Staff. They are the engines of production and provision of service and the single most important resource. The hard work, professionalism and dedication of Staff have enabled your company to withstand a difficult year. I take this opportunity to thank them for their tireless efforts.

I wish to thank our depositors and borrowers for their continued loyalty, support and confidence throughout the challenges of the year gone by and look forward to their continued support in future.

Finally, I take this opportunity to thank the Board for their unstinting and dedicated service during the year.

DIVIDEND

After a careful review of the current economic environment and in order to strengthen your company for future growth your Board does not recommend the payment of a dividend for the year.

RICHARD KEMOLI

CHAIRMAN

28TH FEBRUARY 2002

Mabibi na Mabwana

Kama ilivya tarajiwa mwaka wa 2001 ulikuwa mgumu kwa sekta ya biashara za rasilimali ya rehani. Majadiliano kuhusu kukaguliwa kwa kifungu cha sheria cha 2000 cha benki kuu ya Kenya pamoja na hali mbaya ya uchumi ambao unatarajiwa kuimarika kwa asilimia 0.8% iliathiri utendaji wa kampuni yetu.

Hasara ya baada ya kutolewa ushuru ya shilingi Milioni 186 (hasara ya shilingi Milion 38 katika mwaka 2000) yafafanuliwa vyema kutokana na utozaji wa faida na hasara ya rehani ya jumla kwa shilingi Milioni, 1,578 (shilingi Miliani 846 katika mwaka wa 2000) pamoja na shilingi Milioni 158 ikiwa ni gharama ya utaratibu wa kustaafu kwa kujitolea (Voluntary Early Retirement VER Scheme)

Kiwango cha juu cha mikopo ya rehani kilisababisha ongezeko la asilimia 13% ya mapato ya faida nayo matumizi ya pesa kwa faida ikapunguzwa kwa asili mia 20% kwa sababu ya viwango vya chini vya faida na kupungua kwa uwekaji pesa na wateja kufuatia kuondolewa kwa hazina ya kustaafu wakati sheria ya RBA ilipotekelezwa. Hatua za kupunguza gharama tulizotekeleza mwaka huu zimesaidia kupunguza matumizi ya pesa licha ya ghalika ya pesa.

SHUGHULI ZA KIBIASHARA NA UTENDAJI WA UCHUMI

Katika mwaka tunaoukagua, uchumi uliendelea kudidimia na mapato ya kila Mkenya ilipungua na kufuatia utaratibu wa kuachisha kazi wafanyikazi katika sekta ya umma na ya kibinafsi. Hali hii ilisababisha upungufu katika mahitaji ya mikopo ya rehani na ulipaji mikopo kwa wateja. Isitoshe, katika sekta ya ujenzi kulikuwa na upungufu wa asilimia 13.7% ya utumizi wa saruji.

Kiwango cha akiba cha nchi yote kwa jumla ambacho ndicho asili ya uwekaji pesa ya wateja kiliathiriwa vibaya. Katika miezi 12 kabla ya mwezi Desemba, mwaka 2001 mikopo ya benki ilipungua kwa asilimia 8.6% na uwekaji pesa wa wateja ukapungua kwa asilimia 0.9%.

Kama nilivyakuwa nimetaja hapo mwanzo tatiza la mikopo isiyorudisha faida ni suala ambalo limeendelea kuathiri kiunyama sekta ya benki nchini Kenya. Katika mkagua wa hivi majuzi wa utendaji wa uchumi wa kila mwezi benki kuu ya Kenya iliarifu kwamba kufikia mwezi Desemba 31 mwaka 2001 nchi yetu ilikuwa na jumla ya mikopo isiyorudisha faida ya thamani ya shilingi Bilioni 117.6 ambazo ni asili mia 42.1% ya jumla ya mikopo. Hali hii ya kiwango cha juu cha mikopo isiyorudisha faida imesababishwa na utendaji mbaya wa uchumi, vizuizi katika shughuli za sheria na matatizo ya kindani katika biashara zetu. Pigo hili la mikopo ya HFCK isiyorudisha faida limeathimiwa vibaya zaidi na kupungua kwa thamani ya mali, amana ambayo ndio tegemeo letu katika biashara yetu ya rasilimali ya rehani. Hata ingawa deni la HFCK limesimamiwa na mali ya rehani, maafikio ya kiwango cha juu yameingizwa kwenye kitabu cha mwaka huu kuambatana na utaratibu. Hatua hii ilichukuliwa ili kujenga msingi imara wa kuvutia faida na kukabiliana na mikopo isiyorudisha faida na pia mali ya rehani ambayo thamani yake imepungua. Maafikio ya hatua hii yalikuwa ni kuongeza kiasi cha hasara ya rehani hadi shilingi bilioni 3.8 (shilingi Bilioni 2.3 katika mwaka wa 2000). Idadi hii sasa ni asilimia 31% (mwaka 2000 ilikuwa 19%) ya mikopo ya mali ya rehani ambayo ni ya kiwango cha juu ya kiwango cha kanuni kilichotengwa kwa viwango cha asilimia 23%.

Ili kujenga msingi bora wa siku za usoni, halmashauri yenu imechukua hatua zinazofaa na imeunda utaratibu wa kukabiliana vilivyo na tatizo la mikopo isiyorudisha

faida ili kuisimamia kwa njia itakayoleta mafanikia na hatimaye kutatua suluhisho hili.

Halmashauri yenu iliendelea kuimarisha na kukagua shughuli za kibiashara na muundo ya kampuni wa kindani. Kuambatana na hatua hii shughuli za kampuni zimeendelezwa kwa njia bora ya kuimarisha utekelezaji wa huduma zetu kwa wateja. Idara tatu muhimu ikiwa ni pamoja na idara ya Teknolojia ya habari, idara ya ukaguzi wa hesabu na idara ya ununuzi zimeimarishwa ili kukidhi haja za wateja. Shughuli ya VER iligharimu shilingi milioni 158 na lenga la shughuli hii lilikuwa ni kuliandaa shirika letu kwa mabadilika zaidi ya siku za usani. Juu ya haya uteuzi wa wafanyikazi wa vyea vya juu vya usimamizi ulimarishwa ili kuinua shirika letu kwa mabadiliko zaidi ya siku za usani. Juu ya hayo uteuzi wa wafanyikazi wa vyeo vya juu vya usimamizi ulimarishwa ili kuinua hali ya utendaji miangoni mwa wafanyikazi.

HALMASHAURI

Kufuatia kuondoka kwa Bw. Kung'u Gatabaki mmoja wa wale wakuu katika halmashauri mnamo Oktoba 18 mwaka 2001 Bw. David Ansell aliteuliwa katika mahali pake na kushikilia mwenge wa wenyekiti wa kamati ya tume ya ukaguzi wa hesabu. David ni raia wa Kenya na anao ujuzi bara wa kazi ya shughuli za benki, ikiwa ni pamoja na kushikilia wadhifa wa mkurugenzi mkuu wa benki ya Citibank nchini Kenya. Nachukua fursa hii kumkaribisha kwenye halmashauri.

UTARATIBU NA MIPANGO YA SIKU ZA USONI

Tangu kuanzishwa kwake mnamo mwaka wa 1965 kampuni yetu imenawiri katika jukumu lake katika sekta rasimali ya rehani na pamoja na kampuni nyenzake ya Kenya Building Society zimechangia vilivya katika kuwawezesha wakenya wengi kumiliki manyumba. Mgaa

wa saka la sekta ya ukapeshaji mabengi ya asilimia 50% ni ushuhuda kamili wa jamba hili. Lenga la kampuni yenu ni kuendelea na biashara yake ya kuwawezesha wakenya kumiliki nyumba kwa kuimarisha biashara zake katika sekta hii muhimu ya uchumi. Halmashauri yenu inatambua ufanisi huu katika sekta ya ukapeshaji manyumba wahitaji utoaji mikopa kwa njia isiyomiza wateja na vile vile utoaji mikapo ya rasimali ya rehani ambayo wateja wataweza kulipa kwa urahisi.

Tutaendelea kukagua msingi wa kifedha wa kampuni ili kuenda sambamba na mabadilika ya mahitaji ya wateja ili tupate faida ya kweli. Wakati huo huo tunatilia maanani aina ya mikapo mbali mbali ili kutasheleza mahitaji ya wateja kufuatia kubadilika kwa soka la biashara ya nyumba.

Jamba muhimu zaidi katika mipango ya biashara za kampuni ni kuimarisha muunda wa ndani wa shughuli za biashara yetu. Mbali na suala la watu teknolojia ndio huendeleza mabadiliko na ubunifu. Nina furaha kuwajulisha kuwa shughuli za kuchagua utaratibu wa kutumika kwenye kampuni utakaowezesha uimarishaji wa huduma kwa wananchi sasa imo karibu kukamilika kwa ufanisi mkubwa.

Tayari nimegusia kuhusu mabadilika katika muundo wa kampuni. Lililo muhimu zaidi ni kubuniwa kwa idara ya kuendeleza biashara ambayo jukumu lake kuu ni kushughulikia utoaji na uhusiana kati ya shirika letu na kampuni tunazafanya biashara pamoja. Wawekaji pesa na wenye kuchukua mikapa ndio tumewaweka kwenye mstari wa mbele.

Uti wa mganga mwingine katika mipango ya siku za usani ya kampuni yetu ni kuimarisha utendaji kazi miangani mwa wafanyikazi wetu. Nina furaha kuripati kuwa tumeanzisha mipango ya kushughulikia malenga haya na ufanisi mkuu uma njiani. Utendaji katika

kiwango cha usimamizi kutadhimi hali ya utendaji kazi na mradi wa kushugulikia wateja ni baadhi ya mipango tuliyonayo ya kutekeleza.

Halmashauri yenu inaamini kwamba mipango hii ikiwekwa pamoja na mabadiliko yanayoendelea sasa ya kubadilisha picha yetu itawezesha kampuni yetu kuimarisha upataji faida na hatimaye iwe kama injini ya shirika madhubuti lenye kukua na kupanuka.

BIASHARA YA MALI

Kwa muda mrefu Kenya Building Society imehusika katika ujengaji nyumba za kuuza katika miji ya Nairobi na Mombasa. Katika kipindi cha mwaka uliopita tulifanya juhudi ili kumaliza ujenzi wa miradi ambayo ilikuwa imeanzishwa miaka ya nyuma. Hata hivyo hakukuwa na miradi mipya iliyoanzishwa katika mwaka tunaozungumzia.

Shughuli za uuzaji nyumba zilizo kamilika ziliendelea kwa kadri hata ingawa soko lenyewe lilikuwa hatifu kabisa kwa sababu ya hali mbaya ya uchumi. Idadi ya nyumba zilizouzwa katika mwaka tunaozungumzia ilizidi mwaka uliopita kwa asili mia 28%.

Halmashauri yenu imetambua kuweko kwa haja kubwa ya umiliki wa manyumba nchini, na itaendelea kuunga mkono na kuendeleza miradi ya ujenzi wa manyumba kwa kupeana mikopo ya rehani kutoka kwa HFCK.

WATU

Ufanisi wa shirika lolote hutegemea utendaji wa wafanyikazi wao ndio asili ya utoaji na huduma na jambo lililo muhimu zaidi ni rastimali. Kufanyo kazi kwa bidii, uungwana kikazini na kujitolea kwa wafanyikazi wetu kumesaidia kampuni yetu kukabiliana na mwaka mgumu kiuchumi. Ninachukua fursa hii kuwashukuru kwa juhudi za wafanyikazi hawa.

Nawashukuru wenye kuweka pesa nasi na wenye kuchukua mikopo kwetu kwa kutimiza maafikiano na kutuunga mikono katika mwaka tunaouzungumzia na tunatarajia ya kuwa wataendelea kutuunga mkono katika siku za usoni.

Mwisho, nachukua fursa hii kushukuru halmashauri kwa kujitolea katika mwaka unaomalizika.

MGAWO

Baada ya ukaguzi kamili wa mazingira ya kiuchumi na ili kuimarisha utendaji wa kampuni yetu halmashauri haitahitimisha kulipwa kwa mgao mwaka huu.

RICHARD KEMOLI

MWENYEKITI

FEBRUARI, 28 2002

CMA-LIBRARY

The format and presentation of these financial statements for the year 2001 evidences the re-branding of the company in line with our new vision and new image, designed to create a more responsive, customer friendly organisation.

The year 2001 was one of taking stock and significant change while continuing to operate in a narrow, difficult, niche market. The process of change commenced with the appointment of a new Managing Director in March 2001 with the specific mandate to assess the overall position of the Group, before stabilising and consolidating its operations as a base for future growth.

REORGANISATION

The Chairman has referred to the reorganisation of the management structure. A Voluntary Early Retirement Scheme enabled about 100 employees to leave the services of the group in order to pursue interests elsewhere and resulted in a reduction in Staff numbers through the year of more than 25%. Simultaneously the Executive Management team has been strengthened by five new appointments during the year and now appropriately reflects the needs of managing the business going forward.

All members of Staff have received training during the course of the year. Modern, participative management skills have been introduced with significant emphasis on customer care in order to reflect our commitment dedicated to the provision of enhanced customer service. Performance Management training has awakened Staff at all levels to the purpose and priorities of their jobs. This has ensured not only a clear focus of responsibility but also agreement on individual goals and a clear understanding of the contribution made by each individual to the achievement of overall results.

CUSTOMERS

The company exists to help Kenyans save for and acquire their own homes. The ability to protect the interest of depositors who entrust their money to us is of paramount importance. The enhancement and development of our range of products for deposits is a key priority. Without the confidence of satisfied depositors the resources for our lending activities will not be available.

Efficient service delivery to customers has also been a priority. To this end all branches have been restructured and reorganised in order to bring front line Staff attending to the needs of customers closer to the public. Front office Staff providing service directly to the customers are now well supported by their colleagues in the back offices executing customer instructions and processing transactions.

As mentioned by the Chairman a project is well underway in order to define revised specifications for a new core computer system which will enhance service delivery to customers. An on going customer service survey during the course of the year has indicated that, even before that new system is installed, customers are recognising the changes achieved in enhancing our service delivery to them.

NON - PERFORMING LOANS

The biggest single challenge facing the company is the management of a non - performing loan portfolio which, regrettably, is above the industry average. The harsh economic realities of life during 2001 further constrained the ability of many Kenyans to maintain their instalment repayments on their mortgage borrowing. This was aggravated by extensive retrenchment in both the public and private sectors, growing job insecurity and the ever present competing

demands on disposable income, particularly for purposes of education.

Extensive resources continue to be devoted to the case by case management of defaulting customers' loans. Sympathetic negotiated solutions are only achievable when such customers are prepared to share their problems with us, so that we can alleviate their burden by rescheduling or restructuring their repayments. Unfortunately a significant number of defaulting customers decline to contact us or co-operate, leaving us with no option but to protect the shareholders' interests by seeking to realise our security. In this connection the judiciary does not seem to serve the interests of lender and borrower equally. Injunctions arising from unsubstantiated objections upheld by Judges both delay the realisation process and also lead to increased indebtedness. The selection of a computer based arrears management and collection system will enhance rescheduling and recoveries.

The high level of interest suspense and specific provisions have led to critical reappraisal of our lending policy. We are now more selective in seeking to book revenue generating assets, both new and rescheduled, yielding acceptable returns. We seek to avoid irresponsible lending as we minimise casualties and work with existing customers by sharing the problems which they experience in servicing their mortgages.

GOOD GOVERNANCE

Attention has been paid during the year to compliance with the now gazetted requirements of good governance. From the appointment of Board committees with documented mandates to enhanced understanding of responsibilities at Director and Management level, the company has progressively moved towards the adoption of best practices.

THE FUTURE

Customer demand for housing remains insatiable. We will continue to play our part, as we have done for the last 36 years, in helping Kenyans to achieve their dreams of owning their own homes. In terms of the mandate given to the new management team, a stable base has been established for future growth.

PETER LEWIS-JONES

MANAGING DIRECTOR

28 FEBRUARY 2002



Muundo na uwasilishaji wa tarifa hii ya hesabu ya mwaka 2001 ni ushuhudi wa jinsi tunavyaimarisha kampuni yetu kwa kuunda upya kuambatana na maano yetu na utaratibu wa kujenga shirika lenye kutoa huduma kwa njia nyoofu zaidi kwa wateja wetu.

Mwaka wa 2001 ulikuwa mwaka wa kukagua rasimili na kuleta mabadiliko huku tukiendelea na shughuli zetu katika mazingira ya soko lililo ngumu kiuchumi. Shughuli ya mabadiliko ilianza na kuteuliwa kwa mkurugenzi msimamizi hapa mwezi Machi mwaka 2001 na akapewa jukumu la kutadhimini utendaji wa shirika hili na kunyorosha utoaji wa huduma kama msingi wa ukuaji na upanuzi wa siku za usoni.

UREKEBISHAJI

Mwenyekiti ameanza kurekebisha muundo wa usimamizi. Utaratibu wa kuustaafu kwa kujitalea umewezesha takriban wafanyikazi 100 kuacha kazi zao za kuhudumia shirika hili na kuanza shughuli zao za kibinafsi za kuendeleza maisha yao. Jambo hili limepunguza idadi ya wafanyikazi mwaka uliopita kwa asili mia 25%. Halmashauri ya usimamizi imeimarishwa kwa kuteuliwa kwa wasimamizi watano katika mwaka uliopita. Mbinu za kisasa za usimamizi zimejulishwa huku zikisisitiza huduma bara kwa wateja ili kuonyesha kujitalea kwetu katika kuimarisha shughuli za kutumikia umma.

Mafunzo ya usimamizi wa utendaji yameimarisha wafanyikazi katika viwango vyote kwa minajiri ya kazi zao. Hii imewawezesha kumudu majukumu yao barabara na pia kuafikiana kwa malengo ya kila mmoja na kuelewa uchangiaji wa kila mmoja wenye lenga la kuimarisha utendaji wa kampuni yote kwa jumla.

WATEJA

Lengo kubwa la kampuni yetu ni kuwawezesha wakenya kuweka akiba na hatimaye kuweza kujinunulia

manyumba yao. Uwezo wa kulinda mahitaji ya wenye kuweka pesa ambao wanatuamini kwa kuweka akiba nasi ni jambo la muhimu sana kwetu. Uimarishaji na uendeleshaji wa rasimili za kuweka pesa ni jambo linalowekwa kwenye mstari wa mbele. Bila matumizi ya wawekaji pesa walioidhika na huduma zetu, rasimili za kupeana mikapo haziwezi kupatikana.

Utoaji huduma uliomarika kwa wateja wetu umekuwa jambo tuliloweka kwenye mstari wa mbele. Kuambatana na jambo hili matawi yote yamerekebishwa na kuundwa upya ili mradi wafanyikazi wanao hudumia wateja waweze kukidhi haja za umma kwa njia safi zaidi hivyo kuuleta umma karibu nasi. Wafanyikazi wa ofisi za mbele wanaotoa huduma kwa umma ana kwa ana, kwa sasa wanaungwa mkano na wenzao walio kwenye ofisi za nyuma ambao wanatoa maagizo ya kushughulikia wateja na kushughulikia mahitaji yao.

Kama alivyotaja mwenyekiti mradi wa mitamba ya kamputa utajulishwa kwenye utaratibu wa utoaji huduma kwa wateja ili kuimarisha huduma bora. Utafiti juu ya utoaji huduma kwa wateja ambao umekuwa ukiendelea katika mwaka huu umeanyesha kuwa hata kabla ya utaratibu mpya wa kamputa haujulishwa, wateja wanatambua na kufurahia mabadiliko yanayoimarisha utoaji wa huduma kwao.

MIKOPO ISIYOLETA FAIDA

Tatizo moja kubwa katika shughuli zetu ni jinsi ya kukabiliana na mikopa ambayo haileti faida ambayo kwa sasa imepita kiwango cha wastani.

Hali mbaya ya kiuchumi katika mwaka wa 2001 ilichangia kutoweza kwa wakenya wengi kulipia mikopo yao ya manyumba. Jambo hili liliongezwa uzito zaidi kufuatia kuachishwa kazi kwa wakenya wengi katika sekta ya umma na ya kibinafsi, ukosefu ya matumaini ya kazi na mahitaji mengi ya kijamii

yanayolegemea pesa za mapato ya wakenya haswa mahitaji ya kielimu.

Raslimali nyingi za kampuni zinatumiwa katika ufuatiliaji wa wateja ambao wamekosa kulipa mikopo. Suluhisho la jinsi ya kurekebisha na kukubaliana juu ya utaratibu wa jinsi ya kurudishiwa mikopo na wateja huafikiwa pale wateja wanapokuwa tayari kujadiliana nasi juu ya matatizo waliyo nayo. Kwa bahati mbaya idadi kubwa ya wateja walio na madeni yetu hukosa kuwasiliana au kushirikiana nasi, hivyo kutuacha bila na la kufanya ila kulinda mahitaji ya wenye hisa. Ili kuimarisha usalama wetu. Kwa njia hii sheria haishughulikii matakwa ya mkapeshaji na mwenye kukopa kwa kuzingatia haki na usawa. Malalamiko kutoka kwa wateja wenye madeni yetu yanayowafikia majaji huchukua muda kukaguliwa jambo linalochangia kuongezeka kwa madeni. Uchaguzi kwa kutumia mitambo ya komputa katika usimamizi na ukusanyaji utaimarisha utaratibu wa kurudisha mikopo.

Taharuki juu ya kiwango cha juu cha faida kimesababisha ukaguzi wa makini wa utaratibu wetu wa utoaji mikopo. Tunazingatia zaidi raslimali zenye kuleta mapato. Vile vile tunajaribu iwezekanavyo kupunguza utoaji mikopo usio na mpango madhubuti ili kutatua shida ya upeanaji mikopo isiyorudisha faida na wakati huo huo kufanya kazi mbega kwa mbega na wateja kwa kushauriana nao juu ya tajiriba yao katika ulipaji mikopo ya nyumba.

UONGOZI BORA

Katika mwaka uliokwisha tumekuwa tukizingatia mbinu ya uongozi bora zilizoafikiwa na kupitishwa kwenye jarida la mbinu za uongozi bora. Kuanzia kuteuliwa kwa halmashauri hadi kuimarishwa kwa uelewaji wa jukumu la wakurugenzi na vyeo vya usimamizi, kampuni yetu imejaribu iwezavyo kuzingatia mbinu bora za uongozi.

SIKU ZA USONI

Mahitaji ya manyumba kwa wateja yanazidi kuongezeka siku baada ya siku. Tutaendelea kuzingatia jukumu letu vile tu tumekuwa tukifanya kwa miaka 36 iliyopita kwa kuwasaidia wakenya kutimiza ndota zao za kumiliki nyumba zao. Kufuatia mamlaka yaliyopewa halmashauri ya uongozi tayari tumejenga msingi madhubuti kwa maisha ya kesho.

PETER LEWIS-JONES

MKURUGENZI MKUU

28 FEBRUARI 2002



FOR THE YEAR ENDED 31 DECEMBER 2001

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2001.

1 Principal activities

The company is licensed to operate as a mortgage 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.

2 Results and appropriations

	2001 Kshs 000	2000 Kshs 000
Gross income	3,367,249	2,984,604
(Loss)/profit before taxation		
Housing Finance Company of Kenya Limited	(258,724)	87,871
Kenya Building Society Limited	771	(140,100)
First Permanent (East Africa) Limited	1,042	1,423
Group loss before taxation	(189,411)	(50,806)
Taxation	1,141	12,432
Loss after taxation	(188,270)	(38,374)
Retained profit brought forward	16,052	459,605
	16,052	421,231
Dividends - proposed		(43,125)
Retained profit carried forward	192,382	378,106

3 Dividend

The directors do not recommend the payment of a dividend (2000 - KShs 43,125,000).

4 Directors

The directors who served during the year are set out on page 2.

5 Auditors

The auditors, KPMG Peat Marwick will continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486)

6 Approval of financial statements

The Financial Statements set out on pages 22 to 50 were approved at a meeting of Directors held on Tuesday, 26 February 2002

BY ORDER OF THE BOARD

Chunga Associates
Company Secretary

Wakurugenzi wana furaha kuwasilisha ripoti yao ya hesabu zilizokaguliwa za mwaka ulioisha 31 Desemba, 2001.

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

	2001 Kshs'000	2000 Kshs'000
Mapato ya jumla	3,367,249	2,984,604
(Hasara)/faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	(256,759)	87,871
Kenya Building Society Limited	771	(140,100)
First Permanent (East Africa) Limited	1,042	1,423
Hasara ya jumua ya kampuni kabla ya ushuru	(254,946)	(50,806)
Ushuru	69,222	12,432
Hasara baada ya ushuru	(185,724)	(38,374)
Faida iliyobakishwa na Kuletwa mbele	378,106	459,605
	192,382	421,231
Mgao uliopendekezwa		(43,125)
Faida iliyobakia na Kupelekwa mbele	192,382	378,106

3 Mgawo wa faida

Wakurugenzi hawakupendekeza au kupitisha ulipaji wowote wa mgao (2000 - Kshs 43,125,000)

4 Wakurugenzi

Wakurugenzi ambao wameshikilia afisi katika mwaka huu wameorodheshwa katika ukurasa wa pili.

5 Wakaguzi wa hesabu

Wakaguzi wa hesabu KPMG Peat Marwick wataendelea kushikilia afisi kufuatana na sehemu 159 (2) ya sheria za kampuni (ibara 486)

6 Kupitisha kwa taarifa ya hesabu

Taarifa ya hesabu ya pesa iliyochapishwa katika ukurasa wa 22 hadi 50 ilipitishwa kwenye mkutana wa wakurugenzi uliafanyika mnamo Jumanne tarehe 26 Februari mwaka 2002.

KWA AMRI YA HALMASHAURI

Katibu wa kampuni ya Chunga Associates

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Companies Act requires the directors to prepare accounts 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 each financial year and of the operating results of the group for that year. It also requires the directors to ensure the group and the company keep proper accounting records which disclose with reasonable accuracy the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Accounting Standards and in the manner required by the 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 its 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.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

Director: _____

Director: _____

Date : _____

TAARIFA YA JUKUMU LA WAKURUGENZI

19

Sheria za kampuni huwataka wakurugenzi kutayarisha hesabu za kila mwaka kwa njia ambayo itaonyesha ukweli wa hali ya shughuli za kampuni na matokeo sahihi ya mwaka huo. Sheria hii pia inawahitaji wakurugenzi kuhakikisha kuwa kampuni au wahasibu wa kampuni hiyo wanaweka na kuhifadhi habari ya taarifa za hesabu zilizo sahihi na kamilifu ili kuonyesha picha ya kweli juu ya shughuli za kampuni. Vile vile ni jukumu lao kulinda mali ya kampuni.

Wakurugenzi wanakubali jukumu la hesabu za mwisho wa mwaka ambazo zimetayarishwa kwa kutumia mbinu za kitaalam za taaluma ya uhasibu ambazo zinaungwa mkono na kanuni za uhasibu wa kimataifa kama inavyohitajika kuambatana na sheria za kampuni. Wakurugenzi wanaonelea kuwa wahasibu wameonyesha picha ya kweli ya hali na msimamo wa kifedha wa kampuni na matokeo ya shughuli zake. Wakurugenzi vile vile wanakubali jukumu la kuhifadhi taarifa za uhasibu ambazo zinategemewa sana katika utayarishaji wa uhasibu na usimamizi wa matumizi ya fedha za kindani.

Kufikia sasa hakuna jambo ambalo wakurugenzi wameonelea huenda likatatiza shughuli za kibiashara za kampuni zetu. Na ni wazi kuwa shughuli zetu zitaendelea vyema kwa miezi kumi na miwili ijayo kuanzia siku ya utoaji taarifa hii.

Mkurugenzi: _____

Mkurugenzi: _____

Tarehe: _____

**To the members of Housing Finance Company
of Kenya Limited**

We have audited the financial statements set out on pages 22 to 50 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.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS
AND AUDITORS**

As stated on page 19, 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.

BASIS OF OPINION

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.

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 2001 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: 26 February 2002**



Kwa wanachama wa Housing Finance Company of Kenya Limited

Tumekagua taarifa za kifedha zilizachapishwa katika ukurasa 22 hadi 50 ambazo zimetayarishwa katika maelezo 1. Tumepata habari na maelezo yote ambaya kwa kadiri tunavyajua na kuamini yalihitajika kutekeleza ukaguzi wetu na kutoa msingi unaafaa kwa maoni yetu. Taarifa za fedha za kampuni zinakubaliana na vitabu vya hesabu.

MAJUKUMU YA WAKURUGENZI NA WAKAGUZI WA HESABU

Kama ilivyo elezwa katika ukurasa wa kumi na tisa wakurugenzi wana jukumu la kutayarisha 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 kutoa maoni yasiyo ya mapendeleo kuhusu taarifa za fedha kufuatia ukaguzi wetu na kuwajulisha maoni yetu.

KUAMBATANA NA MAONI

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

MAONI

Kwa maoni yetu, vitabu vya hesabu vimewekwa kwa njia sahihi na taarifa za fedha zinaeleza kwa ukweli na bila ya mapendelea hali ya shughuli za kifedha za kampuni na za kundi kufikia 31 Desemba 2001 na za matokeo ya utendaji na matumizi ya fedha za kundi kwa mwaka uliaisha kulingana na viwango vya ukaguzi wa hesabu za kimataifa na kukabaliana na mahitaji ya sheria za kampuni

KPMG PEAT MARWICK

KAMPUNI YA WASAHIBU

SLP 40612

NAIROBI

TAREHE: 26 Februari 2002

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 KShs'000	2000 KShs'000
INTEREST INCOME	4	1,550,661	2,161,755
INTEREST EXPENSE	5	<u>(921,961)</u>	<u>(1,159,358)</u>
NET INTEREST INCOME		628,700	1,002,397
PROVISION FOR MORTGAGE LOSSES	15(b)	<u>(186,610)</u>	<u>(375,946)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON MORTGAGE ADVANCES TO CUSTOMERS		442,090	626,451
NON INTEREST INCOME	6	424,986	352,774
NON INTEREST EXPENSES	7	(964,256)	(1,030,031)
VOLUNTARY EARLY RETIREMENT EXPENSES	8	<u>(157,766)</u>	<u>—</u>
LOSS BEFORE TAXATION	9	(254,946)	(50,806)
TAXATION	10	<u>69,222</u>	<u>12,432</u>
NET LOSS AFTER TAX		<u>(185,724)</u>	<u>(38,374)</u>
LOSS PER SHARE	11	<u>(KShs. 1.60)</u>	<u>(KShs. 0.33)</u>

The notes set out on pages 28 to 50 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

23

AT 31 DECEMBER 2001

	Note	2001 KShs'000	2000 KShs'000
ASSETS			
Cash and bank balances		258,426	287,941
Deposits and balances due from banking institutions	13	862,676	727,815
Investments in Government Securities	14	1,175,212	1,452,961
Mortgage advances to customers	15(a)	8,331,293	9,315,227
Other assets	18	241,193	224,340
Housing Development Projects	19	309,315	482,566
Investment properties	20	27,000	27,000
Property and equipment	21(a)	372,135	386,162
Deferred tax	22(a)	134,970	65,435
Taxation		116,370	35,238
TOTAL ASSETS		11,828,590	13,004,685
LIABILITIES			
Balances due to banking institutions	23		97,416
Customers' deposits	24	10,258,467	11,151,475
Other liabilities	25	363,151	307,640
Retirement benefits obligations	26	11,141	11,141
Dividends payable		96,293	95,634
		<u>10,729,052</u>	<u>11,663,306</u>
SHAREHOLDERS' EQUITY			
Share capital	27	575,000	575,000
Reserves (Page 26)		440,620	674,169
Shareholders' income notes and loans	28	83,918	92,210
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11,828,590	13,004,685

The financial statements set out on pages 22 to 50 were approved by the Board of Directors on 26 February 2002 and were signed on its behalf by:

Richard Kemoli)
Michael A Turner) Directors
Peter Lewis-Jones)
Chunga Associates Company Secretary

The notes set out on pages 28 to 50 form an integral part of these financial statements.

AT 31 DECEMBER 2001

	Note	2001 KShs'000	2000 KShs'000
ASSETS			
Cash and bank balances		236,938	282,996
Deposits and balances due from banking institutions	13	862,676	727,815
Investments in Government Securities	14	1,175,212	1,452,961
Mortgage advances to customers	15(a)	8,331,293	9,315,227
Investments in subsidiaries	16	55,020	55,020
Dividend receivable		15,000	15,000
Amounts due from subsidiaries	17	195,942	253,547
Other assets	18	239,620	192,197
Property and equipment	21(b)	371,918	385,628
Deferred tax	22(b)	91,152	21,600
Taxation		95,955	15,037
TOTAL ASSETS		<u>11,670,726</u>	<u>12,717,028</u>
LIABILITIES			
Customers' deposits	24	10,258,467	11,151,475
Other liabilities	25	252,899	168,228
Retirement benefits obligations	26	11,141	11,141
Dividends - payable		96,293	95,634
		<u>10,618,800</u>	<u>11,426,478</u>
SHAREHOLDERS' EQUITY			
Share capital	27	575,000	575,000
Reserves (Page 27)		393,008	623,340
Shareholders' income notes and loans	28	83,918	92,210
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>11,670,726</u>	<u>12,717,028</u>

The financial statements set on pages 22 to 50 were approved by the Board of Directors on 26 February 2002 and were signed on its behalf by:

Richard Kemoli)
Michael A Turner) Directors
Peter Lewis-Jones)
Chunga Associates Company Secretary

The notes set out on pages 28 to 50 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

25

FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 KShs'000	2000 KShs'000
Net cash (outflow) / inflow from operating activities	29(a)	<u>(36)</u>	<u>709,590</u>
Return on investments and servicing of finance			
Dividends paid		(39,966)	(24,145)
Loan interest paid		<u>(7,359)</u>	<u>(4,581)</u>
Net cash outflow from investments and servicing of finance		<u>(47,325)</u>	<u>(28,726)</u>
Investing activities			
Purchase of equipment		(20,266)	(32,781)
Proceeds from sale of equipment		<u>932</u>	<u>3,116</u>
Net cash outflow from investing activities		<u>(19,334)</u>	<u>(29,665)</u>
Financing activities			
Shareholders' loan repayments		<u>(8,292)</u>	<u>(24,876)</u>
Net (decrease)/increase in cash and cash equivalents	29(b)	<u>(74,987)</u>	<u>626,323</u>

The notes set out on pages 28 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

26

FOR THE YEAR ENDED 31 DECEMBER 2001

	Share capital	Revaluation reserve	Share premium	General reserve for mortgage advances	Dividends proposed	Retained profits	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Balance at 1 January 2000 as previously stated	575,000	347,533	25,705	48,218	28,750	445,140	1,470,346
Reclassification of general reserve for mortgage advances to provision account	-	-	-	(48,218)	-	-	(48,218)
Deferred tax on reclassification of general reserve for mortgage advances to provision account	-	-	-	-	-	14,465	14,465
Change in accounting policy (with respect to deferred tax on revaluation surplus)	-	(31,275)	-	-	-	-	(31,275)
Restated balance at 1 January 2000	575,000	316,258	25,705	-	28,750	459,605	1,405,318
Revaluation deficit	-	(150,793)	-	-	-	-	(150,793)
- Properties	-	(7,330)	-	-	-	-	(7,330)
- Investment properties	-	41,624	-	-	-	-	41,624
Revaluation surplus - land banks	-	-	-	-	-	-	-
Net gains and losses not recognized in profit and loss account	-	(116,499)	-	-	-	-	(116,499)
Net loss after tax	-	-	-	-	-	(38,374)	(38,374)
Deferred tax on revaluation deficit	-	27,474	-	-	-	-	27,474
Dividends paid during the year	-	-	-	-	(24,145)	-	(24,145)
Dividends transferred to accounts payable	-	-	-	-	(4,605)	-	(4,605)
Dividends proposed	-	-	-	-	43,125	(43,125)	-
Balance at 31 December 2000	575,000	227,233	25,705	-	43,125	378,106	1,249,169
Balance as at 1 January 2001 as previously stated	575,000	231,034	25,705	55,585	43,125	446,871	1,377,320
Reclassification of general reserves for mortgage advances to provision account	-	-	-	(55,585)	-	-	(55,585)
Deferred tax on reclassification of general reserves for mortgage advances to provision account	-	-	-	-	-	16,675	16,675
Change in accounting policy (with respect to deferred tax on revaluation surplus)	-	(3,801)	-	-	-	-	(3,801)
Prior year's adjustment with respect to provision for mortgage advances	-	-	-	-	-	(85,440)	(85,440)
Restated balance at 1 January 2001	575,000	227,233	25,705	-	43,125	378,106	1,249,169
Revaluation deficit - land bank	-	(4,700)	-	-	-	-	(4,700)
Net loss after tax	-	-	-	-	-	(185,724)	(185,724)
Dividends paid during the year	-	-	-	-	(39,966)	-	(39,966)
Dividends transferred to accounts payable	-	-	-	-	(3,159)	-	(3,159)
Balance at 31 December 2001	575,000	222,533	25,705	-	-	192,382	1,015,620

The notes set out on pages 28 to 50 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

27

FOR THE YEAR ENDED 31 DECEMBER 2001

	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 at 1 January 2000 as previously stated	575,000	323,450	25,705	48,218	28,750	355,579	1,356,702
Reclassification of general reserve for mortgage advances to provision account	-	-	-	(48,218)	-	-	(48,218)
Deferred tax on reclassification of general reserve for mortgage advances to provision account	-	-	-	-	-	14,465	14,465
Change in accounting policy (with respect to deferred tax on revaluation surplus)	-	(31,275)	-	-	-	-	(31,275)
Restated balance at 1 January 2000	575,000	292,175	25,705	-	28,750	370,044	1,291,674
Revaluation deficit - properties	-	(150,793)	-	-	-	-	(150,793)
Net profit after tax	-	-	-	-	-	58,735	58,735
Deferred tax on revaluation deficit	-	27,474	-	-	-	-	27,474
Dividends paid during the year	-	-	-	-	(24,145)	-	(24,145)
Dividends transferred to accounts payable	-	-	-	-	(4,605)	-	(4,605)
Dividends proposed	-	-	-	-	43,125	(43,125)	-
Balance at 31 December 2000	575,000	168,856	25,705	-	43,125	385,654	1,198,340
Balance as at 1 January 2001 as previously stated	575,000	172,657	25,705	55,585	43,125	454,419	1,326,491
Reclassification of general reserve for mortgage advances to provision account	-	-	-	(55,585)	-	-	(55,585)
Deferred tax on reclassification of general reserve for mortgage advances to provision account	-	-	-	-	-	16,675	16,675
Change in accounting policy (with respect to deferred tax on revaluation surplus)	-	(3,801)	-	-	-	-	(3,801)
Prior year's adjustment with respect to provision for mortgage advances	-	-	-	-	-	(85,440)	(85,440)
Restated balance at 1 January 2001	575,000	168,856	25,705	-	43,125	385,654	1,198,340
Net loss after tax	-	-	-	-	-	(187,207)	(187,207)
Dividends paid during the year	-	-	-	-	(39,966)	-	(39,966)
Dividends transferred to accounts payable	-	-	-	-	(3,159)	-	(3,159)
Balance at 31 December 2001	575,000	168,856	25,705	-	-	198,447	968,008

The notes set out on pages 28 to 50 form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2001

(e) Translation of foreign currencies

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 International Accounting Standards. The financial statements are prepared under the historical cost convention and modified to include the revaluation of certain properties, plant and equipment.

(b) Consolidation principles

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries listed under Note 16 all of which are made up to 31 December 2001.

(c) Revenue recognition

Income is recognised in the period in which it is earned. When an account becomes non-performing, interest is suspended in accordance with management estimate of what is unrealisable 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 general provision is maintained based on management's evaluation of the mortgage advances portfolio and other exposures in respect of losses which, although not specifically identified, are known from experience to be present in such portfolio.

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.

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

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

(g) Mortgage advances

Mortgages are shown at the gross 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).

(h) Retirement benefits obligations

The company employees are eligible for retirement benefits under a funded defined benefits plan which is administered by AON Minet Insurance Brokers Limited.

An Actuarial valuation carried out as at 31 December 2000 reflected a past service deficit



(h) Retirement benefits obligations *(cont.)*

of KShs 36,580,000. The Actuary recommended that in order to meet the deficit the Company's required contribution rate should be 10.6 % of pensionable salaries per annum.

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 liability that remains unrecognised in the balance sheet is disclosed in the notes to the accounts. (See note 26)

(i) Taxation

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

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

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

(j) Cash and cash equivalents

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

(k) Financial instruments

(i) Classification

Originated loans and receivables are loans and receivables created by the group providing money

to a debtor. Originated loans and receivables comprise mortgage advances to customers and placements with other banks.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the group has the intent and ability to hold to maturity. These include Treasury bills, Treasury bonds and Government stock.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the group, or held to maturity.

(ii) Recognition

The group recognises available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity loans and originated loans and receivables are recognised on the day they are transferred to the group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in the income statement.

(v) Derecognition

A financial asset is derecognised when the group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the group commits to sell the assets. The group uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the group.

(vi) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

(I) 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.

2 CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

On 6 August 2001 the Central Bank of Kenya (Amendment) Act 2000 became law with an effective date of 1 January 2001. Subsequently, the Kenya Bankers Association on behalf of its members, contested the implementation of this Act.

On 24 January 2002, a constitutional court ruled that certain sections of the Act were inconsistent with the constitution of Kenya.

The Directors have taken legal opinion and they have been advised that the Act is inoperational for 2001. The Directors have relied on this advice and the financial statements have been prepared accordingly.

3 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 present information for geographical segments.

	2001			2000		
	Nairobi	Other regions	Total	Nairobi	Other regions	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest receivable	934,097	616,564	1,550,661	1,814,690	347,065	2,161,755
Interest charges payable	(754,567)	(167,394)	(921,961)	(966,527)	(192,831)	(1,159,358)
Net interest income receivable	179,530	449,170	628,700	848,163	154,234	1,002,397
Fees and commission receivable	50,236	17,461	67,697	81,246	26,173	107,419
Other operating income	328,737	28,551	357,289	244,880	475	245,355
Net revenue	558,503	495,183	1,053,686	1,174,289	180,882	1,355,171
Operating expenses	(907,679)	(56,577)	(964,256)	(939,189)	(90,842)	(1,030,031)
VER Expenses	(134,101)	(23,665)	(157,766)	-	-	-
Provision for mortgage losses	(102,321)	(84,289)	(186,610)	(330,496)	(45,450)	(375,946)
Profit/(Loss) before tax	(585,598)	330,652	(254,946)	(95,396)	44,590	(50,806)
Mortgage advances to customers (net)	7,316,436	1,014,857	8,331,293	8,161,155	1,154,072	9,315,227

b) By class of

Business - 2001

	Mortgages	House sales	Others	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Revenue	1,263,148	280,932	431,567	1,975,647
Assets	8,331,293	309,315	3,187,982	11,828,590

4 INTEREST INCOME

	2001	2000
	KShs'000	KShs'000
Advances to customers	2,654,750	2,315,292
Interest suspended	(1,391,602)	(470,075)
	<u>1,263,148</u>	<u>1,845,217</u>
Treasury bills	179,759	123,913
Treasury bonds	20,884	14,016
Government stock	233	1,067
Placements with other banks	86,637	177,542
	<u>1,550,661</u>	<u>2,161,755</u>

5 INTEREST EXPENSE

Customer deposits	911,841	1,141,086
Interest on borrowed funds	10,120	18,272
	<u>921,961</u>	<u>1,159,358</u>

6 NON INTEREST INCOME

House sales	280,932	223,590
Fees and commission income	67,697	70,250
Rental income	19,518	17,049
Other operating income	57,126	39,062
(Loss)/profit on sale of property and equipment	(287)	2,823
	<u>424,986</u>	<u>352,774</u>

7 NON INTEREST EXPENSES

Cost of houses sold	254,565	217,771
Finance and administration costs attributed to completed projects	17,439	17,818
Project costs written off	1,257	128,190
Salaries and employee benefits	370,720	344,535
Rental expenses	12,599	8,621
Deposit Protection Fund	16,069	17,289
General administration expenses	255,651	258,904
Other expenses	35,956	36,903
	<u>964,256</u>	<u>1,030,031</u>

7 NON INTEREST EXPENSES

The number of employees in employment during the year was 244.

	2001	2000
Management	11	109
Unionisable	103	216
Contractual	1	11
Total	244	336

Included in salaries and employees benefits are contributions to the defined benefits retirement scheme for employees. During the year, the company made contributions of KShs 21,409,741 (2000 - KShs 21,758,878).

8 VOLUNTARY EARLY RETIREMENT EXPENSES

The expenditure relates to terminal dues and benefits for employees who retired under a voluntary early retirement scheme implemented during the year.

9 LOSS BEFORE TAXATION

- a) The loss before taxation is arrived at after charging / (crediting)

	2001 KShs 000	2000 KShs 000
Loss / (profit) on sale of property and equipment	2,823	(2,823)
Directors' remuneration		
- Fees,	1,046	
- Expenses	865	
- As executives	7,568	
Auditors' remuneration		
- Current year	3,451	
- Prior year under provision		
Depreciation	35,185	

- b) A director of the company has an outstanding loan granted in 1997 on the same terms as applicable to members of HFCK's permanent staff. The total amount outstanding on the loan as at 31 December 2001 was KShs 1,254,481 (2000 - KShs 2,165,687). The repayment schedule on the loan is fully up to date. The income tax low - interest benefit relating to the loan amounted to KShs 105,440 (2000 - KShs 117,000).

10 TAXATION

	2001	2000
	KShs'000	KShs'000
At 30% on the profit for the year		
as adjusted for tax purposes	313	34,841
Deferred tax credit	<u>(69,535)</u>	<u>(47,273)</u>
	<u>(69,222)</u>	<u>(12,432)</u>

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

	2001	2000
	KShs'000	KShs'000
Accounting loss before tax	<u>(254,946)</u>	<u>(50,806)</u>
Computed tax using the applicable corporation tax rate	<u>(16,484)</u>	<u>(15,242)</u>
Non-deductible costs and depreciation on ineligible assets	<u>7,262</u>	<u>2,810</u>
Tax credit	<u>(69,222)</u>	<u>(12,432)</u>

11 LOSS PER SHARE

The calculation of loss per share is based on:

	2001	2000
	KShs'000	KShs'000
Net loss for the year attributable to shareholders	<u>(185,724)</u>	<u>(38,374)</u>
Number of ordinary shares in issue (in thousands)	<u>(15,000)</u>	<u>115,000</u>
Loss per share	<u>(KShs.1.60)</u>	<u>(KShs 0.33)</u>

12 DIVIDEND PER SHARE

Dividends		43,125
Number of ordinary shares (in thousands)	<u>115,000</u>	<u>115,000</u>
Dividends per share	<u>KShs.0.00</u>	<u>KShs.0.38</u>

13 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS**Group and Company**

Due within 90 days	<u>862,676</u>	<u>727,815</u>
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14 INVESTMENTS IN GOVERNMENT SECURITIES

	2001 KShs'000	2000 KShs'000
Group and Company		
Kenya Government stocks - 2000	-	10,305
Treasury bills due within 90 days	829,110	1,283,926
Treasury bonds due within 180 days	65,147	100,000
Treasury bonds due after 180 days	280,955	58,730
	<u>1,175,212</u>	<u>1,452,961</u>

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

15. MORTGAGE ADVANCES TO CUSTOMERS

a) Group and Company	2001 KShs '000	2000 KShs '000
Martgages	12,124,916	11,569,975
Less:		
Provision for general, specific bad and doubtful mortgage advances and interest suspended	<u>(3,793,623)</u>	<u>(2,254,748)</u>
	<u>8,331,293</u>	<u>9,315,227</u>
Maturing:		
Within five years	3,003,132	2,366,767
Over five years to ten years	4,471,355	3,913,457
Over ten years to fifteen years	4,021,672	4,460,223
Over fifteen years	<u>628,757</u>	<u>829,528</u>
	<u>12,124,916</u>	<u>11,569,975</u>

b) Provision for bad and doubtful debts and interest in suspense

	Suspended interest KShs'000	Specific provision KShs'000	General provision KShs'000	Total KShs'000
At 1 January 2000 as previously reported	636,888	723,621	-	1,360,509
Reclassification from statutory general reserve	-	-	48,218	48,218
Made during the year	<u>470,075</u>	<u>368,579</u>	<u>7,367</u>	<u>846,021</u>
At 31 December 2000 (restated)	1,106,963	1,092,200	55,585	2,254,748
Written off during the year	<u>(4,372)</u>	<u>(34,965)</u>	-	<u>(39,337)</u>
Made during the year	<u>1,391,602</u>	<u>198,293</u>	<u>(11,683)</u>	<u>1,578,212</u>
At 31 December 2001	<u>2,494,193</u>	<u>1,255,528</u>	<u>43,902</u>	<u>3,793,623</u>

c) Non - performing loans and advances

Loans and advances include an amount of KShs 3,956,711,000 net of provisions and suspended interest, (2000 - Kshs. 3,821,856,000) on which part of the 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. 4,260,245,000 (2000 - Kshs.4,168,543,000).

16 INVESTMENTS IN SUBSIDIARIES

	2001	2000
	KShs '000	KShs '000
Kenya Building Society Limited	50,000	50,000
First Permanent (East Africa) Limited	5,020	5,020
	<u>55,020</u>	<u>55,020</u>

17 AMOUNTS DUE FROM SUBSIDIARIES

	2001	2000
	KShs '000	KShs '000
Company		
Due from:		
Kenya Building Society Limited	195,164	251,532
First Permanent (East Africa) Limited	778	2,015
	<u>195,942</u>	<u>253,547</u>

18 OTHER ASSETS

	2001		2000	
	Group	Company	Group	Company
	KShs '000	KShs '000	KShs '000	KShs '000
Exchange loss recoverable	184,948	184,948	137,407	137,407
from the Government of Kenya	14,537	14,527	20,237	16,375
Staff debtors	6,887	6,887	6,662	6,662
Prepayments	8,559	8,334	4,586	4,211
Deposits and rent receivable	26,262	24,924	55,448	27,542
Other receivables	<u>241,193</u>	<u>239,620</u>	<u>224,340</u>	<u>192,197</u>

19 HOUSING DEVELOPMENT PROJECTS

	2001 KShs'000	2000 KShs'000
Group		
Komarock Housing Projects	239,725	397,548
Mombasa Housing Projects	8,140	18,368
	247,365	415,916
Land Banks		
Land - cost	25,026	25,026
Valuation surplus	41,624	41,624
Revaluation deficit - Kisumu City land	(14,700)	-
	61,950	66,650
Total	309,315	482,566

Commitments in respect of these projects, authorised but not paid as at 31 December 2001 amounted to KShs.15,255,830 (2000 - KShs 79,998,804).

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

Kisumu land bank was valued by Legeno Real Estates Limited, registered valuers, on 31 December 2001 on an open market basis and the resulting deficit has been accounted for in the revaluation reserve.

Company: Nil

20 INVESTMENT PROPERTIES

At valuation

	2001 KShs'000	2000 KShs'000
As at 31 December	27,000	27,000

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.

21 PROPERTY AND EQUIPMENT**a) Group**

	Land				
				Furniture, fixtures, equipment & motor vehicles	Total
	Freehold	Long leasehold	Buildings		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation:					
At 1 January 2001	7,000	124,000	173,779	319,370	624,149
Additions	-	-	54	20,212	20,266
Disposals	-	-	(302)	(11,206)	(11,508)
At 31 December 2001	7,000	124,000	173,531	328,376	632,907
At cost	-	-	3,531	328,376	331,907
At valuation	7,000	124,000	170,000	-	301,000
Depreciation:					
At 1 January 2001	-	-	3,735	234,252	237,987
Charge for the year	-	-	2,293	30,778	33,071
Write back on Revaluation	-	-	(303)	(9,983)	(10,286)
Disposals	-	-	-	-	-
At 31 December 2001	-	-	5,725	255,047	260,772
On cost	-	-	3,443	255,047	258,490
On valuation	-	-	2,282	-	2,282
Net book value:					
At 31 December 2001	7,000	124,000	167,806	73,329	372,135
At 31 December 2000	7,000	124,000	170,044	85,118	386,162

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;

	2001	2000
	KShs 000	KShs '000
Freehold land	206	206
Long lease hold land	52,891	52,891
Buildings	67,958	69,379

21 PROPERTY AND EQUIPMENT

b) Company:

	Land				
				Furniture, fixtures, equipment & motor vehicles	Total
	Freehold	Long leasehold	Buildings		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or Valuation:					
At 1 January 2001	7,000	124,000	171,775	313,559	616,334
Additions	-	-	54	20,212	20,266
Disposals	-	-	(302)	(11,206)	(11,508)
As 31 December 2001	7,000	124,000	171,527	322,565	625,092
At Cost	-	-	1,527	322,565	324,092
At Valuation	7,000	124,000	170,000	-	301,000
Depreciation:					
At 1 January 2001	-	-	1,775	228,931	230,706
Charge for the year	-	-	2,282	30,472	32,754
Disposals	-	-	(303)	(9,983)	(10,286)
At 31 December 2001	-	-	3,754	249,420	253,174
On Cost	-	-	1,473	249,420	250,893
On Valuation	-	-	2,281	-	2,281
Net book value:					
At 31 December 2001	7,000	124,000	167,773	73,145	371,918
At 31 December 2000	7,000	124,000	170,000	84,628	385,628

The company'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:

	2001	2000
	KShs 000	KShs '000
Freehold land	206	206
Longlease hold land	52,891	52,891
Buildings	67,958	69,379

22 DEFERRED TAX ASSETS**a) Group**

Deferred tax assets at 31 December 2001 and 2000 are attributable to the items detailed in the table below:

	2001			2000		
	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	54,534	79,188	(24,654)	65,624	83,588	(17,964)
Tax losses	-	394,018	(394,018)	-	146,101	(146,101)
Retirement benefits obligations	-	-	-	-	11,141	(11,141)
General provision	-	43,902	(43,902)	-	55,585	(55,585)
Revaluation reserve	12,673	-	12,673	12,673	-	12,673
	67,207	517,108	(449,901)	78,297	296,415	(218,118)

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

	Balance at 1 Jan. 2001 KShs'000	Movement during the year KShs'000	Balance at 31 Dec. 2001 KShs'000
Plant and equipment	(17,964)	(6,690)	(24,654)
Tax losses	(146,101)	(247,917)	(394,018)
Retirement benefits obligations	(11,141)	11,141	-
General provision	(55,585)	11,683	(43,902)
Revaluation reserve	12,673	-	12,673
Total temporary differences	(218,118)	(231,783)	(449,901)
Deferred tax @ 30%	(65,435)	(69,535)	(134,970)

22. DEFERRED TAX ASSETS

b) Company

Deferred tax assets at 31 December 2001 and 2000 are attributable to the items detailed in the table below:

	2001	2000
	Carrying value KShs'000	Tax base KShs'000
		Temporary difference KShs'000
Plant and equipment	65,135	83,083
Tax losses	-	-
Retirement benefits obligations	-	11,141
General provision	-	55,585
Revaluation reserve	12,673	-
	<u>77,808</u>	<u>149,809</u>
		<u>(72,001)</u>

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

	Balance at 1 Jan. 2001 KShs'000	Movement during the year KShs'000	Balance at 31 Dec. 2001 KShs'000
Plant and equipment	(17,948)	(5,654)	(23,602)
Tax losses	-	(249,009)	(249,009)
Retirement benefits obligations	(11,141)	11,141	-
General provision	(55,585)	11,683	(43,902)
Revaluation reserve	12,673	-	12,673
Total temporary differences	<u>(72,001)</u>	<u>(231,839)</u>	<u>(303,840)</u>
Deferred tax @ 30%	<u>(21,600)</u>	<u>(69,552)</u>	<u>(91,152)</u>

23 BALANCES DUE TO BANKING INSTITUTIONS

Group	2001	2000
	KShs'000	KShs'000
Due within 90 days	<u>-</u>	<u>97,416</u>

Company: Nil

The balance in the previous year represented bank overdraft and a loan to a subsidiary, Kenya Building Society Limited. The amount was repaid in full during the year.

24 CUSTOMERS' DEPOSITS

Group and company	2001	2000
	KShs'000	KShs'000
a) From Government and parastatals:		
Payable within 90 days	557,469	889,283
Payable after 90 days		
and within one year	452,475	167,181
Payable after one year	1,120,288	1,216,307
b) From private sector and individuals:		
Payable within 90 days	6,109,628	8,278,693
Payable after 90 days		
and within one year	1,905,842	465,366
Payable after one year	112,765	134,645
	<u>10,258,467</u>	<u>11,151,475</u>

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	2000	
	Group	Company
	KShs'000	KShs'000
VER payable	-	-
The Government of Kenya	-	-
exchange risk assumption fees	12,536	12,536
Interest payable on the Government	-	-
of Kenya Income Notes	14,654	14,654
Hause sales deposits	56,545	-
Project costs accruals	51,748	-
Withholding tax payable	27,384	27,384
Interest on CDC Loan	-	-
Uncleared bankers orders	15,295	15,295
Initial mortgage deposit account	22,234	22,234
Other liabilities	107,244	76,125
	307,640	168,228

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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.

A further actuarial valuation of the Scheme was carried out as at 31 December 2000 on the basis of "Attained Age Method."

The amounts recognised in the respective financial years are:

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

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.

27 SHARE CAPITAL

	2001 KShs'000	2000 KShs'000
Authorised, issued and fully paid 115,000,000 Ordinary Shares of KShs.5.00 each	<u>575,000</u>	<u>575,000</u>

28 SHAREHOLDERS' INCOME NOTES AND LOANS

Group and company

Government of Kenya - Income Notes	50,750	50,750
Commonwealth Development Corporation (CDC) (1975 to 2003) long term loan	<u>116,250</u>	<u>146,000</u>
	167,000	196,750
Less: Unrealised exchange differences recoverable from the Government of Kenya under a Risk Assumption Agreement	<u>(83,082)</u>	<u>(104,540)</u>
	<u>83,918</u>	<u>92,210</u>

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- Kamarock loan of Stg.£1,000,000, 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 the year 2002 principal loan repayments will amount to KShs.58,125,000 at the rate of exchange at 31 December 2001 of which only KShs.16,584,000 will be payable by the company under the above agreement.

**29 NOTES TO THE CASH FLOW STATEMENT****a) Reconciliation of operating profit to net cash (outflow) / inflow from operating activities.**

	2001 KShs'000	2000 KShs'000
Group loss before taxation	(254,946)	(50,806)
Mortgage loss provision	186,610	375,946
Interest suspended	1,391,602	470,075
Depreciation	33,071	35,185
Loss/(profit) on sale of equipment	287	(2,823)
Loan interest	7,359	4,581
(Decrease)/Increase in public deposits	(893,008)	263,623
Net movement in mortgage advances	(594,278)	(655,451)
(Increase)/decrease in other assets	(16,854)	45,788
Increase/(decrease) in other liabilities	53,014	(36,764)
Movement in retirement benefits obligation	-	11,141
Decrease in housing development projects	168,551	254,471
Taxation paid	(81,444)	(5,376)
Net cash (outflow) / inflow from operating activities	(36)	709,590

b) Movement in cash and cash equivalents

Represented by increase/(decrease) in:		
Cash at bank and in hand	(29,516)	73,527
Investment in Government Securities	(277,749)	(225,221)
Deposits and balances due from banking institutions	134,861	725,003
Deposits and balances due to banking institutions	97,416	53,014
	(74,987)	626,323

30 CONTINGENT LIABILITIES

As at 31 December 2001, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs. 13 million.

In addition, the company has an outstanding tax assessment from the Kenya Revenue Authority (KRA) in respect of penalties and interest on withholding tax for the years 1998 and 1999 amounting to KShs. 27,852,447, excluding any penalties that may be levied by KRA for delayed settlement of this amount. The company has appealed to the Minister for a waiver of this assessment. This amount has not been provided for in these financial statements as the Directors are of the opinion that there exists a strong possibility that the matter will be resolved in the company's favour.

31 MORTGAGE COMMITMENTS**Group and Company**

Mortgage commitments amounting to KShs. 892,964,000 (2000 - KShs. 541,000,000) are analysed below:

	2001	2000
	KShs'000	KShs'000
Commitment in principle but not authorised for payment	696,419	136,000
Authorised but not paid	<u>196,545</u>	<u>405,000</u>
	<u>892,964</u>	<u>541,000</u>

32 CAPITAL COMMITMENTS**Group and company**

	2001	2000
	KShs'000	KShs'000
Authorised but not contracted	<u>170,670</u>	<u>70,529</u>

33 ASSETS PLEDGED AS SECURITY

As at 31 December 2001 there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

34 RELATED PARTY TRANSACTIONS

The group has entered into transactions with its employees:

	2001	2000
	KShs'000	KShs'000
Balance at 1 January	403,848	441,248
Loans advanced during the year	7,285	6,889
Reclassified third party loans	(174,850)	(5,137)
Loans repayments received	<u>(29,944)</u>	<u>(39,152)</u>
Balance at 31 December	<u>206,339</u>	<u>403,848</u>

The related interest income in 2001 was KShs. 38,323,488 (2000 - KShs. 22,985,453).

35 INCORPORATION

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

36 CURRENCY

These financial statements are expressed in Kenya Shillings.

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37 RISK MANAGEMENT

This section provides details of the group's exposure to risk 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.

(i) Credit risk

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

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

The risk that counterparties to instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the group deals with counterparties of good credit standings and obtains collateral. An assessment of the extent to which fair values of collaterals cover existing non performing mortgage advances is highlighted in Note 15 (c) of these financial statements.

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

(ii) Liquidity risk

Liquidity risk arises in the general funding of the group's activities. It includes both the risk of being

unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

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

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

(iii) Market risk

Interest rate risk

The group's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the group's business strategies. The group does not have any significant interest rate risk exposures.

Risk measurements and control

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

38 FINANCIAL INSTRUMENTS**Liquidity risk****Contractual maturity analysis of assets and liabilities**

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

	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs'000	KShs'000	KShs'000
Assets						
Cash and bank balances	258,426	-	-	-	-	258,426
Deposits and balances due from banking institutions	762,311	100,365	-	-	-	862,676
Investment in Government securities	-	829,110	20,609	325,493	-	1,175,212
Mortgage advances to customers	946,319	212,257	26,584	728,823	6,417,310	8,331,293
Other assets	-	-	-	241,193	-	241,193
Housing development projects	-	-	-	309,315	-	309,315
Investment properties	-	-	-	-	27,000	27,000
Property, plant and equipment	-	-	-	-	372,135	372,135
Deferred tax	-	-	-	134,970	-	134,970
Taxation	-	-	-	116,370	-	116,370
Total assets	1,967,056	1,141,732	47,193	1,856,164	6,816,445	11,828,590
Liabilities, shareholders' funds, loans and income notes						
Customers' deposits	-	6,629,817	2,382,797	1,245,853	-	10,258,467
Other liabilities	-	-	68,291	294,860	-	363,151
Retirement benefits obligations	-	-	11,141	-	-	11,141
Dividends payable	-	-	96,293	-	-	96,293
Share capital and reserves	-	-	-	-	1,015,620	1,015,620
Shareholders' income notes and loans	-	-	-	33,168	50,750	83,918
Total liabilities and equity	-	6,629,817	2,558,522	1,573,881	1,066,370	11,828,590
Net liquidity gap	1,967,056	(5,488,085)	(2,511,329)	282,283	5,750,075	-

Customer deposits on 1-3 months relate to fixed deposits account balances. Although classified in this band, previous experience has shown these to get rolled over and are therefore of a long term nature.

38 FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Contractual maturity analysis of assets and liabilities

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	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 12 and 24 months	Non-interest bearing	Total
	interest rate %	Kshs '000	Kshs '000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Assets							
Cash and bank balances	-	-	-	-	-	258,426	258,426
Deposits and balances due from banking institutions	11%	762,311	100,365	-	-	-	862,676
Investment in Government Securities	12.5%	-	829,110	20,609	325,493	-	1,175,212
Mortgage advances to customers	19.9%	8,331,293	-	-	-	-	8,331,293
Other assets	-	-	-	-	-	241,193	241,193
Housing development projects	-	-	-	-	-	309,315	309,315
Investment properties	-	-	-	-	-	27,000	27,000
Property, plant and equipment	-	-	-	-	-	372,135	372,135
Deferred tax	-	-	-	-	-	134,970	134,970
Taxation	-	-	-	-	-	116,370	116,370
Total assets		9,093,604	929,475	20,609	325,493	1,459,409	11,828,590

8 FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

	Average interest rate %	Due on demand Kshs '000	Due within 3 months Kshs '000	Due between 3 and 12 months Kshs '000	Due between 1 and 5 years Kshs '000	Due after 5 years Kshs '000	Non- interest bearing Kshs '000	Total Kshs '000
Liabilities, shareholders' funds, loans and income notes								
Customers' deposits	8.6%	-	6,629,817	2,382,797	1,245,853	-	-	10,258,467
Other liabilities	-	-	-	-	-	-	363,151	363,151
Retirement benefits obligations	-	-	-	-	-	-	11,141	11,141
Dividends payable	-	-	-	-	-	-	96,293	96,293
Share capital and reserves	-	-	-	-	-	-	1,015,620	1,015,620
Shareholders' income notes and loans	11%	-	-	-	33,168	50,750	-	83,918
Total liabilities and equity		<u>-</u>	<u>6,629,817</u>	<u>2,382,797</u>	<u>1,279,021</u>	<u>50,750</u>	<u>1,486,205</u>	<u>11,828,590</u>
On balance sheet interest sensitivity gap		<u>9,093,604</u>	<u>(5,700,342)</u>	<u>(2,362,188)</u>	<u>(953,528)</u>	<u>(50,750)</u>	<u>(26,796)</u>	<u>-</u>

NOTES