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DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Kung'u Gatabaki

Chairman

Peter J W Lewis-Janes*

Managing Director

Anne A W Amissabuor (Mrs)

David R Ansell**

The Permanent Secretary to the Treasury

Paul B M Ngugi

Alternate to the Permanent Secretary to the Treasury

Naftali Mogere

Appointed 8 July 2004

Mary M'Mukindia (Mrs)

Appointed 26 October 2004

*British

**American

COMPANY SECRETARY

Fiona C. Fox

Chunga Associates

7th Floor, Rahimtulla Tower

Upper Hill

PO Box 41968

00100 Nairobi GPO

Walker Kontant

Hakika House

Bishops Road

PO Box 60680

00200 Nairobi City Square

REGISTERED OFFICE

Plot No. LR 209/9054

Rehani House

Kenyatta Avenue/Koinange Street

P.O. Box 30088

00100 Nairobi GPO

SHARE REGIS. REP.

Anne Matu, CPS(K)

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue/Koinange Street

P. O. Box 30088

00100 Nairobi GPO

BANKERS

Barclays Bank

Bardays Plaza

P.O. Box 46661

00100 Nairobi GPO

ATTORNEYS

KPMG Kenya

16th Floor, Lonrho House

Standard Street

P.O. Box 40612

00100 Nairobi GPO

COLLECTOR

Upper Hill Road

P.O. Box 30711

00100 Nairobi GPO

EXTERNAL LEGAL ADVISORS

Williamson and Shauri Moyo

Williamson House

4th Ngong Avenue

P.O. Box 40111

00100 Nairobi GPO

ADVISORS

Kenya Building Society Limited

First Permanent (EA) Limited

2007/0372

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. 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 2004	7,000	168,229	361,075	536,304
Additions	-	739	41,301	42,040
Disposals	-	(3,106)	(15,601)	(18,707)
At 31 December 2004	7,000	165,862	386,775	559,637
At cost	-	7,862	386,775	394,637
At valuation	7,000	158,000	-	165,000
Depreciation:				
At 1 January 2004	-	10,009	291,344	301,353
Charge for the year	-	2,237	24,882	27,119
Disposals	-	(271)	(10,950)	(11,221)
At 31 December 2004	-	11,975	305,276	317,251
Net book value:				
At 31 December 2004	7,000	153,887	81,499	242,386
At 31 December 2003	7,000	158,220	69,731	234,951

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:

	2004 KShs 000	2003 KShs '000
Freehold land	206	206
Buildings	55,311	60,351

Included in property and equipment are assets with a gross value of KShs 193,892,840. (2003 – KShs 177,378,394) which are fully depreciated and still in use. Such assets would have attracted a national depreciation of KShs 32,474,499. (2003 – KShs 30,232,131).

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Housing Finance Company of Kenya Limited
2002

Directors, Officers and Administration

DIRECTORS

Richard Kemoli Chairman
Peter J W Lewis-Jones* Managing Director
Anne A W Amissabuor (Mrs)
Titus T Naikuni
Michael A Turner*
David R Ansell**
The Permanent Secretary to the Treasury
Andrew K Okello Alternate to the Permanent Secretary to the Treasury,
resigned 9 December 2002
Paul B M Ngugi Alternate to the Permanent Secretary to the Treasury,
appointed 9 December 2002
*British **American

COMPANY SECRETARY

Chunga Associates
Rahimtulla Tower
P O Box 41968
Nairobi GPO 00100

Walker Kontos Advocates
5th Floor, Williamson House
4th Ngong Avenue
P O Box 60680
Nairobi City Square 00200

SHARE REGISTRAR

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

REGISTERED OFFICE

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

AUDITORS

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

2007/0376

BANKERS

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

PRINCIPAL LEGAL ADVISORS

Kaplan and Stratton Advocates
7th Floor, Queensway House
Kaunda Street
P O Box 40111
Nairobi GPO 00100

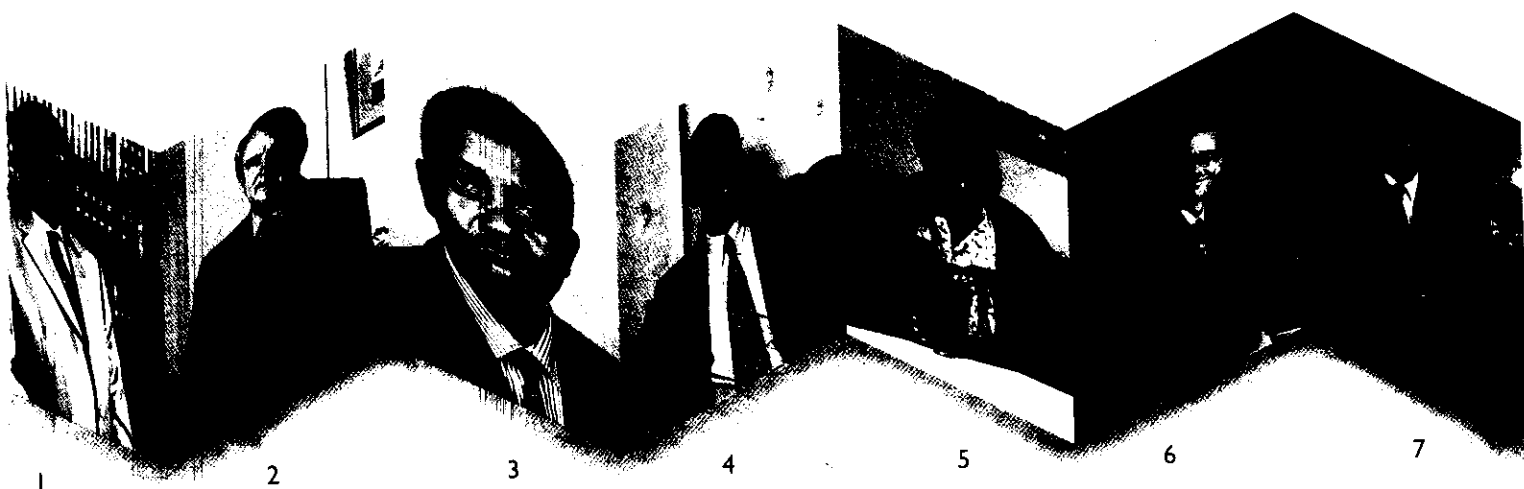
Citibank NA

Upper Hill Road
P O Box 30711
Nairobi GPO 00100

SUBSIDIARIES

Kenya Building Society Limited
First Permanent (EA) Limited

Board of Directors



- | | | |
|---|---------------------------|--|
| 1 | Richard Kemoli | <i>Chairman</i> |
| 2 | Peter J W Lewis-Jones | <i>Managing Director</i> |
| 3 | Joseph K Kinyua | <i>(The Permanent Secretary to the Treasury)</i> |
| 4 | Titus T Naikuni | |
| 5 | Anne A W Amissabuor (Mrs) | |
| 6 | Michael A Turner | |
| 7 | David R Ansell | |

Members of the Board Profiles

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 Bora Trust.

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.

Titus T Naikuni

BSc (Eng)

Was the Company's Chairman from May 1998 to December 1999 when he resigned. He was re-appointed as a Director in April 2000. Prior to being appointed as the Permanent Secretary, Ministry of Information, Transport and Communications between July 1999 and March 2001, Mr. Naikuni was Managing Director of Magadi Soda and Magadi Railway Company. Other Directorships include Brunner Mond (South Africa). Having initially resumed his previous role in Magadi, he has now been appointed Managing Director of Kenya Airways.

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.

Michael A Turner

BSc (Eng), FCA

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

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 Lome, Togo.

PS Treasury:

Mr. Mwangazi Mwachofi

01/01/2002 to 30/08/2002

Joseph Kanja Kinyua

MA (Econ)

Took up the position after appointment as the PS Treasury on 30th August 2002. He has served in many capacities at the Central Bank, IMF, Ministry of Finance and was a key manager of the 1996 – 1999 Policy ESAF supported GoK programme. He has presented several publications on economic and monetary policy, Public Finance and Econometrics. He is also a Member of the Advisory Committee of the African Economic Research Consortium (AERC).

Senior Management



Standing from left to right

- | | | |
|---|-------------------|---|
| 1 | Kevin Kinyanjui | Director of Information Technology |
| 2 | Peter Lewis-Jones | Managing Director |
| 3 | David Irungu | General Manager, Kenya Building Society |
| 4 | Patrick Mbabuh | Director of Internal Audit |
| 5 | Ken Kinyua | Director of Business Development |
| 6 | James Ochami | Director of Operations |

Sitting from left to right

- | | | |
|---|----------------|-----------------------------|
| 1 | Charles Kamari | Director of Risk |
| 2 | Rose Simani | Director of Human Resources |
| 3 | Julius Muia | Director of Finance |
| 4 | Ayoob Mughal | Director of Procurement |

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 37th Annual General Meeting of the Company will be held at the Jambo Conference Centre, Safari Park Hotel, off Thika Road on Tuesday 29 April 2003 at 11.00 am to conduct the following business:

- 1 To table the proxies and note the presence of a quorum.
- 2 To read the notice convening the meeting.
- 3 To approve the minutes of the 36th Annual General Meeting held on 29 April 2002.
- 4 To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2002 together with the Chairman's, the Directors' and Auditors' Reports thereon.
- 5 To elect Directors:
 - a Mrs AAW Amissabuor retires by rotation in terms of Article 77 of the Company's Articles of Association and, being eligible, offers herself for re-election.
 - b Mr R Kemoli retires by rotation in terms of Article 77 of the Company's Articles of Association and, being eligible, offers himself for re-election.
- 6 To approve the Directors' Remuneration.
- 7 To note that the auditors, 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.

SPECIAL BUSINESS

- 8 To consider and if thought fit, pass the following resolution as a Special Resolution:

"That the regulations contained in the printed document submitted to this meeting, and, for

the purpose of identification, signed by the Chairman hereof be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles thereof."

BY ORDER OF THE BOARD

CHUNGA ASSOCIATES

SECRETARIES

25 February 2003

P O Box 41968

NAIROBI GPO 00100

NB

In accordance with Section 136 (2) of the Companies Act (Cap 486) every member entitled to attend and vote at the above meeting is entitled to appoint a *proxy* to attend and vote on his behalf. A *proxy* need not be a member. A form of *proxy* is enclosed and should be returned to The Registrar, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue/Koinange Street, P O Box 30088, Nairobi GPO 00100, to arrive not later than 24 hours before the meeting or any adjournment thereof.

Ilani ya mkutano mkuu wa kila mwaka

ILANI INATOLEWA HAPA kuwa mkutano wa 37 wa kila mwaka wa kampuni utafanyika katika kituo cha mkutano cha Jambo, hoteli ya Safari Park, kando ya barabara ya Thika siku ya Jumanne tarehe 29 Aprili mwaka 2003, saa tano asubuhi kuendesha shughuli zifuatazo.

- 1 Kuwasilisha wakala na kuonyesha kupatikana kwa akidi.
 - 2 Kusoma ilani ya kuitisha mkutano.
 - 3 Kuidhinisha yaliyosemwa kwenye mkutano wa 36 wa kila mwaka uliofanyika tarehe 29 Aprili 2002
 - 4 Kupokea na ikiidhinishwa, kukubali Taarifa za Fedha za mwaka uliomalizikia tarehe 31 Desemba 2002 pamoja na Taarifa za Mwenyekiti, Wakurugenzi na za Wakaguzi wa Hesabu.
- S Kuchagua Wakurugenzi.
- a) Bi. A A W Amisabour anastaafu kwa zamu kulingana na kanuni ya 77 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
 - b) Bw. R Kemoli anastaafu kwa zamu kulingana na kanuni ya 77 ya Masharti na Kanuni za Kampuni na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
- 6 Kupitisha malipo ya Wakurugenzi.
 - 7 Kufahamisha kuwa wakurugenzi wa hesabu KPMG Kenya, wataendelea kushikilia afisi kulingana na sehemu 159(2) ya sheria za Benki ibara (488) na kuidhinisha wakurugenzi kuamua malipo yao.

SHUGULI MAALUM

- 8 Kufikiria na ikionekana sawa, kupitisha azimio lifuatalo kama azimio maalum:

“Kuwa masharti yaliyomo katika waraka uliochapishwa na uliowasilishwa katika mkutano huu, na kwa lengo la kutambulisha, uliotiwa sahihi na Mwenyekiti wa kuhusu hayo upitishwe na ukubaliwe kama Masharti na Kanuni za Kampuni kama kibadala cha na kuondoa Masharti na Kanuni zote zilizopo.”

KWA AMRIYA HALMASHAURI

CHUNGA ASSOCIATES

MAKATIBU

25 Februari 2003

S.L.P. 41968

NAIROBI GPO 00100

Maelezo

Kwa mujibu wa Kifungu 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 kwa niaba yake. Wakala si lazima awe mwanachama. Fomu ya wakala imewekwa ndani na inafaa kurudishwa kwa Msajili, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue/ Koinange Street, SLP 30088, Nairobi GPO 00100 na ifike kwa muda usiopungua masaa ishirini na nne kabla ya mkutano au uahirishwaji wake wowote.

Chairman's Statement

Ladies & Gentlemen

I am pleased to present to you our annual report and financial statements for the year ended 31st December 2002.

Results

After two years in which losses were reported the year 2002 saw a welcome turn around with a

The Chairman Richard Kemoli addresses staff at the unveiling of the New Corporate Identity.



group profit before tax of KShs.95.3 million. This improvement was achieved as a result of the continuing process of change which the company has been undergoing for the past two years. The re-branding exercise has created a bright new image which has been accompanied by extensive re-training of Staff members and a refocusing of business priorities. As a result the Company now enjoys a growing reputation for customer service and for seeking to provide sympathetic solutions for those mortgage borrowers who have experienced difficulties.

Taarifa ya Mwenyekiti

Mabibi na Mabwana,

Ninafuraha kuwasilisha kwenu ripoti yetu ya mwaka na taarifa za kifedha za mwaka unaoishia tarehe 31 Desemba 2002.

Matokeo

Baada ya miaka miwili ambayo kwamba hasara iliripotiwa mwaka 2002 ulionyesha badiliko lililokaribishwa la faida ya kundi kabla ya ushuru ya KShs milioni 95.3. Maendeleo haya yalipatikana kama matokeo ya mfuatano unaoendelea wa mabadiliko ambayo kampuni imekuwa ikipitia kwa miaka miwili iliopita. Zoezi la kubadilisha jina limeleta picha mpya nzuri ambayo imefuatwa na ufundishaji upya wa wafanyikazi na kulenga upya vipaumbele vya biashara. Na matokeo ni kuwa sasa Kampuni inafurahia sifa inayokua ya huduma kwa wateja na inatafuta kutoa masuluhisho ya huruma kwa wale wakopaji wa nyumba ambao wamekuwa na matatizo.

Mara zote kipindi cha mabadiliko kinaweza kuwa cha wasiwasi kwa wale wanaohusika. Sifa nyingi zinawastahili wafanyi kazi ambao wameyakaribisha na kuvumilia mfuatano wa mabadiliko kwa mtazamo wa kiujenzi. Ni kazi ngumu na kujitolea kwa wafanyi kazi ambako kumesababisha badiliko hili na ningependa kuwashukuru wote kwa utendaji wao bora sana na kujitolea kwao katika mwaka.

Ongezeko la asilimia 43 katika mapato ya riba halisi hasa ni kutokana na akiba kwenye gharama za riba. Gharama zisizo za riba ziliongezeka kwa asilimia 1.2 tu katika mwaka lakini kiasi kinachotolewa kwa hasara za rehani kilikuwa tena kikuu, kikiongezeka kutoka KShs. milioni 187

A period of change can always be unsettling for those involved. Immense credit is due to the members of Staff who have welcomed and endured the change process with a constructive attitude. It is the hard work and dedication of the Staff which has produced the turn around and I would like to thank them all for their excellent performance and commitment during the year.

The 43% increase in net interest income was largely due to savings on interest expenses. Non interest expenses rose by only 1.2% during the year but the provision for mortgage losses was again significant, rising from KShs.187 million in 2001 to KShs.243 million. This provisioning charge turned a small increase in gross mortgages into a reduction in the net mortgage book by 7.9% during the year.

Total income increased during the year by 30% while the total provisioning charge reduced by 11.7% to KShs. 1.394 billion.

Review of the Economy

There was marginal growth in GDP of 0.8% on an annualised basis against a budgeted figure of 1.8%. The persistent low level of economic activity generally was aggravated towards the end of the year by uncertainty over the outcome of the election process. The combination produced a difficult economic environment which led many mortgage customers to face severe financial difficulties.

Among the priorities of the new Government is a National Housing Policy and as a major participant the Company is playing a full part in the deliberations on the proposed Sessional Paper. There is confidence that improved economic conditions, and greater confidence in job security,

katika mwaka 2001 kuwa KShs. milioni 243. Malipo haya ya kiasi kinachotolewa yalibadilisha ongezeko kidogo katika jumla ya rehani kuwa upungufu katika kitabu cha rehani halisi kwa asilimia 7.9 katika mwaka.

Jumla ya mapato yaliongezeka katika mwaka kwa asilimia 30 wakati jumla ya malipo ya kiasi kinachotolewa ilipungua kwa asilimia 11.7 kuwa KShs. bilioni 1.394.



Former Thika Mayor Her Worship Mumbi Ng'aru officially opening the new Thika branch

Maelezo Ya Hali Ya Uchumi

Kulikuwa na ukuaji mdogo katika jumla ya pato la nchi kwa asilimia 0.8 kwenye msingi wa mwaka dhidi ya hesabu iliyokadiriwa ya asilimia 1.8. Kiwango kidogo cha shughuli za kiuchumi kinachoendelea kwa jumla kilizidi kupungua kufikia mwisho wa mwaka kutokana na kutokuwa na uhakika wa matokeo ya uchaguzi. Mchanganyo huu ulisababisha mazingira magumu ya kiuchumi yaliyosababisha wateja wengi wa rehani kukabiliwa na matatizo magumu ya kifedha.

Miongoni mwa vipaumbele vya serikali mpya ni sera ya kitaifa ya makao na kama mshiriki

will lead to a greater willingness on the part of borrowers to commit to long term obligations. Significant growth is anticipated in the housing market given that the Economic Review for 2002 points out that 76% of urban dwellers rent properties.

Inflation was rising towards the end of 2002. It is expected to remain below 5% but the greatest uncertainty is perhaps surrounding the price of oil given present political uncertainties in the

muhimu, kampuni inachukua nafasi kamili katika majadiliano ya karatasi ya kikao maalum inayopendekezwa. Kuna imani kuwa hali za kiuchumi zilizoimarika, na imani kuu katika uhakika wa kazi zitasababisha kwa upande wa wakopaji kuwa tayari kujitolea katika wajibu wa muda mrefu. Ukuaji mkubwa unatarajiwa katika soko la nyumba kutokana na mapato ya kiuchumi ya 2002 yanayoashiria kuwa asilimia 76 ya wakaazi wa mjini hukodisha makao.

Kupanda kwa gharama kulikuwa kwaongezeka kufikia mwisho wa 2002. Kunatarajiwa kubakia chini ya asilimia 5 lakini pengine utovu wa uhakika mkubwa unazingira bei ya mafuta kutokana na utovu wa uhakika wa kisiasa uliopo katika Mashariki ya Kati. Upungufu mkubwa na unaokua wa bajeti ya Serikali unaendelea kuathiri viwango vya riba. Ijapokuwa kukiwa na uwajibikaji ulioongezeka, udhibiti wa matumizi ya Serikali na ukusanyaji imara wa fedha inawezekana hatimaye kutarajia kupunguka kwa ukuaji wa mahitaji ya hazina ya kinyumbani ya Serikali.

Siku Za Usoni

Shughuli zetu kuu ni utoaji wa fedha za rehani kama sehemu ya wito wetu kusaidea Wakenya kuweka akiba na kununua nyumba zao wenyewe. Fedha zisizolingana na kugharamia zinaendelea kuwa tatizo katika soko hili. Ijapokuwa ukosefu wa rasilimali za muda mrefu haujaletae kuzuia kampuni kutoka kutekeleza wito wake. Kubadili hali hii tunaendelea kumakinika kwenye kuchangisha vyanzo vya fedha visivyokuwa vyepesi kubadilika na kutafuta njia na washiriki wa kimaendeleo kupata mikopo ya muda mrefu.

Nairobi staff presenting gifts and foodstuff to the Shangilia Mtoto wa Afrika home.



Middle East. The large and growing Government budget deficit continues to affect interest rates. However with enhanced accountability, control of Government spending and effective revenue collection, it is possible to anticipate an eventual reduction in the growth of Government domestic funding requirements.

The Future

Our core business will remain the provision of mortgage finance as part of our mission to help Kenyans save for and buy their own homes.

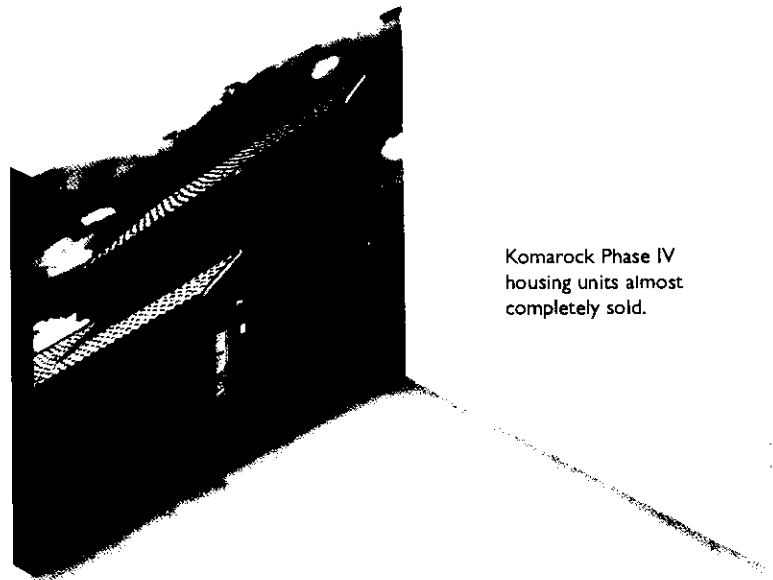
Mismatched funding continues to be an issue in this market. However a lack of long term resources has never been allowed to prevent the company from pursuing its mission. To counter this situation in part we continue to concentrate on raising less volatile sources of funds and to explore avenues with development partners for long term lending.

In the wake of generally lower interest rates prevailing in the market we were able to reduce our lending rate to owner occupiers to 18.5% p.a. with effect from 1st August 2002. We therefore remain the lowest cost lenders in the sector. There has been attention given in the press during the year to the subject of interest rates and charges generally. The breach of a contract, such as that which exists between borrowers and lenders, gives rise to an entitlement to damages. In the majority of cases problems are solved by mutual agreement. The Company is however on record that if necessary it will defend itself in court. However where customers are in default of their contractual obligations we continue to pursue a dual policy of working with those customers who have long standing arrears in order to find individual solutions, while making early contact with those who fall newly into arrears.

Priority continues to be given to improving service delivery and customer care. By means of both Staff training and the progressive refurbishment of our branch network we aim to look after customers in a timely and efficient manner within attractive premises.

Final negotiations are underway with the selected supplier of a new computer system following an exhaustive exercise to choose an appropriate

Dhidi ya viwango vidogo vya riba viliviopo katika soko kwa ujumla tuliweza kupunguza kiwango chetu cha kukopesha kwa wamiliki makao kuwa asilimia 18.5 kwa mwaka kutokea tarehe 1 Agosti 2002. Kwa hivyo tunabakia kuwa wakopeshaji kwa gharama ndogo kabisa katika sekta hii. Kumekuwa na uangalifu kuhusu swala la viwango vya riba na utozi kwa ujumla katika mwaka kwenye magazeti. Uvunjaji wa mkataba kama ule uliopo kati ya wakopaji na wakopeshaji husababisha haki ya fidia.



Komarock Phase IV housing units almost completely sold.

Katika kesi nyingi matatizo husuluhishwa kwa makubaliano ya pande mbili. Ijapokuwa kampuni ina kumbukumbu kuwa ikihitajika itajitetea kortini.

Ijapokuwa pale ambapo wateja wameshindwa kutimiza wajibu wao wa kimkataba tutaendelea kutekeleza sera ya uwili ya kufanya kazi na wateja hao ambao wana karisaji ya muda mrefu ili kutafuta masuluhisho ya kibinafsi, wakati huohuo kuwasiliana mapema na wale wapya wanaokuwa na karisaji.

Kipaumbele kinaendelea kuwekwa kwenye kuendeleza utoaji wa huduma na uangalizi wa

supplier able to meet the detailed specifications which were drawn up. Implementation of the new system is anticipated in the final quarter of 2003.

Housing Finance recognises and actively tries to help those Kenyans who have not been able to access our products directly, but who are still entitled to decent shelter. This fits in with our mission to house as many Kenyans as we can. To be able to keep their dreams of home ownership alive, we regularly make contributions to programmes that are intended to make their

wateja. Kupitia kwa ufunzaji wa wafanyikazi na ubadadilishi wa kimaendeleo wa mtandao wa matawi yetu, tunalenga kuwatunza wateja kwa wakati ufaao na kwa njia fanisi katika majengo yanayovutia.

Majadiliano ya mwisho yanafanywa na mtoaji aliyechaguliwa wa mfumo mpya wa tarakilishi kufuatia matumizi kamilifu kuchagua mtoaji afaaye anayeweza kutekeleza maainisho maalum yaliyotayarishwa. Utekelezi wa mfumo mpya unatarajiwa katika miezi mitatu ya mwisho wa mwaka 2003.

Housing Finance inatambua na inajaribu kimaksudi kusaidia wale Wakenya ambao hawajaweza kuzifikia bidhaa zetu moja kwa moja, lakini ambao bado wanastahili makao mazuri. Hii ni laiki na wajibu wetu kuwapa makao Wakenya wengi tunaoweza. Kuweza kuendelea kuwa na ndoto zao za kumiliki nyumba, mara kwa mara tunatoa mchango kwa mipango iliyonuliwa kufanya ujirani mahali pa usalama, furaha na faraja. Tunaanza na wadogo (Shangilia Mtoto wa Afrika) na pia hatusahau wazee (Helpage Kenya Ltd). Mipango hii imefaidika kutokana na michango ya kampuni hii na tunanuia kuendelea kutoa mchango wa kusaidia maisha ya wakenya hawa.

Kenya Building Society Ltd

Tukiwa tumefaulu kuuza karibu nyumba zote za hapo mbeleni, majadiliano sasa yameanza na washiriki wandamizi kwa ujenzi wa nyumba 550 zaidi katika Komarock awamu ya tano. Tutaendelea kufuata sera ya kutokubali kushughulikia miradi ya kimaendeleo kama hiyo pekee ila kutoa fedha za muda mrefu kwa kupitia rehani kwa wanaonunua nyumba hizi.

Housing Finance Nairobi Staff share a light moment with musician "Mighty King Kong" and Nairobi Mayor His Worship Joe Aketch at the Operation Smile Corporate Challenge.



neighbourhoods a place of safety, joy and comfort. We start with the young (Shangilia Mtoto wa Afrika) and we also don't forget the old (HelpAge Kenya). These programmes have benefited from contributions by this company and we intend to continue to make a positive contribution to the lives of these Kenyans.

Kenya Building Society Ltd.

Having successfully sold almost all of the previous housing stock available, discussions have now started with potential joint venture partners for the construction for a further 550 houses in the

Komarock Phase V. We will continue to follow the policy of not undertaking such development projects alone but of providing the long term end finance by the provision of mortgages to the house buyers.

People

I have already paid tribute to the contribution of our Staff during a period of continuing change. I also wish to thank our depositors and borrowers for their continued loyalty, support and confidence during a challenging year. We reaffirm our commitment to continue serving them to the best of our ability.

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

Dividend

Notwithstanding the welcome return to profit your Board does not recommend the payment of a dividend for the year.

Richard Kemoli

Chairman

25 February 2003

Watu

Tayari nishatoa shukrani kwa mchango wa wafanyikazi katika kipindi cha mabadiliko yanayoendelea. Pia ningependa kuwashukuru wawekaji akiba na wakopaji kwa uaminifu wao unaoendelea, usaidizi na imani katika mwaka wa majaribio. Tunawahakikishia tena kujitolea kwetu kuendelea kuwahudumia kwa mujibu wa uwezo wetu.



Ken Kinyua, Director of Business Development, Housing Finance presenting a donation to HelpAge Kenya's Vice Chairman Miss Margaret Kenyatta as Chief Executive Mr Ephraim Gathaiya looks on.

Mwisho ninachukua fursa hii kushukuru Halmashauri kwa huduma ya ukarimu na kujitolea katika mwaka.

Mgawo

Dhidi ya kupata faida kulikokaribishwa, Halmashauri yenu haipendekezi ulipaji wa mgawo wowote katika mwaka.

Richard Kemoli

Mwenyekiti

25 Febuari 2003

Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2002

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2002.

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' principle activities are development and selling of residential houses and rent of residential houses.

2 Results and appropriations

	2002	2001
	Kshs'000	Restated Kshs'000
Gross income	3,090,093	3,602,109
Profit/(Loss) before taxation		
Housing Finance Company of Kenya Limited	94,710	(257,302)
Kenya Building Society Limited	(404)	518
First Permanent (East Africa) Limited	1,012	1,019
Group profit/(loss) before taxation	95,318	(255,765)
Taxation	(39,467)	69,222
Profit /(Loss) after taxation	55,851	(186,543)
Revaluation surplus realised on disposal of investment property	5,524	-
Retained profit brought forward	184,615	371,158
	245,990	184,615
Dividends - proposed	-	-
Retained profit carried forward	245,990	184,615

3 Dividend

The Directors do not recommend the payment of a dividend (2001 - Nil).

4 Directors

The Directors who served during the year are set out on page 1.

5 Auditors

The auditors, KPMG Kenya, who changed their name from KPMG Peat Marwick, have indicated their willingness to continue in office in accordance with Section 159(2) of the 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 21 to 45 were approved at a meeting of Directors held on 25 February 2003.

BY ORDER OF THE BOARD

Chunga Associates
Company Secretary
25 February 2003

Ripoti ya Wakurugenzi

YA MWAKA UNAOISHA TAREHE 31 DESEMBA 2002

Wakurugenzi wanafuraha kuwasilisha ripoti yao pamoja na taarifa za hesabu zilizokaguliwa za mwaka ulioishia tarehe 31 Desemba 2002.

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

	2002	2001
	Kshs '000	Yaliotajwa upya Kshs '000
Mapato ya Jumla	3,090,093	3,602,109
Faida/(Hasara) kabla ya ushuru		
Housing Finance Company of Kenya Ltd	94,710	(257,302)
Kenya Building Society Limited	(404)	518
First Permanent (East Africa) Limited	1,012	1,019
Faida/(Hasara) ya Kundi		
Kabla Ushuru	95,318	(255,765)
Ushuru	(39,467)	69,222
Faida/(Hasara) baada ya ushuru	55,851	(186,543)
Thamani ya ziada iliopatikana kutokana		
Na uuzaji wa rasilimali	5,524	-
Faida iliobakishwa ilioletwa mbele	184,615	371,158
	245,990	184,615
Mgawo uliopendekezwa		-
Faida iliyobakia na kupelekwa mbele	245,990	184,615

3 Mgawo

Wakurugenzi hawakupendekeza mgao wowote (2001 – kapa)

4 Wakurugenzi

Wakurugenzi walioashikilia afisi katika mwaka wameorodheshwa katika ukurasa wa I.

5 Wakaguzi wa Hesabu

Wakaguzi wa Hesabu, KPMG Kenya, waliobadilisha jina lao kutoka KPMG Peat Marwick, 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 Taarifa za Kifedha

Taarifa za Kifedha zilizoonyeshwa katika ukurasa 21 hadi 45 zilipitishwa katika mkutano wa wakurugenzi uliofanyika 25 Februari 2003.

KWA AMRI YA HALMASHAURI

CHUNGA ASSOCIATES

Katibu wa Kampuni

25 Februari 2003

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 is employed on pensionable terms and his 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.

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

The Board appoints other committees as and when 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.

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 Directors' benefits and loans

All the Non-executive Directors have continued to receive Director's fees. The aggregate amount of Director's fees is disclosed in Note 9 to the financial statements.

8 Major shareholders as at 31 December 2002

Name	No of shares	% age shareholding
1 CDC Capital Partners	35,000,000	30.43%
2 National Social Security Fund	12,961,901	11.27%
3 Government of Kenya	8,422,850	7.32%
4 KCB staff Pension Fund Registered Trustee	3,600,000	3.13%
5 Nomura Nominees	3,550,000	3.10%
6 Barclays Kenya Nominees	2,570,000	2.23%
7 The Mbaru Securities Limited	1,303,730	1.13%
8 Insurance Company of East Africa Ltd	600,000	0.52%
9 Apollo Insurance Company Limited	592,408	0.51%
10 Kimani John Kibunga	577,694	0.50%

9 Distribution of shareholders as at 31 December 2002

Shareholder (Number of shares)	No of shareholders	No of shares held	%age shareholding
Below 500	5,515	2,292,908	1.99%
501-5,000	14,750	25,397,465	22.08%
5,001-10,000	940	6,143,320	5.34%
10,001-100,000	280	7,554,329	6.57%
100,001-1,000,000	23	6,203,497	5.39%
Over 1,000,000	7	67,408,481	58.62%
TOTAL	21,515	115,000,000	100 %

Statement of Directors' Responsibilities

The 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 judgements and estimates, in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board and in the manner required by the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the 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.

Richard Kemoli)
David R Ansell) Directors
Peter Lewis-Jones)
25 February 2003

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 upendeleo hali ya shughuli za kampuni na kundi za kila mwaka na matokeo ya kundi ya mwaka huo. Sheria hii pia inawahitaji wakurugenzi kuhakikisha kuwa kundi na kampuni hiyo wanaweka na kuhifadhi habari ya taarifa za hesabu zilizo sahihi na kamilifu zinazoonyesha picha ya kweli kuhusu shughuli za kundi na kampuni. Vile vile ni jukumu lao 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 zinaungwa mkono na uamuzi uliosawa 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 wahasibu wameonyesha picha ya kweli na isiyokuwa na upendeleo ya hali ya kifedha ya kampuni na kundi na matokeo 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 jambo ambalo wakurugenzi wameonelea huenda likatatiza shughuli za kibiashara za kampuni zetu. Na ni wazi kuwa shughuli zetu zitaendelea vyema kwa miezi kumi na miwili ijayo kuanzia siku ya utoaji taarifa hii.

Richard Kemoli)
David R Ansell) Wakurugenzi
Peter Lewis-Jones)
25 February 2003

Report of the Independent Auditors

TO THE MEMBERS OF HOUSING FINANCE
COMPANY OF KENYA LIMITED

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

Respective responsibilities of Directors and independent auditors

As stated on page 18, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company and the group, and of the operating results of the group. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an

assessment of the accounting policies used and significant estimates made by the Directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Company and the group at 31 December 2002 and of the group's operating results and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and comply with the requirements of the Companies Act.

KPMG KENYA

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 40612

NAIROBI GPO 00100

25 February 2003

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Ripoti ya Wakaguzi wa Hesabu

KWA WANACHAMA WA HOUSING FINANCE
COMPANY OF KENYA LIMITED

Tumekagua taarifa za kifedha zilizoko katika ukurasa 21 hadi 45 ambazo zimetayarishwa kuambatana na sera za uhasibu zilizoonyeshwa katika Maelezo I. Tumepewa habari na maelezo yote ambayo kwa kadri ya ujuzi na imani yetu yalihatijika kwa minaajili ya ukaguzi wetu na kutoa msingi wa kutosha kwa maoni yetu. Taarifa za fedha za Kampuni zinakubaliana na vitabu vya hesabu.

Wajibu wa Wakurugenzi na Wakaguzi wa Hesabu wa kibinafsi

Kama ilivyoielezwa katika ukurasa wa 18, Wakurugenzi wanawajibika na matayarisho ya Taarifa za Fedha ambazo zinatoa mandhari ya ukweli bila kupendelea ya hali ya shughuli za Kampuni na za kundi na za matokeo ya utendaji wa kundi. Wajibu wetu ni kutoa maoni huru kuhusu taarifa za fedha kufuatana na ukaguzi wetu na kuwajulisha maoni yetu.

Msingi wa Maoni

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 upotofu. Ukaguzi huwa ni pamoja na uchunguzi kwa namna ya majaribio ya ushahidi unaounga mkono idadi iliyoelezwa kwenye arifa za fedha. Pia huwa na makadirio ya sera za uhasibu zinazotumika na makisio muhimu yaliyofanywa na

Wakurugenzi, pamoja na tathmini ya uwasilishaji kwa jumla ya taarifa za fedha. Tunaamini kuwa ukaguzi wetu unatoa msingi wa kutosha kwa maoni yetu.

Maoni

Kwa maoni yetu vitabu vya hesabu vimetunzwa vyema na taarifa za fedha zinaonyesha kweli na bila upendeleo hali ya mambo ya kifedha ya kundi na kampuni kufikia Desemba 31, 2002 na za matokeo ya utendaji na mapato halisi ya fedha za kundi kwa mwaka ulioishia hapo 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.

KPMG KENYA

KAMPUNI YA WAHASIBU

S.L.P 40612

NAIROBI GPO 00100

25 Februari 2003

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2002

		2002	2001
	Note	KShs'000	Restated KShs'000
INTEREST INCOME	4	1,524,459	1,550,661
INTEREST EXPENSE	5	(623,933)	(921,961)
NET INTEREST INCOME		900,526	628,700
PROVISION FOR MORTGAGE LOSSES	15(b)	(243,376)	(186,610)
NET INTEREST INCOME AFTER PROVISION FOR LOSSES ON MORTGAGE ADVANCES TO CUSTOMERS		657,150	442,090
NON INTEREST INCOME	6	414,996	424,986
NON INTEREST EXPENSES	7	(976,828)	(965,075)
VOLUNTARY EARLY RETIREMENT EXPENSES	8	-	(157,766)
PROFIT/(LOSS) BEFORE TAXATION	9	95,318	(255,765)
TAXATION	10	(39,467)	69,222
NET PROFIT/(LOSS) AFTER TAX		55,851	(186,543)
BASIC EARNINGS PER SHARE	11	KShs 0.49	(KShs 1.62)

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Consolidated Balance Sheet

AT 31 DECEMBER 2002

		2002	2001
	Note	KShs'000	Restated KShs'000
ASSETS			
Cash and bank balances	13(a)	255,510	258,426
Placement with other banks	13(b)	352,473	862,676
Investment in Government Securities	14	1,272,627	1,175,212
Mortgage advances to customers	15(a)	7,668,961	8,331,293
Other assets	18	290,602	241,193
Housing Development Projects	19	78,410	247,365
Investment properties	20	15,000	24,000
Property and equipment	21(a)	240,663	250,135
Prepaid operating lease rentals	22	61,082	72,832
Deferred tax	23(a)	132,131	171,587
Taxation		77,758	79,753
TOTAL ASSETS		10,445,217	11,714,472
LIABILITIES			
Customers' deposits	24	9,001,875	10,258,467
Other liabilities	25	300,081	363,151
Retirement benefits obligations	26	22,281	11,141
Dividends - payable		96,293	96,293
		9,420,530	10,729,052
SHAREHOLDERS' EQUITY			
Share capital	27	575,000	575,000
Reserves (Page 25)		382,353	326,502
Shareholders' income notes and loans	28	67,334	83,918
		1,024,687	985,420
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,445,217	11,714,472

The financial statements set out on pages 21 to 45 were approved by the Board of Directors on 25 February 2003 and were signed on its behalf by:

Richard Kemoli)
David R Ansell) Directors
Peter Lewis-Jones)
Chunga Associates Company Secretary:

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Company Balance Sheet

AT 31 DECEMBER 2002

		2002	2001
	Note	KShs'000	Restated KShs'000
ASSETS			
Cash and bank balances	13(a)	250,258	236,938
Placement with other banks	13(b)	352,473	862,676
Investment in Government Securities	14	1,272,627	1,175,212
Mortgage advances to customers	15(a)	7,668,961	8,331,293
Investment in subsidiaries	16	55,020	55,020
Dividend receivable		15,000	15,000
Amounts due from subsidiaries	17(a)	74,375	195,942
Other assets	18	284,809	239,620
Property and equipment	21(b)	240,605	249,918
Prepaid operating lease rentals	22	48,375	48,918
Deferred tax	23(b)	88,235	127,769
Taxation		57,134	59,338
TOTAL ASSETS		10,407,872	11,597,644
LIABILITIES			
Customers' deposits	24	9,045,446	10,258,467
Amounts due to subsidiary	17(b)	9,974	-
Other liabilities	25	216,442	252,899
Retirement benefits obligations	26	22,281	11,141
Dividends - payable		96,293	96,293
		9,390,436	10,618,800
SHAREHOLDERS' EQUITY			
Share capital	27	575,000	575,000
Reserves (Page 26)		375,102	319,926
Shareholders' income notes and loans	28	67,334	83,918
		1,017,436	978,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,407,872	11,597,644

The financial statements set on pages 21 to 45 were approved by the Board of Directors on 25 February 2003 and were signed on its behalf by:

Richard Kemoli)
David R Ansell) Directors
Peter Lewis-Jones)
Chunga Associates Company Secretary:

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 Ksh'000	2001 Ksh'000
Net cash outflow from operating activities	29(a)	<u>(919,378)</u>	<u>(194,767)</u>
INVESTING ACTIVITIES			
Purchase of equipment		(24,261)	(20,266)
Proceeds from disposal of investment property		10,000	-
Proceeds from sale of prepaid operating lease rentals		12,925	-
Proceeds from sale of equipment		<u>1,929</u>	<u>932</u>
Net cash outflow from investing activities		<u>593</u>	<u>(19,334)</u>
FINANCING ACTIVITIES			
Dividend paid		-	(39,966)
Shareholders' loan repaid		<u>(16,584)</u>	<u>(8,292)</u>
Net cash outflow from financing activities		<u>(16,584)</u>	<u>(48,258)</u>
Net decrease in cash and cash equivalents	29(b)	<u>(935,369)</u>	<u>(262,359)</u>

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2002

	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 2001 - as previously reported	575,000	227,233	25,705	43,125	378,106	1,249,169
Change in accounting policy (with respect to IAS 17)	-	(111,051)	-	-	-	(111,051)
Amortisation of prepaid operating lease rentals	-	-	-	-	(6,948)	(6,948)
At 1 January 2001 - restated	575,000	116,182	25,705	43,125	371,158	1,131,170
Net loss after tax	-	-	-	-	(186,543)	(186,543)
Dividends paid during the year	-	-	-	(39,966)	-	(39,966)
Dividends transferred to accounts payable	-	-	-	(3,159)	-	(3,159)
At 31 December 2001 - restated	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 31 December 2002	575,000	110,658	25,705	-	245,990	957,353

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2002

	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 2001						
- as previously reported	575,000	168,856	25,705	43,125	385,654	1,198,340
Change in accounting policy (with respect to IAS 17)	-	(68,427)	-	-	-	(68,427)
Amortisation of prepaid operating lease rentals	-	-	-	-	(4,112)	(4,112)
At 1 January 2001						
- restated	575,000	100,429	25,705	43,125	381,542	1,125,801
Net loss after tax	-	-	-	-	(187,750)	(187,750)
Dividends paid during the year	-	-	-	(39,966)	-	(39,966)
Dividends transferred to accounts payable	-	-	-	(3,159)	-	(3,159)
At 31 December 2001						
- restated	575,000	100,429	25,705	-	193,792	894,926
Net profit for the year	-	-	-	-	55,176	55,176
At 31 December 2002	575,000	100,429	25,705	-	248,968	950,102

The notes set out on pages 27 to 45 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2002

I SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention and modified to include the revaluation of certain properties, plant and equipment.

(b) Consolidation principles

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries made up to 31 December 2002. A listing of the subsidiaries is set out on page 34 (Note 16).

(c) Revenue recognition

Income is recognised in the period in which it is earned. When an account becomes non-performing, interest is suspended in accordance with management estimates of what is unrealisable until it is realised on a cash basis.

(d) Provision for mortgage losses

Specific provisions for doubtful debts are held in respect of mortgage advances. The provisions are based on periodic appraisal of the advances portfolio, and take account of past loss experience, economic conditions and estimated realisable value of the underlying collateral and are charged to the profit and loss account. In addition, a general provision is maintained based on management's evaluation of the mortgage advances portfolio and other exposures in respect of losses which, although not

specifically identified, are known from experience to be present in such portfolio.

(e) Translation of foreign currencies

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

(f) Property and equipment

Items of freehold 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) Prepaid operating lease rentals

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.

Effective 1 January 2002 all leasehold land previously reported under property and equipment, investment properties and housing development projects has been reclassified to prepaid operating lease rentals.

(h) Mortgage advances

Mortgages are shown at the gross amount adjusted for any provision for losses. The

provision for losses is increased by charges to income and decreased by charge-offs (net of recoveries).

(i) Retirement benefits obligations

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

An Actuarial valuation carried out as at 31 December 2000 reflected a past service deficit of KShs. 36,580,000. The Actuary recommended that in order to meet the deficit the Company's required contribution rate should be 10.6 % of pensionable salaries per annum.

In the year 2000, the Company implemented IAS 19 (Revised) and accounted for transitional liability as an expense on a straight line basis over a period of five years. The amount of liability that remains unrecognised in the balance sheet is disclosed in the notes to the accounts (Note 26).

(j) 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.

(k) Cash and cash equivalents

For the purpose of presentation of cash flows in the consolidated financial statements, the cash and cash equivalents include cash in hand and at bank, net balances with banking institutions and investment in government securities with a maturity period within 91 days.

(l) Comparatives - restatement

Where necessary, comparative figures have been restated to incorporate the effects of the change in accounting policy regarding provision for Staff gratuity and accounting for leasehold land.

Revaluation surplus on leasehold land has been reversed. The cost of such leasehold land which had been categorised as part of property, land banks and investment properties in prior years has been reclassified to prepaid operating lease rentals.

(m) Financial instruments

(i) Classification

Originated loans and receivables are loans and receivables created by the group providing money to a debtor. Originated loans and receivables comprise mortgage advances to customers and placements with other banks.

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

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

(ii) Recognition

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

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

(iii) Measurement

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

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

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

- (iv) Gains and losses on subsequent measurement
Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in the income statement.

- (v) Derecognition

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

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

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

- (n) Impairment

The carrying amounts of the group's financial assets and property and equipment, 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.

- (o) Segmental reporting

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

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

- (p) 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. CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

The Central Bank of Kenya (Amendment) Act, 2000 received assent on 6 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 24 January 2002.

A Decree to confirm the Judgment was extracted on 22 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.

3 SEGMENT REPORTING

	Mortgage business KShs'000	House sales KShs'000	Other KShs'000	Eliminations KShs'000	Total 2002 KShs'000	Total 2001 KShs'000
Gross revenue						
(external)	<u>2,863,271</u>	<u>224,652</u>	<u>2,170</u>	<u>-</u>	<u>3,090,093</u>	<u>3,602,109</u>
Segment profit/(loss) before tax	94,710	(404)	1,012	-	95,318	(255,765)
Taxation	<u>(39,534)</u>	<u>78</u>	<u>(11)</u>	<u>-</u>	<u>(39,467)</u>	<u>69,222</u>
Segment profit/(loss) after tax	<u>55,176</u>	<u>(326)</u>	<u>1,001</u>	<u>-</u>	<u>55,851</u>	<u>(186,543)</u>
Other information:						
Segment assets	<u>10,407,872</u>	<u>208,763</u>	<u>26,522</u>	<u>(197,940)</u>	<u>10,445,217</u>	<u>11,714,472</u>
Segment liabilities	<u>9,390,436</u>	<u>171,083</u>	<u>1,916</u>	<u>(142,905)</u>	<u>9,420,530</u>	<u>10,729,052</u>
Depreciation expense	<u>30,610</u>	<u>159</u>	<u>-</u>	<u>-</u>	<u>30,769</u>	<u>33,071</u>
Impaired assets written down	<u>-</u>	<u>(2,541)</u>	<u>-</u>	<u>-</u>	<u>(2,541)</u>	<u>-</u>
Capital expenditure	<u>24,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,261</u>	<u>20,266</u>

Segment capital expenditure is total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

4 INTEREST INCOME

	2002 KShs'000	2001 KShs'000
Advances to customers	2,491,023	2,889,610
Interest suspended	<u>(1,150,638)</u>	<u>(1,626,462)</u>
	1,340,385	1,263,148
Treasury bills	40,061	179,759
Treasury bonds	68,111	20,884
Government stock	-	233
Placements with other banks	<u>75,902</u>	<u>86,637</u>
	<u>1,524,459</u>	<u>1,550,661</u>

5 INTEREST EXPENSE

Customer deposits	615,812	911,841
Interest on borrowed funds	<u>8,121</u>	<u>10,120</u>
	<u>623,933</u>	<u>921,961</u>

6 NON INTEREST INCOME

	2002	2001
	KShs'000	KShs'000
House sales	208,521	280,932
Fees and commission income	57,582	67,697
Rental income	20,872	19,518
Other operating income	123,644	57,126
Gain on sale of investment property	1,000	-
Profit/(Loss) on sale of property and equipment and prepaid operating lease rentals	3,377	(287)
	<u>414,996</u>	<u>424,986</u>

7 NON INTEREST EXPENSES

Cost of houses sold	182,983	254,565
Finance and administration costs attributed to completed projects	24,535	17,439
Project costs written off	-	1,257
Salaries and employee benefits	439,444	370,720
Rental expenses	13,830	12,599
Deposit Protection Fund	14,194	16,069
General administration expenses	261,617	255,651
Other expenses	40,225	36,775
	<u>976,828</u>	<u>965,075</u>

The average number of employees engaged by the group during the year was 295 (2001 - 351).

	2002	2001
	KShs'000	KShs'000
Management	134	132
Unionisable	117	171
Contractual	23	4
Temporary	21	44
Total	<u>295</u>	<u>351</u>

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.31,873,553 (2001 - KShs.21,409,741).

8 VOLUNTARY EARLY RETIREMENT EXPENSES

The expenditure relates to terminal dues and benefits for employees who retired in the previous financial year.

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9 PROFIT/(LOSS) BEFORE TAXATION

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

	2002	2001
	KShs'000	KShs'000
(Profit)/loss on sale of property and equipment, leasehold land and investment property	(4,377)	287
Directors' remuneration:		
- Fees	1,166	1,173
- Expenses	1,098	936
- As executives	18,952	13,569
Auditors' remuneration:		
- Current year	3,172	3,220
- Prior year under provision	118	165
Amortisation of prepaid operating lease rentals	696	819
Depreciation	<u>30,769</u>	<u>33,071</u>

10 TAXATION

	2002	2001
	KShs'000	KShs'000
Current tax at 30%	11	313
Deferred tax (Note 23(a))	<u>39,456</u>	<u>(69,535)</u>
	<u>39,467</u>	<u>(69,222)</u>

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

	2002	2001
	KShs'000	KShs'000
Accounting profit/(loss) before tax	<u>95,318</u>	<u>(255,765)</u>
Tax at the applicable corporation tax rate of 30%	28,595	(76,730)
Tax effect of non-deductible costs and non-taxable income	<u>10,872</u>	<u>7,508</u>
	<u>39,467</u>	<u>(69,222)</u>

11 BASIC EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on:

	2002	2001
	KShs'000	KShs'000
Net profit/(loss) for the year attributable to shareholders	<u>55,851</u>	<u>(186,543)</u>
Number of ordinary shares in issue (in thousands)	<u>115,000</u>	<u>115,000</u>
Basic Earnings/(loss) per share	<u>KShs 0.49</u>	<u>(KShs 1.62)</u>

12 DIVIDEND PER SHARE

	2002	2001
	KShs'000	KShs'000
Dividends	-	-
Number of ordinary shares (Thousands)	115,000	115,000
Dividends per share	<u>KShs. 0.00</u>	<u>KShs.0.00</u>

13 CASH AND BANK BALANCES

a)	Group		Company	
	2002	2001	2002	2001
	KShs'000	KShs'000	KShs'000	KShs'000
Cash at hand	39,976	38,220	39,961	38,220
Current account balances	215,534	220,206	210,297	198,718
	<u>255,510</u>	<u>258,426</u>	<u>250,258</u>	<u>236,938</u>

b) PLACEMENTS WITH OTHER BANKS

	2002	2001
Group and Company	KShs'000	KShs'000
Due within 90 days	<u>352,473</u>	<u>862,676</u>

The weighted average effective interest rate on placement with other banks as at 31 December 2002 was 7.8% (2001 - 11%).

14 INVESTMENT IN GOVERNMENT SECURITIES

Group and Company	2002	2001
	KShs'000	KShs'000
Treasury bills due within 90 days	321,765	829,110
Treasury bonds due within 90 days	85,095	-
	<u>406,860</u>	<u>829,110</u>
Treasury bills due within 91-180 days	5,679	65,147
Treasury bonds due after 180 days	860,088	280,955
	<u>865,767</u>	<u>346,102</u>
	<u>1,272,627</u>	<u>1,175,212</u>

The weighted average effective interest rate on government securities as at 31 December 2002 was 11.3% (2001 - 12.5%).

15 MORTGAGE ADVANCES TO CUSTOMERS

a) Group and Company

	2002	2001
	KShs'000	KShs'000
Mortgages	13,355,714	12,932,512
Less: Provision for general, specific bad and doubtful mortgage advances and interest suspended	(5,686,753)	(4,601,219)
	<u>7,668,961</u>	<u>8,331,293</u>
Maturing:		
Within five years	2,664,375	2,063,517
Over five years to ten years	2,849,289	3,072,365
Over ten years to fifteen years	1,903,103	2,763,378
Over fifteen years	252,194	432,033
	<u>7,668,961</u>	<u>8,331,293</u>

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

	Penalty interest in suspense KShs'000	Suspended interest KShs'000	Specific provision KShs'000	General provision KShs'000	Total KShs'000
At 1 January 2001	574,714	1,106,963	1,092,200	55,585	2,829,462
Release in the year	-	(97,224)	(263,435)	-	(360,659)
Write-offs during the year	-	(20,513)	(6,242)	-	(26,755)
Provisions made during the year	234,860	1,509,339	467,970	(11,683)	2,200,486
Net charge to P&L	234,860	1,391,602	198,293	(11,683)	1,813,072
Provisions written off	(1,978)	(4,372)	(34,965)	-	(41,315)
At 31 December 2001	807,596	2,494,193	1,255,528	43,902	4,601,219
Release in the year	(39,195)	(128,446)	(124,206)	(6,408)	(298,255)
Write-offs during the year	-	(2,102)	33,180	-	31,078
Provisions made during the year	-	1,320,381	340,810	-	1,661,191
Net charge to P&L	(39,195)	1,189,833	249,784	(6,408)	1,394,014
Provisions written off	(47,776)	(112,324)	(148,380)	-	(308,480)
At 31 December 2002	720,625	3,571,702	1,356,932	37,494	5,686,753

c) Non-performing loans and advances

Loans and advances include an amount of KShs 3,957,167,000 net of provisions and suspended interest (2001 - KShs 3,956,711,000), on which part of the interest is not being accrued as they have been classified as non-performing. The estimated realisable value of securities held against this net balance is KShs 5,438,065,004 (2001 - KShs. 5,532,785,000).

16 INVESTMENT IN SUBSIDIARIES

	2002	2001
	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	2002	2001
	KShs'000	KShs'000
a) Due from:		
Kenya Building Society Limited	74,375	195,164
First Permanent (East Africa) Limited	-	778
	<u>74,375</u>	<u>195,942</u>
b) Due to:		
First Permanent (East Africa) Limited	(9,974)	-

18 OTHER ASSETS

	2002		2001	
	Group	Company	Group	Company
	KShs'000	KShs'000	KShs'000	KShs'000
Exchange loss recoverable from the Government of Kenya	210,411	210,411	184,948	184,948
Staff debtors	26,442	26,440	14,537	14,527
Prepayments	4,324	4,324	6,887	6,887
Deposits and rent receivable	8,577	8,356	8,559	8,334
Other receivables	40,848	35,278	26,262	24,924
	<u>290,602</u>	<u>284,809</u>	<u>241,193</u>	<u>239,620</u>

19 HOUSING DEVELOPMENT PROJECTS

	2002	2001
	KShs'000	KShs'000
Group:		
Housing projects		
Komarock Housing Projects	76,414	239,225
Mombasa Housing Projects	1,996	8,140
	<u>78,410</u>	<u>247,365</u>

Land banks:	Valuation		
	Cost	surplus	Total
	KShs'000	KShs'000	KShs'000
At 1 January 2001 as previously reported	25,026	36,924	61,950
Reversal of revaluation surplus on leasehold land	-	(36,924)	(36,924)
Reclassification to prepaid operating lease rentals (Note 22)	(25,026)	-	(25,026)
At 31 December 2001 - restated	<u>-</u>	<u>-</u>	<u>-</u>

Commitments in respect of these projects, authorised but not paid as at 31 December 2002 amounted to KShs.310,000 (2001 - KShs 15,255,830).

Company: Nil

20 INVESTMENT PROPERTIES

	KShs'000
At 1 January 2001 - as previously reported	27,000
Reversal of revaluation surplus	(1,000)
Reclassification to prepaid operating lease rentals (Note 22)	(2,000)
At 31 December 2001 (restated)	24,000
Disposals	(9,000)
At 31 December 2002	15,000

Investment properties comprise 2 (2001-3) residential buildings owned by a subsidiary company - First Permanent (East Africa) Limited.

The investment properties were professionally valued by the group's Valuer on 31 December 2000 on an open market basis.

21 PROPERTY AND EQUIPMENT

a) Group

	Freehold land	Leasehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation:					
At 31 December 2001					
(as previously reported)	7,000	124,000	173,531	328,376	632,907
Reversal of revaluation surplus	-	(68,427)	-	-	(68,427)
Reclassification to prepaid					
operating lease rentals (Note 22)	-	(53,573)	-	-	(53,573)
Reclassification to freehold land	2,000	(2,000)	-	-	-
At 31 December 2001					
(as restated)	9,000	-	173,531	328,376	510,907
Additions	-	-	1,350	22,911	24,261
Disposals	-	-	-	(6,473)	(6,473)
At 31 December 2002	9,000	-	174,881	344,814	528,695
At cost	-	-	4,881	344,814	349,695
At valuation	9,000	-	170,000	-	179,000
Depreciation:					
At 1 January 2002	-	-	5,725	255,047	260,772
Charge for the year	-	-	2,375	28,394	30,769
Disposals	-	-	-	(3,509)	(3,509)
At 31 December 2002	-	-	8,100	279,932	288,032
Net book value:					
At 31 December 2002	9,000	-	166,781	64,882	240,663
At 31 December 2001					
(restated)	9,000	-	167,806	73,329	250,135

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 values (NBV) of properties at their historical cost is as follows:

	2002	2001
	KShs 000	KShs '000
Freehold land	206	206
Buildings	69,308	67,958

Included in property and equipment are assets with a gross value of KShs.166,746,114(2001 - KShs.130,274,772) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs.28,626,088 (2001 - KShs.23,718,266).

21 PROPERTY AND EQUIPMENT - *Continued*

b) **Company**

	Freehold land	Leasehold land	Buildings	Furniture, fixtures, equipment & motor vehicles	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost or valuation:					
At 31 December 2001	<u>7,000</u>	<u>124,000</u>	<u>171,527</u>	<u>322,565</u>	<u>625,092</u>
Reversal of revaluation surplus on leasehold land	-	(68,427)	-	-	(68,427)
Reclassification to prepaid operating lease rentals (Note 22)	-	(53,573)	-	-	(53,573)
Reclassification to freehold land	<u>2,000</u>	<u>(2,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2001 (as restated)	<u>9,000</u>	<u>-</u>	<u>171,527</u>	<u>322,565</u>	<u>503,092</u>
Additions	-	-	1,350	22,911	24,261
Disposals	-	-	-	(6,473)	(6,473)
At 31 December 2002	<u>9,000</u>	<u>-</u>	<u>172,877</u>	<u>339,003</u>	<u>520,880</u>
At cost	<u>-</u>	<u>-</u>	<u>2,877</u>	<u>339,003</u>	<u>341,880</u>
At valuation	<u>9,000</u>	<u>-</u>	<u>170,000</u>	<u>-</u>	<u>179,000</u>
Depreciation:					
At 1 January 2002	-	-	3,754	249,420	253,174
Charge for the year	-	-	2,360	28,250	30,610
Disposals	-	-	-	(3,509)	(3,509)
At 31 December 2002	<u>-</u>	<u>-</u>	<u>6,114</u>	<u>274,161</u>	<u>280,275</u>
Net book value:					
At 31 December 2002	<u>9,000</u>	<u>-</u>	<u>166,763</u>	<u>64,842</u>	<u>240,605</u>
At 31 December 2001 (restated)	<u>9,000</u>	<u>-</u>	<u>167,773</u>	<u>73,145</u>	<u>249,918</u>

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 values (NBV) of properties at their historical cost is as follows:

	2002 KShs 000	2001 KShs '000
Freehold land	206	206
Buildings	69,308	67,958

Included in property and equipment are assets with a gross value of KShs.160,120,118 (2001 - KShs.130,274,772) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs.27,799,917 (2001 - KShs.23,718,266).

22 PREPAID OPERATING LEASE RENTALS

Group	2002		2001	
	KShs'000 Group	KShs'000 Company	KShs'000 Group	KShs'000 Company
Cost:				
At 1 January	80,599	53,573	80,599	53,573
Disposals in the year	(9,392)	-	-	-
Impaired property written off	(2,765)	-	-	-
	68,442	53,573	80,599	53,573
Amortisation:				
At 1 January	7,767	4,655	6,948	4,112
Charge for the year	696	543	819	543
On disposals	(879)	-	-	-
On impaired property	(224)	-	-	-
	7,360	5,198	7,767	4,655
At 31 December 2002	61,082	48,375	72,832	48,918

As at 31 December 2002 the un-expired lease periods ranged from 70 years to 92 years.

23 DEFERRED TAX ASSETS

a) Group

Movements in deferred tax asset are as follows:

	At 31 December 2001		At 31 December 2001		At 31 December 2002
	(as previously reported) KShs '000	Prior year adjustment KShs '000	(restated) KShs '000	Recognised in income KShs'000	
Arising from:					
Plant and equipment	(3,595)	-	(3,595)	(5,506)	(9,101)
Other general provisions	-	-	-	(4,743)	(4,743)
General provision on mortgage advances	(13,170)	-	(13,170)	1,921	(11,249)
Tax losses carried forward	(118,205)	(36,617)	(154,822)	47,784	(107,038)
	<u>(134,970)</u>	<u>(36,617)</u>	<u>(171,587)</u>	<u>39,456</u>	<u>(132,131)</u>

b) Company

	At 31 December 2001		At 31 December 2001		At 31 December 2002
	(as previously reported) KShs '000	Prior year adjustment KShs '000	(restated) KShs '000	Recognised in income KShs'000	
Arising from:					
Plant and equipment	(3,279)	-	(3,279)	(5,527)	(8,806)
Other general provisions	-	-	-	(4,550)	(4,550)
General provision on mortgage advances	(13,170)	-	(13,170)	1,921	(11,249)
Tax losses carried forward	(74,703)	(36,617)	(111,320)	47,690	(63,630)
	<u>(91,152)</u>	<u>(36,617)</u>	<u>(127,769)</u>	<u>39,534</u>	<u>(88,235)</u>

24 CUSTOMERS' DEPOSITS

	2002		2001	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Government and parastatals:				
Payable within 90 days	566,543	566,543	557,469	557,469
Payable after 90 days and within one year	-	-	452,475	452,475
Payable after one year	1,408,642	1,408,642	1,120,288	1,120,288
Private sector and individuals:				
Payable within 90 days	5,817,542	5,861,113	6,109,628	6,109,628
Payable after 90 days and within one year	252,110	252,110	1,905,842	1,905,842
Payable after one year	957,038	957,038	112,765	112,765
	9,001,875	9,045,466	10,258,467	10,258,467

- a) Included in customer deposits is KShs. 43,571,000 (2001 KShs. 4,883,000) due to a subsidiary, Kenya Building Society.
- b) The weighted average effective interest rate on customer deposits as at 31 December 2002 was 5.7% (2001 - 8.6%)

25 OTHER LIABILITIES

	2002		2001	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
VER payable	-	-	24,984	24,984
The Government of Kenya				
- exchange risk assumption fees	16,386	16,386	15,026	15,026
Interest payable on the Government of Kenya Income Notes	23,028	23,028	18,841	18,841
House sales deposits	22,810	-	49,844	-
Project costs accruals	56,005	-	43,362	-
Withholding tax payable	19,293	19,293	20,419	20,419
Provision for withholding tax	27,852	27,852	-	-
Interest on CDC Loan	-	-	25,029	25,029
Uncleared bankers orders	1,903	1,903	15,724	15,724
Initial mortgage deposit account	4,382	4,382	15,631	15,631
Other liabilities	128,422	123,598	134,291	117,245
	300,081	216,442	363,151	252,899

26 RETIREMENT BENEFITS OBLIGATIONS

Group and Company

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

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

The amounts recognised in the respective financial years are:

	2002 KShs'000	2001 KShs'000
Total present value of obligations	425,090	425,090
Less: Fair value of scheme assets	(388,510)	(388,510)
Net liability	36,580	36,580
Unrecognised liability	(14,299)	(25,439)
Liability recognised in the balance sheet	22,281	11,141

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

27 SHARE CAPITAL

	2002	2001
Group and company:	KShs'000	KShs'000
Authorised, issued and fully paid		
115,000,000 Ordinary Shares of KShs.5.00 each	<u>575,000</u>	<u>575,000</u>

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

28 SHAREHOLDERS' INCOME NOTES AND LOANS

	2002	2001
Group and company	KShs'000	KShs'000
Government of Kenya - Income Notes	50,750	50,750
Commonwealth Development Corporation (CDC) (1988 to 2003) long term loan	<u>61,970</u>	<u>116,250</u>
	112,720	167,000
Less: Unrealised exchange differences recoverable from the Government of Kenya under a Risk Assumption Agreement	<u>(45,386)</u>	<u>(83,082)</u>
	<u><u>67,334</u></u>	<u><u>83,918</u></u>

The above amounts are repayable over the following period:

- Government of Kenya - Income Notes carry no redemption date.
- Commonwealth Development Corporation - 1988 to 2003

In respect of CDC- Komarock loan of Stg.£500,000, the Company has committed to pay to the Government of Kenya a risk assumption fee at the rate of 2.5% per annum on the outstanding loan balance to cover itself fully against future exchange losses on repayments of principal amounts and interest on the due dates. During the year 2003, principal loan repayments will amount to KShs.61,970,000 at the rate of exchange at 31 December 2002 of which only KShs.16,584,000 will be payable by the Company under the above agreement.

29 NOTES TO THE CASH FLOW STATEMENT

	2002	2001
	KShs'000	KShs'000
a) Reconciliation of operating profit/(loss) to net cash flows from operating activities		
Group profit/(loss) before taxation	95,318	(255,765)
Depreciation	30,769	33,071
Loss on sale of equipment	1,035	287
Profit on sale of investment property	(1,000)	-
Profit on sale of prepaid operating lease rentals	(4,412)	-
Decrease in customer deposits	(1,256,592)	(893,008)
Net movement in mortgage advances to customers	662,332	983,934
Investment in Government securities	(519,665)	(187,372)
Increase in other assets	(49,409)	(16,854)
(Decrease)/increase in other liabilities	(63,070)	53,014
Increase in accrual for retirement benefits obligations	11,140	-
Decrease in housing projects	168,955	168,551
Write off of irrecoverable income tax	2,203	-
Impaired assets written down	2,541	-
Amortisation of prepaid operating lease rentals	696	819
	<u>(919,159)</u>	<u>(113,323)</u>
Tax paid	(219)	(81,444)
Net cash outflow from operating activities	<u>(919,378)</u>	<u>(194,767)</u>

b) Analyses of cash and cash equivalents

	2002	2001	Change in the year
	Kshs'000	Kshs'000	Kshs'000
Cash in hand and bank	255,510	258,426	(2,916)
Balances due from banking institutions	352,473	862,676	(510,203)
Investment in government securities	406,860	829,110	(422,250)
	<u>1,014,843</u>	<u>1,950,212</u>	<u>(935,369)</u>

30 CONTINGENT LIABILITIES

- a) A contractor has demanded payment of KShs.65 million from one of the subsidiaries in respect of extra costs incurred and loss of profits on account of delayed payments.
- In consultation with the Company's quantity surveyors, the Directors have estimated the liability at KShs.56 million and a provision for this amount has been made in the financial statements.
- b) The Company is the defendant in a lawsuit claiming damages for breach of contract.
- The Company's Directors are of the opinion that an amicable solution will be reached and no provision is required.
- c) As at 31 December 2002, the Company had issued guarantees in the ordinary course of business to third parties amounting to KShs.10 million.

31 MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs.675,855,000 (2001 - KShs.892,964,000) are analysed below:

	2002	2001
	KShs'000	KShs'000
Commitment in principle but not authorised for payment	550,718	696,419
Authorised but not paid	125,137	196,545
	<u>675,855</u>	<u>892,964</u>

32 CAPITAL COMMITMENTS

Group and company

	2002	2001
	KShs'000	KShs'000
Authorised but not contracted	<u>65,768</u>	<u>170,670</u>

33 ASSETS PLEDGED AS SECURITY

As at 31 December 2002 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:

	2002	2001
	KShs'000	KShs'000
At 1 January	206,339	403,848
Loans advanced during the year	33,197	7,285
Reclassified third party loans	(40,468)	(174,850)
Loans repayments received	<u>(25,093)</u>	<u>(29,944)</u>
At 31 December	<u>173,975</u>	<u>206,339</u>

The related interest income in 2002 was KShs.13,881,347 (2001 - KShs.38,323,488).

During the year a vehicle with a net book value of KShs.2,679,192 was sold to a Non-executive Director for KShs.1,302,385 realising a loss on disposal of KShs.1,376,807. The disposal was properly approved by the Board of Directors.

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.

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 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 rate 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.

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	255,510	-	-	-	-	255,510
Deposits and balances due from banking institutions	352,473	-	-	-	-	352,473
Investment in Government securities	-	406,859	865,768	-	-	1,272,627
Mortgage advances to customers	475,727	784	352,219	1,835,645	5,004,586	7,668,961
Other assets	-	-	10,653	25,579	254,370	290,602
Prepaid lease rentals	-	-	696	3,480	56,906	61,082
Housing development projects	-	-	-	-	78,410	78,410
Investment properties	-	-	-	-	15,000	15,000
Property and equipment	-	-	-	-	240,663	240,663
Deferred tax	-	-	-	-	132,131	132,131
Taxation	-	-	-	-	77,758	77,758
Total	1,083,710	407,643	1,229,336	1,864,704	5,859,824	10,445,217
Liabilities, shareholders' funds, loans and income notes						
Customer deposits	-	6,234,227	518,890	2,248,758	-	9,001,875
Other liabilities	-	-	-	-	300,081	300,081
Retirement benefits obligations	-	-	-	-	22,281	22,282
Dividends payable	-	-	-	96,293	-	96,293
Share capital and reserves	-	-	-	-	957,353	957,353
Shareholders' income notes	-	-	16,584	-	50,750	67,334
Total	-	6,234,227	535,474	2,345,051	1,330,465	10,445,217
Net liquidity gap	1,083,710	(5,826,584)	693,862	(480,347)	4,529,359	-

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		-	-	-	-	-	255,510	255,510
Deposits and balances due from banking institutions	7.8%	352,473	-	-	-	-	-	352,473
Investment in Government securities	11.3%	-	406,859	865,768	-	-	-	1,272,627
Mortgage advances to customers	18.5%	475,727	784	352,219	1,835,645	5,004,586	-	7,668,961
Other assets		-	-	-	290,602	-	-	290,602
Prepaid lease rentals		-	-	-	-	-	61,082	61,082
Housing development projects		-	-	-	-	-	78,410	78,410
Investment properties		-	-	-	-	-	15,000	15,000
Property and equipment		-	-	-	-	-	240,663	240,663
Deferred tax		-	-	-	-	-	132,131	132,131
Taxation		-	-	-	-	-	77,758	77,758
Total assets		828,200	407,643	1,217,987	2,126,247	5,004,586	860,554	10,445,217
Liabilities, shareholders' funds, loans and income notes								
Customers deposits	5.7%	-	6,234,227	518,890	2,248,758	-	-	9,001,875
Other liabilities		-	-	-	-	-	300,081	300,081
Retirement benefits obligations		-	-	-	-	-	22,281	22,282
Dividends payable		-	-	-	-	-	96,293	96,293
Share capital and reserves		-	-	-	-	-	957,353	957,353
Shareholders' income notes and loans	8.3%	-	-	16,584	-	50,750	-	67,334
Total liabilities and equity		-	6,234,227	535,474	2,248,758	50,750	1,376,008	10,445,217
On balance sheet interest sensitivity gap		828,200	(5,826,584)	682,513	(122,511)	4,953,836	(515,454)	-

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 savings products aimed at different sections of the public, and all of them delivering competitive rates of return attractive to the discerning saver and trying to match the customer's own savings plan.

(a) TREASURE ACCOUNT FOR CHILDREN

This account is designed to allow parents and/or guardians to put money aside for their children in an account operated in the name of the child. It is never too late to start teaching your loved ones the value of thrift. The account pays attractive interest rates allowing the savings to grow at a faster rate. These monies can either cushion parents / guardians from the growing cost of education and/or also provide children with a good start in life. The child enjoys access to several goodies which we send out to make them proud of their role in being savers for the future.

(b) JUHUDI SAVINGS ACCOUNT

This account is designed for individuals whose primary source of funds is a regular wage or salary. It is an account with a lower minimum balance than the regular savings products we offer. Access to the money is important and the customer requires the account for receiving their salary and making various payments. The account holders find access to other savings accounts we offer where they can also start putting something aside.

(c) THE LENGO SAVINGS ACCOUNT

The Lengo Account is designed for the discerning saver who wants to see his or her savings grow steadily and quickly. This is an account with relatively long term horizons and offers several benefits besides a competitive interest rate.

(d) APEX SAVINGS ACCOUNT

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

(e) THE FLEXI ACCOUNT

This account is designed for savers who, whilst regularly putting something aside find the need to also make scheduled payments through us. They then enjoy a fair blend of less restricted access to their money and a commensurate interest rate on the remaining balance in the account. It is recommended for people who would wish to operate their accounts on a regular basis and at the same time earn some 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 "Sacco" where fixed monthly contributions are made continuously. We offer attractive packages particularly for those savers who are able to stick with the planned remittance programme and also make fewer withdrawals per defined period.

(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 shorter-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 lump sum and the deposit period is fixed upfront for an agreed tenure. It is designed for the individual saver who will not need to access the funds for the duration of the savings plan. Housing Development Bonds (HDB) are only available from institutions like ourselves who are licensed specifically to provide mortgage finance. The government charges a lower rate of withholding tax on interest earned by the saver on this product helping increase the rate at which the savings grow. So, grow your savings faster and save on tax! And since we pay very competitive interest rates on the deposit, the saver is a winner all round.

(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 institutional savers 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. So we can give you a savings plan that has your money safely with us for a longer term (hence better interest rates), but allows you to take the accrued interest at pre-defined periods depending on your needs. And the interest rates are kept competitive relative to the market rates prevailing. It is available for both individuals and corporate customers who want to invest longer term, get access to the fruits of their investments at the times when they need it, and earn a higher return on their investments because they have invested longer term.

(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.

2 LOAN PRODUCTS:

Housing Finance still offers the lowest lending rates amongst the Mortgage Finance companies and with the several improvements in our lending criteria, we have created additional flexibility in the Mortgage Product that we offer to our borrowers.

A visit to our retrained and refocused Customer Service Staff will give you access to the newly automated financial models we have installed that will instantly guide you on how to select a mortgage facility that matches your needs and borrowing capacity.

(a) THE HOME OWNERS MORTGAGE

This is a long-term loan that is designed for financing the purchase of a new or an existing residential property. It is available for any resident individual who wants to purchase property in Kenya.

The maximum mortgage term currently is 15 years and is repayable by equal monthly instalments consisting partly of capital and partly of interest. The loans available are up to 80% of the property mortgage value. The maximum loan amount depends on the location of the property, and the loan to value ratio is at the sole discretion of the Company based on the merits of each individual application.

(iv) Commercial Properties

This is mortgage financing that assists borrowers purchase or construct residential properties for rent or sale. These loans are repayable over a maximum period of 10 years.

For more information about our Savings or Loan Products, please contact the nearest Housing Finance branch.

(b) EMPLOYER SPONSORED SCHEME

This product is designed for financing the purchase of a new or an existing residential property, purchase of urban residential plots and construction of a residential property through a subsidised facility provided by the employer or sponsor.

The types of loans available under the Home Owners Mortgage and the Employers Sponsored Scheme are as follows:

(i) Residential Property Loans

This is mortgage financing that assists borrowers purchase existing residential properties.

(ii) Construction Loans

This loan allows the borrower seeking financing to build a residential property.

(iii) Purchase of a Plot

The maximum loan allowed is 50% of the mortgage value or cost whichever is lower, subject to a maximum loan of KShs 1.5 Million repayable over a maximum period of 3 years. The plots must be urban and should not exceed 2 1/2 acres in total size.



Kung'u Gatabaki
Chairman



David R Ansell



Peter J W Lewis-Jones
Managing Director



Naftali Mogere



Anne A W Amisobuor (Mrs)



Mary M'Mukindia



Joseph Kinyua
The Permanent Secretary to the Treasury

SENIOR MANAGEMENT

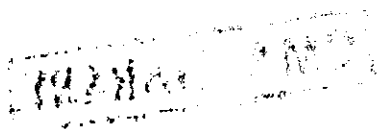


Front row from left to right

- | | | |
|---|----------------|-----------------------------|
| 1 | Charles Kamari | Director of Risk |
| 2 | Julius Muia | Director of Finance |
| 3 | Rase Simani | Director of Human Resources |

Back row from left to right

- | | | |
|---|-------------------|---|
| 1 | Ken Kinyua | Director of Business Development |
| 2 | Peter Lewis-Jones | Managing Director |
| 3 | David Irungu | General Manager, Kenya Building Society |
| 4 | James Ochami | Director of Operations |
| 5 | Patrick Mbabuh | Director of Internal Audit |



MEMBERS OF THE BOARD PROFILE

Kung'u Gatabaki

Was appointed Chairman in 2004. He retired from Actis (formerly CDC) in December 2004, after 31 years service where he acquired wide experience in project finance, portfolio management and corporate board business. He is currently a consultant for Actis and a Director of various Company boards including: Mumias Sugar Co, Serena Hotels, Grain Bulk Handlers Ltd, Shelter Afrique and the Kenya Safari Lodges & Hotels. He is the Chairman of Micra Kenya Ltd. He read economics and project finance at Legon and Bradford Universities. He is 55 years old, and is married with four grown up children.

Peter J W Lewis – Jones

Was appointed Managing Director from 1st March 2001 to April 2005. 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.

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, Nigeria.

Naftali Mogere

Was appointed Director in July 2004. He is currently the Managing Trustee of NSSF. He has a wide experience in Finance having served many organizations in various capacities. He was Finance and Administration Manager of Preferential Trade Area Reinsurance Company for 10 years; and Finance Director/ Company Secretary of African Medical Research Foundation (AMREF) for 5 years. He has been the Chief Accountant with Kenya Reinsurance Corporation and Principal Accountant at IDB.

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

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, Member of Federation of Kenya Women Lawyers (FIDA), Director of Institute of Directors (K) and Member of Law Society of Kenya.

Joseph Kanja Kinyua

MA (Econ)

Took up the position of Director after appointment as the Permanent Secretary Treasury on July 1, 2004. He has served in many capacities at the Central Bank, IMF, Ministry of Finance, Ministry of Planning and Ministry of Agriculture. He was a key driver of the 1996-1999 Policy ESAF supported GOK programme, the production of the Economic Recovery strategy for Wealth and Employment Creation (ERS) and the Strategy for Revitalisation of Agriculture (SRA). He has presented several publications on economic and monetary policy and public finance. He is a member of the Programme Committee of the African Economic Research Consortium (AERC) and is also Alternate Governor, World Bank Board of Governors. He is married with 3 children.

Mary Kimotho M'Mukindia (Mrs)

Bcom. (Hons)

She began her career in the Oil Industry, where she has served for over 23 years in various capacities and locations with Exxon Mobil, the Petroleum Institute of East Africa, and Enercan Consultants. She is currently the Managing Director of National Oil Corporation of Kenya.

She is active in private sector organization and serves on several boards that include Watota Kwanza Trust, Kenya School of Professional Studies, the Petroleum Institute of East Africa, and the Kenya Petroleum Refineries Mombasa.

She is involved as a steering committee member in various government appointed Task Forces including: The Petroleum Bill-2000, The Marine Laws Review Task Force-2002, The Economic Recovery Strategy-2003 and The Kenya Energy Sector Development Strategy Task Force, The East Africa Community Private Sector Development Strategy Study and lately in 2003/2004 the Transport Policy Committee. She is married with two children.

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ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 39th Annual General Meeting of the Company will be held at the **Amphitheatre Kenyatta International Conference Centre, Harambee Avenue, Nairobi** on **Tuesday 26 July 2005 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 2004 together with the Chairman's, the Directors' and Auditors' Reports thereon.
4. To elect Directors:
 - a. Mr Naftali Magere and Mrs Mary M' Mukindia who were appointed directors on 8 July and 26 October 2004 respectively, retire in accordance with Article 104 of the Company's Articles of Association and being eligible, offer themselves for re-election.
 - b. The Permanent Secretary to the Treasury 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

Fiana C Fax

SECRETARY

30 March 2005

PO Box 41968

NAIROBI

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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, 00100 Nairobi, to arrive not later than 48 hours before the meeting or any adjournment thereof.

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

ILANI YA MKUTANO MKUU WA KILA MWAKA

ARIFA INATOLEWA KWAMBA mkutano mkuu wa kila mwaka wa shirika utafanyika katika ukumbi wa Amphitheatre Kenyatta International Conference Centre, Harambee Avenue, Nairabi siku ya Jumanne tarehe 26 Julai 2005 sasa tano asubuhi, kwa madhumuni ya shughuli zifuatazo:

1. Kuonyesha ratiba ya wawakilishi na kujua idadi ya wote waliohudhuria
2. Kusoma arifa iliyoalikia mkutano.
3. Kupokea na, ikiidhinishwa, kukubali hesabu ya pesa za mwaka iliyokaguliwa ya mwaka uliyomalizika 31 Disemba 2004 pamoja na taarifa za Mwenyekiti, wakurugenzi na wakaguzi wa hesabu.
4. Kuchagua wakurugenzi:
 - a. Bw Naftali Magere na Bibi Mary M'Mukindia ambao walichaguliwa na wakurugenzi mnamo tarehe 8 Julai na 26 Octaba 2004 mtawalia, wanastaafu kwa mujibu wa kifungu 104 cha sheria za Kampuni, na kwa vile wanastahili, wanajitolea kuchaguliwa tena.
 - b. Katibu Mkuu wizara ya Fedha anastaafu kwa mzunguko na kwa mujibu wa kifungu 105 cha sheria za Kampuni, na kwa kuwa anastahili, anajitolea kuchaguliwa tena.
5. Kuidhinisha malipa ya wakurugenzi.
6. Kuthibitisha kuwa wakaguzi wa hesabu, KPMG Kenya, wataendelea na jukumu hila kwa mujibu wa sehemu 159(2) ya sheria za Kampuni (kifungu 486) na Sehemu 24(1) ya sheria za Benki (kifungu 488) na kuwaruhusu wakurugenzi kuamua malipo yao.

KWA AMRI YA HALMASHAURI

Fiana C Fox
SECRETARY
30 Machi 2005
PO Box 41968
NAIROBI

Maelezo

Kwa mujibu wa Sehemu 136 (2) ya sheria za kampuni (kifungu 486) kila mwanachama aliye na haki ya kuhudhuria na kupiga kura katika mkutano huu vile vile ana haki ya kumchagua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi si lazima awe ni mwanachama.

Fomu ya uwakilishi imeambatanishwa humu na lazima itumwe kwa Msajili, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, SLP 30088, 00100 Nairobi, ifike kwake kabla ya masaa 48 ya kuanza kwa mkutano au kuahirishwa kwake.

Ikiwa anayechagua mwakilishi ni shirika au idara ya serikali, lazima kuwe na muhuri wa afisa msimamizi wa idara hiyo au shirika au wakili wao.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENKATI

Dear Members,

I am delighted to present to you our company's annual report and accounts for the year ended 31st December, 2004 and also share with you the achievements and plans for your company.

Improving the Capital Base

Let me first appraise you on a matter that I believe most of you are keen to hear about so that I can allay whatever fears or anxieties you may have regarding the future of this company.

Last year, I mentioned to you about various efforts we had embarked on to improve your company's capital base. We are still on this journey. The capital solutions being sought to strengthen our balance sheet are still key on your Board's agenda. There are diverse ways through which we can achieve this and hence careful consideration needs to be made in evaluating any proposals. My assurance to you is that the recommendations that your Board will bring to you to approve will be those considered most suitable for the sustainability and prosperity of this company.

From experience, re-capitalization processes are usually arduous both in pre-qualification and selection. Their ultimate implementation requires a series of clearances and approvals from shareholders, regulators, licensing authorities and other stakeholders. Whilst efforts are being made to expedite the process, an appreciation of the need for proper process requires us to allow all parties satisfy themselves that we have addressed and fulfilled their requirements. Premature speculation based on unofficial sources of information serves to undermine the process and I urge you all to stand clear in the knowledge that your Board does not engage in underhand activities. Should we get to the point where an announcement is imminent, it will first and foremost be made to you, and only after the Board has ensured compliance with all due process.

Financial Environment

As mentioned earlier, your Board has several plans. This extends to mean that we continue with regular business to prosper the company and improve its overall prospects in this growing competitive market of deposit mobilization and mortgage financing. The financial markets in 2004 were comparatively more stable but that is not to say they were without periodic



Kwa wanachama,

Nina furaha kuu kuwatalea taarifa ya hesabu za mwaka za shirika katika kipindi cha mwaka uliamalizika tarehe 31 Disemba 2004 na vile vile kujumuika pamoja kutafakari mafanikia na mipanga ya baadaye ya shirika lenu.

Kuimarisha Kumbukumbu

Nitatanguliza kwa kuwatathmini maswala ambaya ninaamini wengi wenu muna hamu kuu ya kuyasikia ili niandae wasiwasi au shauku muliya naya kuhusu msakabala wa kampuni hii.

Mwaka jana, niliwagusia juu ya mikakati mbali mbali tuliyabuni ili kufufua na kuimarisha msingi wa

rasilimali ya kampuni yenu. Bada juhudi hizi zinaendelea. Utatuzi wa kirasilimali unaatfutwa ni ule utakaatilia nguvu mizania yetu, hili likiwa ni swalo linalapewa uzito sana na bodi ya wakurugenzi. Kuna njia mbali mbali zinazoweza kutumika kufikia lengo hili hivyo basi ni muhimu kuweka uangalifu katika kutathmini ushauri wowote ule. Hakikisha langu kwenu ni kuwa mapendekeza yote ambaya bodi yenu itakayataa ili muidhinisha, yamefikiriwa kwa kina na ni ya kufaa katika kukuza na kuleta ufanisi katika kampuni hii.

Kutakana na uzoefu, njia za kuongeza uwekezaji rasilimali kwa kawaida huwa na uzita katika uchambuzi wa awali na uchaguzi wenyewe. Hatimaye utekezaji wake unahitaji mfululiza wa ruhusa na idhini kutoka kwa wenyehisa, wasimamizi, wataa leseni na wahusika wengine. Wakati juhudi zikiwa zinaendelea za kuharokisha njia hii, kuna haja ya kutafuta njia muafaka inayoleta maelewano na makubaliano kuwa matakwa ya pande zote yametiliwa maanani na kutimizwa. Habari za kudhania zitokanaza na habari zisiza rasmi huleta uharibifu katika juhudi na nawaamba nyate muwe na uhakika kuwa Bodi yenu haijishughulishi na hila za aina yeyote. Itakeapa wakati ambao kutatakea umuhimu wa kuwatangazia jamba, wa kwanza kujulishwa itakuwa ni nyinyi, na hii itakuwa ni baada ya Bodi imehakikisha kutimizwa kwa kanuni na masharti yote.

Hali ya kifedha

Kama ilivyatajwa hapa mbeleni, Bodi yenu ina mipanga kadha wa kadha. Kwa kirefu hii inamaanisha tutaendelea na biashara yetu ya kawaida ili kufanikisha kampuni na kubaresha matarajia yake katika saka hili la uwekaji akiba na mtaji lenye ukuaji na ushindani wa hali ya juu. Masoka ya kifedha katika mwaka wa 2004 kwa ulinganifu yalikuwa na utulivu zaidi

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI (Continued)

volatility. The year started with a 91-day Treasury bill rate at 1.5% which rose to 8.3 % at the close of the year. Low rates prevailed for most of the year while the bulk of the increase took place during the fourth quarter. Frequent and contradicting short-term market movements make prediction and policy direction quite challenging for a long-term product like mortgages. We came out ahead in 2004 and the increase in sales volumes demonstrate that we are on the right track.

Financial Results for 2004

We made a profit of KShs 60 Million in year 2004 up from KShs 52 Million in the previous year. These results should be read against the background that it's the year in which we took the full effect of a lower interest rate regime, affecting our gross revenues from lending and investments. This is a story many of you will have heard repeated by other players in the financial sector, but it is not to say we just gave in to market dynamics. We were able to sustain our margins therefore retaining overall profitability. Collections from our distressed debt portfolio reached a high of KShs 1.3 Billion. Our improved collection methods have made us more attractive to the home-buying public, by re-affirming our superior knowledge of the variables in a long-term mortgage, complemented by the empathy we show towards customers who are unfortunate to face an inability to fully repay their obligations.

Non-interest expenses declined by 13%, which demonstrates a commendable success in our cost rationalization program. Staff numbers declined from 259 to 235, which underscore the efforts we are making to run a leaner organization. With the advent of heightened competition and the challenges from speculation over our capital restructuring, I am happy to note the depth of our customer loyalty and brand strength. We will reciprocate this loyalty by ensuring that eventually our customers will celebrate the decisions they made in supporting our business. It is through their continued support that we will prosper.

Business and Management

Whilst I agree these profit figures may be modest quantitatively, the issues I will highlight in this statement should give you the excitement we feel of an awakening giant. An understanding of where we are coming from gives a better appreciation of what we have achieved and a clearer perspective of where we are going. I am sure you look to this statement not merely to seek elaboration on what happened in the past but to take comfort in the knowledge that we have a planned future.

lakini siya kumaanisha hakukuwa na misukosuka ya mara kwa mara. Mwaka ulianza na kiwango cha hawala ya serikali ya siku 91 ikiwa asilimia 1.5 na hatimaye kuongezeka hadi asilimia 8.3 katika kipindi cha mwisho wa mwaka. Viwango vya chini vilidumu kwa muda mrefu katika mwaka na ongezeko kubwa likihisiwa katika raba ya mwisho ya mwaka. Mienendo ya mara kwa mara isiyatarajiwa ya muda mfupi katika soko inataa changamoto kubwa kutabiri na kupanga maongozi hasa kwa biashara ya mtaji ambaya ni bidhaa ya muda mrefu. Tulipata maendeleo mokubwa katika mwaka wa 2004 na ongezeko kubwa la mauza linadhihirisha kuwa tuka katika njia iliya sawa.

Matokeo ya kifedha katika mwaka wa 2004.

Tulipata faida ya Shilingi milioni 60, katika mwaka wa 2004 kutaka Shilingi milioni 52 katika mwaka uliotangulia. Matokeo haya yonafaa kufikiriwa kwa kuwa yalipatikana licha ya kuwa mwakani kulikuwa na athari kubwa ya viwango duni vya riba, ambavyo viliothiri mno jumla ya faida itakanaya na kukopesha na uwekezaji. Haya ni masimulizi ambaya wengi wenu mmeyasikia yakikaririwa na wahusika wengine katika sekta ya kifedha, lakini hatumaanishi kuwa tulikubali tu kufuata mfumo wa saka. Tuliweza kudumisha faida yetu. Ukusanyaji wa madeni yaliyokuwa yamesita kulipwa ulifikia kiwango cha juu cha Shilingi bilioni 1.3. Njia zetu imara za kukusanya fedha zimeleta kuvutiwa kwa wananchi wanunuzi wa nyumba, kuthibitisha kutambua kwetu hali ya kubadilikabadilika ya biashara ya mtaji wa muda mrefu, ikiambatana na kuelewa kwetu masilahi ya wateja ambao kwa bahati mbaya hushindwa kulipa madeni yao.

Gharama ya biashara isiya riba ilipungua kwa asilimia 13, hii inaonyesha kufaulu kunakostahili sifa kwa mpango wa kupunguza gharama. Idadi ya wafanyakazi ilipungua kutaka 259 hadi 235, ambaya inadhihirisha juhudi zetu za kuwa na shirika lenye watu wachache. Kuweka kwa ushindani na changamata kutokana na uzinduzi wetu wa mikakati ya kuboresha rasilimali, nina furaha kuwakumbusaha undani wa uaminifu wa wateja kwetu na nguvu ya bidhaa yetu. Nasi tutatunuku uaminifu huu kwa kuhakikisha kuwa hatimaye watafurahia kuchagua kwao kuunga mkono biashara yetu. Kuendelea kutuunga mkono kwao ndiyo kutakaatuletea sisi ufanisi.

Shughuli za biashara na usimamizi

Wakati nikiwa nakubali kuwa viwango vya faida ni kidaga kwa kadiri, maswala nitakaya tilia mkaza katika taarifa hii yatakuletea uchangamfu tunoohisi tunapaamsha kampuni hii kubwa. Tukitafakari tulikatoka kunatufonya kufurahia zaidi kufaulu kwetu na kuona wazi tunakoelekea. Nina hakika unatazama taarifa hii sia kwa kuangalia kwa kirefu mambo yaliyapita zamani bali kupata faraja kuwa na matarajio mema ya mipanga ya siku za usani.

Competition within the industry heightened in 2004 with several banks announcing entry into the mortgage market. We do not shun competition and neither do we see success only if we operate without competition. Our response to these challenges was swift and direct. The actions included product and process improvement, innovation and re-direction of sales and marketing energies to the point where the number and value of new loans being approved in any one month were doubled. We sell a good product with a wide demand base so competition should be read not as a threat but as an opportunity.

I pointed out last year that we had identified the supply of housing as a strategic area for growth. In furtherance of this drive, we re-launched the construction loan product for individual borrowers and also to support property developers. The market has received this launch very well. Sales of the construction loan are very promising. Already, our subsidiary company, Kenya Building Society, have signed a KShs 1 Billion joint venture arrangement to continue the development of Kamarack Phase 5. We envisage concluding similar ventures in other parts of Nairobi and the main urban centers of Kenya.

One of our major challenges, and a battle I am pleased to note we are winning is the improvement of the quality of our mortgage asset. Resolving issues pertaining to the non-performing debt boosts our income, profitability and improves our performance ratios. We work with our borrowers to seek solutions that enable them cope with the mortgage repayments and where possible retain their house or equity. We are undisputed market leaders in the expansion of solutions for distress loans and have made a name amongst borrowers as a listening company. Monthly collections have improved tremendously and the portfolio of Non Performing Loans is a continuously decreasing figure. Customers are sending in compliments very regularly on our proactive approach to amicably seeking solutions to distress debt. We do indeed use auction as a last resort. There is no magic process or overnight remedy as each debt is negotiated individually with the borrower. I hasten to add that I am confident the pace of recovery is good and we will be telling a different story in the very near future.

In the expansion of our business focus, we signed an agreement to be a sub-agent of the international money transfer agency called Western Union. Kenyans in the Diaspora are always looking for ways to increase their investment here in Kenya. This sub-agency has enabled us offer secure and reliable money transfer facilities, and sell our investment products to these non-resident Kenyans. The arrangement has also boosted our strategy on diversification of non-interest income.

Ushindani wa kibiashara katika saka hili ulizidi katika 2004 wakati ambapo benki nyingi zilitangaza kuingia kwa katika biashara ya mtaji. Hatupandi washindani na siya kuwa tunaana tutafulu tu kama hakuna ushindani wa kibiashara. Itika letu kwa changamoto hizi ni kuchukua hatua za haraka na za moja kwa moja. Kati ya hizi ikiwa ni kubaresha bidhaa na utendaji kazi, njia bunifu za mauzo, hivi kwamba idadi ya kuidhinishwa kwa maambi ya mikopo kulizidi maradufu. Tunauza bidhaa bora inayatafikana na wengi kwa hivya ushindani hauhai kuchukuliwa kama tisha bali kama nafasi ya kufaa ya kustawika.

Mwaka jana nilieleza ya kuwa tumetambua kusambaza umiliki wa nyumba kutakuwa enea letu kubwa, kimkakati, la ukuaji. Ili kushinikiza hili, tulibuni upya mkopo wa ujenzi kwa watu binafsi na vile vile kutoa usaidizi kwa wanakandarasi wa kujenga nyumba za makaa. Kuanzishwa huku kulipokewa vyema sana katika saka. Mauza ya mikopo hii ya ujenzi inoonekana kuwa ya matumaini makubwa. Tayari, kampuni yetu ndaga, Kenya Building Society, imetia saini mkataba wa ushirika wa Shilingi bilioni 1 kuendelea kujenga mtaa wa Kamarack Phase 5. Vile vile tunatazamia kukamilisha mikataba kama hiyo katika mitaa mingine ya Nairobi na katika miji mingine mikubwa hapo nchini Kenya.

Moja ya changamata kubwa kwetu, na vita vikubwa ambavyo nina furaha kuripati kuwa tunashinda, ni kusitawisha kwa ubara wa rasilimali ya rehani. Utatuzi wa maswala ya madeni batili yaliingiza mapata yetu, na uweza wa faida na hivya basi kubaresha kima ukuaji wetu. Tunawasiliana na waambaji mikopo wetu ili kupata suluhisha litakalawezesha kuhimili ulipaji mtaji na kukiwa na uwezekana kuendelea kumiliki nyumba zaa. Bila shaka sisi ndiye tunaangaza katika sekta hii katika kusuluhisha mikopo batili na tumejenga jina miongoni mwa wateja kuwa sisi ni kampuni inayawasilikiza. Kukusanya kwa kila mwezi kumeimarika mna na idadi ya mikopo batili inaendelea kupungua vilivyo. Wateja wanatuma pangezi zaa mara kwa mara juu ya njia zetu maridhwa za kutatua wanaposhindwa kulipa mikopo. Hakika sisi hutumia njia ya kunadi mali zaa kama njia ya mwisho kabisa. Hakuna kiini macho katika mpanga huu au suluhisha la mara moja, lakini kila tatiza husuluhishwa baada ya mashauriana na mkopaji. Naharokisha hapa kuongeza kuwa nina uhakika na hatua zinazachukuliwa na nitakuwa na ripati nzuri zaidi katika siku za hivi karibuni.

Katika upanuzi wa kiini cha biashara yetu, tulifika saini mapatano ya kuwa wakala wa kampuni ya kimataifa ya kutuma na kupokea pesa ya Western Union. Wakenya waliaka katika sehemu mbali mbali ulimwenguni huwa na matarajia ya kuweka rasilimali hapa nchini. Uwakala huu umetuwzesha kutoa huduma ya njia salama na ya kutegemewa ya kutuma na kupokea pesa, na kuuza bidhaa yetu ya kuweka rasilimali kwa wakenya hawa wanaoishi nje. Mpanga huu umetilika nguvu mkakati wetu wa upanuzi wa faida kutakana biashara isiyahusu riba.

CHAIRMAN'S STATEMENT/TAARIFA YA MWENYEKITI (Continued)

Ladies and gentlemen, I am happy to report to you that we have successfully completed a full year's operation using our new IT software, Equinox. After some initial teething issues usually associated with a major project like this, we are now able to offer more comprehensive and quicker services to our customers. I take this opportunity to thank all our customers for the patience and support they demonstrated during the project roll-out and apologize for any inconveniences that may have been caused. The new system greatly enhances our ability to offer modern e-business solutions and we should be making announcements in this respect very soon.

Up-skilling of Staff has always been one of our key strategies to enable us meet the challenges of this dynamic industry. We maintain a rigorous performance management and reward system complemented by an active training program to ensure that we have adequate and appropriate resources to execute our business plans. It is a demanding support function to ensure that we attract good skilled individuals and also retain them, so I again wish to recognize the managements' achievements so far. Any good we shall get from all these great business plans and strategies we have will depend on the competency, loyalty and commitment of the people we employ. I assure you we pay more than lip service to the famous adage that "people are the most important asset" to our company.

The cost containment activities we have undertaken in the year have indeed borne fruit. Finding a balance between cost reduction and operational efficiency takes a combination of firmness and good judgment. I believe our cost reduction achievements demonstrate our commitment to address our business and operations expenditures. This process is not finite and we will continue to draw on the successes and lessons of our actions so far.

Corporate Governance and Social Responsibility

Your Board has been active in keeping in touch with topical issues in the corporate world where some of the challenges include having in place recognizable programs on corporate governance (CG) and corporate social responsibility (CSR). To this end, some new committees were re-defined and created during the year. We attend forums and also participate in active groups that advocate good practice in corporate affairs. The Board also ensures that all these good governance issues permeate through to management and into our daily lives. To guarantee success in this arena, your company has encompassed CSR as being a wider concept than just public relations exercise by associating with national programs that will better the lives of Kenyans

Mabibi na mabwana, nina furaha kuwaripatia kuwa tumefaulu kukamilisha mwaka mzima tangu tuanze kutumia mpango mpya wa data ya kampyuta, uitwao Equinox. Baada ya matatizo kidaga pale mwanzo, kama inavyotarajiwa katika mpango mkubwa kama huu, sasa tuna uweza wa kutoa huduma ya haraka na muafaka kwa wateja wetu. Nachukua fursa hii kuwashukuru wateja wetu wote kwa utulivu wao na kutuunga mkono kwao kama walivyoyaonesha wakati wa kutekeleza mpango huu na tunawaambia watu wote radhi kwa usumbufu wawote tuliasababisha. Mpango huu mpya unazidisha uweza wetu wa kutoa huduma za kisasa kupitia teknolojia ya kampyuta na hivi karibuni tutangaza mengi kuhusu haya.

Kuongeza ujuzi wa wafanyakazi wetu kumekuwa moja ya mipango muhimu sana ili kuweza kukabili changamata ilioka katika biashara hii yenye kubadilikabadilika. Sisi tunadumisha usimamizi imara wa utendakazi na kuzawadi wafanyaa bara ikiambatana na mpango wa mafunza ili kuhakikisha kuwa tuna wafanyakazi wenye ujuzi wa kutekeleza malengo ya biashara yetu. Hii ni shughuli yenye uzito mkubwa ya kuhakikisha tunavutia wafanyakazi wenye ujuzi na kuhakikisha tunabaki nao, hapa tena nachukua nafasi kupongeza mafanikio ya wasimamizi. Mazuri yote yatakayafikiwa kutokana na mipango hii mizuri ya kibiashara na mikakati yatategemea uweza, uaminifu na kujitolea kwa wafanyakazi wetu. Nakuhakikishieni kuwa tunadumisha kwa kina msemu usemaa "wafanyakazi wetu ndiye rasilimali muhimu zaidi" kwa kampuni yetu.

Shughuli, tulizaanzisha mwakani, za upunguzaji gharama zimeleta matunda mazuri. Kupata uwiano baina ya kupunguza gharama na utendaji kazi bara kunahitaji muawana wa ushupavu na maamuzi busara. Ninaamini kufaulu kwetu katika upunguzaji gharama kunaonyesha kujitolea kwetu kuangalia gharama za utendaji kazi wa biashara hii. Mfuma huu siya kikama, bado tuaendelea kupata faida na vile vile mafunza ya shughuli zetu kufikia sasa.

Usimamizi wa masilahi ya kijamii

Badi yenu imekuwa mstari wa mbele katika kujishughulisha na maswala muhimu ya kishirika ambamo miangani mwa changamata zilizoka ni pamoja na kuweka kwa mikakati maalumu ya kuangalia maslahi ya kijamii. Kufikia haya, kamati mpya zilibuniwa na kupewa majukumu mwakani. Huwa tunahudhuria mabaraza na vile vile kujihusisha na vikundi vinavyapigania kuleta usimamizi bara wa mamba ya kijamii. Badi vile vile huhakikisha hisia hizi zinadhihiri kupitia wasimamizi na katika maisha yao ya kila siku. Ili kufanikisha mpango huu, kampuni hii yenu imeuchukua mpango wa maslahi ya kijamii kwa kina sana, siya tu kama mpango wa uhusiano mwema, bali kujihusisha na mipangao mingine ya kitaifa ambaya itobaresha maisha ya wananchi zaidi ya utoaji nyumba za makaa. Kwa mfano,

(Continued)

beyond the realm of housing. We have, for instance, supported some very notable social institutions as part of our role in being good corporate citizens.

General Remarks

During the year we were fortunate to welcome Mrs. M. M'Mukindia and Mr. N. Magere to our Board. In the time they have been with us we have seen them make very valuable contribution. We recognize the importance of a strong and representative Board and I wish to convey to them that we are confident that they were suitable choices.

Dividend

The Board has presented you with an update on the proposed capital improvement initiatives. We recognize the need for a stronger balance sheet to compete in this changing environment and therefore do not recommend any dividend for 2004.

So in conclusion, I am confident in saying that we are on the right track as a company. I reiterate that there are no overnight fixes to some of the challenges we have faced, but we all have worked diligently through each matter with your support and patience to the point where we feel poised to reap the benefits of all this hard work and reform. Your Board stands confident that the path selected remains the right strategy and that the modest profits we report now, after the losses in earlier years, are an affirmation that we are headed for greater prosperity.

Thank you all and best wishes in 2005.

Chairman

Kung'u Gatabaki

tumeunga mkana mipanga mingi ya mashirika ya kijamii kama mchanga wetu wa kuwa kampuni mzalenda halisi.

Mwaka 2005

Mwakani tulibahatika kuwakaribisha Bi. M.M'Mukindia na Bw.N. Magere katika badi yetu. Kwa muda waliakuwa nasi tumeana wakichangia pakubwa. Tumetambua umuhimu wa kuwa na badi yenye wahusika imara na ningependa hapa kuwajulisha kuwa tuna imani nao na walikuwa chagua lifaala kabisa.

Mgao

Badi imetaa kwenu maeleza kuhusu mapendekezo ya kuimarisha rasilimali. Tunafahamu umuhimu wa kuwa na urari wa hesabu wenye nguvu ili kushindana katika mazingira haya kigeugeu na hivya basi haipendekezi mgao wawote katika mwaka wa 2004.

Kwa hivya, katika kumalizia, nina matumaini ninapasema kuwa tuka katika mkanda mzuri kama kampuni. Ninarudia tena kuwa hakuna njia za mkata katika kusuluhisha baadhi ya vipingamizi vinavyatukabili, lakini tutafanya kila juhudi pamoja na nyinyi kutuunga mkana na kuwa na subira hadi pale mtakapavuna faida ya kazi hii ngumu na mategemeo. Badi yenu ina msimama imara kuwa njia tuliyochagua ndiye sawa na faida kidaga tunayaripoti sasa, baada ya hasara katika miaka iliyopita, ni thibitisha la kuwa tunaelekea kupata mafanikia makubwa zaidi.

Nawashukuru nyote na nawatakia ufanisi katika mwaka wa 2005.

Mwenyekiti

Kung'u Gatabaki.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2004

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2004.

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

	2004 Kshs'000	2003 Kshs'000
Gross income	1,370,260	2,273,615
Profit/(Loss) before taxation		
Housing Finance Company of Kenya Limited	98,572	112,387
Kenya Building Society Limited	(10,469)	(14,325)
First Permanent (East Africa) Limited	(247)	(51)
Group profit before taxation	87,856	98,011
Taxation	(27,880)	(46,164)
Profit after taxation	59,976	51,847
Revaluation surplus realised on disposal of investment property	-	10,229
Retained profit brought forward	308,066	245,990
	368,042	308,066
Dividends – proposed	-	-
Retained profit carried forward	368,042	308,066

3 Dividend

The Directors do not recommend the payment of a dividend (2003 – Nil).

4 Directors

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

5 Auditors

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

6 Approval of financial statements

The financial statements set out on pages 19 to 43 were approved at a meeting of Directors held on 30 March 2005

BY ORDER OF THE BOARD

Company Secretary

Date: 30 March 2005

TAARIFA YA WAKURUGENZI

YA MWAKA UNAOISHA TAREHE 31 DESEMBA 2004

Wakurugenzi wanafuraha kuwasilisha ripati yao pamoja na taarifa za hesabu zilizakaguliwa za mwaka ulioisha tarehe 31 Desemba 2004.

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

	2004	2003
	Kshs'000	Kshs'000
Mapato ya Jumla	1,370,260	2,273,615
Faida/(Hasara) kabla ya ushuru		
Housing Finance Company of Kenya Ltd	98,572	112,387
Kenya Building Society Limited	(10,469)	(14,325)
First Permanent (East Africa) Limited	(247)	(51)
Faida ya Kundi Kabla ya Ushuru	87,856	98,011
Ushuru	(27,880)	(46,164)
Faida baada ya ushuru	59,976	51,847
Thamani ya ziada iliapatikana kutakana		
Na uuzaji wa rasilimali	-	10,229
Faida iliyabakishwa na kuletwa mbele	308,066	245,990
	368,042	308,066
Mgawa uliapendekezwa		
		-
Faida iliyobakia na kupelekwa mbele	368,042	308,066

3 Mgawo

Wakurugenzi hawakupendekeza mgao wawate (2003 – kapa)

4 Wakurugenzi

Wakurugenzi waliashikilia afisi katika mwaka wamearodheshwa katika ukurasa wa 3.

5 Wakaguzi wa Hesabu

Wakaguzi wa Hesabu, KPMG Kenya, wameanyesha 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 Taarifa za Kifedha

Taarifa za Kifedha zilizaanyeshwa katika ukurasa wa 19 hadi 43 zilipitishwa katika mkutano wa wakurugenzi uliafanyika 30 Machi 2005.

KWA AMRI YA HALMASHAURI

Katibu wa Kampuni

30 Machi 2005

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 non-executive 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 performance management framework. Any impending resignation of directors and the underlying circumstances are disclosed in the annual report.

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
- Nomination and Remuneration 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.

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, half yearly and annual results. Press releases are also produced whenever there are significant developments to report on.

CORPORATE GOVERNANCE (Continued)

7 Directors' benefits and loans

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 8 to the financial statements.

8 Major shareholders as at 31 December 2004

	Name of the Shareholder	No of shares	%age shareholding
1	CDC Group PLC	35,000,000	30.43
2	National Social Security Fund	12,961,901	11.27
3	Government of Kenya	8,422,850	7.32
4	Namura Nominees Ltd – A/C JMM	4,816,657	4.19
5	The Mbari Security Company Ltd	3,605,491	3.14
6	Borclays Kenya Nominees Ltd – A/C 9230	2,570,000	2.23
7	Apallo Insurance Company Limited	692,408	0.60
8	Kimani John Kibunga	609,019	0.53
9	Patel Mahendra Dahyabhai	459,793	0.40
10	Kibutu George Nganga	450,445	0.39
	TOTAL	69,588,564	60.50

9 Distribution of shares in shareholding ranges as at 31st December 2004

Shareholder (Number of shares)	No of shareholders	No of shares held	%age shareholding
1-500	5,579	2,281,652	1.98
501-5,000	14,495	24,945,433	21.69
5,001-10,000	971	6,440,812	5.60
10,001-100,000	328	8,431,957	7.34
100,001-1,000,000	23	5,523,247	4.80
Over 1,000,000	6	67,376,899	58.59
TOTAL	21,402	115,000,000	100.00

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-Janes)
30 March 2005

TAARIFA JUU YA MAJUKUMU YA WAKURUGENZI

Sheria za Kenya zinazasimamia mashirika zinawalazimu wakurugenzi kutayarisha taarifa za hesabu ya fedha ya kila mwaka, inayoonyesha hali halisi ya shughuli za kundi na shirika kama ilivya kila unapomalizika mwaka na vile vile utendaji kazi wa shirika katika mwaka huo. Vile vile sheria inwataka wakurugenzi kuhakikisha kuwa kundi na shirika linaweza orodha kamili rekodi ya hesabu, ambayo inaonyesha dhahiri bila makasa hali ya kifedha ya kundi na shirika. Vile vile ni jukumu la wakurugenzi kuhakikisha kuwa kundi na shirika linaweza orodha kamili rekodi ya hesabu, ambayo inaonyesha dhahiri bila makasa hali ya kifedha ya kundi na shirika.

Wakurugenzi wanachukua dhima ya yate yaliya katika taarifa ya hesabu za fedha, iliyo tayarishwa kwa kutumia mipango kabambe ya uhasibu inayaungwa mkono na maamuzi na makadiria muafaka, yanayaambatana na viwango vinavyokubalika katika ngazi za kimatifa na kulingana na matarajia ya sheria zinazasimamia mashirika hapa Kenya. Ni pendekezo la wakurugenzi kuwa taarifa hiya ya hesabu inaonyesha kwa ukweli na bila mapendeleo yeyote hali halisi ya kifedha ya shirika na ya kundi na matokeo yaliopatikana katika utendaji kazi wake.

Pamoja na hayo, wakurugenzi wanachukua jukumu la kudumisha uwekaji rekodi za uhasibu ambao unaweza kutegemewa katika kutayarisha taarifa za hesabu za fedha, pamoja na mikakati ya usimimazi bora wa shughuli za kifedha wa kila siku.

Hakuna dalili zazote zimedhihirikia wakurugenzi kuonyesha kuwa kampuni pamoja na washirika wenzi zitasitisha kuendelea shughuli zake kwa takriban miezi kumi na miwili ijayo kuanzia tarehe ya taarifa hii.

Kung'u Gatabaki)
David R Ansell) Wakurugenzi
Peter Lewis-Janes)
30 Machi 2005

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF HOUSING FINANCE COMPANY
OF KENYA LIMITED

We have audited the financial statements set out on pages 19 to 43 for the year ended 31 December 2004. 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.

Respective responsibilities of Directors and independent auditors

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.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the 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 policies 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.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the group and company's financial position at 31 December 2004 and of the group's operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which gives disclosure concerning compliance with Central Bank of Kenya regulations on Risk Classification and Provisions for Bad and Doubtful Loans and Advances.

KPMG KENYA
CERTIFIED PUBLIC ACCOUNTANTS
PO BOX 40612
NAIROBI
30 March 2005

RIPOTI YA WAKAGUZI WA HESABU

KWA WANACHAMA WA HOUSING FINANCE COMPANY
OF KENYA LIMITED

Tumekagua taarifa za kifedha zilizako katika ukurasa wa 19 hadi 43 za mwaka ulioisho Desemba 31, 2004. Tumepewa habari na maelezo yote ambayo kwa kadri ya ujuzi na imani yetu yalihitajika kwa minaojili ya ukaguzi wetu na kutoa msingi wa kutosha kwa maoni yetu. Taarifa za fedha za Kampuni zinakubaliana na vitabu vya hesabu.

Wajibu wa Wakurugenzi na Wakaguzi
wa Hesabu wa kibinafsi

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

Msingi wa Maoni

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

Maoni

Kwa maoni yetu vitabu vya hesabu vimetunzwa vyema na taarifa za fedha zinaonyesha kweli na bila upendelea hali ya mambo ya kifedha ya kundi na kampuni kufikia Desemba 31, 2004 na za motokeo ya utendaji na mapata halisi ya fedha za kundi kwa mwaka ulioisha hapo na kulingana na Viwango vya Kimataifa vya Uhasibu vilivyotangazwa wazi na Halmashauri ya Viwango vya Kimataifa vya Uhasibu na kukubaliana na mahitoji ya Sheria za Makampuni.

Jamba la kusisitiza

Bila ya kutoa hoja yetu, tunakuhimiza kutazama muhtasari namba 2 katika Taarifa za Kifedha inayadhihiri kuzingatia kwetu kwa sheria za Benki Kuu kuhusu kanuni za uwekaji dhima juu ya mikopo batilifu isiyalapika.

KPMG KENYA
KAMPUNI YA WAHASIBU
S.L.P 40612
NAIROBI
30 Machi 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

		2004	2003
	Note	KShs'000	KShs'000
INTEREST INCOME	4	1,154,825	2,037,417
INTEREST EXPENSE	5	(249,576)	(401,203)
NET INTEREST INCOME		905,249	1,636,214
IMPAIRMENT LOSSES ON MORTGAGE			
ADVANCES	14(b)	(374,670)	(1,018,976)
NET INTEREST INCOME AFTER IMPAIRMENT			
LOSSES ON MORTGAGE ADVANCES TO CUSTOMERS		530,579	617,238
NON INTEREST INCOME	6	215,435	236,198
NON INTEREST EXPENSES	7	(658,158)	(755,425)
PROFIT BEFORE TAXATION	8	87,856	98,011
TAXATION	9	(27,880)	(46,164)
NET PROFIT AFTER TAX		59,976	51,847
BASIC EARNINGS PER SHARE	10	KShs 0.53	KShs 0.45
DIVIDEND PER SHARE	11	-	-

The notes set out on pages 24 to 43 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
ASSETS			
Cash and bank balances	12(a)	143,311	215,301
Placements with other banks	12(b)	502,754	752,128
Investment in Government Securities	13	1,346,306	1,775,707
Mortgage advances to customers (Net)	14(a)	6,583,011	7,099,014
Other assets	17	339,817	365,418
Housing Development Projects	18	9,206	18,125
Property and equipment	19(a)	242,386	234,951
Prepaid operating lease rentals	20	57,467	58,358
Intangible assets	21	81,002	61,922
Deferred tax asset	22(a)	58,167	86,066
Tax recoverable		77,659	77,659
Defined benefit asset	23	19,834	19,884
TOTAL ASSETS		9,460,632	10,764,533
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customers' deposits	24	8,062,191	9,419,275
Other liabilities	25	182,222	189,015
Dividends - payable		96,293	96,293
		8,340,706	9,704,583
SHAREHOLDERS' EQUITY (Page 23)			
Share capital	26	575,000	575,000
Reserves		494,176	434,200
Shareholders' income notes and loans	27	50,750	50,750
		1,119,926	1,059,950
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9,460,632	10,764,533

The financial statements set out on pages 19 to 43 were approved by the Board of Directors on 30 March 2005 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 43 form an integral part of these financial statements.

COMPANY BALANCE SHEET

AT 31 DECEMBER 2004

	Note	2004 KShs'000	2003 KShs'000
ASSETS			
Cash and bank balances	12(a)	142,179	214,899
Placement with other banks	12(b)	502,639	752,128
Investment in Government Securities	13	1,346,308	1,775,707
Mortgage advances to customers (Net)	14(a)	6,583,041	7,099,014
Investment in subsidiaries	15	55,020	55,020
Dividend receivable		15,000	15,000
Amounts due from subsidiary company	16(a)	64,368	101,689
Other assets	17	334,670	359,520
Property and equipment	19(b)	235,860	228,355
Prepaid operating lease rentals	20	46,666	3,933
Intangible assets	21	81,002	61,922
Deferred tax Asset	22(b)	7,058	38,323
Tax recoverable		57,134	57,134
Defined benefit asset	23	19,884	19,884
TOTAL ASSETS		9,490,829	10,782,528
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customers' deposits	24	9,421,100	9,421,100
Amounts due to subsidiary company	16(b)	24,666	24,666
Other liabilities	25	177,142	177,142
Dividends - payable		96,293	96,293
		9,719,201	9,719,201
SHAREHOLDERS' EQUITY (Page 23)			
Share capital	26	575,000	575,000
Reserves		437,577	437,577
Shareholders' income notes and loans	27	50,750	50,750
		1,063,327	1,063,327
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,782,528	10,782,528

The financial statements set on pages 19 to 43 were approved by the Board of Directors on 30 March 2005 and were signed on its behalf by:

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

The notes set out on pages 24 to 43 form an integral part of these financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

		2004	2003
	Note	Ksh'000	Ksh'000
Net cash (outflow)/inflow from operating activities	28(a)	(148,695)	469,755
INVESTING ACTIVITIES			
Purchase of property and equipment		(42,040)	(32,115)
Proceeds from disposal of investment property		-	17,000
Proceeds from sale of prepaid operating lease rentals		310	631
Proceeds from sale of property and equipment		11,039	12,780
Additions to intangible assets		(44,130)	(62,047)
Net cash flow from investing activities		(74,821)	(63,751)
FINANCING ACTIVITIES			
Shareholders' loan repaid		-	(16,584)
Net cash outflow from financing activities		-	(16,584)
Net (decrease)/increase in cash and cash equivalents	28(b)	(223,516)	389,420

The notes set out on pages 24 to 43 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital Kshs'000	Revaluation reserve Kshs'000	Share premium Kshs'000	Retained profits Kshs'000	Total Kshs'000
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	-
Net profit after taxation	-	-	-	51,847	51,847
At 31 December 2003	575,000	100,429	25,705	308,066	1,009,200
Net profit after taxation	-	-	-	59,976	59,976
At 31 December 2004	575,000	100,429	25,705	368,042	1,069,176

The notes set out on pages 24 to 43 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

At 1 January 2003	575,000	100,429	25,705	248,968	950,102
Net profit after taxation	-	-	-	62,475	62,475
At 31 December 2003	575,000	100,429	25,705	311,443	1,012,577
Net profit after taxation	-	-	-	67,307	67,307
At 31 December 2004	575,000	100,429	25,705	378,750	1,079,884

The notes set out on pages 24 to 43 form an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2004

1 Accounting Policies

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

(a) *Consolidation*

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards. The financial statements are prepared in accordance with the going concern principle, under the historical cost convention as modified by the revaluation of certain items of property and equipment.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(b) *Subsidiaries*

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries made up to 31 December 2004. Subsidiaries are entities controlled by the company. Control exists when the company has power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting right that presently are exercisable are taken into account. A listing of the subsidiaries is set out on page 32 (Note 15).

(c) *Income recognition*

Income is recognised on an accrual basis in the period in which it is earned.

(i) **Interest income and expense**

Interest income and interest expense are recognised on an accrued basis taking into account the effective interest rate of the interest earning assets and interest bearing liabilities.

(ii) **Fees and commission**

Fees and commission income is recognised when the service is provided.

(d) *Impairment losses*

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

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 impairment loss is the difference between the carrying amount and the estimated recoverable amount.

In addition, a portfolio impairment is made 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(e) Translation of foreign currencies

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

(f) Property and equipment

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) Intangible assets

Where computer software is not an integral part of the related computer hardware it is recognised as an intangible asset. The software are stated on the balance sheet at costs less accumulated amortisation and impairment losses.

Software costs are amortised over five (5) years on a straight line basis from the date they are available for use.

(h) Prepaid operating lease rentals

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

(i) Retirement benefits obligation

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 every three years 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.

(j) Taxation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(k) Cash and cash equivalents

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

(l) Financial instruments

(i) Classification

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. These are classified as follows:-

Trading Instruments are those financial instruments that the group holds principally for the purpose of short-term profit taking.

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.

(iv) Gains and losses on subsequent measurement

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

(v) Derecognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(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, whenever the carrying amount of an asset exceeds its recoverable amount.

(n) Segmental reporting

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

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

(o) Dividends

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

(p) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(q) Offsetting

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

(r) Comparatives – information

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

2. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairment losses continue to be computed on the basis of an internally developed Provisioning Model that has been approved by the Central Bank of Kenya for use in these financial statements. Some of the parameters in the Model are different from those specified in the Central Bank of Kenya Regulation on Risk Classifications and Provisions for Bad and Doubtful Loans and Advances. The Directors believe that the company's Provisioning Model provides the best estimate for impairment losses for long-term mortgage business.

It is expected that compliance with Central Bank of Kenya Regulation on Risk Classifications and Provisions for Bad and Doubtful Loans and Advances may be required during 2005. The Directors will continue to engage the relevant Authorities in a positive way with a view to finding an agreed position in respect of the regulations governing the provision for bad and doubtful loans and advances for long-term mortgage business.

(Continued)

3.

	Mortgage business KShs'000	House sales KShs'000	Other KShs'000	Eliminations KShs'000	Total 2004 KShs'000	Total 2003 KShs'000
Gross revenue (external)	1,354,216	16,044	-	-	1,370,260	2,273,615
Segment profit/(loss) before tax	98,572	(10,469)	(247)	-	87,856	98,011
Taxation	(31,265)	3,385	-	-	(27,880)	(46,164)
Segment profit/(loss) after tax	67,307	(7,084)	(247)	-	59,976	51,847
Other information:						
Segment assets	9,490,829	103,195	24,373	(157,761)	9,460,632	10,764,533
Segment liabilities	8,360,195	83,991	65	(103,545)	8,340,706	9,704,583
Depreciation expense	(27,048)	(71)	-	-	(27,119)	(26,764)
Capital expenditure	42,040	-	-	-	42,040	32,115

4.

	2003 Ksh'000
Advances to customers	1,916,654
Treasury bills	15,062
Treasury bonds	85,664
Placements with other banks	20,037
	<u>2,037,417</u>

5.

Customer deposits	396,219
Interest on borrowed funds	4,984
	<u>401,203</u>

6.

House sales	82,446
Fees and commission income	41,430
Rental income	17,336
Other operating income	92,736
Gain on sale of investment property, property and equipment and prepaid operating lease rentals	2,250
	<u>236,198</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. NON INTEREST EXPENSES

	2004 Ksh'000	2003 Ksh'000
Cost of houses sold	13,075	69,248
Salaries and employee benefits	357,349	362,267
Rental Expenses	28,513	7,640
Deposit Protection Fund	13,158	13,561
Finance and administration costs attributed to completed projects	-	27,874
General administration expenses	244,081	233,770
Other expenses	1,982	41,065
	<u>658,158</u>	<u>755,425</u>

The average number of employees engaged by the company during the year was 235 (2003 – 259).

	2004 Ksh'000	2003 Ksh'000
Management	138	132
Unionisable	84	97
Contractual	11	22
Temporary	2	8
Total	<u>235</u>	<u>259</u>

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 20,166,861 (2003 – KShs. 56,907,000).

8. PROFIT BEFORE TAXATION

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

	2004 Ksh'000	2003 Ksh'000
Profit on sale of property and equipment, leasehold land and investment property	(3,730)	(2,250)
Directors' remuneration:		
- Fees	1,471	1,561
- Expenses	2,460	1,341
- As executives	26,512	24,493
Auditors' remuneration:		
- Current year	4,627	4,599
- Prior year over provision	-	(327)
Amortisation of prepaid operating lease rentals	657	626
Depreciation	<u>27,119</u>	<u>26,870</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TAXATION

	2004 Ksh'000	2003 Ksh'000
Current tax at 30%	-	-
Under provision in previous years	-	99
Deferred tax (Note 22(a))	27,880	46,065
	27,880	46,164

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

	2004 Ksh'000	2003 Ksh'000
Accounting profit before taxation	87,856	98,011
Tax at the applicable corporation tax rate of 30%	26,357	29,403
Tax effect of non-deductible costs and non-taxable income	1,523	16,761
	27,880	46,164

10. EARNINGS PER SHARE

The calculation of earnings per share is based on:

Net profit for the year attributable to shareholders	59,976	51,847
Number of ordinary shares in issue (in thousands)	115,000	115,000
Earnings per share	KShs 0.53	KShs. 0.45

11. DIVIDEND PER SHARE

Dividends

Number of ordinary shares in issue (in thousands)	115,000	115,000
Dividends per share	KShs 0.00	KShs. 0.00

12. (a) CASH AND BANK BALANCES

	2004		2003	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cash at hand	50,564	49,415	44,845	44,845
Current account balances	92,449	12,431	170,456	170,054
	143,013	142,176	215,301	214,899

(b) PLACEMENTS WITH OTHER BANKS

	2004 KShs'000	2003 KShs'000
Group and Company		
Due within 90 days	142,176	752,128

The weighted average effective interest rate on placement with other banks as at 31 December 2004 was 6.80% (2003 – 2.02%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. INVESTMENT IN GOVERNMENT SECURITIES

	2004 KShs'000	2003 KShs'000
Group and Company		
Treasury bills due within 90 days	450,000	351,739
Treasury bands due within 90 days	1,668	192,902
Treasury bands due within 180 days	207,240	143,730
Treasury bands due after 180 days	687,400	1,087,336
	896,308	1,423,968
	1,346,308	1,775,707

The weighted average effective interest rate on government securities as at 31 December 2004 was 5.55% (2003 – 3.72%).

14. MORTGAGE ADVANCES TO CUSTOMERS

a) Group and Company

Mortgages	10,865,208	11,634,758
Less: Provision for impairment losses	(4,282,167)	(4,535,744)
	6,583,041	7,099,014
Maturing:		
Within five years	2,355,491	2,810,653
Over five years to ten years	2,691,004	2,285,535
Over ten years to fifteen years	1,325,651	1,706,932
Over fifteen years	210,895	295,894
	6,583,041	7,099,014

b) Reserve for Impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2003	5,649,259	37,494	5,686,753
Release in the year	(22,054)	(5,235)	(27,289)
Direct write offs during the year	21,766	-	21,766
Made during the year	1,024,499	-	1,024,499
Net charge to profit and loss account	1,024,211	(5,235)	1,018,976
Written off against balance	(2,169,985)	-	(2,169,985)
At 31 December 2003	4,503,485	32,259	4,535,744
Release in the year	(314)	(912)	(1,226)
Made during the year	375,896	-	375,896
Net charge to profit and loss account	375,582	(912)	374,670
Written off against balance	(628,247)	-	(628,247)
At 31 December 2004	4,250,820	31,347	4,282,167

	2004 KShs'000	2003 KShs'000
Interest on impaired mortgages which has not yet been received in cash	3,806,812	4,086,206

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2004 was 14.43% (2003 – 14.91%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. MORTGAGE ADVANCES TO CUSTOMERS (Continued)

c) Mortgage advances

Mortgage advances include an amount of KShs 3,479,626,000 (2003 – KShs 3,635,187,000) net of impairment losses, which have been classified as impaired mortgages. The estimated realisable value of securities held against this net balance is KShs 5,100,368,000 (2003 – KShs. 5,439,284,000).

15. INVESTMENT IN SUBSIDIARIES

	2004 KShs'000	2003 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>

16. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Company:

a) Due from:

Kenya Building Society Limited	64,368	101,689
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b) Due to:

First Permanent (East Africa) Limited	(24,121)	(24,666)
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17. OTHER ASSETS

	2004		2003	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Exchange loss recoverable from the Government of Kenya	259,152	259,152	259,152	259,152
Staff debtors	34,831	34,729	32,492	32,438
Prepayments	14,136	14,136	6,218	6,218
Deposits and rent receivable	6,452	5,995	9,921	9,430
Other receivables	25,271	20,658	57,635	52,282
	<u>339,842</u>	<u>334,670</u>	<u>365,418</u>	<u>359,520</u>

18. HOUSING DEVELOPMENT PROJECTS

Group:

Housing projects

Kamarack Housing Projects

	2004 KShs'000	2003 KShs'000
Kamarack Housing Projects	9,208	18,125

Commitments in respect of these projects, authorised but not paid as at 31 December 2004 amounted to KShs Nil (2003 – Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. 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 2004	7,000	159,527	355,709	522,236
Additions	-	739	41,301	42,040
Disposals	-	(3,000)	(15,601)	(18,601)
At 31 December 2004	7,000	157,266	381,409	545,675
At cost	-	(734)	381,409	380,675
At valuation	7,000	158,000	-	165,000
Depreciation:				
At 1 January 2004	-	7,902	285,979	293,881
Charge for the year	-	2,167	24,881	27,048
Disposals	-	(164)	(10,950)	(11,114)
At 31 December 2004	-	9,905	299,910	309,815
Net book value:				
At 31 December 2004	7,000	147,361	81,499	235,860
At 31 December 2003	7,000	151,625	69,730	228,355

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:

	2004 KShs 000	2003 KShs '000
Freehold land	206	206
Buildings	55,311	53,688

Included in property and equipment are assets with a gross value of KShs 193,892,840 (2003 – KShs 177,378,394) which are fully depreciated and still in use. Such assets would have attracted a national depreciation of KShs 32,474,499. (2003 – KShs 30,232,131).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. PREPAID OPERATING LEASE RENTALS

	2004		2003	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At 1 January	65,259	4,857	68,442	53,573
Disposals in the year	(4,927)	(70)	(3,184)	(5,395)
Transfer from/to subsidiary	-	43,319	-	43,321
	<u>60,332</u>	<u>48,106</u>	<u>65,258</u>	<u>4,857</u>
Amortisation:				
At 1 January	6,900	924	7,360	5,198
Charge for the year	657	534	626	498
Disposals	(4,689)	(18)	(1,086)	(4,772)
	<u>2,868</u>	<u>1,440</u>	<u>6,900</u>	<u>924</u>
At 31 December	<u>57,464</u>	<u>46,666</u>	<u>58,358</u>	<u>3,933</u>

As at 31 December 2004 the un-expired lease period ranges from 68 years to 90 years.

21. INTANGIBLE ASSETS

	2004 KShs'000	2003 KShs'000
Group and Company		
Software costs		
At January 2004 and 2003 as previously stated	-	-
Reclassification from other assets	68,299	6,252
At January 2004 and 2003 as restated	68,299	6,252
Additions during the year	44,130	62,047
	<u>112,429</u>	<u>68,299</u>
Amortisation		
At January 2004 and 2003	-	-
Reclassification from other assets	6,377	-
At 1 January 2004 and 2003 as restated	-	-
Amortisation during the year	25,050	6,377
As at 31 December	<u>31,427</u>	<u>6,377</u>
Net book value as at 31 December – As restated	<u>81,002</u>	<u>61,922</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. DEFERRED TAX ASSET

a) Group

Movements in deferred tax assets and liabilities are as follows:

	At 31 December 2004 KShs '000	Recognised in income KShs'000	At 31 December 2003 KShs'000
Arising from:			
Plant and equipment	(8,048)	8,276	228
Other general provisions	(4,502)	2,195	(2,307)
General provision on mortgages	(9,747)	343	(9,404)
Defined benefit asset	5,965	-	5,965
Tax losses carried forward	(69,734)	17,066	(52,668)
	(86,066)	27,880	(58,186)

b) Company

Arising from:

Plant and equipment	(7,792)	8,236	444
Other general provisions	(4,189)	2,073	(2,116)
General provision on mortgages	(9,678)	274	(9,404)
Defined benefit asset	5,965	-	5,965
Tax losses carried forward	(22,629)	20,682	(1,947)
	(38,323)	31,265	(7,058)

23. RETIREMENT BENEFITS ASSET

Group and Company

In accordance with the group's policy, actuarial assessment is done after every three years. The directors, with the advice of the consulting actuary and based on their knowledge, are of the view that nothing significant has happened to have a significant impact on the fair value of the defined benefit asset since the last actuarial valuation as at 31 December 2003. The actuarial valuation at 31 December 2003 is shown below:

	KShs'000
Present value of funded obligations	239,655
Fair value of scheme assets	(278,682)
Net over funding in the scheme	(39,027)
Unrecognised actuarial loss	19,143
Net asset in the balance sheet	(19,884)
Movements in the net (asset)/liability recognised in the balance sheet are as follows:	
Net (asset)/ liability at 1 January 2003	22,281
Net expense recognised in the income statement	14,742
Employer contributions	(56,907)
Net asset in the balance sheet at 31 December 2003	(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%
Expected return on scheme assets (p.a.)	9%
Future salary increases (p.a.)	7%
Future pension increases (p.a.)	0%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. CUSTOMERS' DEPOSITS

	2004		2003	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Government and parastatals:				
Payable within 90 days	107,122	107,122	441,225	441,225
Payable after 90 days and within one year	71,174	71,174	-	-
Payable after one year	1,313,422	1,313,422	1,345,226	1,345,226
Private sector and individuals:				
Payable within 90 days	4,341,057	4,341,128	5,872,022	5,873,847
Payable after 90 days and within one year	1,691,392	1,691,392	914,600	914,600
Payable after one year	538,024	538,024	846,202	846,202
	<u>8,062,191</u>	<u>8,062,262</u>	<u>9,419,275</u>	<u>9,421,100</u>

(a) Included in customers' deposits is KShs 71,282 (2003 – KShs 1,824,829) due to a subsidiary, Kenya Building Society Limited.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2004 was 3.73% (2003 – 4.42%).

25. OTHER LIABILITIES

	2004		2003	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
The Government of Kenya - exchange risk assumption fees	18,073	18,073	17,823	17,823
Interest payable on the Government of Kenya Income Notes	31,402	31,402	27,215	27,215
House sales deposits	3,129	-	9,077	-
Land sale deposit	-	-	150	-
Withholding tax payable	15,080	15,080	14,670	14,670
Un-cleared bankers orders	-	-	828	828
Initial mortgage deposit account	-	-	38	37
Other liabilities	114,538	112,964	119,214	116,569
	<u>182,222</u>	<u>177,519</u>	<u>189,015</u>	<u>177,142</u>

26. SHARE CAPITAL

	2004 KShs'000	2003 KShs'000
Group and Company		
Authorised, issued and fully paid		
115,000,000 Ordinary shares of KShs 5.00 each	<u>575,000</u>	<u>575,000</u>

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.

27. SHAREHOLDERS' INCOME NOTES AND LOANS

	2004 KShs'000	2003 KShs'000
Group and Company		
Government of Kenya – Income Notes	<u>50,750</u>	<u>50,750</u>

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

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10 THE FINANCIAL STATEMENTS (Continued)

28. NOTES TO THE CASH FLOW STATEMENT

a)	2004 KShs'000	2003 KShs'000	
Reconciliation of operating profit to net cash flows from operating activities			
Group profit before taxation	97,856	98,011	
Depreciation	27,117	26,764	
Amortisation of intangible asset	15,117	6,377	
Profit on sale of prepaid operating lease rentals	(79)	(533)	
Profit on sale of property and equipment,	(1,717)	(1,717)	
Increase/(decrease) in customer deposits	417,400	417,400	
Net movement in mortgage advances to customers	569,947	569,947	
Investment in Government securities	(473,106)	(473,106)	
(Increase)/decrease in other assets	(81,068)	(81,068)	
Increase/(decrease) in other liabilities	(111,066)	(111,066)	
Increase/(decrease) in accrual for retirement benefits obligations	(42,165)	(42,165)	
Decrease in housing projects	60,285	60,285	
Amortisation of prepaid operating lease rentals	626	626	
Net cash flows from operating activities	469,755	469,755	
b) Analyses of cash and cash equivalents			
	2004 KShs'000	2003 KShs'000	Change in the year KShs'000
Cash in hand and bank	115,301	215,301	(72,288)
Balances due from banking institutions	752,128	752,128	(249,489)
Investment in government securities	351,739	351,739	98,261
	1,095,652	1,319,168	(223,516)

29. CONTINGENT LIABILITIES

- (a) The company is the defendant in a law suit claiming damages for breach of contract.
- (b) As at 31 December 2004, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 3.1 million (2003 – KShs 6.9 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. OPERATING LEASE ARRANGEMENTS

Group and company

The bank as a lessor

Rental income earned during the year was KShs 20,112,000 (2003 – KShs 17,336,000). At the balance sheet date, the bank had contracted with tenants for the following future lease receivables:

	2004 KShs'000	2003 KShs'000
Within one year	24,620	1,568
In second to fifth year inclusive	12,501	35,023
After five years	<u>37,121</u>	<u>5,718</u>
		<u>42,309</u>

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

The bank as a lessee

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

Within one year	2,227	-
In second to fifth year inclusive	8,045	12,782
After five years	7,260	12,148
	<u>17,532</u>	<u>24,930</u>

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

31. MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs 414,678,000 (2003 – KShs 239,487,000) are analysed below:

Mortgage commitments amounting to KShs 414,678,000 (2003 – KShs 239,487,000) are analysed below:	190,827	98,330
Commitment in principle but not authorised for payment	223,852	141,157
Authorised but not paid	<u>414,678</u>	<u>239,487</u>

32. CAPITAL COMMITMENTS

Group and Company

Authorised but not contracted

125,058	5,569
---------	-------

33. ASSETS PLEDGED AS SECURITY

As at 31 December 2004 there were no assets pledged by the group to secure liabilities and there were no secured group liabilities.

(Continued)

34.

Group and Company

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

	2003 KShs'000
At 1 January	173,975
Loans advanced during the year	27,376
Reclassified third party loans	(14,786)
Loans repayments received	(34,095)
At 31 December	152,470

The related interest income in 2004 was KShs 9,580,319 (2003 -- KShs 9,468,191).

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

35.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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 rate 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.

36. 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						143,013
Cash and bank balances	50,564	92,449	-	-	-	502,639
Placements with other banks	301,056	201,583	-	-	-	1,346,308
Investment in Government securities	-	451,668	207,240	217,400	470,000	6,583,041
Net Mortgage Advances to customers	-	476,706	148,869	1,745,754	4,211,712	339,842
Other assets	-	2,642	78,048	-	259,152	9,208
Housing development projects	-	-	-	9,208	-	81,002
Investment properties	-	-	-	-	81,002	242,386
Property and equipment	-	-	-	-	242,386	57,464
Prepaid Operating Lease rentals	-	-	-	-	57,464	58,186
Deferred tax	-	-	-	-	58,186	77,659
Taxation	-	-	-	-	77,659	19,884
Retirement benefit asset	-	-	-	-	19,884	
Total	351,620	1,225,048	434,158	1,972,362	5,477,446	9,460,632
Liabilities, shareholders' funds, loans and income notes						8,062,191
Customer deposits	-	1,921,825	2,161,404	2,476,689	1,502,273	182,222
Other liabilities	-	-	-	-	182,222	96,293
Dividends payable	-	-	-	-	96,293	575,000
Share capital	-	-	-	-	575,000	494,176
Reserves	-	-	-	-	494,176	50,750
Shareholders' income notes	-	-	-	-	50,750	
Total	-	1,921,825	2,161,404	2,476,689	2,900,714	9,460,632
Net liquidity gap	351,620	(696,777)	(1,727,246)	(504,327)	2,576,732	-
At 31 December 2003						10,764,533
Total assets	44,845	1,753,463	622,933	2,838,941	5,504,351	10,764,533
Total Liabilities and Equity	1,719,360	4,398,180	923,827	2,191,428	1,531,738	-
Net liquidity gap	(1,674,515)	(2,644,717)	(300,894)	647,513	3,972,613	-

(Continued)

36. *Interest rate risk (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 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	1.10%	143,013	-	-	-	-	143,013
Placements with other banks	6.80%	502,639	-	-	-	-	502,639
Investment in government securities	5.55%	451,668	207,240	217,400	470,000	-	1,346,308
Net mortgage advances to customers	14.43%	6,583,041	-	-	-	-	6,583,041
Other assets	-	-	-	-	-	-	-
Housing development projects	-	-	-	-	-	339,842	339,842
Property and equipment	-	-	-	-	-	9,208	9,208
Prepaid operating lease rentals	-	-	-	-	-	242,386	242,386
Intangible assets	-	-	-	-	-	57,464	57,464
Deferred tax	-	-	-	-	-	81,002	81,002
Taxation	-	-	-	-	-	58,186	58,186
Retirement benefit asset	-	-	-	-	-	77,659	77,659
						19,884	19,884
Total assets		7,680,361	207,240	217,400	470,000	885,831	9,460,632
Liabilities, shareholders' funds, loans and income notes							
Customers' deposits	3.73%	1,921,825	2,161,404	2,476,689	1,502,273	-	8,062,191
Other liabilities	-	-	-	-	-	182,222	182,222
Dividends payable	-	-	-	-	-	96,293	96,293
Share capital	-	-	-	-	-	575,000	575,000
Reserves	-	-	-	-	-	494,176	494,176
Shareholders' income notes	-	-	-	-	-	50,750	50,750
Total liabilities and equity		1,921,825	2,161,404	2,476,689	1,502,273	1,398,441	9,460,632
On balance sheet interest sensitivity gap		(5,758,536)	(1,954,164)	(2,259,289)	1,032,273	(512,810)	-
At 31 December 2003							
Total assets		8,682,484	149,666	540,000	470,000	922,383	10,764,533
Total liabilities and equity		5,982,806	914,600	2,191,428	330,441	1,345,258	10,764,533
On balance sheet interest sensitivity gap		2,699,678	(764,934)	1,651,428	139,559	(422,875)	-

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

37. 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.

A revised act was published in 2004 but has not yet received approval and has not yet become law. The financial statements have been prepared accordingly

38. INCORPORATION

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

39. CURRENCY

These financial statements are expressed in Kenya Shillings.

HOUSING FINANCE PRODUCTS

CONSTRUCTION LOAN

The construction loan product is not new to Housing Finance, but has only been redesigned to meet the changing needs of customers, and also to reduce the exposure to the various risks and challenges involved in construction finance. This product is attractive because one can build a house to their taste and specifications, while at the same time avoiding the additional remodelling costs that arise when buying a ready made house.

NEW APPROACH

Housing finance has changed its approach to construction loans and the basis of financing will be on whether one wants to build a house for own use, build units for sale, or build units for rental income. This would include the provision of funds for purchase of building material and meeting other construction costs. This new approach will also allow low interest rates during construction and upon completion of the construction converted to a mortgage product under the three-plan structure- Ace plan, House plan or Start-up plan.

The following types of construction loans are now available to customers:

- Minor improvements/ Small projects: which includes rural minor town constructions, property renovation and cosmetic renovation/completion.
- Full single dwelling: for construction of a single house on a plot
- Multiple developments:
 - **Build to sell** - where we give a loan to a developer who is building units for sale. The full loan is repaid after construction is complete.
 - **Build to rent** - where we give a loan to a developer who intends to earn rent from leases taken out by the tenants for the new houses.
 - **Completion projects**: funds could be availed to complete viable projects that had already started.

CONSTRUCTION LOAN

Our new construction loan package targets the following: Individuals who want to build a single unit for own use/occupation, single or multiple units for sale, those seeking to build single or multiple units for rental income and those seeking to buy units in multiple developments such as town houses.

NEW APPROACH

Please visit any of our branches countrywide and our team of experts will take you through what it takes to get your development going and with the right mortgage product for you.

HOUSING FINANCE PRODUCTS (Continued)

WESTERN UNION MONEY TRANSFER SERVICE

Housing Finance was appointed as a Sub-Agent of the Western Union Money Transfer service through an alliance with Postbank. On 21st July 2004, Housing Finance signed a contract with Postbank and thereafter the service commenced at our Buruburu branch. The service has now been successfully launched in eight of our branches: Rehani, Gill House, Kenyatta Market, Mombasa, Thika, Nyeri, and Eldoret.

The introduction of the service is a testimony of our commitment to explore opportunities to serve our increasing customer profile in today's challenging banking environment. With a large number of people living in the Diaspora, the need to send money back home has kept the money transfer market growing in Kenya. Many people also use the service to pay for goods and services.

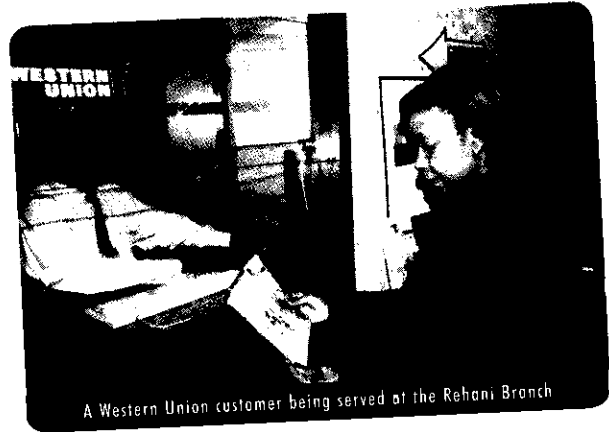


Esther Kaimett, former Managing Director Postbank and Peter Lewis-Jones, former Managing Director Housing Finance shake hands after signing the deal.

Money transfer service is also one of the ways in which we can diversify our business, broaden our product range, effectively utilise our resources, and increase our customer base by opening doors to new customers.

WHAT IS WESTERN UNION FAST MONEY TRANSFER SERVICE?

Western Union is a fast, safe and easy money transfer system to send and receive money within minutes. With this service one can send and/or receive money worldwide from any Western Union locations.



A Western Union customer being served at the Rehani Branch

WHAT ARE THE ADVANTAGES OF MONEY TRANSFER SERVICE WITH WESTERN UNION?

- The receiver receives the money that is transferred via Western Union within minutes.
- The Western Union network enables one to send and receive money almost anywhere in the world.
- Neither the sender nor the receiver need to have a bank account to make a money transfer with Western Union. Valid Identification is all one would need. We however encourage customers to open an account with us so that we can compliment the Western Union service you get with the Housing Finance world of benefits.

CMA-LIBRARY

Visit our website: www.housing.co.ke for more details on our various products

To: The Registrar

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue

PO Box 30088

00100 NAIROBI GPO



PROXY FORM

I/We _____

of _____

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

at _____

or failing him _____

at _____

as my/our proxy to vote for me/us on my/our behalf at the 39th Annual General Meeting of the Company to be held on Tuesday 26 July 2005 and at any adjournment thereof.

Dated this _____ day of _____ 2005

Signed

Note:

- 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 48 hours before the meeting or any adjournment thereof.

Kwa: Kwa Msajili,
Housing Finance Company of Kenya Limited
Rehani House
Kenyatta Avenue
S.L.P 30088
00100 NAIROBI GPO



FOMU YA UAKILISHI

Mimi/Sisi _____

Wa _____

Nikiwa mwanachama/Tukiwa wanachama wa HOUSING FINANCE COMPANY OF KENYA LIMITED namchagua/tunamchagua

wa _____

au akikosa yeye _____

wa _____

Kama mwakilishi wangu/Mwakilishi wetu kupiga kura kwa niaba yangu/niaba yetu katika mkutano mkuu wa mwaka wa 39 wa shirika utakaofanyiko siku ya Jumanne torehe 26 Julai 2005 na hata kuahirishwa kwake.

Tarehe hii _____ siku ya _____ 2005

Sahihi

Ukumbusho:

- 1 Iwapo mwanachama ni shirika, mwakilishi sharti awe na idhini yenye muhuri wa shirika au sahihi ya afisa wa kampuni au wakili oliyeruhusiwa.
- 2 Hoti hii ya uwakilishi lazima itumwe ili imfikie katibu kwa mudo usiyapungua saa 48 ya kuanza kwa mkutano au kuahirishwa kwake.

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DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Kung'u Gatabaki

Chairman

Peter J W Lewis-Janes*

Managing Director

Anne A W Amissabuor (Mrs)

David R Ansell**

The Permanent Secretary to the Treasury

Paul B M Ngugi

Alternate to the Permanent Secretary to the Treasury

Naftali Mogere

Appointed 8 July 2004

Mary M'Mukindia (Mrs)

Appointed 26 October 2004

*British

**American

COMPANY SECRETARY

Fiona C. Fox

Chunga Associates

7th Floor, Rahimtulla Tower

Upper Hill

PO Box 41968

00100 Nairobi GPO

Walker Kontant

Hakika House

Bishops Road

PO Box 60680

00200 Nairobi City Square

REGISTERED OFFICE

Plot No. LR 209/9054

Rehani House

Kenyatta Avenue/Koinange Street

P.O. Box 30088

00100 Nairobi GPO

SHARE REGIS. REP.

Anne Matu, CPS(K)

Housing Finance Company of Kenya Limited

Rehani House

Kenyatta Avenue/Koinange Street

P. O. Box 30088

00100 Nairobi GPO

BANKERS

Barclays Bank

Bardays Plaza

P.O. Box 46661

00100 Nairobi GPO

ATTORNEYS

KPMG Kenya

16th Floor, Lonrho House

Standard Street

P.O. Box 40612

00100 Nairobi GPO

COLLECTOR

Upper Hill Road

P.O. Box 30711

00100 Nairobi GPO

EXTERNAL LEGAL ADVISORS

Williamson and Shauri Moyo

Williamson House

4th Ngong Avenue

P.O. Box 40111

00100 Nairobi GPO

ADVISORS

Kenya Building Society Limited

First Permanent (EA) Limited

2007/0372