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1. Housing Finance Company of Kenya Limited
2. Mortgage Bank of Kenya Limited
3. Housing Finance Company of Kenya Limited

01/01/01

Kung'u Gatabaki	Appointed 23 October 2003
	Appointed Chairman 24 February 2004
Peter J W Lewis-Jones*	Monoging Director
Anne A W Amisabuar (Mrs.)	
David R Ansell**	
The Permanent Secretary to the Treasury	
Paul B M Ngugi	Alternate to the Permanent Secretary to the Treasury.
Michael A Turner*	Resigned 8 August 2003
Titus T Naikuni	Resigned 23 October 2003
Richard Kemoli	Resigned 24 February 2004

*British **American

Chunga Associates
Rahimtulla Tower
P.D. Box 41968
00100 Nairobi GPO

5th Floor, Williamson House
4th Ngang Avenue
P.D. Box 60680
00200 Nairobi City Square

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

Plot No. LR 209/9054
Rehani House
Kenyatta Avenue/Koinange Street
P.D. Box 30088
00100 Nairobi GPO
Tel: 333910

KPMG Kenya
16th Floor, Lanrha House
P.O. Box 40612
00100 Nairobi GPO

Barclays Plaza
P.O. Box 46661
00100 Nairobi GPO

7th Floor, Queensway House
Kaunda Street
P.O. Box 40111
00100 Nairobi GPO

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

Kenya Building Society Limited
First Permanent (EA) Limited

2007/0373



Kung'u Gatabaki
Chairman



David R. Ansell



Peter J. W. Lewis-Jones
Managing Director



Richard Kemoli

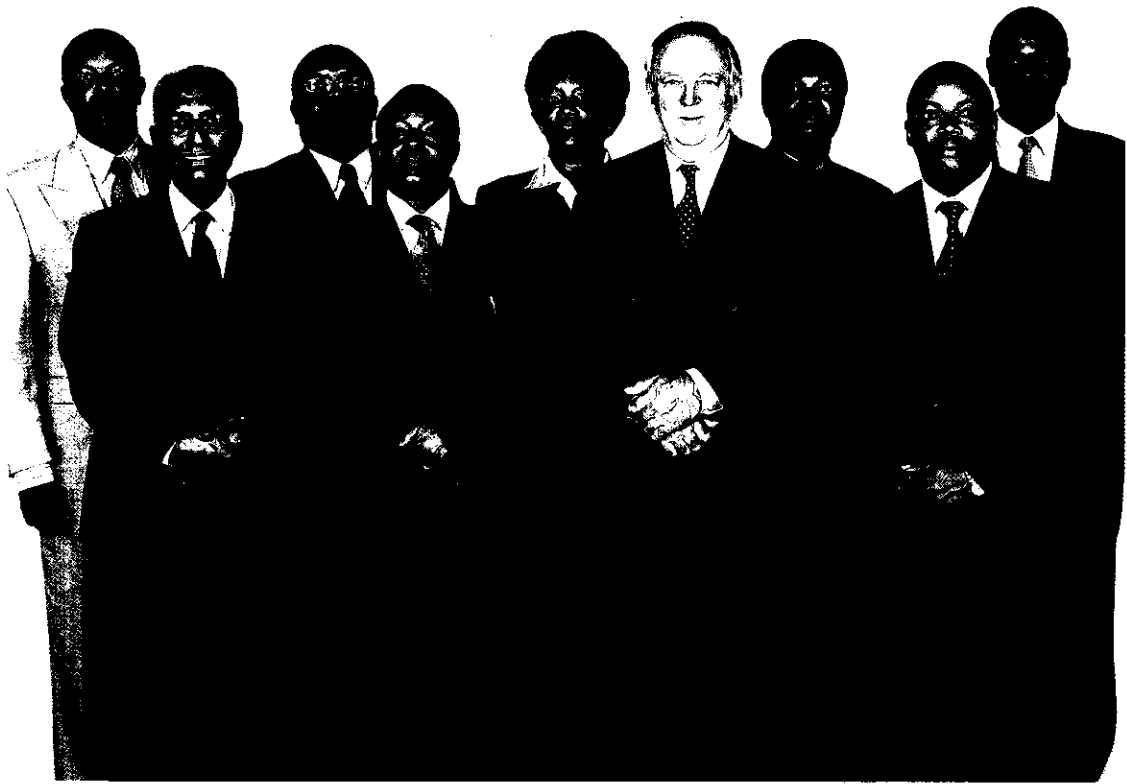


Anne A. W. Amisssabuor (Mrs)



Joseph Mburu Magari
The Permanent Secretary to the Treasury

MANAGEMENT



Front row from left to right

- | | | |
|---|-------------------|-------------------------|
| 1 | Ayoab Mughal | Director of Procurement |
| 2 | Julius Muia | Director of Finance |
| 3 | Peter Lewis-Jones | Managing Director |
| 4 | Charles Kamari | Director of Risk |

Back row from left to right

- | | | |
|---|----------------|-----------------------------------------|
| 1 | Ken Kinyua | Director of Business Development |
| 2 | James Dchami | Director of Operations |
| 3 | Rose Simani | Director of Human Resources |
| 4 | David Irungu | General Manager, Kenya Building Society |
| 5 | Patrick Mbabuh | Director of Internal Audit |

MEMBERS OF THE BOARD PROFILE

Kung'u Gatabaki

Mr. Gatabaki joined CDC in 1974 following brief stints at FIRESTONE EAST AFRICA (1969) Ltd and Nation Newspaper Group. His career over the last 30 years has been with CDC (formerly Commonwealth Development Corporation) where he has acquired wide experience in project finance, portfolio management and corporate board business. He is currently an Investment Principal with Actis (formerly CDC), Kenya Office, and a Director of various Company boards.

Mr. Gatabaki read economics and project finance at Legon and Bradford Universities. He is 54 years old, married with four grown up kids.

Peter J W Lewis – Jones

Was appointed Managing Director from 1st March 2001. Mr. Lewis-Jones was previously the Managing Director of Stanbic Bank in Kenya and Chairman of the Local Advisory Board of the Eastern Africa Association. 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 Amissabour (Mrs)

LLB, LLM

Was appointed as a Director in 1995. Member of International Bar Association (IBA) Section on Business Law which includes Banking Law, Section on Legal Practice and on Human Rights. Member of the Private Sector Corporate Governance Trust (PSCGT): Good Corporate Governance.

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 Lagos.

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, Johnsons Wax, Van Leer, Kenchic, Kenya Ear Foundation and Jamii Bara Trust.

Resigned from the Board in February 2004.

Joseph Mbui Magari

MA (Econ)

Took up the position after appointment as the PS Treasury on 3rd January 2003. He has previously served in many capacities at the Department of Regional Economic Expansion (DREE) Ottawa, Canada, Ministry of Economic Planning and Community Affairs, EPZ, Ministry of Agriculture and The World Bank. He has also worked as a Consultant for the Eastern & Southern Africa Initiative on Debt and Reserves Management (ESAIDARM) in Harare, Zimbabwe.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 38th Annual General Meeting of the Company will be held at the **Jambo Conference Centre, Safari Park Hotel, off Thika Road, Nairobi on Friday 9 July 2004 at 11.00am** to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2003 together with the Chairman's, the Directors' and Auditors' Reports thereon.
4. To elect Directors:
 - a. Mr Kung'u Gatabaki, who was appointed a Director on 23 October 2003, retires in accordance with Article 104 of the Company's Articles of Association and being eligible, offers himself for election.
 - b. Mr David R Ansell retires by rotation in terms of Article 105 of the Company's Articles of Association and, being eligible, offers himself for re-election.
5. To approve the Directors' Remuneration.
6. To note that the auditors, KPMG Kenya, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and Section 24(1) of the Banking Act (Cap 488) and to authorise the Directors to fix their remuneration

BY ORDER OF THE BOARD

CHUNGA ASSOCIATES

SECRETARIES

24 March 2004

P O Box 41968

NAIROBI GPO 00100

NE

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, PO Box 30088, Nairobi, GPO 00100, to arrive not later than 24 hours before the meeting or any adjournment thereof.

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

ILANI YA MKUTANO MKUU WA KILA MWAKA

ILANI INATOLEWA HAPA kuwa mkutano wa 38 wa kila mwaka wa kampuni utafanyika katika ktua cha mkutano cha Jamba, hoteli ya Safari Park, kanda ya barabara ya Thika siku ya Ijumaa tarehe 9 Julai mwaka 2004, saa tano asubuhi kuendesha shughuli zifuatazo:

1. Kuwasilisha wakala na kuanyesha kupatikana kwa akidi
2. Kusama ilani ya kuitisha mkutano
3. Kupokea na ikiidhinishwa, kukubali Taarifa za Fedha za mwaka uliamalizika tarehe 31 Desemba 2003 pamaa na Taarifa za Mwenyekiti, Wakurugenzi na za Wakurugenzi wa Hesabu.
4. Kuchagua Wakurugenzi
 - a) Bw. Kung'u Gatabaki, aliyeteuliwa kuwa Mkurugenzi tarehe 23 Oktoba 2003 na anastaafu kulingana na kanuni ya 104 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitalea kuchaguliwa tena.
 - b) Bw. David R Ansell anastaafu kwa zamu kulingana na kanuni 105 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitalea kuchaguliwa tena.
5. Kupitisha malipa ya Wakurugenzi
6. Kufahamisha kuwa Wakurugenzi wa Hesabu, KPMG Kenya, wataendelea kushikilia afisi kulingana na sehemu 159(2) ya sheria za Kampuni (Ibara 486) na sehemu 24(1) za sheria za Benki (Ibara 488) na kuidhinisha Wakurugenzi kuamua malipa yaa.

KWA AMRI YA HALMASHAURI

CHUNGA ASSOCIATES

MAKATIBU

24 Machi 2004

S.L.P 41968

NAIROBI GPO 00100

Maelezo

Kwa mujibi wa kifunga 136(2) cha sheria za Masharti na Kanuni za Kampuni (Ibara 486) mwanachama wa kampuni mwenye haki ya kuhudhuria na kupiga kura katika mkutano huu ana haki ya kuchagua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Wakala sio lazima awe mwanachama.

Famu ya wakala imewekwa ndani na inafaa kurudishwa kwa Msajili, Housing Finance Company of Kenya, Rehani House, Kenyatta Avenue/Kainange Street, SLP 30088, Nairabi, GPO 00100, na ifike kwa muda usiopungua masaa ishirini na nne kabla ya mkutano au uaihirishwaji wake wawate.

Ikiwa anayeteua ni shirika au afisi ya Serikali, mbinu za kuteua wakala zitapeanwa kwa njia ziliza za haki au chini ya afisa au mwakilishaji aliyeidhinishwa na shirika hili au afisi ya Serikali.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI

Ladies & Gentlemen

Ladies and Gentlemen, I am pleased to present to you our Annual Report and Financial Statements for the year ended 31 December 2003.

Operating Environment

Overview:

The year under review ushered in a new Government in Kenya amidst an atmosphere of high expectations for reform and prosperity. As the new government settled down to pursue a reform and institutional transformation of the various arms of our society the stark realities of two decades of political intolerance, economic mismanagement and social decay became more evident. The early success stories in Government effort to reform and restructure the institutions, executive and judicial systems were frustrated by a re-emergence of prioritised political agenda and petty economic sabotage. Resilience is a notable hallmark of Kenyans who remain confident that a "working nation" will eventually emerge out of the ashes of the prevailing political impasse.

Economy:

I believe one of the most significant achievements of the new government after one year in office is the restoration of global donor and foreign partners' confidence in our development agenda. The resumption of budgetary support and commitment of new program funds portends lasting stability in our money markets whilst offering opportunities for the country to return to positive economic growth.

I am also pleased to note that the new government has pencilled in high priority an housing agenda in Kenya. We have indeed become members of the new National Housing Program which has been launched by the Ministry of Roads, Housing and Public Works to develop a workable solution to the Kenyan housing and mortgage finance challenges. Coupled with the government's commitment to the growth of diversified long-term money markets we can only see a multitude of opportunities for our business.



Mabibi na Mabwana,

Mabibi na Mabwana, ninafuraha kuwawasilishia ripati yetu ya kila mwaka na taarifa za kifedha za mwaka ulioisha tarehe 31 Desemba 2003

Mazingira ya utenda kazi

Maoni kwa Uchumi:

Mwaka tunaa-tafakari ulianzisha serikali mpya nchini Kenya katika hali ya matarajio mengi ya mabadilika na ufanisi. Vile Serikali mpya ilijithabiti kutekeleza marekebisha na mageuzi ya kitaasisi ya nyanja mbalimbali za jamii yetu, ukweli dhahiri wa miongo miwili ya siasa zisiza vumilivu, uongozi mbaya wa kiuchumi na uazo wa jamii ulikuwa

wazi zaidi. Hadithi za owali za ufaulu katika jitihada za Serikali kurekebisha na kuunda upya taasisi, mifumo ya kiserikali na kimahakama, zilipingwa kwa kuzuka upya kwa ajenda za kisiasa zilizapatiwa kipaumbele na hujuma za kiuchumi zisizakuwa na umuhimu. Uthabiti ni sifa bainifu inayotambulika ya Wakenya wanaobakia na imani kuwa "taifa la wafanyakazi" hatimaye litajitokeza kutaka katika pingamizi za kisiasa zilizopo.

Uchumi:

Ninaamini kwamba moja ya mafanikia muhimu kabisa ya Serikali mpya baada ya kushikilia afisi kwa mwaka ni kurejesha imani ya wafadhili wa kilimwengu na washiriki wa kigeni katika ajenda yetu ya maendeleo. Kuanzishwa tena kwa usaidizi wa bajeti na ahadi za kifedha za mipanga mipya zinabashiri uthabiti wa kudumu katika masako yetu ya fedha wakati ikitoa nafasi kwa nchi kurejea katika ukuaji halisi wa kiuchumi.

Pia nina furaha kutaja kuwa Serikali mpya imeweka kipaumbele kwenye ajenda ya makazi. Bila shaka tumekuwa wanachama wa mpanga wa kitaifa wa makazi ambao umeanzishwa na wizara ya barabara, makazi na kazi ya umma kutafuta suluhisha kwa changamata za Kikenya za makao na fedha za rehani. Pamoja na ahadi ya Serikali katika ukuaji wa masoko ya fedha anuwai ya muda mrefu twaweza tu kuona nafasi nyingi sana za biashara yetu.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI (Continued)

The Group:

Three years ago, we embarked on a visible change program and I am happy to report that these bold initiatives have started to bear fruit. You will have noted the re-branding of our Company that is physically portrayed by the new look corporate headquarters, Rehani house in Nairobi. This is an apt signal of the continuing improvement that we are pushing for our business and processes. The central theme of these changes is to make it easier, faster, friendlier and more worthwhile for our customers to come and do business with us. We take pride when we see many companies in Kenya re-branding themselves following our own success story.

We have also taken full advantage of technological advancements to improve our business processes. During the year, your Board commissioned an Information Communication and Technology project at a budgeted cost of Kshs 75 million. This investment in new technology has greatly enhanced our capacity and provided the opportunity to offer sophisticated and desirable customer service solutions. The new Equinox core banking system, as it is called in the business, went live in January this year and we are enjoying improved service delivery from its application.

Staff:

The challenge of increasing productivity and improving operational efficiency through the rationalization of Staffing, redesigning of the roles, structures and functions has received particular attention from your Board. An intensive job evaluation process was carried out during the year and the resulting action plan is under implementation. We hope this will result in further better management of our Staff and the related costs.

Your Board also recognizes that the performance of Staff is crucial to achieving business success in a highly competitive environment. In this regard comprehensive plans have been designed to continuously develop our Staff in order to realize their full potential and to secure a competitive advantage for your Company.

Financial Results:

The Company recorded a consecutive year of profits signalling sustained recovery from the difficulties we faced in the previous two years. Elsewhere in the body of this report, we have given some encouraging indicators of this improved performance.

This welcome development is the result of a combination of business improvement initiatives that your Board embarked on three years ago against the backdrop of a changed market place that posed new

Kundi:

Tulianzisha mpanga dhahiri wa mabadiliko miaka mitatu ilipita, na nina furaha kuwaarifu kuwa jitihada zetu za ujasiri zimeanza kuzalisha matunda. Bila shaka mumeona alama mpya ya kampuni yetu ambaya inaanyeshwa kwa nje na sura mpya ya makao makuu ya shirika, Rehani House yaliako Nairobi. Hii ni ishara ya kufaa ya maendeleo yanayazidi tunayotaka katika biashara na mamba yetu. Wazo muhimu la mabadiliko haya ni kurahisisha, kuharakisha, ya kirafiki na ya kufaa zaidi kwa wateja wetu kuja kufanya biashara nasi. Tunaona fahari tunapona makampuni mengi nchini Kenya yakibadilisha sura upya kufuatia kufaulu kwetu.

Pia tumejinufaisha kabisa na maendeleo ya kiteknolojia kuimarisha njia zetu za biashara. Katika mwaka, Halmashauri yenu ilianzisha mradi wa Mawasiliano ya Habari na Teknolojia kwa gharama iliyadiriwa ya Kshs milioni 75. Ukezaji huu wa teknolojia mpya umeendelea sana uwezo wetu na kutoa nafasi ya kutoa masuluhisho ya kisasa na ya kufaa ya huduma za mteja. Mfumo mpya wa maana wa benki wa Ikwinksi kama unavyaitwa katika biashara ulianza Januari mwaka huu na tunafaidi huduma zilizaimarishwa zinazatalewa kutakana na kutumika kwake.

Wafanyakazi:

Changamoto ya kuzidisha uzalishaji na kuimarisha ufanisi wa uendeshaji kupitia wafanyakazi, upangaji upya wa wafanyakazi kuondoa ufujaji, upangaji upya wa majukumu, miunda na shughuli zimechunguzwa kwa makini na Halmashauri yenu. Utathmini kazi wa makini ulifanywa katika mwaka na mpanga wa utendaji uliatokana na unatekelezwa. Tunataraji hili litasababisha usimamizi mzuri zaidi wa wafanyakazi wetu na gharama zinazahusiana.

Halmashauri yenu pia inatambua kuwa utenda kazi wa wafanyakazi ni muhimu kufanikisha ufaulu wa biashara katika mazingira yaliyo na ushindani mkubwa. Kufuatana na hili, mipango mipana imeundwa kuendelea kula uchaa wafanyakazi wetu ili kufikia uwezo wao kamili na kupata faida ya ushindani kwa kampuni yenu.

Matakea ya kifedha :

Kampuni ilirekodi mwaka mfululizo wa faida inayoashiria nafuu kutakana na matatizo yaliotukabili katika miaka miwili ilipita. Kwengineko katika sehemu nyingine ya ripoti hii, tumetoa viashirio vya utendaji huu ulioimarika. Tukio hili la kukaribishwa ni matokeo ya mchanganyiko wa ari ya maendeleo ya biashara ambaya Halmashauri yenu ilianzisha miaka mitatu ilipita dhidi ya mandhari ya saka linalabadilika lililotawa changamoto mpya kwa biashara yetu. Kushuka kulikoendelea kwa viwango vya riba vya hawala za Serikali katika mwaka kulifuatana na shinikizo la Serikali katika wasilisha

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEXITI (Continued)

challenges to our business. The persistent drop in Treasury Bill interest rates during the year was accompanied by government pressure in its budget presentation to have interest rates charged by financial institutions also lowered. We responded to this challenge by announcing a further lowering of our mortgage interest rates in August 2003. The effect of reduced mortgage interest rates and lower money markets rates was a reduction in gross interest income by 24%. This decline in earnings was, however, abated by a saving in the interest cost of public funds of 64% on account of better management of the liability side of the balance sheet. The net interest result after suspended interest was therefore a decline in interest earnings of Kshs 40 Millions.

The continued improvement in business processes saw a significant saving in Staff costs of KShs 77 Million. Additionally, the cost structure of the Company is also starting to benefit from the variety of initiatives already in place and the overall operating costs were lower than the preceding year 2002. We made tremendous effort to grow the Group's business during the year and this resulted in a growth in public deposits of Kshs 418 Millions compared with prior year. The improved liquidity enabled the Group to increase its investments in money markets as a strategy of widening the income base.

Turning to the mortgages, the net book decreased by KShs 570 Million during the year following concerted efforts to recover monies owed and rehabilitate customer accounts. The application of prudent lending policies, while seeking for ways to accommodate the changing financial needs of our customers, resulted in a controlled booking of new quality mortgages. We faced several delays in registration of titles and charges for loan processing due to restructuring within the Ministry of Lands.

In cognisance of the impact of non-performing debt on the profitability of the group, specific initiatives in addressing the matter continued to be pursued in earnest with resultant reduction in the level of required provisions on account of non-performing accounts. We continue to offer flexible and competitive solutions to customers who have been faced with difficulties in repaying their loans.

Our subsidiary Company, KBS, has been looking into developing our land bank by going into strategic unions and joint ventures where possible. With the new emphasis on housing as a national program and the interest we have faced from both local and international housing developers, our subsidiary Company, which has extensive experience and contacts in property development, is bound to find new lease of life and relevance. As the market has seen increased competition for provision of mortgage finance, we will use this Company to focus on the supply of housing and therefore boost our competitive advantage.

Iake la bajeti kutaka viwango vya riba vinavyotowza na taasisi za kifedha kupunguzwa. Tuliitikia changamata hii kwa kutangaza kupunguza zaidi viwango vyetu vya riba ya rehani Agosti 2003. Athari ya viwango vilivyopunguzwa vya riba ya rehani na viwango vya chini vya saka la fedha vilikuwa ni upungufu katika jumla ya mapata ya riba kwa asilimia 24. Upungufu huu katika mapata ijapakuwa ulisaidiwa na uwekaji akiba katika gharama ya riba ya fedha za umma kwa asilimia 64 kutakana na usimamizi mzuri wa upande wa dhima wa mizania. Kwa hivyo, matokea ya riba halisi baada ya kusimamisha riba, yalikuwa upungufu katika mapata ya riba kwa Kshs. Miliani 40.

Kuimarika kunakoendelea katika njia za biashara kulizalisha akiba ya maana ya Kshs Milioni 77 kutaka gharama za wafanyakazi. Zaidi ya haya, gharama ya muundo wa kampuni pia inaanza kufaidika kutokana na juhudi tofauti ambaza tayari zimeanzishwa na gharama ya jumla ya utendaji kazi zilikuwa chini kulika za mwaka uliopita wa 2002. Tulfanya jitihada kubwa sana kukuza biashara ya kampuni katika mwaka na hili lilisababisha kukua katika amana za umma kwa Kshs Milioni 418 ikilinganishwa na mwaka uliopita. Imarika hili la ukwasi liliwezesha kundi kuongeza uekezaji katika masako ya kifedha kama mkakati wa kupanua msingi wa mapato.

Tukiangalia rehani, deni halisi lilipungua kwa Kshs Milioni 570 katika mwaka kufuatia juhudi za pamoja za kupata tena pesa zinazadaiwa na kurudisha akaunti za wateja. Matumizi ya sera za busara za kukopesha hali zikitafutwa njia za kufadhili mahitaji ya kifedha yanayabadilika ya wateja wetu, yamesababisha kuagizwa kwa rehani za ubora mpya zilizodhibitiwa. Tulikabiliwa na ucheleweshaji kadha katika usajili wa hati za kumiliki na matipa ya utayarishaji wa kutoa mkapo kutokana na kuundwa upya kwa Wizara ya Ardhi.

Kutakana na uzingativu wa athari ya deni lisilolipwa katika faida ya kundi, jitihadi maalum katika kushughulikia jamba hili ziliendelea kufuatwa kwa bidii na matokeo ni upungufu katika kiwango cha kiasi kinachohitajika kutolewa kwenye hesabu ya akaunti zisizolipwa. Tunaendelea kutaa masuluhisho yanayaweza kubadilika kwa urahisi na ya kuvutia kwa wateja ambao wamekabiliwa na matatiza katika kulipa madeni yao.

KBS, kampuni yetu tanzu, imekuwa ikiangalia kupanua benki yetu ya ardhi kwa kuingia katika miungano muhimu na miradi ya pamoja inapawezekana. Kukiwa na msisitiza mpya kwenye makazi kama mpango wa kitaifa, na shauku tulioikabili kutaka kwa wote waendelezaji makaa nchini na wa kimataifa, kampuni yetu tanzu ambayo ina tajriba pana na mahusiano na watu katika uendelezi wa rasilimali haitakasa kupata nguvu mpya za maisha na umuhimu. Kwa vile soko limekabiliwa na mashindano yalioangezeka ya utaji fedha za rehani, tutatumia kampuni kulenga kwenye utaji wa makazi na hivyo kuongeza hali yetu bora ya ushindani.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI (Continued)

Market Competition:

I believe most of you will have noticed a trend in recent months where existing commercial banks have started offering mortgage products. Whilst we welcome competition in the mortgage business, our wide experience and 38 year track record as mortgage lenders gives us significant advantage and makes us that much more competitive and better prepared to serve the existing and potential mortgage customers. We continue to offer the lowest interest rates on mortgage loans. In this connection I am happy to announce that we introduced the new exciting 3Plan Mortgage Products in August 2003, which offered greater product and pricing variety whilst effectively reducing mortgage interest rates by up to 8.5% per annum. Also very popular with our customers is the new 'Good Payer Reward' where accounts properly repaid on schedule for 6 months w.e.f. 1st October 2003 would automatically enjoy a one-off 1% reduction in interest rate charged on their mortgages.

The expanded product range also includes a new Equity Release Product for persons wanting to raise money using their unencumbered developed property, and also some enhanced savings and deposits products paying competitive interest rates with increased access and flexibility. It is my conviction that we will weather the new competition from mainstream commercial banks in the mortgage business.

Board:

During the year we said farewell to Titus Naikuni, who left to join Kenya Airways as Group Chief Executive Officer and Michael Turner who resigned in order to rationalise his Directorships in East Africa. Early this year we also said farewell to Richard Kemali who stepped down as Chairman of the Company in compliance with CMA regulations on Multiple Chairmanships to quoted companies.

In their own ways these Directors steered the company with admirable skills and contributed immensely to the fortunes of your company through very difficult times. They untiringly showed vision and commitment in leading the Company through its re-branding process and establishing the framework for further development. We wish them well in their future endeavours.

Mr. Joseph Magari, PS Treasury rejoined the Board after a spell of some years. We welcome his valuable long experience. I also rejoined the Board in October after four years absence and the Board elected me as Chairman in February this year following the departure of Richard Kemali.

Mashindana ya Soko:

Ninaamini kuwa wengi wenu mutakuwa mumeana mwelekea katika miezi ya karibuni ambapo benki za biashara zilizapa zimeanza kutaa bidhaa za rehani. Wakati tukikaribisha mashindana katika biashara ya rehani, tajriba yetu pana na rekodi inayajidhihirisha ya miaka 38 kama wakapeshaji wa rehani inatupa hali bora muhimu na kutufanya kuwa washindani zaidi na tulia tayari zaidi kutumikia wateja wa rehani waliapa na watakaokuwa wateja. Tunaendelea kutaa viwango vya chini kabisa vya riba kwenye mikapa ya rehani. Katika muktadha huu, nina furaha kutangaza kuwa tulianzisha mipango 3 mpya ya bidhaa za kuvutia za rehani mwezi Agosti 2003, ambayo ilitaa bidhaa zaidi za bei tafauti, wakati zikipunguza kwa kufaidi viwango vya riba vya rehani kwa mpaka asilimia 8.5 kwa mwaka. Pia kilicha maarufu kwa wateja wetu ni 'zawadi mpya kwa mlipaji mzuri' ambapo akaunti zinazalipwa sawasawa kwa wakati kwa miezi sita kutakea tarehe 1 Oktoba 2003 zitafurahia moja kwa moja upunguzi wa asilimia 1 kwa mara moja katika kiwanga cha riba kinachatazwa kwenye rehani zao.

Upanuzi wa bidhaa anuwai pia unajumlisha bidhaa ya kutaa hisa zisizadumu kwa watu wanaotaka kukusanya pesa wakitumia rasilimali yao iliaendelezwa na isiowalemea, na pia bidhaa za akiba na amana zilizoangeweza zinazalipa viwango vya riba vya kuvutia na zinazoweza kufikiwa na kubadilika kwa urahisi. Ni imani yangu kuwa tutaupiku ushindani mpya kutaka kwa benki za kawaida za biashara katika biashara ya rehani.

Halmashauri:

Katika mwaka tulimuaga Titus Naikuni aliyeandaka kujiunga na shirika la ndege la Kenya kama afisa mkuu mtendaji wa kundi na Michael Turner aliyejiuzulu ili kupanga upya bila ufujaji ukurugenzi wake Afrika Mashariki. Mapema mwaka huu pia tulimuaga Richard Kemali aliyejiuzulu kama mwenyekiti wa kampuni kufuatana na kanuni za CMA kuhusu uwenyekiti kadha kwa kampuni zinazaaradhesha.

Kwa njia zaa wenyewe, wakurugenzi hawa waliendesha kampuni kwa mbinu za kusifiwa na kuchangia pakubwa katika matakea ya kampuni yenu kupitia nyakati ngumu sana. Walionyesha mwangaza na kujitalea bila kuchoka katika kuangaza kampuni wakati wa mabadilika na kuanzisha mfuma wa maendeleo zaidi. Tunawaombea heri katika jitihada zaa za siku za usani.

Katibu wa Kudumu wa Hazina, Bw Joseph Magari, alijiunga tena na Halmashauri baada ya kipindi cha miaka kadhaa. Tunakaribisha tajriba yake nyingi ya thamani. Pia nilijiunga tena na Halmashauri mwezi Oktoba baada ya kutakuwepo kwa miaka minne na Halmashauri ilinichagua mimi kama Mwenyekiti mwezi wa Februari mwaka huu kufuatia kuandoka kwa Richard Kemali.

CMA-LIBRARY

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI: (Continued)

Future:

The financial results presented here indicate that the Company's effort at re-inventing itself so far have been fruitful. There still remains a challenge to improve the profitability through marketing, increased growth of new business, improved proactive management of the non-performing debt portfolio by converting them to active debt, implementing more aggressive cost reduction and cost control measures and rationalising asset allocations.

One of the challenges we face is to re-capitalise the Company to give it room for expansion. Under the Banking Act, there are prudential guidelines that govern the ratio of Capital to some of the business volumes like deposits, mortgages etc. Although we comply with these ratios, we will soon face limited capacity and, therefore, it is necessary for the Board and the Management to explore avenues for increased capitalisation, re-financing through debt instruments or seeking strategic partnerships to remove any limitations that we may face in achieving growth.

I thank you all for the continued support you have shown to the Company, the Staff for their dedication, the Board for their commitment and the public for their unwavering support. Together we have a mission to succeed and succeed we will.

Dividend:

Although I have enumerated good recovery efforts and results, in consideration of the challenges facing the Company, the Board does not recommend the payment of a dividend for the year. However shareholders will have noted the appreciation of their shareholding in the Nairobi Stock Exchange and it is my hope that all this will translate into enhanced yield for your shareholding.

Appreciation

This is my first statement as Chairman of your Company and I would like to thank the members of the Board for electing me. Special thanks to all of you shareholders for the dedication you have shown and loyalty to your Company.

Thank you and May God bless you

Kung'u Gatabaki

CHAIRMAN

Siku za Usoni:

Matakea ya kifedha yaliawasilishwa hapa yanaonyesha kuwa juhudi za kampuni kujivumbua upya kufikia lea zimezalisha matunda. Bado kuna changamata ya kuendeleza faida kupitia kujitangaza, kukua zaidi kwa biashara mpya, usimamizi tendaji mzuri wa aradha ya deni lisilalipwa kwa kuigeuza kuwa deni hai, kutekeleza hatua thabiti zaidi za kupunguza gharama na za udhibiti gharama na kuangalia ugawanyaji wa rasilimali bila ya ufujaji.

Moja ya changamata inayotukabili ni kugeuza upya mtaji wa kampuni kuipa nafasi ya kupanuka. Kuna miongozo ya busara chini ya Sheria ya Benki inayotawala uwiano wa mtaji kwa baadhi ya viwango vya biashara kama amana, rehani n.k. Ijapokuwa tunafuata wiano hizi, karibu tutakabiliwa na uwezo mchache na kwa hivya ni lazima Halmashauri na Usimamizi kutafuta njio za kuongeza mtaji, kupata fedha upya kwa hati za deni au kutafuta ushirikiano muhimu kuandaa vipingamizi vyavyote vinavyoweza kutukabili katika ukuaji.

Ninawashukuru nyote kwa usaidizi wenu munaendelea kuutoa kwa kampuni, wafanyakazi kwa kujitolea kwao kwa dhati, Halmashauri kwa msimoma wao na umma kwa usaidizi wao usiatetereko. Pamoja tuna wita wa kufaulu na tutafaulu.

Hisia:

Ijapokuwa nimeeleza juhudi za kupata nafuu na motokeo mazuri, kulingana na changamoto zinazakabili kampuni, Halmashauri haipendekezi malipo ya gowio kwa mwaka huu. Ijapokuwa, wanahisa bila shaka wameona angezeka la thamani ya hisa zao katika soko la Hisa la Nairobi na ni matumaini yangu kuwa haya yote yatageuka kuwa matunda kwa umiliki wenu wa hisa.

Shukrani:

Hii ni taarifa yangu ya kwanza kama Mwenyekiti wa Kampuni yenu na ningependa kuwashukuru wanachama wa kamati kwa kunichagua. Shukrani maalum kwenu nyote wanahisa kwa kujitolea kwenu kwa dhati na kwa uaminifu kwa kampuni.

Ahsante na Mungu awobariki

Kung'u Gatabaki

Mwenyekiti

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2003

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

1 Principal activities

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

The subsidiaries' principal activities are development and selling of residential houses and rent of residential houses.

2 Results and appropriations

	2003	2002
	Kshs'000	Restated Kshs'000
Gross income	2,273,615	3,090,093
Profit/(Loss) before taxation		
Housing Finance Company of Kenya Limited	112,387	94,710
Kenya Building Society Limited	(14,325)	(404)
First Permanent (East Africa) Limited	(51)	1,012
Group profit before taxation	98,011	95,318
Taxation	(46,164)	(39,467)
Profit after taxation	51,847	55,851
Revaluation surplus realised on disposal of investment property	10,229	5,524
Retained profit brought forward	245,990	184,615
	308,066	245,990
Dividends – proposed	-	-
Retained profit carried forward	308,066	245,990

3 Dividend

The Directors do not recommend the payment of a dividend (2002 – Nil).

4 Directors

The Directors who served during the year are set out on page 3.

5 Auditors

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

6 Approval of financial statements

The financial statements set out on pages 19 to 42 were approved at a meeting of Directors held on 24 March 2004.

BY ORDER OF THE BOARD

Chungo Associates

Company Secretary

24 March 2004

RAI YA WAKURUGENZI

YA MWAKA UNAOISHA TAREHE 31 DESEMBA 2003

Wakurugenzi wanafuraha kuwasilisha ripati yao pamoja na taarifa za hesabu zilizokaguliwa za mwaka uliaisha tarehe 31 Desemba 2003.

1 Shughuli Kuu

Kampuni imeidhinishwa kujiendesha kama taasisi ya rehani chini ya Sheria za Benki (Ibara 488) na hujaribu kuhimiza na kusaidia kuanzisha utumiaji wa akiba zote za kibinafsi na za umma katika kugharamia umilikaji wa nyumba.

2 Matokeo na Matumizi

	2003	2002
	Kshs'000	Yaliotajwa upya Kshs'000
Mapato ya Jumla	2,273,615	3,090,093
Faida/(Hasara) kabla ya ushuru		
Housing Finance Company of Kenya Ltd	112,387	94,710
Kenya Building Society Limited	(14,325)	(404)
First Permanent (East Africa) Limited	(51)	1,012
Faida ya Kundi Kabla Ushuru	98,011	95,318
Ushuru	(16,164)	(39,467)
Faida baada ya ushuru	81,847	55,851
Thamani ya ziada iliopatikana kutokana		
Na uzaji wa rasilimali	10,729	5,524
Faida iliyobakishwa na kuletwa mbele	245,990	184,615
Mgawo uliopendekezwa	308,066	245,990
Faida iliyobakia na kupelekwa mbele	308,066	245,990

3 Mgawa

Wakurugenzi hawakupendekeza mgao wowote (2002 – kapa)

4 Wakurugenzi

Wakurugenzi waliochikilia afisi katika mwaka wamearadheshwa katika ukurasa wa 3.

5 Wakaguzi wa Hesabu

Wakaguzi wa Hesabu, KPMG Kenya, wameonyesha nia yao ya kuendelea na wadhifa wao kuambatana na sehemu 159(2) ya Kanuni za Makampuni (Ibara 486) na kufuatana na sehemu 24(1) ya Kanuni za Benki.

6 Upitishaji wa Toarifa za Kifedha

Toarifa za Kifedha zilizoonyeshwa katika ukurasa wa 19 hadi 42 zilipitishwa katika mkutano wa wakurugenzi uliafanyika 24 Machi 2004.

KWA AMRI YA HALMASHAURI

CHUNGA ASSOCIATES

Katibu wa Kampuni

24 Machi 2004

CORPORATE GOVERNANCE

The Company is committed to the standards of Corporate Governance. The following disclosures aim at emphasizing this commitment.

1 Role of the Board

The Board is responsible for drawing and implementing strategies for the long-term success of the Company. Continuous performance measurement is the key towards ensuring that shareholders' value is maximized. In so doing the Board holds regular meetings to discuss performance and chart the way forward for the Company. Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

2 Composition of the board

The Board is composed of five non-executive Directors in addition to the Chairman, Mr. Peter Lewis-Jones is the Managing Director. All the non-executive Directors are considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the Company.

3 Re-election and resignation of Directors

All the Directors are required to submit themselves for re-election every three years. The Managing Director's performance is measured continuously in line with the Company's newly implemented performance management framework. Any impending resignation of Directors and the underlying circumstances are disclosed in the annual report.

Several changes took place in the Board of Directors during the year. Mr Titus Naikuni accepted an appointment at Kenya Airways as the Group Chief Executive Officer and subsequently resigned from the Board in October 2003. Mr Michael Turner resigned from the Board in the month of August 2003 in order to rationalise his Directorships in East Africa. He was replaced by Kung'u Gatabaki. Following the formation of the new government, Mr Joseph Magari was named Permanent Secretary, Treasury and as a result sits on the Board. Mr Richard Kemoli stepped down as Chairman in February 2004 and also resigned from the Board. This was done to comply with the CMA regulations on multiple Chairmanships to quoted companies. Mr Kung'u Gatabaki was elected Chairman of the company replacing Mr Richard Kemali on 24th February 2004.

4 Board audit committee

This is composed of four non-executive Directors. It is responsible for assisting the Board to discharge its corporate governance responsibilities as follows:

- * Relationship with and independence with the external auditors;
- * Reliability and appropriateness of the disclosures in the financial statements and other external financial communication;
- * Implementation of an effective business risk management framework;
- * Ensuring compliance with internal controls;

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

- * Risk Monitoring Committee
- * Rescheduling Committee
- * Lending Committee
- * Asset and Liability Committee
- * Human Resources Committee
- * Remuneration and Nomination Committee

The board appoints other committees as and when the necessity arises.

5 Internal audit function

The Company has a fully operational internal audit function that is led by a senior member of staff. The function is responsible for evaluating business and operating risks and internal controls put in place to mitigate the risks. It is also responsible for supervising documentation and reviews of the Company policies and procedures.

(Continued)

6 Communication with shareholders

The Company is committed to:

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

Information is distributed to the shareholders through an annual report and press notices following the release of quarterly and annual results. Press releases are also produced whenever there are significant developments to report on.

7 Non-executive Directors

All the non-executive Directors have continued to receive Director's fees as prescribed in the last general meeting and no additional benefits or allowances have been given to the Directors. The aggregate amount of Director's fees is disclosed in Note 9 to the financial statements.

8 Shareholding of the Company

	Name of the Shareholder	No of shares	%age shareholding
1	CDC Group plc	35,000,000	30%
2	National Social Security Fund	12,961,901	11%
3	Government of Kenya	8,422,850	7%
4	Namura Nominees Ltd – A/C JMM	4,848,357	4%
5	The Mbaru Security Company Ltd	3,605,706	3%
6	Barclays Kenya Nominees Ltd – A/C 9230	2,570,000	2%
7	Apollo Insurance Company Limited	692,408	1%
8	Kimani John Kibunga	631,869	1%
9	Insurance Company of East Africa Ltd – Life Fund	600,000	1%
10	Kibutu George Nganga	450,445	1%

9 Breakdown of the shareholding of the Company by size of shareholding

Shareholder (Number of shares)	No of shareholders	No of shares held	%age shareholding
Below 500	5,512	2,284,791	1.99%
501-5,000	14,600	25,114,341	21.84%
5,001-10,000	950	6,224,047	5.41%
10,001-100,000	287	7,287,048	6.34%
100,001-1,000,000	28	6,680,959	5.80%
Over 1,000,000	6	67,408,814	58.62%
TOTAL	21,383	115,000,000	100

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the group and the Company as at the end of each financial year and of the operating results of the group for that year. It also requires the Directors to ensure that 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 financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and the group 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.

Kung'u Gatabaki)
David R Ansell) Directors
Peter Lewis-Jones)
24 March 2004

TAARIFA YA JUKUMU LA WAKURUGENZI

Sheria za kampuni huwataka wakurugenzi kutayarisha taarifa za fedha za kila mwaka kwa njia ambayo itaonyesha kwa ukweli na bila upendelea hali ya shughuli za kampuni na kundi za kila mwaka na matakeo ya kundi ya mwaka huo. Sheria hii pia inawahitaji wakurugenzi kuhakikisha kuwa kundi na kampuni hiya wanaweka na kuhifadhi habari ya taarifa za hesabu zilizo sahihi na kamili zinazoonyesha picha ya kweli kuhusu shughuli za kundi na kampuni. Vile vile ni jukumu la kulinda mali ya kundi.

Wakurugenzi wanakubali jukumu la taarifa za fedha za mwisho wa mwaka ambazo zimetayarishwa kwa kutumia sera za kitaalam za uhasibu ambazo zinawingia mkana na uamuzi uliasawa ukilingana na viwango vya kimataifa vya uhasibu vilivyotangazwa wazi na Halmashauri ya Viwango vya Kimataifa vya Uhasibu na kukubaliana na mahitaji ya Sheria za Makampuni. Wakurugenzi wanaonelea kuwa uhasibu wameonyesha picha ya kweli na isiyokuwa na upendeleo ya hali ya kifedha ya kampuni na kundi na matakeo ya shughuli zake.

Wakurugenzi vile vile wanakubali jukumu la kuweka taarifa za uhasibu ambazo zinaweza kutegemewa sana katika utayarishaji wa taarifa za fedha na mifumo ya usimamizi wa matumizi ya fedha za kindani.

Hakuna jamba ambalo wakurugenzi wameonelea huenda likatitiza shughuli za kibiashara za kampuni zetu. Na ni wazi kuwa shughuli zetu zitaendelea vyema kwa miezi kumi na miwili ijaya kuanzia siku ya utajiri taarifa hii.

Kung'u Gatabaki)
David R Ansell) Wakurugenzi
Peter Lewis-Jones)
24 Machi 2004

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF HDUSING FINANCE COMPANY
OF KENYA LIMITED

We have audited the financial statements set out on pages 19 to 42 for the year ended 31 December 2003. 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. The balance sheet of the Company is in agreement with the books of account.

We report to you as the Directors and
Members of the Company.

As stated on page 17, 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.

Our opinion is:

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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper books of accounts have been kept and the financial statements give a true and fair view of the state of the financial position of the Company and the group at 31 December 2003 and of the group's operating results and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which gives disclosures concerning the future operations and restructuring of the Company.

KPMG KENYA
CERTIFIED PUBLIC ACCOUNTANTS
PO BOX 40612
NAIROBI
24 March 2004

REPORT OF THE WA HESABU

KWA WANACHAMA WA HDUSING FINANCE COMPANY
OF KENYA LIMITED

Tumekagua taarifa za kifedha zilizoka katika ukurasa wa 19 hadi 42 za mwaka ulioisha Desemba 31, 2003. Tumepewa habari na maelezo yote ambayo kwa kadri ya ujuzi na imani yetu yalihitajika kwa minajili ya ukaguzi wetu na kutaa msingi wa kutasha kwa maoni yetu. Taarifa za fedha za Kampuni zinakubaliana na vitabu vya hesabu.

Wajibu wa Wakurugenzi wa Wakurugenzi
wa Hesabu za Kampuni.

Kama ilivyoielezwa katika ukurasa wa 17, Wakurugenzi wanawajibika na matayarisho ya Taarifa za Fedha ambazo zinataa mandhari ya ukweli bila kupendelea ya hali ya shughuli za Kampuni na za kundi na za matakeo ya utendaji wa kundi. Wajibu wetu ni kutaa maoni huru kuhusu taarifa za fedha kufuatana na ukaguzi wetu na kuwajulisha maoni yetu.

Ukaguzi wetu:

Tulifanya ukaguzi wetu kuambatana na Viwango vya Ukaguzi vya Kimataifa. Viwango hivyo vinahitaji kwamba tupange na kutekeleza ukaguzi wetu na tupate thibitisho linalofaa kwamba hesabu hazina upatofu. Ukaguzi huwa ni pamoja na uchunguzi kwa namna ya majaribio ya ushahidi unaozunguza mkono idadi iliyoelezwa kwenye arifa za fedha. Pia huwa na makadirio ya sera za uhasibu zinazotumika na makisio muhimu yaliyotanywa na Wakurugenzi, pamoja na tathmini ya uwasilishaji kwa jumla ya taarifa za fedha. Tunaamini kuwa ukaguzi wetu unatoa msingi wa kutasha kwa maoni yetu.

Kwa:

Kwa maoni yetu vitabu vya hesabu vimetunzwa vyema na taarifa za fedha zinaonyesha kweli na bila upendeleo hali ya mamba ya kifedha ya kundi na kampuni kufikia Desemba 31, 2003 na za matakeo ya utendaji na mapata halisi ya fedha za kundi kwa mwaka ulioisha hapa na kulingana na Viwango vya Kimataifa vya Uhasibu vilivyotangazwa wazi na Halmashauri ya Viwango vya Kimataifa vya Uhasibu na kukubaliana na mahitaji ya Sheria za Makampuni.

Bila ya kupambanua mawazo yetu, tunavuta nadhari kwenye tanbihi 2 ya taarifa za kifedha inayotoa maelezo kuhusu utenda kazi wa siku za usoni na kuundwa upya kwa kampuni.

KPMG KENYA
KAMPUNI YA WAHASIBU
S.L.P 40612
NAIROBI
24 Machi 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
	Note	KShs'000	Restated KShs'000
INTEREST INCOME	5	2,037,417	2,675,097
INTEREST EXPENSE	6	(401,203)	(623,933)
NET INTEREST INCOME		1,636,214	2,051,164
IMPAIRMENT LOSSES ON MORTGAGE ADVANCES	15(b)	(1,018,976)	(1,394,014)
NET INTEREST INCOME AFTER IMPAIRMENT			
LOSSES ON MORTGAGE ADVANCES TO CUSTOMERS		617,238	657,150
NON INTEREST INCOME	7	236,198	414,996
NON INTEREST EXPENSES	8	(755,425)	(976,828)
PROFIT BEFORE TAXATION	9	98,011	95,318
TAXATION	10	(46,164)	(39,467)
NET PROFIT AFTER TAX		51,847	55,851
BASIC EARNINGS PER SHARE	11	KShs 0.45	KShs 0.49
DIVIDEND PER SHARE	12	-	-

The notes set out on pages 24 to 42 form an integral part of these financial statements.

AT 31 DECEMBER 2003

	Note	2002 KShs'000
ASSETS		
Cash and bank balances	13(a)	255,510
Placement with other banks	13(b)	352,473
Investment in Government Securities	14	1,272,627
Mortgage advances to customers	15(a)	7,668,961
Other assets	18	290,602
Housing Development Projects	19	78,410
Investment properties	20	15,000
Property and equipment	21(a)	240,663
Prepaid operating lease rentals	22	61,082
Deferred tax	23(a)	132,131
Taxation		77,758
Defined benefit asset	26	-
TOTAL ASSETS		10,445,217
LIABILITIES		
Customers' deposits	24	9,001,875
Other liabilities	25	300,081
Defined benefit liability	26	22,281
Dividends - payable		96,293
		9,420,530
SHAREHOLDERS' EQUITY (Page 23)		
Share capital	27	575,000
Reserves		382,353
Shareholders' income notes and loans	28	67,334
		1,024,687
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,445,217

The financial statements set out on pages 19 to 42 were approved by the Board of Directors on 24 March 2004 and were signed on its behalf by:

Kung'u Gatabaki)
 David R Ansell) Directors
 Peter Lewis-Jones)
 Chunga Associates Company Secretary

The notes set out on pages 24 to 42 form an integral part of these financial statements.

COMPANY BALANCE SHEET

AT 31 DECEMBER 2003

	Note	2003 KShs'000	2002 KShs'000
ASSETS			
Cash and bank balances	13(a)	214,899	250,258
Placement with other banks	13(b)	752,128	352,473
Investment in Government Securities	14	1,775,707	1,272,627
Mortgage advances to customers	15(a)	7,099,014	7,668,961
Investment in subsidiaries	16	55,020	55,020
Dividend receivable		15,000	15,000
Amounts due from subsidiary	17(a)	101,689	74,375
Other assets	18	421,442	284,809
Property and equipment	21(b)	228,355	240,605
Prepaid operating lease rentals	22	3,933	48,375
Deferred tax	23(b)	38,323	88,235
Taxation		57,134	57,134
Defined benefit asset	26	19,884	-
TOTAL ASSETS		10,782,528	10,407,872
LIABILITIES			
Customers' deposits	24	9,421,100	9,045,446
Amounts due to subsidiary	17(b)	24,666	9,974
Other liabilities	25	177,142	216,442
Defined benefit liability	26		22,281
Dividends - payable		96,293	96,293
		9,719,201	9,390,436
SHAREHOLDERS' EQUITY (Page 23)			
Share capital	27	575,000	575,000
Reserves		437,577	375,102
Shareholders' income notes and loans	28	50,750	67,334
		1,063,327	1,017,436
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,782,528	10,407,872

The financial statements set on pages 19 to 42 were approved by the Board of Directors on 24 March 2004 and were signed on its behalf by:

Kung'u Gatabaki)
David R Ansell) Directors
Peter Lewis-Jones)
Chunga Associates Company Secretary

The notes set out on pages 24 to 42 form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2002 Ksh'000
Net cash inflow/(outflow) from operating activities	29(a)	(919,378)
INVESTING ACTIVITIES		
Purchase of equipment		(24,261)
Proceeds from disposal of investment property		10,000
Proceeds from sale of prepaid operating lease rentals		12,925
Proceeds from sale of equipment		1,929
Net cash inflow/(outflow) from investing activities		593
FINANCING ACTIVITIES		
Dividend paid		-
Shareholders' loan repaid		(16,584)
Net cash outflow from financing activities		(16,584)
Net increase/(decrease) in cash and cash equivalents	29(b)	(935,369)

The notes set out on pages 24 to 42 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital Kshs'000	Revaluation reserve Kshs'000	Share premium Kshs'000	Dividends proposed Kshs'000	Retained profits Kshs'000	Total Kshs'000
At 1 January 2002	575,000	116,182	25,705	-	184,615	901,502
Revaluation surplus realised on disposal of investment property	-	(5,524)	-	-	5,524	-
Profit after tax	-	-	-	-	55,851	55,851
At 1 January 2003	575,000	110,658	25,705	-	245,990	957,353
Revaluation surplus realised on disposal of investment property	-	(10,229)	-	-	10,229	-
Profit after tax	-	-	-	-	51,847	51,847
At 31 December 2003	575,000	100,429	25,705	-	308,066	1,009,200

The notes set out on pages 24 to 42 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

At 1 January 2002	575,000	100,429	25,705	-	193,792	894,926
Net profit for the year	-	-	-	-	55,176	55,176
At 1 January 2003	575,000	100,429	25,705	-	248,968	950,102
Net profit for the year	-	-	-	-	62,475	62,475
At 31 December 2003	575,000	100,429	25,705	-	311,443	1,012,577

The notes set out on pages 24 to 42 form an integral part of these financial statements.

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FOR THE YEAR ENDED 31 DECEMBER 2003

1

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

(a)

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention.

(b)

The consolidated financial statements comprise the financial statements of the parent Company and its subsidiaries made up to 31 December 2003. A listing of the subsidiaries is set out on page 32 (Note 16).

(c)

Income is recognised in the period in which it is earned.

(d)

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

Specific provision for impairment losses is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of the mortgage loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

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 any such portfolio.

When a mortgage advance is deemed uncollectable, it is written off against the related provision for impairment losses. Subsequent recoveries of advances that have been written off are credited to the income statement.

(e)

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)

Items of freehold 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 annual rates of depreciation used are:

* Freehold land	Nil
* Buildings	2% or over the period of the lease
* Office equipment, fixtures, fittings & motor vehicles	5% - 20%

(g)

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(h) Retirement benefits obligations

The group operates a funded defined benefit plan for substantially all employees. The group's net obligation is calculated by estimating the amount of future benefits due to employees in return for their service in current and prior periods. The fair value of plan assets is deducted to obtain the net obligation. The calculation is carried out by an independent actuary based on the projected unit credit method.

Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs, and the present value of any future refunds from the plan; or reduction in future contributions to the plan. Actuarial gains and losses are charged to the profit and loss account over the average remaining working lives of employees participating in the scheme.

(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.

(i) Cash and cash equivalents

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

(k) Comparatives - restatement

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

(l) 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 in the profit and loss account.

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.

TO THE FINANCIAL STATEMENTS (Continued)

(iv) **Valuation and 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.

(m) **Impairment**

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss recognised immediately in the profit and loss account.

(n) **Segment information**

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

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

(o) **Dividends**

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

2.

A significant portion of the Company's mortgage portfolio is non-performing whilst interest margins have declined considerably in the face of a low interest-rate regime. Additionally, further growth in business volumes is constrained by the existing level of capital pursuant to the Banking Act and the Central Bank of Kenya Prudential Guidelines. Furthermore, the current licence does not allow significant diversification of the Company's income sources. As a result, the Company's ability to make adequate profits and protect and enhance its capital position is dependant upon continued efforts on recoveries of non-performing mortgages, growth in performing mortgages, injection of capital and other restructuring measures.

In addition to the above, impairment losses continue to be made on the basis of a provisioning model which has been approved by Central Bank of Kenya for use in these financial statements. However, it is expected that compliance with Central Bank of Kenya Regulation on Risk Classifications for Loans and Advances and Provisioning for Bad and Doubtful Loans and Advances may be required by 31st December 2004.

In view of the above, the Directors are pursuing various initiatives in conjunction with the shareholders. Based on the foregoing, the Directors consider it appropriate to prepare these financial statements on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

The Central Bank of Kenya (Amendment) Act, 2000 received assent on 6th August 2001. Subsequent to that date the Kenya Bankers Association filed a constitutional application at the High Court of Kenya. The Court delivered its Judgment on 24th January 2002.

A Decree to confirm the Judgment was extracted on 22nd February 2002 and subsequently the Attorney General filed an application to have the Decree varied. A Consent Order to vary the Decree was granted, but was then challenged by the Central Bank of Kenya and the Kenya Bankers Association. The matter has not been determined to date and as such the Act continues to be inoperative.

The Directors, based on the legal advice from the Company's lawyers have interpreted this to mean that the Central Bank of Kenya (Amendment) Act, 2000 may be ultra vires the Constitution of Kenya. The financial statements have been prepared accordingly.

4. SEGMENT REPORTING

	Mortgage business	House sales	Other	Eliminations	Total 2003	Total 2002
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Gross revenue (external)	2,189,555	83,031	1,029	-	2,273,615	3,090,093
Segment profit/(loss) before tax	112,387	(14,325)	(51)	-	98,011	95,318
Taxation	(49,912)	3,748	-	-	(46,164)	(39,467)
Segment profit/(loss) after tax	62,475	(10,577)	(51)	-	51,847	55,851
Other information:						
Segment assets	10,782,527	155,288	24,918	(198,201)	10,764,533	10,445,217
Segment liabilities	9,719,200	128,183	363	(143,163)	9,704,583	9,420,530
Depreciation expense	26,710	54	-	-	26,764	30,769
Impaired assets written down	-	-	-	-	-	(2,541)
Capital expenditure	32,115	6,898	-	(6,898)	32,115	24,261

5. INTEREST INCOME

	2003	2002
	Ksh'000	Ksh'000
Advances to customers	1,916,654	2,491,023
Treasury bills	15,062	40,061
Treasury bonds	85,664	68,111
Placements with other banks	20,037	75,902
	<u>2,037,417</u>	<u>2,675,097</u>

6. INTEREST EXPENSE

	2003	2002
	Ksh'000	Ksh'000
Customer deposits	396,219	615,812
Interest on borrowed funds	4,984	8,121
	<u>401,203</u>	<u>623,933</u>

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(Continued)

7.

	2002
	Ksh'000
House sales	208,521
Fees and commission income	57,582
Rental income	20,872
Other operating income	123,644
Gain on sale of investment property, property and equipment and prepaid operating lease rentals	4,377
	414,996

8.

Cost of houses sold	182,983
Finance and administration costs attributed to completed projects	24,535
Salaries and employee benefits	439,444
Rental expenses	13,830
Deposit Protection Fund	14,194
General administration expenses	261,617
Other expenses	40,225
	976,828

The average number of employees engaged by the Company during the year was 259 (2002 – 295).

	2002
Management	134
Unionisable	117
Contractual	23
Temporary	21
Total	295

Included in salaries and employees benefits are contributions to the defined benefits retirement scheme for employees. During the year, the group made contributions of KShs 56,907,000 (2002 – KShs. 31,873,553).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. PROFIT BEFORE TAXATION

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

	2003 Ksh'000	2002 Ksh'000
Profit on sale of property and equipment, leasehold land and investment property	(2,250)	(4,377)
Directors' remuneration:		
- Fees	1,561	1,166
- Expenses	1,341	1,098
- As executives	24,493	18,952
Auditors' remuneration:		
- Current year	4,599	3,172
- Prior year (over)/under provision	(327)	118
Amortisation of prepaid operating lease rentals	626	696
Depreciation	26,870	30,769

10. TAXATION

Current tax at 30%	-	11
Under provision in previous years	99	-
	99	11
Deferred tax (Note 23(o))	46,065	39,456
	46,164	39,467

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

Accounting profit before tax	98,011	95,318
Tax at the applicable corporation tax rate of 30%	29,403	28,595
Tax effect of non-deductible costs and non-taxable income	16,761	10,872
	46,164	39,467

11. EARNINGS PER SHARE

The calculation of earnings per share is based on:

Net profit for the year attributable to shareholders	51,847	55,851
Number of ordinary shares in issue (in thousands)	115,000	115,000
Earnings per share	KShs 0.45	KShs 0.49

FINANCIAL STATEMENTS (Continued)

12. DIVIDEND PER SHARE

	2003	2002
	KSh'000	KSh'000
Dividends		-
Number of ordinary shares	115,000,000	115,000,000
Dividends per share	KShs 0.00	KShs. 0.00

13. CASH AND BANK BALANCES

	Group		Company	
	2003	2002	2003	2002
	KShs'000	KShs'000	KShs'000	KShs'000
Cash at hand	39,976	39,976	39,961	39,961
Current account balances	215,534	215,534	210,297	210,297
	<u>255,510</u>	<u>255,510</u>	<u>214,894</u>	<u>250,258</u>

14. PLACEMENTS WITH OTHER BANKS

	2003	2002
	KShs'000	KShs'000
Group and Company		
Due within 90 days	<u>352,128</u>	<u>352,473</u>

The weighted average effective interest rate on placement with other banks as at 31 December 2003 was 2.02% (2002 – 7.8%).

15. INVESTMENT IN GOVERNMENT SECURITIES

	2003	2002
	KShs'000	KShs'000
Group and Company		
Treasury bills due within 90 days	<u>321,765</u>	<u>321,765</u>
Treasury bonds due within 90 days	<u>85,095</u>	<u>85,095</u>
Treasury bonds due within 180 days	<u>5,679</u>	<u>5,679</u>
Treasury bonds due after 180 days	<u>860,088</u>	<u>860,088</u>
	<u>1,272,627</u>	<u>950,862</u>
	<u>1,272,627</u>	<u>1,272,627</u>

The weighted average effective interest rate on government securities as at 31 December 2003 was 3.72% (2002 – 11.3%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. MORTGAGE ADVANCES TO CUSTOMERS

a) Group and Company	2003	2002
	KShs'000	KShs'000
Mortgages	11,634,758	13,355,714
Less: Impairment losses on mortgage advances	(4,535,744)	(5,686,753)
	<u>7,099,014</u>	<u>7,668,961</u>
Maturing:		
Within five years	2,810,653	2,664,375
Over five years to ten years	2,285,535	2,849,289
Over ten years to fifteen years	1,706,932	1,903,103
Over fifteen years	295,894	252,194
	<u>7,099,014</u>	<u>7,668,961</u>
b) Reserve for Impairment losses		
	Specific reserve	General reserve
	KShs'000	KShs'000
At 1 January 2002	4,557,317	43,902
Release in the year	(291,847)	(6,408)
Direct write offs	31,078	-
Made during the year	1,661,191	-
Net charge to P & L	1,400,422	(6,408)
Written off against balance	(308,480)	-
At 31 December 2002	5,649,259	37,494
Release in the year	(22,054)	-
Direct write offs in the year	21,766	-
Made during the year	1,024,499	(5,235)
Net charge to P & L	1,024,211	(5,235)
Written off against balance	(2,169,985)	-
At 31 December 2003	4,503,485	32,259

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2003 was 14.91% (2002 – 18.5%).

c) Non performing loans and advances

Loans and advances include an amount of KShs 3,635,187,000 (2002 – KShs 3,957,167,000) net of impairment losses, which have been classified as non-performing. The estimated realisable value of securities held against this net balance is KShs 5,439,284,000 (2002 – KShs. 5,438,065,004).

Balance Sheet as at 31 December 2003 (Continued)

16. INVESTMENT IN SUBSIDIARIES

	2003	2002
	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/(TO) SUBSIDIARIES

Company:

a) Due from:

Kenya Building Society Limited	101,689	74,375
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b) Due to:

First Permanent (East Africa) Limited	(74,666)	(9,974)
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18. OTHER ASSETS

	2003		2002	
	Group	Company	Group	Company
	KShs'000	KShs'000	KShs'000	KShs'000
Exchange loss recoverable from the Government of Kenya	210,411	210,411	210,411	210,411
Staff debtors	26,442	26,442	26,442	26,440
Prepayments	4,324	4,324	4,324	4,324
Deposits and rent receivable	8,577	8,577	8,577	8,356
Other receivables	40,848	35,278	40,848	35,278
	<u>427,140</u>	<u>421,442</u>	<u>290,602</u>	<u>284,809</u>

19. HOUSING DEVELOPMENT PROJECTS

	2003	2002
	KShs'000	KShs'000
Group:		
Housing projects		
Kamarack Housing Projects	18,125	76,414
Mambasa Housing Projects	-	1,996
	<u>18,125</u>	<u>78,410</u>

Commitments in respect of these projects, authorised but not paid as at 31 December 2003 amounted to KShs NIL (2002 – KShs 310,000).

Company: Nil

20. INVESTMENT PROPERTIES

	KShs'000
At 1 January 2003	15,000
Disposals	(15,000)
At 31 December 2003	<u>-</u>

Investment properties in 2002 comprised 2 residential buildings owned by a subsidiary Company – First Permanent (East Africa) Limited.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. PROPERTY AND EQUIPMENT

a) Group:

	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2003	9,000	174,881	344,814	528,695
Additions	-	2,348	29,767	32,115
Disposals	(2,000)	(9,000)	(13,506)	(24,506)
At 31 December 2003	7,000	168,229	361,075	536,304
At cost	-	10,229	361,075	371,304
At valuation	7,000	158,000	-	165,000
Depreciation:				
At 1 January 2003	-	8,100	279,932	288,032
Charge for the year	-	2,305	24,459	26,764
Disposals	-	(396)	(13,047)	(13,443)
At 31 December 2003	-	10,009	291,344	301,353
Net book value:				
At 31 December 2003	7,000	158,220	69,727	234,951
At 31 December 2002	9,000	166,781	64,882	240,663

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

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

	2003 KShs 000	2002 KShs '000
Freehold land	206	206
Buildings	60,351	69,308

Included in property and equipment are assets with a gross value of KShs 185,072,698. (2002 – KShs 166,746,114) which are fully depreciated and still in use. Such assets would have attracted a national depreciation of KShs 31,455,371. (2002 – KShs 28,626,088).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. PROPERTY AND EQUIPMENT (Continued)

b) Company:

	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2003	9,000	172,877	339,003	520,880
Additions	-	2,348	29,767	32,115
Disposals	(2,000)	(15,698)	(13,061)	(30,759)
At 31 December 2003	7,000	159,527	355,709	522,236
At cost	-	1,527	355,709	357,236
At valuation	7,000	158,000	-	165,000
Depreciation:				
At 1 January 2003	-	6,114	274,161	280,275
Charge for the year	-	2,290	24,420	26,710
Disposals	-	(502)	(12,602)	(13,104)
At 31 December 2003	-	7,902	285,979	293,881
Net book value:				
At 31 December 2003	7,000	151,625	69,730	228,355
At 31 December 2002	9,000	166,763	64,882	240,605

The Company's land and buildings were professionally valued by the Group's valuer on an open market basis on 31 December 2000. The resulting deficit was debited to revaluation reserve.

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

	2003 KShs '000	2002 KShs '000
Freehold land	7,000	206
Buildings	151,625	69,308

Included in property and equipment are assets with a gross value of KShs 177,378,394 (2002 – KShs 160,120,118) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 30,232,131. (2002 – KShs 27,799,917).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. PREPAID OPERATING LEASE RENTALS

	2003		2002	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At 1 January	68,442	53,573	80,599	53,573
Disposals in the year	(3,184)	(48,716)	(9,392)	-
Impaired property written off	-	-	(2,765)	-
	<u>65,258</u>	<u>4,857</u>	<u>68,442</u>	<u>53,573</u>
Amortisation:				
At 1 January	7,360	5,198	7,767	4,655
Charge for the year	626	498	696	543
Disposals	(1,086)	(4,772)	(879)	-
On impaired property	-	-	(224)	-
	<u>6,900</u>	<u>924</u>	<u>7,360</u>	<u>5,198</u>
At 31 December	<u>58,358</u>	<u>3,933</u>	<u>61,082</u>	<u>48,375</u>

As at 31 December 2003 the unexpired lease periods ranged from 69 years to 91 years.

23. DEFERRED TAX ASSET

a) Group

Movements in deferred tax asset are as follows:

	At 31 December 2002 KShs '000	Recognised in income KShs'000	At 31 December 2003 KShs'000
Arising from:			
Plant and equipment	(9,101)	1,053	(8,048)
Other general provisions	(4,743)	241	(4,502)
General provision on mortgages	(11,249)	1,502	(9,747)
Defined benefit asset	-	5,965	5,965
Tax losses carried forward	(107,038)	37,304	(69,734)
	<u>(132,131)</u>	<u>46,065</u>	<u>(86,066)</u>

b) Company

Arising from:

Plant and equipment	(8,806)	1,014	(7,792)
Other general provisions	(4,550)	361	(4,189)
General provision on mortgages	(11,249)	1,571	(9,678)
Defined benefit asset	-	5,965	5,965
Tax losses carried forward	(63,630)	41,001	(22,629)
	<u>(88,235)</u>	<u>49,912</u>	<u>(38,323)</u>

TO THE FINANCIAL STATEMENTS (Continued)

24. DEPOSITS

	2002	
	Group	Company
	KShs'000	KShs'000
Government and parastatals:		
Payable within 90 days	566,543	566,543
Payable after 90 days and within one year	-	-
Payable after one year	1,408,642	1,408,642
Private sector and individuals:		
Payable within 90 days	5,817,542	5,861,113
Payable after 90 days and within one year	252,110	252,110
Payable after one year	957,038	957,038
	9,001,875	9,045,466

- a) Included in customers' deposits is KShs 1,824,829 (2002 – KShs 43,571,000) due to a subsidiary, Kenya Building Society Limited.
b) The weighted average effective interest rate on customer deposits as at 31 December 2003 was 4.42% (2002 – 5.7%).

25. OTHER LIABILITIES

	2002	
	Group	Company
	KShs'000	KShs'000
The Government of Kenya - exchange risk assumption fees	16,386	16,386
Interest payable on the Government of Kenya Income Notes	23,028	23,028
House sales deposits	22,810	-
Land sale deposit	-	-
Project costs accruals	56,005	-
Withholding tax payable	19,293	19,293
Provision for withholding tax	27,852	27,852
Un-cleared bankers orders	1,903	1,903
Initial mortgage deposit account	4,382	4,382
Other liabilities	128,422	123,598
	300,081	216,442

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. RETIREMENT BENEFITS OBLIGATIONS

Group and Company

At the year end the defined benefit (asset)/liability is specified as follows:

	2003 KShs'000	2002 KShs'000
Present value of funded obligations	239,655	425,090
Fair value of scheme assets	(278,682)	(388,510)
Net (over)/under funding in the scheme	(39,027)	36,580
Unrecognised actuarial gain/(loss)	19,143	(14,299)
Net (asset)/liability in the balance sheet	(19,884)	22,281

Movements in the net (asset)/liability recognised in the balance sheet are as follows:

Net liability at 1 January	22,281	-
Net expense recognised in the income statement	14,742	-
Employer contributions	(56,907)	-
Net asset in the balance sheet at 31 December	(19,884)	-

The expense recognised in the income statement is as follows:

Current service costs	14,774	-
Interest on obligation	18,467	-
Expected return on plan assets	(18,499)	-
Total expense included in administration expenses	14,742	-

Discount rate (p.a.)	9%	9%
Expected return on scheme assets (p.a.)	9%	9%
Future salary increases (p.a.)	7%	7%
Future pension increases (p.a.)	0%	0%

27. SHARE CAPITAL

Group and Company:

Authorised, issued and fully paid

115,000,000 Ordinary Shares of KShs. 5.00 each	575,000	575,000
------------------------------------------------	---------	---------

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. SHAREHOLDERS' INCOME NOTES AND LOANS

Group and Company:

	2003	2002
	KShs'000	KShs'000
Government of Kenya - Income Notes	50,750	50,750
Commonwealth Development Corporation (CDC) (1988 to 2003) long-term loan	61,970	61,970
	112,720	112,720
Less: Unrealised exchange differences recoverable from the Government of Kenya under a Risk Assumption Agreement	(45,386)	(45,386)
	<u>50,750</u>	<u>67,334</u>

The Government of Kenya - Income Notes carry no redemption date.

29. NOTES TO THE CASH FLOW STATEMENT

a) Recancellation of operating profit to net cash flows from operating activities

Group profit before taxation	95,318	95,318
Depreciation	30,769	30,769
(Profit)/Loss on sale of equipment	1,035	1,035
(Profit) on sale of investment property and prepaid operating lease rentals	(5,412)	(5,412)
Increase/(Decrease) in customer deposits	(1,256,592)	(1,256,592)
Net movement in mortgage advances to customers	662,332	662,332
Investment in Government securities	(519,665)	(519,665)
Increase in other assets	(49,409)	(49,409)
Decrease in other liabilities	(63,070)	(63,070)
Movement in Defined Benefits obligations	11,140	11,140
Decrease in housing projects	168,955	168,955
Write off of irrecoverable income tax	2,203	2,203
Impaired assets written down	2,541	2,541
Amortisation of prepaid operating lease rentals	696	696
	407,708	(919,159)
Tax paid	(219)	(219)
Net cash inflow/(outflow) from operating activities	<u>407,708</u>	<u>(919,378)</u>

b) Analyses of cash and cash equivalents

	2003	2002	Change in the year
	KShs'000	KShs'000	KShs'000
Cash in hand and bank	215,301	255,510	(40,209)
Balances due from banking institutions	752,128	352,473	399,655
Investment in government securities	351,739	321,765	29,974
	<u>1,319,168</u>	<u>929,748</u>	<u>389,420</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. CONTINGENT LIABILITIES

- a) The Company is the defendant in a law suit claiming damages for breach of contract.
- b) As at 31 December 2003, the Company had issued guarantees in the ordinary course of business to third parties amounting to KShs 6.9 million.

31. MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs 239,487,000 (2002 – KShs 675,855,000) are analysed below:

	2003	2002
	KShs'000	KShs'000
Commitment in principle but not authorised for payment	98,330	550,718
Authorised but not paid	141,157	125,137
	<u>239,487</u>	<u>675,855</u>

32. CAPITAL COMMITMENTS

Group and Company

Authorised but not contracted

	5,569	65,768
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33. ASSETS PLEDGED AS SECURITY

As at 31 December 2003 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 as follows:

	2003	2002
	KShs'000	KShs'000
At 1 January	173,975	206,339
Loans advanced during the year	27,376	33,197
Reclassified third party loans	(14,786)	(40,468)
Loans repayments received	(34,095)	(25,093)
At 31 December	<u>152,470</u>	<u>173,975</u>

The related interest income in 2003 was KShs 9,468,191 (2002 – KShs 13,881,347).

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 measurement 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets						
Cash and bank balances	44,845	170,456	-	-	-	215,301
Deposits and balances due from banking institutions	-	752,128	-	-	-	752,128
Investment in Government securities	-	544,641	221,066	540,000	470,000	1,775,707
Mortgage advances to customers	-	286,238	276,091	2,248,324	4,288,361	7,099,014
Other assets	-	-	125,776	32,492	269,072	427,340
Prepaid lease rentals	-	-	-	-	58,358	58,358
Housing development projects	-	-	-	18,125	-	18,125
Investment properties	-	-	-	-	-	-
Property and equipment	-	-	-	-	234,951	234,951
Deferred tax	-	-	-	-	86,066	86,066
Taxation	-	-	-	-	77,659	77,659
Retirement benefit asset	-	-	-	-	19,884	19,884
Total	44,845	1,753,463	622,933	2,838,941	5,504,351	10,764,533
Liabilities, shareholders' funds, loans and income notes						
Customer deposits	1,719,360	4,263,446	914,600	2,191,428	330,441	9,419,275
Other liabilities	-	134,734	9,227	-	45,054	189,015
Retirement benefits obligations	-	-	-	-	-	-
Dividends payable	-	-	-	-	96,293	96,293
Share capital and reserves	-	-	-	-	1,009,200	1,009,200
Shareholders' income notes	-	-	-	-	50,750	50,750
Total	1,719,360	4,398,180	923,827	2,191,428	1,531,738	10,764,533
Net liquidity gap	(1,674,515)	(2,644,717)	(300,894)	647,513	3,972,613	-

FINANCIAL STATEMENTS (Continued)

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 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
Assets								
Cash and bank balances	0.96%	44,845	170,456	-	-	-	-	215,301
Deposits and balances due from banking institutions	2.02%	-	752,128	-	-	-	-	752,128
Investment in Government securities	3.72%	-	616,041	149,666	540,000	470,000	-	1,775,707
Mortgage advances to customers	14.91%	-	286,238	276,091	2,248,324	4,288,361	-	7,099,014
Other assets	-	-	-	-	-	-	427,340	427,340
Prepaid lease rentals	-	-	-	-	-	-	58,358	58,358
Housing development projects	-	-	-	-	-	-	18,125	18,125
Investment properties	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	234,951	234,951
Deferred tax	-	-	-	-	-	-	86,066	86,066
Toxation	-	-	-	-	-	-	77,659	77,659
Retirement benefit asset	-	-	-	-	-	-	19,884	19,884
Total assets		44,845	1,824,863	425,757	2,788,324	4,758,361	922,383	10,764,533
Liabilities, shareholders' funds, loans and income notes								
Customers deposits	4.42%	1,719,360	4,263,446	914,600	2,191,428	330,441	-	9,419,275
Other liabilities	-	-	-	-	-	-	189,015	189,015
Retirement benefits obligations	-	-	-	-	-	-	-	-
Dividends payable	-	-	-	-	-	-	96,293	96,293
Share capital and reserves	-	-	-	-	-	-	1,009,200	1,009,200
Shareholders' income notes and loans	-	-	-	-	-	-	50,750	50,750
Total liabilities and equity		1,719,360	4,263,446	914,600	2,191,428	330,441	1,345,258	10,764,533
On balance sheet interest sensitivity gap								
		(1,674,515)	(2,438,583)	(488,843)	596,896	4,427,920	(422,875)	-

HOUSING FINANCE PRODUCTS

Since the re-branding of Housing Finance in March 2002, the Company has been making changes that are geared to improving the products and services offered to our customers. A wide range of initiatives and strategies were implemented in 2002 and still many more exciting new improved features and benefits for our customers are expected in the coming year.

Housing Finance has focused the Marketing and PR theme to be centered around the concepts of

- 1 FLEXIBILITY in ways of working with customers and
- 2 Improved PRODUCT appeal and delivery.

The Company currently offers the following range of savings and loan products:

1 SAVINGS PRODUCTS

Housing Finance has developed a whole range of retail products aimed at different sections of the saving public, but all delivering competitive rates of return.

(a) TREASURE ACCOUNT

This account is designed to allow parents and/or guardians to put money aside for their children. The account allows funds to grow into a sum that cushions parents/guardians from the growing cost of education and also provide children with a good start in life. The account offers several benefits that makes children proud of their savings.

(b) JUHUDI SAVINGS ACCOUNT

This account is designed for individuals who want to use it for receiving their salaries and other payments. The account is only available for individuals.

(c) THE LENGA SAVINGS ACCOUNT

The Lenga Account is designed for the discerning saver who wants to see his or her account balance grow quickly. This is an account with relatively long term horizons.

(d) APEX SAVINGS ACCOUNT

This account is designed for institutional savers who want to put some funds away each month but also need access to the funds. The account is only available for registered businesses, institutions and self help groups.

(e) THE FLEXI ACCOUNT

This account is designed for regular savers who want to access their money if need arises. It is recommended for people who would wish to operate their accounts on a daily basis and at the same time earn interest. It is ideal for schools, professionals and businesses.

(f) SUBSCRIPTION BOND

This is designed for the individual saver who will not need to access his/her savings for the duration of the plan. The account operates like the ("Sacca") where fixed monthly contributions are made at specified intervals.

(g) THE TRUST RELIEF SAVINGS ACCOUNT

This account is designed for people who have come together for a common cause i.e. for medical accounts, education accounts, funerals and other interest groups.

(h) CALL ACCOUNT

This account is designed for short-term investments. It is for individuals and organisations with funds for specific projects, who wish to earn interest while awaiting utilisation of the funds.

(i) HOUSING DEVELOPMENT BONDS (HDB)

The HDB is an account that allows a fixed amount of money to be saved for a period of time. The account holder declares the amount to be saved as a lumpsum and fixed for an agreed period. It is designed for the individual saver who will not need to access the funds for the duration of the savings plan.

(j) FIXED TERM DEPOSIT (FTD)

This account is designed for both individuals and institutions that will not need to access their savings for the duration of the saving plan.

(k) HYBRID FIXED TERM DEPOSIT

This is designed for the individuals and institutions saver who will not need access to their savings for the duration of the savings plan, but would like to get access to the interest earned at specified intervals.

It is available for both individuals and corporate customers who want higher return on their investments.

(l) PROVIDENT FUND

This account is designed for funds contributed by the employers and employees.

It is for long-term funds that are placed by an employer. The Company gives a resolution to open the account and provides the names of employees and their contributions.

For further information about the savings products and how to open an account please visit the nearest Housing Finance Branch.

(Continued)

Housing Finance has developed the 3Plan Mortgage product range, which offers the following.

1

This is an over 10 to 15 year product more suited for the first time borrower. At this time in your life, you will have many other commitments and therefore a longer-term loan will make the payments easier on you. Because the loan term for this product is longer, the interest rate is higher.

2

This is an over 5 to 10 year product. As the term implies, your circumstances may put you in a situation where you want to and can pay the mortgage in a shorter period. The rates charged on this product are lower than those charged on the Start-up Plan.

3

This is a product for a loan term not exceeding 5 years. Many people find themselves in a position where they are able to repay a loan in a very short period and therefore want to be charged a rate that reflects the lower risk of such a commitment. The AcePlan allows you to take a short-term mortgage loan and also enjoy our lowest rate of interest.

Within each of the **3Plan Mortgage products**, we offer the following different types of loans to our borrowers:

This is a mortgage loan where the borrower will occupy the property. In addition to the competitive rates we offer, the tax laws of Kenya also offer relief on interest for Owner Occupied Residential mortgages (to be claimed by you through your own annual tax returns).

If you have already purchased a property and want to buy another to join your stable of investments, we are still on hand to offer you the next mortgage. And you don't necessarily have to have finished paying for the first (conditions will apply) to obtain this next mortgage.

As you repay your mortgage, you acquire equity in that property which can be availed to you for further property development or other reasons.

You may even have finished repaying the mortgage and want to use your equity in that property to improve it or another property you also have. We can lend you money on the value of your own equity. If your loan is still on going and you seek to top up the loan, subject to completing the correct documentation, we shall be happy to turn your partial equity to cash.

If you already own a plot and want to build a residential unit on it, we are on hand to give you a construction facility. For construction loans, we require that the relevant authorities approve the plans and there will be conditions relating to disbursement in accordance with our guidelines as spelt out in your individual offer letter.

It is the aspiration of many Kenyans to build their own homes. This will mean that one buys the land first. Depending on the location, we provide loans for plots subject to a maximum plot size and loan amount. The loans for plots are available only for a maximum tenure of two years, as the development of such plots must commence within a maximum of two years.

FOMU YA UAKILISHI



Ikiwa mchaguaji ni shirika au afisi ya Serikali uwakilishi unaamchagua wakala uwe kwenye muhuri wa kawaida au idhini ya afisaa au mwanasheria aliyeidhinishwa wa shirika hila au afisi ya Serikali.

Kwa: Msajili

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue/Koinange Street

S.L.P. 30088

00100 NAIROBI GPO.

Mimi/Sisi _____

wa _____

nikiwa/tukiwa mwanachama/wanachama wa HOUSING FINANCE COMPANY OF KENYA LIMITED hapa namchagua/twamchagua

wa _____

au kama siye _____

wa _____

kama wakala wangu/wetu kunipigia/kutupigia kura kwa niaba yangu/yetu katika mkutano wa 38 wa kila mwaka wa Kampuni utakaafanyika siku ya Ijumaa tarehe 9 Julai 2004 na kwenye uahirishwaji wake wawate.

Tarehe hii _____ siku ya _____ 2004

Itahamike:

- 1 Ikiwa mwanachama ni shirika, uwakilishi uwe kwenye muhuri wa kawaida au kwa idhini ya afisaa au mwanasheria aliyeidhinishwa.
- 2 Famu ya uwakilishi yafaa ijazwe na kurejeshwa sio baada ya masaa 24 kabla ya mkutano au uahirishwaji wake wowate.

PROXY FORM



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.

To: The Registrar

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue/Koinange Street

PO Box 30088

00100 NAIROBI GPO

I/We _____

of _____

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

of _____

or failing him _____

of _____

as my/our proxy to vote for me/us on my/our behalf at the 38th Annual General Meeting of the Company to be held on Friday 9 July 2004 and at any adjournment thereof.

Dated this _____ day of _____ 2004

- 1 In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.
- 2 The proxy form should be completed and returned not later than 24 hours before the meeting or any adjournment thereof.