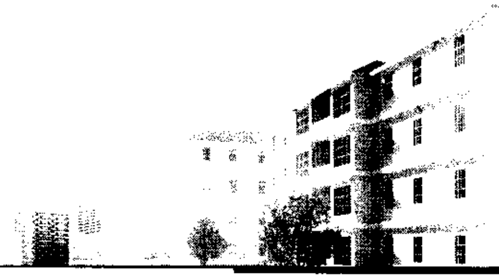
Our Vision

To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya.

Our Mission

We will be the leading integrated solutions enabler for the property industry. We will offer innovative products and services delivered under one roof by exceptionally committed people to enhance shareholder value. We will operate across the property value-chain as suppliers and financiers that offer unique solutions to all while being environmentally responsible.



DIRECTORS, OFFICERS & ADMINISTRATION

DIRECTORS

Kung'u Gatabaki	Chairman
Frank Ireri	Managing Director
Anne A. W Amissabuor	Resigned 21 May 2008
David R. Ansell*	
Joseph Kinyua	The Permanent Secretary to the Treasury
Anne K. Mugo	Alternate to the Permanent Secretary to the Treasury
Naftali Mogere	
Ken Wathome	Resigned 21 October 2008
Beatrice Sabana	
Benson Wairegi	Appointed 29 April 2008
Babatunde Soyoye**	Appointed 22 July 2008
Peter K. Munga	Appointed 21 October 2008

* American ** British

COMPANY SECRETARY
Conrad Nyukuri
Chunga Associates
7th Floor, Rahimtulla Tower
Upper Hill
P.O. Box 41968
00100 Nairobi GPO

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

PRINCIPAL LEGAL ADVISORS
Kaplan and Strattan Advocates
Williamson House
4th Ngong Avenue
P.O. Box 40111
00100 Nairobi GPO

Walker Kontos Advocates
Hakika House
Bishops Road
P.O. Box 60680
00200 Nairobi City Square

AUDITORS
KPMG Kenya
16th Floor, Lonrho House
Standard Street
P.O. Box 40612
00100 Nairobi GPO

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

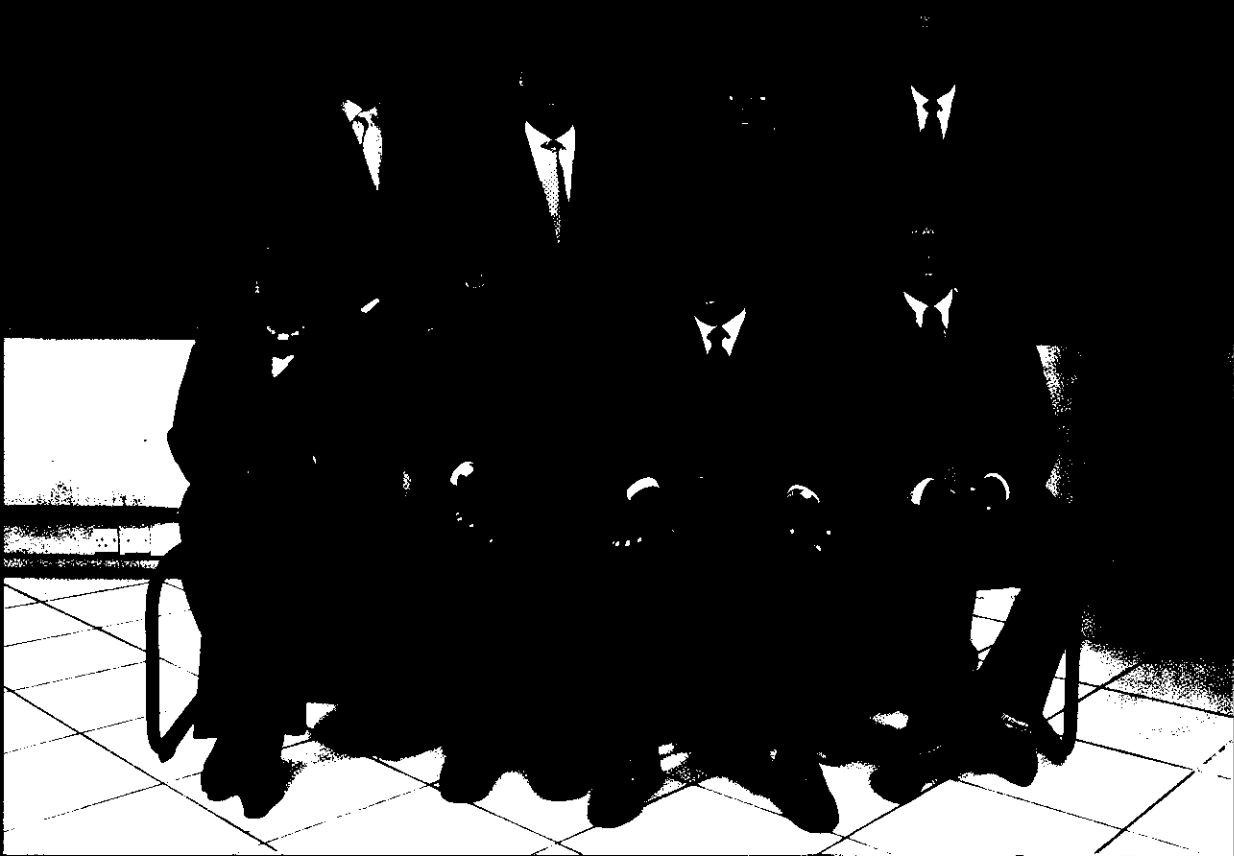
BANKERS
Barclays Bank of Kenya Limited
Barclays Plaza
P.O. Box 46661
00100 Nairobi GPO

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

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

SUBSIDIARIES
Kenya Building Society Limited
First Permanent (EA) Limited

BOARD OF DIRECTORS



Standing:

Sitting:

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MEMBERS OF THE BOARD PROFILE

Kung'u Gatabaki

Chairman

Mr. Gatabaki was appointed Chairman in 2004. He previously worked for 30 years with Actis/CDC (formerly Commonwealth Development Corporation) where he acquired wide experience in project finance, portfolio management and corporate board business. He serves on various company boards including: Chairman of Micro Kenya, Director of Mumias Sugar Co., TPSEA (Serena Hotels), Development Bank of Kenya, Grain Bulk Handlers Ltd., Jacaranda Hotels, Kenya Safari Lodges & Hotels and Shelter Afrique, among others. He studied economics, project finance and management at Legon and Bradford Universities. He is married with 4 grown up children.

Frank Ireri

B.Com (Hons), CPA (K)

Frank Ireri was appointed Managing Director in July 2006. He is a seasoned Banker of more than 19 years standing and joined from Barclays Bank of Kenya where he was Head of Barclay Card Africa, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Citibank and Commercial Bank of Africa. During his banking career, he has had international exposure in Poland, Sri Lanko ond Zambia.

Mr. Ireri is a Honorary Counsel member of AIESEC and previously held the role of Chairman to the AIESEC Board of Advisors. Between 2001 and 2002 he was also the Chairmon of the Kenya Institute of Bankers. He is married with 2 children.

David R. Ansell

BA Mathematics

David Ansell was appointed Director in October 2001. He retired from Citibank in February 2001, after over 30 years of 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. He also serves on the Advisory Board of the Private Equity New Markets fund managed by BankInvest, the largest asset Manager in Denmark. He is married with 2 grown up children.

Benson Irungu Wairegi

B.Com, MBA, CPA (K)

Benson is currently Group Managing Director of British American Investments Ltd. Benson joined British American Insurance Company in 1980 as the Managing Director. He had previously worked with Price Waterhouse for 3 years. Benson holds a Bachelor of Commerce degree in Accounting and an MBA in Business Administration. He is a member of the Institute of Certified Public Accountants of Kenya. Benson's other Directorships are in Equity Bank Ltd and Agricultural Finance Corporation.

Benson is a keen golfer and enjoys reading, especially finance related periodicals.

MEMBERS OF THE BOARD PROFILE

Joseph Kanja Kinyua

BA (Econ), MA (Econ)

Mr. Joseph K. Kinyua began his career as an Assistant Lecturer at Nairobi University in 1978. He joined the Central Bank of Kenya in 1980 and worked his way through the ranks from an Economist to Director of Research. He also worked as an economist on a fixed term appointment with the International Monetary Fund (IMF) during 1985-1990, after which he returned to the Central Bank of Kenya.

He was appointed Financial Secretary to the Treasury in June 1995, a position he held until July 1999 when he rejoined the Central Bank of Kenya as Director of Financial Markets. In October 2000, he was appointed the Chief Economist of the Central Bank of Kenya and in September 2002, he was appointed the Permanent Secretary to the Treasury, a position he held until January 2003 when he was appointed Permanent Secretary in the Ministry of Planning and National Development. In July 2003, he was appointed Permanent Secretary in the Ministry of Agriculture. He remained there until July 2004, when he was once again appointed Permanent Secretary to the Treasury, where he is currently engaged.

Mr. Kinyua has served as a Director on several Boards of State Corporations. He has also served as a member of the Programme Committee of the African Economic Research Consortium (AERC) and is currently a member of the Board of Governors of AERC and Alternate Governor, World Bank Board of Governors. He holds BA (Econ) and MA (Econ) degrees from Nairobi University.

Babatunde Soyoye

BEng, MBA

Babatunde is Managing Director and Co-founder of Helios, a leading sub-Saharan Africa private equity fund created in 2006 with over $600M under management. Prior to forming Helios, he was a Principal at the London offices of Texas Pacific Group ("TPG"), a leading global private equity firm managing over $30 billion in capital.

Babatunde has over 10 years principal investment experience and has played a key role in the execution of over $7 billion completed investments across Africa, Europe, Asia and North America. Babatunde is a former Senior Member of the Corporate Strategy team at British Telecom and a Manager of Business Development at Singapore Telecom International. He also serves on the Board of Directors of Africatel Holdings B.V., Equity Bank Limited, Helios Towers Nigeria Limited (HTN) and the Nigerian Government's – Privatization Share Purchase Loan Scheme (PSPLS). Babatunde received his BEng in Electrical Engineering & Computing and a MBA from the University of London (Kings & Imperial).

Peter Kahara Munga

EBS

Peter is the founder and Chairman of Equity Building Society Ltd, the predecessor of Equity Bank Ltd where he also serves as Board Chairman. He is a qualified Certified Public Secretary.

Among other Directorships, Peter is also Chairman of Pioneer International College, Chairman of National Oil Corporation and also sits on the Board of British American Insurance Company Ltd.
In his spare time, Peter enjoys reading and traveling.

MEMBERS OF THE BOARD PROFILE

Ms. Anne Kagure Mugo

Alternate Director to PS, Treasury

Anne Mugo joined the Board in March 2007 as the Alternate Director to the Permanent Secretary, Ministry of Finance. She is currently the Pensions Secretary on secondment from the Retirements Benefit Authority (RBA) and has had over 20 years professional experience both in the private and public sectors including ICEA, Standard Chartered Bank and the RBA. Anne has an MBA in Finance from the City University Business School.

She also has intensive training in investment, administration of pension funds from the World Bank, Crown Agents and the Public Administrative Institute, London. She is a member of a number of professional bodies including the Institute of Directors, the Chartered Insurance Institute (London), AAPAM and the Nairobi Baptist Church among others. She also serves on a number of public service pensions committees and task forces.

Ms. Beatrice Sabana

MBA

Beatrice Sabana joined the Board of Housing Finance on 19th April 2007. Beatrice has an MBA in Finance and is currently pursuing her PHD, her doctoral thesis being on the Microfinance industry in Kenya. Beatrice is currently a Consultant, specializing in Microfinance. Her previous working experience has been as CEO of the Association of Microfinance Institutions Kenya, a microfinance finance specialist for the World Bank, an Assistant Professor at the USIU University and lecturer at JKUAT and Kenyatta University. Beatrice has also worked with the Standard Chartered Bank and a short stint with the Ministry of Commerce and Industry in the early 80's.

Beatrice brings to Housing Finance her invaluable expertise in the microfinance field.

Naftali Mogere

CPA (K), CPS (K)

Naftali Mogere was appointed Director in July 2004. He was formerly the Managing Trustee of NSSF, and is currently the Managing Director of National Cereals and Produce Board. He has a wide experience in Finance, having served on various company boards including: Consolidated Bank, Bamburi Cement Ltd, EA Portland Cement, National Bank of Kenya, International Board of Social Security - Geneva - for 4 years and Finance and Administration Director in COMESA for 10 years. He was Finance and Administration Director 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 studied Accounting at University of Nairobi and is a Certified Public Accountant (C.P.A.) and a Certified Public Secretary (C.P.S.). He is married with 5 children.

Housing Finance

CHAIRMAN'S STATEMENT

TAARIFA YA MWENYEKITI

Kuzorota kwa uchumi wa dunia

Ni muhimu kutaja jambo kuhusu kuzorota kwa uchumi wa dunia kuhusiana na biashara yetu. Huku wasi wasi katika mataifa ya ulaya ukianzia katika biashara ya rehani, hapa nchini Kenya tumekuwa tukitekeleza mfumo tofauti. Zaidi ya hayo, soko letu lingali linakabiliwa na hitajiko la kadri lo rehani kutokana na uhaba wa watoaji huduma hii. Hii haina maano kwamba hatuwezi kudhurika kwani tunofaa kuzingatia athari zinazoweza kutokea hasa kwenye masoko ya mbali. Hata hivyo, tuna imani kwamba kufuatia tathmini bora tunaweza kukabiliana na hatari hii.

Halmashauri

Kulikuwa na mabadiliko kuhusiana na usimamizi wa Halmashauri ulioongozwa na mfumo wa umiliki hisa wa Kampuni. Mwaka jana, tulikubali kujiuzulu kwa Bi. Anne Amissabour na Bw. Ken Wathome kutoka Halmashauri. Wakurugenzi hawa wawili walitoa mchango muhimu kwa Halmashauri na tunawatakia kila la heri kwenye shughuli zao za siku za usoni. Nina furaha kumkaribisha Bw. Peter Munga Mwenyekiti wa Benki ya Equity na Bw. Babatunde Soyoye wa Helios Capital kwenye Halmashauri ya Housing Finance. Wamekuja na tajriba ndefu na tunatazamia kupokea mchango wao kwa ukuaji wa Housing Finance.

Mgawo wa faida

Kufungamana na kuimarika kwa matokeo ya kampuni, nina furaha kutangaza kwamba Halmashauri imependekeza malipo kamili na ya mwisho ya mgawo wa faida ya senti 30 kutoka senti 25 zilizolipwa mwaka jana. Hii inafuatia ahadi yetu tuliyotoa mwaka jana tulipotoa malipo ya kwanza ya mgawo wa faida baada ya kipindi cha miaka saba. Tunatoa malipa haya ya mgawo wa faida kwa kutambua kwamba biashara yetu iko katika awamu ya kukua na kwamba tutahitaji kuhifadhi kiwango fulani cha pesa kuchochea ukuaji huo.

Mwisho kabisa ningependa kuishukuru serikali yetu na waratibu wetu hasa benki kuu ya Kenya, Halmashauri ya masoko na soko la Hisa la Nairobi kutokana na mchango wao kwa kampuni wakati wa kipindi hiki kigumu cha kuifanyia mabadiliko na miaka ya kutafuta mtaji. Shukrani za dhati ziwaendee wanahisa kutokana na uaminifu wao kwa kampuni na imani ambayo mmeonyesha kwetu.

Nawashakuru nyote na Mungu awabariki.

Mwenyekiti

Bw. Kung'u Gatabaki

MANAGING DIRECTOR'S STATEMENT

MANAGING DIRECTOR'S STATEMENT

- Total costs over the period increased by 10% mainly as a result of the inflationary impact on our administrative expenses and retrenchment costs as a result of ongoing restructuring.

Our overall Group balance sheet increased by 38% from KShs 10,369 million to KShs 14,294 million. Some of the key highlights of this performance are:

- Performing loan book increased by 45% from KShs 6,339 million to KShs 9,217 million. This was driven by our ongoing mortgage sales strategy to broaden our target market segments to include SME, Diaspora and Brokers.

- Gross non performing loan book decreased by 20% from KShs 2,625 million to KShs 2,097 million driven by our continuous and aggressive recovery efforts.

- Customer deposits increased by 15% from KShs 8,777 million to KShs 10,064 million.

- Shareholders' equity increased by 253% from KShs 1,446 million to KShs 3,652 million mainly as a result of our successful rights issue in July. As a result, we are very adequately capitalised to grow the business even further over the years to come

Rights Issue

In mid 2008, we successfully concluded the Rights Issue, as highlighted in The Chairman's report. The new injection of capital has enabled us to increase our shareholders equity to KShs 3,652 million. This new capital injection has given us a lot of scope to increase our business. It allows us to lend over KShs 700 million to a single borrower, where previously this stood at KShs 180 million. In addition, it has given us additional lending capability of KShs 28,000 million, and additional deposit taking capability of KShs 25,000 million.

We recognise that with this increased scope comes a big challenge for us to grow this business to its full potential. I wish to assure you that we are up to the challenge and that we have begun actualising our 5 year strategy which depended to a large extent on this capital injection.

Products and Services

In the past year, we consolidated on the new products launched last year to ensure they are contributing profitably to the business. I am pleased to report significant growth in our Project Finance division, and the Property Point, our one-stop property shop. These have acquired leadership position in the areas of financing of multi-unit properties, and in the whole area of value addition in the sale and purchase of property. We expect them to play a major role in the achievement of our vision, **'To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya'.** The highly popular 'Property Bus Tours' have also helped cement Housing Finance's leadership in the property sector and will continue to be a major product and service offering for us.

In addition, in 2008, we were awarded **'The best bank in product innovation'** award at the Banking awards. This is a cherished award that recognises our drive to always lead in product innovation, as well as the innovative approach we employed in putting together the 1st HOP Account. The 1st HOP Account remains one of the best ways to get young people started on the journey to home ownership.

In 2008, we also entered into an agreement with the Government through the Ministry of Housing to provide mortgages at subsidised rates to Civil Servants in what is known as the Civil Servants Housing Scheme. This has opened the door for thousands of Civil Servants across the country to access mortgages, and we have already seen a significant uptake in the scheme.

MANAGING DIRECTOR'S STATEMENT

Property Supply

In our 5 year strategy, we outlined our intention to go back into the area of property supply and this was further reinforced during our rights issue. We recognise the shortfall in supply of property estimated at 150,000 units a year, and that it will take the combined efforts of several players to improve this. We intend to be one of those players by contributing significantly to the supply of both homes and commercial properties in the future. While this vision is a long term one, we have already begun to actualise it thraugh the formation of our Property Supply division. One af the key actians to kick-start the process of supply af property is the revival af the Kenya Building Saciety which was a major player in the supply of property around the country in the 1980's and 90's. Work on the revival of KBS, under an enhanced vision based an the realities af the Kenyan situation today has begun and we will be updating you on the progress in the coming year.

Corporate Social Responsibility

Housing Finance continues to be a socially responsible company, and one that is aware of the challenges facing the communities in which we operate. In the last year, we continued our association with Habitat for Humanity.

This relationship has helped us upgrade the living standards af beneficiaries around the country. In addition, it has helped instil a culture of giving amongst our staff, who volunteer themselves to help in the building of the houses.

Housing Finance staff and management have also continued to come forward and respand to the needs of the community during times of disaster. This was displayed well fallawing the post-election violence early last year, with the staff donating their own resources as well as time and sweat to assist those affected.

This spirit of giving and empathy with our communities will continue to be encouraged in the organisation, and we as an organisation will continue to focus our CSR efforts in areas where we can make a difference in the lives of beneficiaries.

Future Plans

Following the successful rights issue, we have achieved the key strategic objective of strengthening our capital base. We now are focussing on actualising other key elements of our strategy notably:

- Becoming a major contributor to increased property stock in the country and growing the industry as a result
- Launching new and innavative products that address the needs of our customers and the market
- Continued penetratian of our key products which include Makao a very popular salution far home canstruction and 1st HOP, a savings product that offers tax benefits for those saving towards their first home. This will be done hand in hand with our care mortgage offering, depasit mobilisation thraugh savings and aur value added offerings to specific market segments.

All af the above mentioned plans are carried out with a view to actualising aur vision of transforming Housing Finance from a purely mortgage institution into a property conglomerate, praviding consistent returns to our shareholders, having satisfied customers and 'Turning dreams into homes for the majarity af Kenyans'.

It is important to note that all these objectives are being implemented in a dynamic and ever changing situation. In the last year, we have witnessed high inflation in Kenya and its attendant effects on purchasing power of customers, as well as the global economic downturn. The extent of the global downturn and its effects on our own economy is yet to be fully quantified. However, we remain optimistic that we will weather the storms.

Once again, thank you and best wishes to yau.

Frank Ireri

Managing Director

TAARIFA YA MENEJA MKURUGENZI

2008 ulikuwa mwaka ulioshuhudia changamoto nyingi kote nchini kuanzia mwezi Januari baada ya kuzuka kwa ghasia za baado ya uchaguzi na kupanda kwa bei ya mafuta ambako kulichangia kutokea kwa mfumuko wa bei katika sekta zote za uchumi. Biashara ziliathirika vibaya na Housing Finance haikusazwa. Hata hivyo, nina furaha kuwaripotia kwamba, ingawa kulikuwa na changamoto mbali mbali zilizotajwa hapo juu, mikakati mbali mbali iliyowekwa na wasimamizi ilihakikisha kwamba tumekamilisha mwaka kwa kupata kiwango cha ongezeko cha asilimia 79 cha faida kabla ya kutozwa ushuru hadi milioni 203 kutoka milioni 113 mwaka uliotangulia. Ningependa kudokeza kuhusu mafanikio muhimu ya kibiashara na hatuo ambazo tumeweka kuhakikisha ukuaji wa biashara ili kuafikia lengo letu la " kuwa kampuni inayoongoza kwa raslimali nchini Kenya."

Matokeo ya fedha

Faida ya jumla kabla ya ushuru kwa kundi iliongezeka kwa asilimia 79 kutoka miliani 113 hadi milioni 203. Baadhi ya vidokezo vya motokeo haya ni kama vifuatavyo:-

- Faido ya mapato kutokana na mikopa ya rehani inayolipwa iliongezeka kwa asilimia 50 kutoka milioni 696 hadi milioni 1, 046. Hii lilitokana na ongezeko la asilimia 40 lo utoaji mikopo.

- Faida ya mapato kutokana na mikopo ya rehani isiyolipiwa ilipunguka kwa asilimia 77 kutoka Milioni 161 hadi milioni 37 kutokana na punguko la asilimia 20 la mikopo isiyolipwa. Tutazidi kujitahidi kupunguza mikopo isiyolipiwa na wakati huo huo kupanua viwango vya mikopa tunayotoa.

- Mapato kutokana na uwekezaji iliongezeka kwa asilimia 90 kutoka milioni 123 hadi milioni 234. Hii ilitokana na kukamilika vyema kwa swala la haki miliki mwezi Julai ambapo tuliongeza mtaji zaidi wa shilingi milioni 2,100
- Jumla ya gharama kwa kipindi hiki ziliongezeka kwa asilimia 10 kutokana na athari za mfumuko wa bei katika gharama za usimamizi na mpango wa kuwastaafisha watumishi unaondelea sasa.

Mizania ya jumla ya Kampuni iliongezeka kwa asilimia 38 kutoka milioni 10,369 hadi milioni 14,294. Baadhi ya vidokezo vya motokeo haya ni kama ifuatavyo:

- Mikopo ya rehani inayolipwa iliongezeka kwa asilimia 45 kutoka milioni 6,339 hadi milioni 9,217. Hii ilitokana na mkakati wa sasa wa mauzo katika rehani ili kupanua vitengo vya masoko na kujumuisha SME, masoko ya mbali na mawakala.
- Kiwango cha jumla cha mikopo isiyolipiwa kilipunguka kwa asilimia 20 kutoka miliani 2, 625 hadi milioni 2,097 kutokana juhudi kali za ufufuzi.
- Akiba ya wateja iliongezeka kwa asilimia 15 kutoka milioni 8,777 hadi milioni 10,064
- Kiwango cha mtaji wa wanahisa kiliongezeka kwa asilimia 253 kutoka milioni 1, 446 hadi milioni 3,652 hasa kutokana na zoezi la umiliki hisa mwezi Julai. Kwa sababu hiyo, tuna mtaji wa kutosha kukuza biashara miaka inayokuja.

Swala la haki miliki

Katikati mwa Mwaka 2008, tulikamilisha vyema zoezi la haki miliki Kama ilivyofafanuliwa kupitia taarifa ya Mwenyekiti. Kuongezwa kwa mtoji kumetuwezesha kupanua kiwango cha hisa miliki hadi milioni 3,652. Kuongezwa kwa mtaji mpya kumetupatia nafasi kubwa kupanua biashara yetu.

TAARIFA YA MENEJA MKURUGENZI

Kunatuwezesha kutoa mkopo wa zaidi wa milioni 700 kwa mkopaji mmoja kiwango ambacho awali kilikuwa milioni 180. Zaidi ya hayo, kumetupatia nafasi zaidi ya kutoa mkopo wa milioni 28,000 na uwezo zaidi wa kuchukua akiba wa milioni 25,000. Tunatambua kwamba upanuzi huu unaingia na changamoto nyingi kwetu kukuza biashara kwa manufaa kamili. Ningependa kuwahakikishia kwamba tumejiweka tayari kukabiliana na changamoto hii na kwamba tumeanza kutekeleza mkakati wa miaka 5 ambao kwa kiwango kikubwa unategemea kuongezwa kwa mtaji huu.

Bidhaa na huduma

Mwaka uliopita, tulimarisha bidhaa mpya zilizobuniwa mwaka Jana ili kuhakikisha kwamba zinatoa mchango wa faida kwa kampuni. Nina furaha kuripoti kuwepo kwa ukuaji wa maana katika mradi wa vituo vyetu vya idara ya hazina na kitua cha raslimali ambacho ni kituo kimoja cha rasmali. Haya yamechukua nafasi ya uongozi kwenye Nyanja ya ufadhili katika ujenzi wa majumba makubwa na kuongeza thamani ya mauzo na ununuzi wa raslimali. Tunatarajia kwamba yatatekeleza wajibu muhimu kuafikia ndoto yetu ya **'kuwa kiongozi katika utoaji wa suluhisho pana la kupata kustawisha na kuboresha mali nchini Kenya'.** Mradi maarufu wa "proptery bus tours" umesaidia kuimarisha uongozi wa Housing Finance katika sekta ya raslimali na utazidi kuwa bidhaa muhimu kwa utoaji wa huduma kwetu.Ziaidi ya hayo, mwaka 2008, tulituzwa **'tuzo la benki bora kwa ubunifu wa bidhaa'** wakati wa hafla ya kuzituza benki. Hili ni tuzo la kifahari linalotambua juhudi zetu kama kiongozi wa ubunifu wa bidhaa kupitia mbinu ya akaunti ya 1st HOP. Akaunti ya 1st HOP imesalia kuwa njia bora kuwajumuisha pamoja vijana kuanza safari yao kumiliki ya nyumba siku za usoni. Mnamo mwaka 2008, tulifanya mkataba na seriakli kupitia wizara ya ujenzi wenye lengo la kutoa huduma za rehani kwa kutoza riba ndogo kwa watumishi wa umma kupitia mpango unaojulikana kama " mradi wa nyumba kwa watumishi wa umma". Mradi huu umefungua milango kwa maelfu ya watumishi wa umma kote nchini kupata rehani. Tayari tumeshuhudia mafanikio makubwa kupitia mradi huu.

Usambazaji wa raslimali

Kupitia mkakati wetu wa miaka 5, tulifafanua nia yetu ya kurejelea eneo la usambazaji wa raslimali. Swala hili lilitiliwa mkazo wakati wa zoezi la umiliki wa hisa. Tunatambua upungufu wa usambazaji wa raslimali unaokisiwa kuwa viwango 150,000 kila mwaka. Upungufu huu utahitaji juhudi za pamoja za washika dau kuliimarisha.
Tunataraji kuwa mojawapo wa wa-dau hawa na kutoa mchango muhimu kwa usambazaji wa nyumba za makao na raslimali za biashara siku za usani. Huku ndato hii ikiwa inalenga muda mrefu, tayari tumeanza kuifanya kuwa halisi kupitia kubuniwa kwa idara ya usambazaji wa raslimali. Mojawapo wa ishara za kuanza hatua hii ya usambazaji wa raslimali ni ufufuzi wa Kenya Building Society ambayo ilitekeleza wajibu muhimu katika usambazaji wa raslimali kote nchini miaka ya 1980 na 90. Shughuli ya ufufuzi wa KBS chini ya mpango uliomarishwa kwa kuegemea uhalisi wa hali nchini Kenya nyakati za sasa umeanza na tutakuwa tukiwaarifu hatua zilizoafikiwa mwaka unaofuata.

Wajibu wa shirika kwa jamii

Housing Finance inazidi kuwa kampuni inayojali maslahi ya jamii na inayofahamu changamoto zinazokabili jamii tunakotekeleza shughuli zetu. Mwaka Jana, tuliendeleza ushirikiano wetu na mazingira kwa binadamu. Uhusiano huu umetuwezesha sisi kuimarisha viwango vya hali ya maisha kwa wafaidi kote nchini. Zaidi ya hayo, umetusaidia kuimarisha ukarimu miongoni mwa wafanyakazi wetu ambao hujitolea katika ujenzi wa nyumba.

Wafanyakazi wa Housing Finance pamoja na wasimamizi wanazidi kujitokeza kukabiliana na mahitaji ya jamii nyakati za mikasa. Haya

TAARIFA YA MENEJA MKURUGENZI

yalidhihirika vyema wakati wa ghasia za baada ya uchaguzi mwaka jana ambapo wafanyakazi walitoa mchango wao pamoja na wakati kuwasaidia wale walioathiriwa. Mwito wa kutoa na kushirikiana na jamii zetu utazidi kuhimizwa kwenye shirika nasi kama shirika tutazidi kuangazia juhudi zetu za kijamii kwenye maeneo ambapo tunaweza kuleta mabodiliko ya maisha kwa wafaidi.

Mipango ya siku za usoni

Kufuatia kufaulu kwa zoezi la haki miliki, tumeafikia lengo maalumu katika mkakati wa kuimarisha uwezo wetu kifedha. Kwa sasa tunaangazia kuafikia viwango vingine muhimu kwenye mkakati wetu ambavyo ni:-

- Kuwa mshirika mkuu kwa upanuzi wa raslimali nchini na kuwezesha biashara hii kukua
- Kuzindua bidhaa mpya zinozoangazia mahitaji ya wateja na soko
- Kuzidi kupenyeza bidhaa zetu muhimu zinazohusu Makao, ambayo ni suluhu la ujenzi la 1st HOP, huduma ya uwekaji hazina ambayo inatoa manufaa ya ushuru kwa wale waweka akiba kwa minajili ya kumiliki nyumba ya kwanza. Haya yatafanywa moja kwa moja na washika-dau muhimu kwenye biashara ya rehani, uhamasishaji wa uwekaji akiba kupitia hazina na faida za ziada kupitia vitengo teule vya masoko.

Mipango yote iliyotajwa hapo juu inatekelezwa kwa nia ya kutimiza ndoto ya kubadilisha Housing Finance kutoka taasisi ya kutoa huduma za rehani hadi kituo cha mkusanyiko wa raslimali, kuleta faida kwa wanahisa hisa mara kwa mara, kuwa na wateja walioridhika na " kubadili ndoto ya wakenya wengi ya kuwa na makao yao wenyewe."

Ni muhimu kufahamu kwamba malengo haya yanazinduliwa katika hali ya muundo wa kisasa usiobadilika. Mwaka jana, tumeshuhudia mfumuko wa juu wa bei za bidhaa nchini Kenya na kuathiri uwezo wa wateja kununua, pamoja na kuzorota kwa uchumi wa dunia. Kiwango cha kuzorota kwa uchumi wa dunia na athari zake kwa uchumi wetu bado kinasubiri kukadiriwa. Hata hivyo, tuna matumaini kwamba tutapambana na hali hii.

Kwa mara nyingine nawashukuru nyote na kuwatakia kila la heri.

Frank Ireri

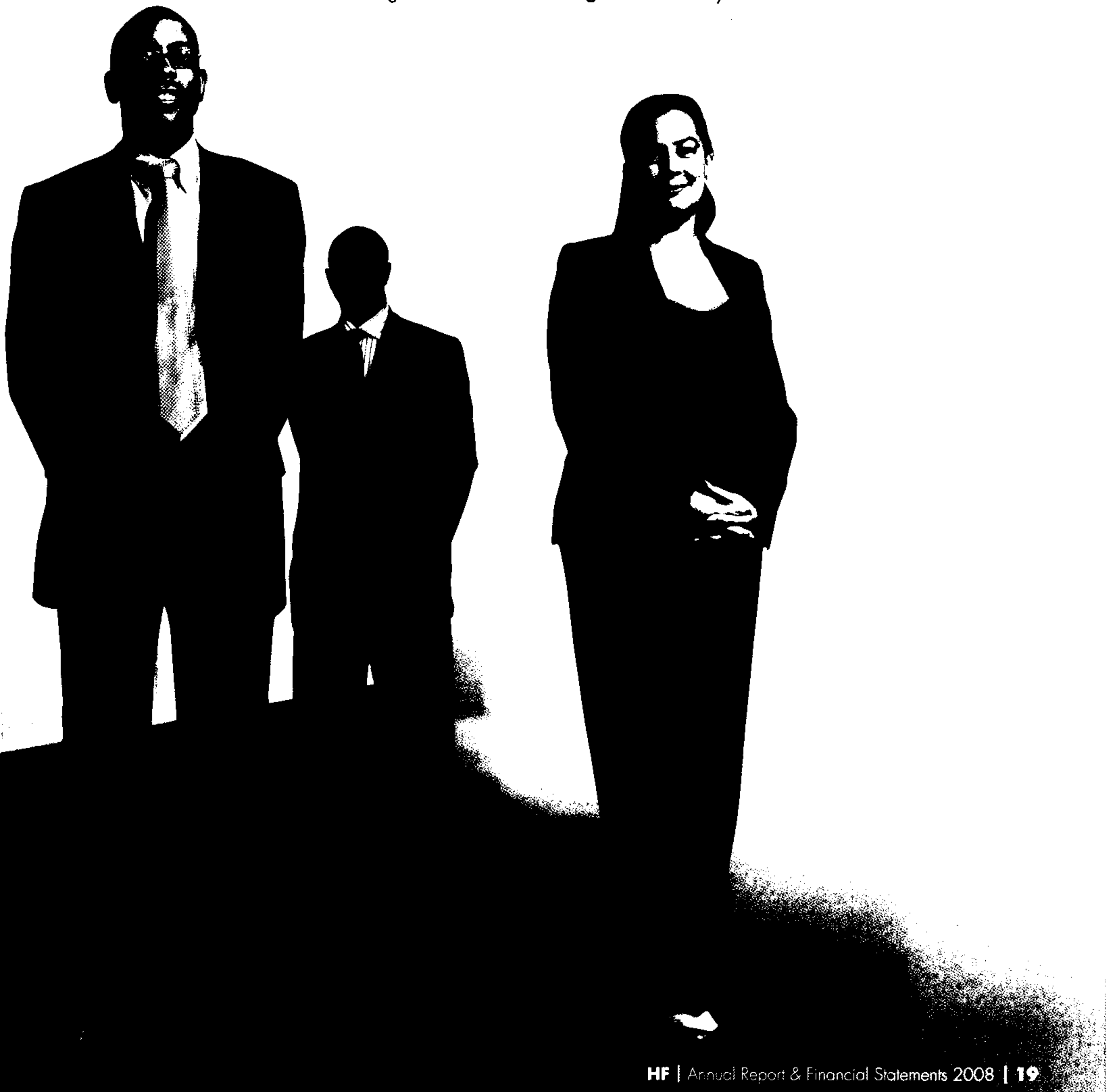
Meneja Mkurugenzi

Housing Finance

SENIOR MANAGEMENT

L - R

Sam Waweru Finance and Administration Director • **Constantine Barasa** Head of Internal Audit **Cynthia Kantai** Product Development and Marketing Manager • **Moses Wekesa** Property Supply Manager • **Pauline Ndote** Chief Risk Officer • **Frank Ireri** Managing Director • **Julius Ngugi** Branch Business Manager • **Caroline Armstrong** Service Delivery Director



REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008. The report discloses the state of affairs of the Group and the Company.

1. Principal activities

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

The subsidiaries' principal activities are development and selling of residential houses and offering property-advisory services.

2. Results and appropriations

	31 December 2008 KShs'000	31 December 2007 KShs'000
Gross income	**1,533,032**	**1,157,625**
Profit before taxation		
Housing Finance Company of Kenya Limited	195,806	110,723
Kenya Building Society Limited	(1,037)	(2,257)
First Permanent (East Africa) Limited	7,901	4,931
Group profit before taxation	202,670	113,397
Taxation	(66,243)	(39,889)
Profit after taxation	136,427	73,508
Retained profit brought forward	125,141	110,746
	261,568	184,254
Dividends – proposed	(69,000)	(28,750)
Transfer to statutory reserve	(33,296)	(30,363)
Retained profit carried forward	**159,272**	**125,141**

3. Dividend

The directors recommend the payment of a dividend of KShs 69,000,000 (2007 – KShs 28,750,000).

4. Directors

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

5. Auditors

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

6. Approval of financial statements

The financial statements set out on pages 31 to 75 were approved at a meeting of Directors held on 3 March 2009

BY ORDER OF THE BOARD
Company Secretary

Date: 3 March 2009

RIPOTI YA WAKURUGENZI

FOR THE YEAR ENDED 31 DECEMBER 2008

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa iliyokaguliwa kwa kipindi cha mwaka uliomalizika Desemba 31, 2008. Ripoti inafichua hali ya kundi na kampuni.

1. Shughuli Muhimu

Kampuni imepewa leseni kuendesha shughuli za utoaji mkopo wa ujenzi wa nyumba chini ya sheria za benki (kifungu 488) na imejitolea kushinikiza na kusaidia uwekaji Akiba kwa watu binafsi na umma ili kugharamia ujenzi wa makao yao.

Shughuli nyingine ndogo ni pomoja na ustawishaji na uuzaji wa nyumba za kuishi na pia kutoa huduma za ushauri kuhusu umiliki wa raslimali.

2. Matokeo na Matumizi

	Desemba 31 2008 KShs'000	Desemba 31 2007 KShs'000
Mapato kwa jumla	**1,533,032**	**1,157,625**
Faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	195,806	110,723
Kenya Building Society Limited	(1,037)	(2,257)
First Permanent (East Africa) Limited	7,901	4,931
Faida ya kundi kabla ya ushuru	202,670	113,397
Ushuru	(66,243)	(39,889)
Faida baada ya ushuru	136,427	73,508
Jumla ya faida iliyowasilishwa	125,141	110,746
	261,568	184,254
Mgawo wa faida uliopendekezwa	(69,000)	(28,750)
Mchango kwa kitenga rasmi	(33,296)	(30,363)
Faida iliyohifadhiwa na kuwasilishwa mbele	**159,272**	**125,141**

3. Mgawo wa Faida

Wakurugenzi wanapendekeza malipo ya mgawo wa faida wa Kshs. 69,000,000 (2007 ilikuwa KShs. 28, 750,000)

4. Wakurugenzi

Wakurugenzi waliohudumu mwaka huu wameangaziwa kupitia ukurasa wa tatu.

5. Wahasibu

Wakaguzi wa hesabu. KPMG Kenya wameanyesha nia ya kutaka kuendelea mbele na jukumu hili kwa mujibu wa kifungu nambari 159(2) cha sheria za makampuni za Kenya (aya ya 486) na kwa mujibu wa sehemu ya 24 (1) ya sheria za benki (aya 488).

6: Kuidhinishwa kwa Taarifa ya matumizi ya pesa

Taarifa kuhusu matumizi ya fedha zilizoko ukurasa wa 31 hadi 75 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 3 Machi 2009

KWA AMRI YA HALMASHAURI
Katibu wa Kampuni

Imenukuliwa: 3 Machi 2009

CORPORATE GOVERNANCE

The Board of Housing Finance Company of Kenya Ltd is responsible for the overall management of the Group and is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices in corporate governance.

In recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2006 under Section 33(4) of the Banking Act and The Guidelines on Corporate Governance Practises by Public Listed Companies in Kenya issued by the Capital Markets Authority in May 2002 under Cap 485 A of the Capital Markets Authority Act.

1. The Board of Directors

The Board is responsible for drawing and implementing strategies for the long-term success of the company as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. To this end, the Board meets regularly and has a formal schedule of matters reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group and overseeing the Group's compliance with statutory and regulatory obligations.

Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board is composed of eight non-executive Directors including the Chairman. Mr Frank Ireri is the Managing Director. The Directors have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Group's business and operations and provided with information relating to their legal and regulatory obligations.

All non-executive Directors are required to submit themselves for re-election in accordance with the Company's Articles of Association.

2. Board and Management Committees

The Board has constituted 5 sub-committees chaired by Non-Executive Directors, namely Audit, Risk Management, Nominating and Remuneration, Credit Committee and the Strategy Committee.

Audit Committee

This is composed of four non-executive Directors:

- David Ansell (Chairman)
- Anne K. Mugo
- Beatrice Sabana
- Ken Wathome (Resigned 21 October 2008)
- Babatunde Soyoye (Appointed 24 November 2008)

CORPORATE GOVERNANCE *(Continued)*

All the members of this committee are independent non-executive directors. The Board considers that each member has appropriate professional qualifications and brings broad experience and knowledge of financial reporting to the Committee's deliberations.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements, circulars to shareholders and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements contained within them. The Committee also reviews the appropriateness of the Group's accounting policies, recommendations for provisions against bad or doubtful loans and other credit exposures. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board.

At least once a year, the Audit Committee meets separately with the external auditor and the Head of Internal Audit without management being present to discuss any issues arising from the audit.

In relation to the Internal Audit function, the Committee's responsibilities include:

- Monitoring and assessing the role and effectiveness of the Internal Audit function and receiving reports on these matters; and
- Considering the appointment, resignation or dismissal of the Head of Internal Audit.

In relation to the Group's external auditor, the Committee's responsibilities include:

- Considering and making recommendations to the Board on the appointment, re-appointment, resignation or dismissal of the external auditor;
- Approving the terms of engagement, nature and scope of the audit; and
- Reviewing the findings of the audit including any major issues that arose during the course of the audit.

Risk Management Committee

This committee is composed of three non-executive Directors and the Managing Director:

- Naftali Mogere (Chairman)
- Anne K. Mugo
- Ken Wathome (Resigned 21 October 2008)
- Frank Ireri

The Risk Management committee's primary responsibility is to ensure the quality, integrity and reliability of the Company's risk management framework. The Committee reviews and assesses the integrity of the risk control systems and ensures that the risk policies and strategies are effectively managed.

CORPORATE GOVERNANCE *(Continued)*

The basic principles of risk management that are followed and enforced through the Risk Management committee include:

- The Board assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies;
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities;
- Risk issues are taken into consideration in all business decisions;
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management; and
- Appropriate, effective controls exist for all processes entailing risks.

Nomination and Remuneration Committee

The members of the Nomination and Remuneration committee are:

- Beatrice Sabana (Chairman)
- Anne K. Mugo
- Frank Ireri
- Anne Amissabuor (Resigned 21 May 2008)

All the committee members are independent non-executive directors with the exception of the Managing Director.

The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board to ensure the optimum balance of skills, knowledge and experience taking into account the opportunities and challenges which face the Company
- Identifying and nominating for the approval of the Board a suitable candidate for any Board vacancy which may arise
- Monitoring the development of succession plans for the Group relating to senior executive management:
- Reviewing the emoluments of both executive and non executive Directors, and senior management.

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

Credit Committee

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

- David Ansell (Chairman)
- Naftali Mogere
- Beatrice Sabana
- Anne Amissabour (Resigned 21 May 2008)

The primary responsibilities of the Board Credit Committee are:

- Review and oversee the overall Credit policy and ensure that the risk lending limits are reviewed annually as and when the environment so dictates.
- Deliberate and consider loan applications beyond the limits of Management Lending Committee
- Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Company's credit risk management;
- Ensure that the credit policy sets out acceptable levels of exposure to the various economic sectors, currencies and maturities as well as target markets, diversification and concentration of the credit portfolio.

This is the only Board Committee that carries out its duties without formally constituted meetings. All the business of the Board Credit Committee is carried out via circulation of papers and virtual meetings.

CORPORATE GOVERNANCE *(Continued)*

Board Strategy Committee

This is composed of three Non-Executive Directors and the Managing Director:

- Benson Wairegi (Chairman)
- Peter K. Munga
- Anne K. Muga
- Frank Ireri

The principal roles of this committee are to:

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

Attendance of Individual Directors

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

Board meetings Attendance 2008	**BOARD MEETINGS**							**Total Attendance**
Dates	**26/2**	**29/4**	**20/5**	**2/7**	**22/7**	**21/10**	**2/12**	
Kungu Gatabaki	√	√	√	√	√	√	√	7/7
David R. Ansell	√	√	X	X	√	√	√	5/7
Anne W. Amissabour	√	X	X	N/A	N/A	N/A	N/A	1/3
Anne K. Muga	√	√	√	√	√	√	√	7/7
Naftali Magere	√	√	√	√	√	X	√	6/7
Ken Wathame	√	√	X	X	√	√	N/A	4/6
Beatrice M. Sabana	√	√	√	√	X	√	√	6/7
Benson Wairegi	N/A	√	X	√	√	√	√	5/6
Frank Ireri	√	√	√	√	√	√	√	7/7
Babatunde Soyoye	N/A	N/A	N/A	N/A	√	√	X	2/3
Peter K.Munga	N/A	N/A	N/A	N/A	N/A	X	X	0/2

√ **Attended**
x **Absent with apology**

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

- Executive committee (EXCO)
- Asset and Liability committee (ALCO)
- Risk Management committee
- Lending committee
- Arrears Management committee
- Information Technology Steering committee
- Management Strategy committee (STRATCOM)

The Board appoints other committees as and when necessary.

3. Internal audit function

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

CORPORATE GOVERNANCE *(Continued)*

4. Communication with shareholders

The company is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about its performance; and
- Compliance with regulations and obligations applicable to the 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 on significant developments are also reported.

5. Directors benefits and loans

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

6. Major shareholders as at 31 December 2008

	Name	No of shares	% age shareholding
1	Equity Bank Ltd	57,270,000	24.90
2	British-American Investments Co. of Kenya Ltd	17,250,000	7.50
3	National Social Security Fund	15,716,448	6.83
4	Permanent Secretary Treasury	8,422,850	3.66
5	Ndungu Paul Wanderi	6,047,900	2.63
6	Mobicom Investments Ltd	6,000,000	2.61
7	Northbound Holdings Ltd	5,287,436	2.30
8	Steel Son Ltd	4,080,068	1.77
9	Nomura Nominees Ltd A/c Jmm	3,621,026	1.57
10	Jubilee Insurance Co. of Kenya Ltd	2,183,172	0.95
TOTAL		**125,878,900**	**54.72**

7. Distribution of shareholders as at 31 December 2008

Shareholder (Number of shares)	No. of shareholders	No. of shares held	% age shareholding
1-500	9,902	2,876,087	1.25
501-1,000	5,468	4,703,876	2.05
1,001-10,000	15,076	42,715,125	18.57
10,001-50,000	1,116	21,621,543	9.40
50,001-100,000	103	7,628,856	3.32
100,001 - 1,000,000	86	20,247,258	8.80
Over 1,000,000	13	130,207,255	56.61
TOTAL	**31,764**	**230,000,000**	**100**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of Housing Finance Company of Kenya Limited set out on pages 31 to 75 which comprise the balance sheets of the Group and the Company at 31 December 2008, and the Group's income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors responsibility includes: determining that the basis of accounting described in Note 3 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 3 March 2009 and were signed on its behalf by:

Frank Ireri

Director

Kung'u Gatabaki

Director

[illegible] WAJIBU WA [illegible]

Wakurugenzi wana wajibu wa kuandaa na kutaa taarifa ya matumizi ya pesa ya Kampuni ya Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kutoka Uk. 31 hadi 75 ambayo inajumuisha pamoja mizania (Balance Sheet) ya kundi na kampuni kufikia Desemba 31, 2008 na taarifa kuhusu mabadiliko ya ulinganifu na mapato halisi ya kampuni kwa kipindi cha mwaka uliomalizika na vile vile muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa wakurugenzi unahusu:
kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 3 ni mbinu inayokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kwa hali ilivya ; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu katika uandaalizi na utaaji wa taarifa hii ya matumizi ya pesa ambayo haina undanganyifu wawate, hila au makosa, kutenga na kutumia sera mwafaka za ukaguzi wa pesa na kuweka makadirio ya maana ya uhasibu

Chini ya sheria za makampuni nchini Kenya, wakurugenzi wanahitajika kuandaa taarifa ya matumizi ya pesa kwa kila kipindi cha matumizi ya pesa ambayo itataa taswira (picha) halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na matokeo ya shughuli.
Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi za uhasibu ambayo inafichua ukweli halisi wa hali ya pesa kwa kampuni na kundi.

Wakurugenzi hukubali kuchukua jukumu kuhusu taarifa ya ukaguzi wa pesa ambaya imeandaliwa kwa kufuata sera za uhasibu zinazohitajika zinazoungwa mkono na uhakiki wa maana na makadirio yanayofaa kwa kufungamana na viwanga vya kimataifa na kwa njia inayofungamana na sheria za makampuni nchini Kenya .Wakurugenzi wanakubaliana kwa kauli moja kwamba, taarifa ya ukaguzi wa pesa inaanyesha hali halisi kuhusiana na maswala ya kifedha na matokeo ya shughuli za kundi na kampuni.

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

Wakurugenzi wamefanya uchuguzi wa kundi na uwezo wa kampuni kuendelea na shughuli zake na hawana tashwishi kuamini kwamba kundi na kampuni zitasitisha shughuli zao kwa kipindi cha miezi kumi na mbili ijayo kuanzia siku ya kutalewa kwa taarifa hii.

Kuidhinishwa Kwa Taarifa ya Matumizi ya Pesa

Taarifa ya matumizi ya pesa kama ilivyoonyeshwa hapo juu iliidhinishwa na Halmashauri ya Wakurugenzi tarehe 3 Machi 2009 na kutiwa sahihi kwa niaba yake na:

Frank Ireri

Mkurugenzi

Kung'u Gatabaki

Mkurugenzi

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF HOUSING FINANCE COMPANY OF KENYA LIMITED

We have audited the Group financial statements of Housing Finance Company of Kenya Limited set out on pages 31 to 75 which comprise the balance sheets of the Group and the Company at 31 December 2008, and the Group's income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
As stated on page 30, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Group and the company at 31 December 2008, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

(iii) The balance sheet of the company is in agreement with the books of account.

KPMG KENYA
CERTIFIED PUBLIC ACCOUNTANTS
PO BOX 40612
NAIROBI

KPMG Kenya

Date: 3 March 2009

RIPOTI YA WAHASIBU WA KUJITEGEMEA

KWA WANACHAMA WA HOUSING FINANCE COMPANY OF KENYA LIMITED

Tumeandaa taarifa kuhusu matumizi ya pesa ya Housing Finance Company kwa kipindi cha mwaka uliomalizika Desemba 31, 2008 kama ilivyoonyeshwa kupitia kurasa za 31 hadi 75 na kujumuisha pamoja mizania (Balance Sheet) ya kampuni, matokeo ya mapato ya kundi, taarifa kuhusu mabadiliko ya ulinganifu na mapato halisi ya kampuni kwa kipindi cha mwaka kilichomalizika, na muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa Wakurugezi Kuhusiana na Taarifa ya Matumizi ya Pesa

Kama ilivyoelezwa kupitia ukurasa wa 30 wakurugenzi wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa. Wajibu huu unahusu, kuandaa, kubuni, kuanzisha na kudumisha maingizo ya fedha ambayo yatatumika kuandaa taarifa ya fedha isiyo danganyifu iwe ni kwa hila au makosa; kutenga na kutumia sera zinazohitajika za uhasibu na kutoa makadirio ya pesa ya maana kulingana na hali ilivyo.

Wajibu wa Wakaguzi wa Hesabu

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

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

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

Maoni

Kwa maoni yetu, rekodi ya vitabu imetunzwa vyema na kwamba taarifa ya uhasibu ya kampuni na kundi kwa kipindi kilichomalizika Desemba 31, 2008 inadhihirisha hali halisi ya matokeo na shughuli za matumizi ya pesa na, inaafikiana na viwango vya kimataifa na kwa mujibu wa sheria za makampuni za Kenya.

Ripoti Kuhusu Mahitaji Mengine ya Kisheria

Kama inavyohitaji kupitia sheria za makampuni nchini Kenya tunaripoti kwenu, , kwa mujibu wa ukaguzi wetu, kwamba;

(i) Tumekusanya habari zote na fafanuzi ambazo kwa hekima yetu na imani zilikuwa muhimu kufanya ukaguzi wetu wa fedha

(ii) Kwa maoni yetu, kampuni imehifadhi vyema rekodi ya vitabu kama ilivyodhihirika kupitia uchunguzi wetu wa vitabu hivyo na;

(iii) Mizania (balance sheet) ya kampuni inaafikiana na vitabu vya hesabu.

KPMG KENYA
KAMPUNI YA WAHASIBU
S.L.P 40612
NAIROBI

KPMG Kenya

Imenukuliwa Tarehe: 3 Machi 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 KShs'000	2007 KShs'000
INTEREST INCOME	7	1,319,408	980,589
INTEREST EXPENSE	7	(488,690)	(297,128)
NET INTEREST INCOME		830,718	683,461
IMPAIRMENT LOSSES ON MORTGAGE ADVANCES	17(b)	(98,747)	(74,792)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON MORTGAGE ADVANCES		**731,971**	**608,669**
NON INTEREST INCOME	8	213,624	177,036
NON INTEREST EXPENSES	9	(742,925)	(672,308)
PROFIT BEFORE TAXATION	**10**	**202,670**	**113,397**
INCOME TAX EXPENSE	11	(66,243)	(39,889)
NET PROFIT AFTER TAX		**136,427**	**73,508**
BASIC AND DILUTED EARNINGS PER SHARE	**12**	**KShs 0.79**	**KShs 0.64**
DIVIDENDS PER SHARE	**13**	**KShs 0.30**	**KShs 0.25**

The notes set out on pages 36 to 75 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 KShs'000	2007 KShs'000
ASSETS			
Cash and bank balances	15	186,896	116,604
Placements with other banks		2,585,603	1,344,578
Investment in Government securities	16	478,594	478,590
Mortgage advances to customers (Net)	17(a)	10,414,658	7,746,060
Other assets	20	118,474	159,662
Housing development projects	21	29,130	12,850
Property and equipment	22(a)	349,856	363,742
Prepaid operating lease rentals	23	[illegible]	50,545
Intangible assets	24	[illegible]	30,691
Deferred tax asset	25(a)	65,022	62,277
Tax recoverable		15,615	3,656
TOTAL ASSETS		[illegible]	**10,369,255**
LIABILITIES			
Customers' deposits	27	10,061,830	8,776,826
Other liabilities	28	178,122	146,158
Loan from bank	29	400,000	-
		10,641,952	8,922,984
SHAREHOLDERS' EQUITY			
Share capital	30	1,150,000	575,000
Reserves		2,451,666	820,521
Shareholders' income notes and loans	31	50,750	50,750
		3,652,416	1,446,271
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,294,368**	**10,369,255**

The financial statements set out on pages 31 to 75 were approved by the Board of Directors on 3 March 2009 and were signed on its behalf by:

Director:________________________ Director:________________________

Director:________________________ Company Secretary________________________

The notes set out on pages 36 to 75 form an integral part of these financial statements.

COMPANY BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 KShs'000	2007 KShs'000
ASSETS			
Cash and bank balances	15	186,880	116,564
Placement with other banks		2,585,603	1,344,578
Investment in Government securities	16	478,594	478,590
Mortgage advances to customers (Net)	17(a)	10,414,658	7,746,060
Investment in subsidiaries	18	130,020	130,020
Other assets	20	107,125	137,923
Property and equipment	22(b)	343,630	357,440
Prepaid operating lease rentals	23	42,632	43,094
Intangible assets	24	9,550	30,601
Dividend receivable		20,000	20,000
Deferred tax asset	25(b)	11,803	9,670
Defined benefit asset	26	-	-
TOTAL ASSETS		**14,330,495**	**10,414,540**
LIABILITIES			
Customers' deposits	27	10,088,797	8,787,945
Amounts due to subsidiary company	19	20,997	19,655
Other liabilities	28	154,401	129,593
Loan from bank	29	400,000	-
Tax payable		4,994	17,379
		10,669,189	8,954,572
SHAREHOLDERS' EQUITY			
Share capital	30	1,150,000	575,000
Reserves		2,460,556	834,218
Shareholders' income notes and loans	31	50,750	50,750
		3,661,306	1,459,968
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,330,495**	**10,414,540**

The financial statements set on pages 31 to 75 were approved by the Board of Directors on 3 March 2009 and were signed on its behalf by:

Director:____________________ Director:____________________

Director:____________________ Company Secretary____________________

The notes set out on pages 36 to 75 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 KShs'000	2007 KShs'000
Net cash flows from operating activities	32(a)	(739,715)	(24,580)
INVESTING ACTIVITIES			
Purchase of property and equipment		(19,337)	(53,775)
Proceeds from sale of equipment		912	-
Purchase of intangible assets		(261)	(3,271)
Net cash flow from investing activities		(18,686)	(57,046)
FINANCING ACTIVITIES			
Dividend paid		(28,750)	-
Proceeds from rights issue		2,098,468	-
Net cash flow from Financing activities		2,069,718	-
Net Increase/ (decrease) in cash and cash equivalents	32(b)	1,311,317	(81,626)

The notes set out on pages 36 to 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Total KShs'000
At 1 January 2007	**575,000**	**193,418**	**25,705**	**-**	**417,144**	**110,746**	1,322,013
Net profit after taxation	-	-	-	-	-	73,508	73,508
Proposed dividends	-	-	-	28,750	-	(28,750)	-
Transfer to statutory reserve	-	-	-	-	30,363	(30,363)	-
At 31 December 2007	**575,000**	**193,418**	**25,705**	**28,750**	**447,507**	**125,141**	**1,395,521**
Net profit after taxation	-	-	-	-	-	136,427	136,427
Rights issue	575,000	-	1,523,468	-	-	-	2,098,468
Dividend paid	-	-	-	(28,750)	-	-	(28,750)
Proposed dividends	-	-	-	69,000	-	(69,000)	-
Transfer to statutory reserve	-	-	-	-	33,296	(33,296)	-
At 31 December 2008	**1,150,000**	**193,418**	**1,549,173**	**69,000**	**480,803**	**159,272**	**3,601,666**

The notes set out on pages 36 to 75 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Total KShs'000
At 1 January 2007	**575,000**	**193,418**	**25,705**	**-**	**417,144**	**105,659**	1,316,926
Net profit after taxation	-	-	-	-	-	92,292	92,292
Proposed dividends	-	-	-	28,750	-	(28,750)	-
Transfer to statutory reserve	-	-	-	-	30,363	(30,363)	-
At 31 December 2007	**575,000**	**193,418**	**25,705**	**28,750**	**447,507**	**138,838**	**1,409,218**
Net profit after taxation	-	-	-	-	-	131,620	131,620
Rights issue	575,000	-	1,523,468	-	-	-	2,098,468
Dividend paid	-	-	-	(28,750)	-	-	(28,750)
Proposed dividends	-	-	-	69,000	-	(69,000)	-
Transfer to statutory reserve	-	-	-	-	33,296	(33,296)	-
At 31 December 2008	**1,150,000**	**193,418**	**1,549,173**	**69,000**	**480,803**	**168,162**	**3,610,556**

The notes set out on pages 36 to 75 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. REPORTING ENTITY

Housing Finance is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of the company's registered office is shown on Page 3. The consolidated financial statements of the Group as at and for the year ended 31 December 2008 include the company and its subsidiaries (together referred as the "Group" and individually as "Group entities". The Group is primarily involved in mortgage lending.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements were authorised for issue by the Board of Directors on 3 March 2009.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- buildings are measured at revalued amounts.

c) Functional and presentation currency

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

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 6.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidation principles

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries made up to 31 December 2008. Subsidiaries are entities controlled by the company. Control exists when the company has power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting right that presently are exercisable are taken into account. A listing of the subsidiaries is set out on Note 18.

b) Revenue recognition

Income is recognised on an accrual basis.

i) Interest

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

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

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest basis; and
- interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

ii) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Foreign currency transactions

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 income statement. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of the transaction.

d) Property and equipment

(i) Recognition and measurement

Freehold land and buildings and buildings on leasehold land are measured in the financial statements at their historical cost or amount of any subsequent valuation less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functioning of related equipment is capitalised as part of that equipment.

ii) Depreciation

Freehold land is not depreciated.

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

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

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

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

iii) Disposal of property and equipment

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

e) Intangible assets

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

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

f) Leases

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

g) Employee benefits

i) Employee Retirement Benefits Plan

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

The employees and the Group also contribute to the National Social Security fund, a national retirement benefit scheme. Contributions are determined by the local statute and the company's contributions are charged to the profit and loss account in the year to which they relate. The Group hos no further obligation once the contributions have been paid.

(ii) Employee Share Ownership Plan (ESOP)

Approval to establish an ESOP was given by the shareholders on 26 July 2006. The necessary steps have been taken to operationalise the Plan.

iii) Accrued leave

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

iv) Termination benefits

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

v) Short-term benefits

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

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

h) Taxation

Tax on the operating results for the year comprises 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that future taxable profit is expected to be available against which the unused tax losses can be utilized.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the balance sheet.

j) Financial assets and liabilities

i) Recognition

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated.

Purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset.

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

ii) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

ILANI YA MKUTANO MKUU WA KILA MWAKA

NOTISI INATOLEWA kwamba mkutano wa 43 wa pamoja wa mwaka wa kampuni utafanyika katika ukumbi wa **Bomas of Kenya, Langata Road, Nairobi, Jumatano Aprili 29, 2009** kuanzia **saa tano kamili asubuhi** ili kuangazia shughuli zifuatazo:

1) Kuwatambua waakilishi na kukagua idadi wa waliohudhuria.
2) Kusoma notisi ya kuitishwa kwa mkutano.
3) Kupokea na endapo itapitishwa, kuidhinisha mizania (balance sheet) iliyokaguliwa na hesabu kwa kipindi kilichomalizika Desemba 31, 2008 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na wahasibu.
4) Kutangaza malipo ya mwisha ya mgawo wa faida ya senti 0.30 kwa kila hisa kwa kipindi cha matumizi ya pesa kilichomalizika Desemba 31, 2008 na kuidhinisha kufungwa kwa rejista ya wanachama kufikia Mei 29 2009 kwa siku moja tu.
5) Kuwachagua wakurugenzi:
   a) Bwana David Ansell anastaafu kwa zamu kwa mujibu wa kifungu cha sheria nambari 105 za kampuni na kwa kuwa anastahili amejitokeza kuchaguliwa tena.
   b) Katibu wa kudumu katika wizara ya fedha anastaafu kwa zamu kwa mujibu wa kifungu cha sheria nambari 105 za kampuni na hajajiwasilisha kuchaguliwa tena.
   c) Bw. Benson Wairegi ambaye aliteuliwa kama mkurugenzi Aprili 29 2008 anastaafu kwa mujibu wa kifungu cha nambari 104 cha sheria za kampuni na kwa kuwa anastahili amejitakeza kuchaguliwa tena.
   d) Bw. Babatunde Soyoye aliyeteuliwa kama mkurugenzi Julai 22 2008 anastaafu kwa mujibu wa kifungu cha sheria nambari 104 za kampuni na hajajiwasilisha kuchaguliwa tena.
   e) Bw. Peter Kahara Munga aliyeteuliwa kama mkurugenzi Oktoba 21 2008 anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za kampuni na kwa kuwa anastahili amejitakeza kuchaguliwa tena.
6) Kuidhinisha marupurupu ya wakurugenzi.
7) Kutambua kwamba KPMG Kenya wataendelea mbele na jukumu lao kwa mujibu wa sehemu 159 (2) ya sheria za kampuni (kifungu 486) na sehemu ya 24 (1) ya sheria za benki (kifungu 488) na kuwaamrisha wakurugenzi kuamua malipo yao.

KWA AMRI YA HALMASHAURI
Conrad Nyukuri
Katibu wa Kampuni

Imenukuliwa: Machi 3, 2009
S.L.P 41968, GPO 00100
NAIROBI

MUHIMU:
Kwa mujibu wa sehemu ya 136 (2) ya sheria za kampuni (kifungu 486) kila mwanachama aliye na uwezo wa kuhudhuria mkutano uliotajwa hapo juu na kupiga kura ana uhuru kumteua wakala wake kumwakilisha na kupiga kura kwa niaba yake. Si lazima kwa wakala kama huyo kuwa mwanachama. Famu ya uwakilishi imeambatanishwa na inafaa kurudishwa kwa msajili, Housing Finance Company Of Kenya, jumba la Rehani, barabara ya Kenyatta Avenue S.L.P 30088, GPO 00100 Nairobi ili kupokelewa saa 48 kabla ya mkutano kufanyika au kuahirishwa kwake.

Endapo mteuzi ni shirika au ofisi ya serikali, nakala itakayomteua mwakilishi sharti iwe imepigwa mhuri au kuwasilishwa na afisa au wakala wa shirika au ofisi ya serikali.

Housing Finance

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 43rd Annual General Meeting of the Company will be held at **Bomas of Kenya Auditorium, Langata Road, Nairobi on Wednesday 29 April 2009** at **11.00 am** to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31 December 2008 together with the Chairman's, the Directors' and Auditors' Reports thereon.
4. To declare a final dividend of KShs 0.30 per share for the financial year ended 31 December 2008 and approve the closure of the Register of Members on 29 May 2009 for one day only.
5. To elect Directors:
   a) Mr David Ansell retires by rotation in terms of Article 105 of the Company's Articles of Association and, being eligible, offers himself 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, does not seek re-election.
   c) Mr Benson Wairegi who was appointed as a Director on 29 April 2008 retires in accordance with Article 104 of the Company's Articles of Association and being eligible, offers himself for re-election.
   d) Mr Babatunde Soyoye who was appointed as a Director on 22 July 2008 retires in accordance with Article 104 of the Company's Articles of Association and, does not seek re-election.
   e) Mr Peter Kahara Munga who was appointed as a Director on 21 October 2008 retires in accordance with Article 104 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.

BY ORDER OF THE BOARD

Conrad Nyukuri

Company Secretary

Date: 3rd March 2009
P.O. Box 41968, GPO 00100
NAIROBI

NB:

In accordance with Section 136 (2) of the Companies Act (Cap 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, P.O. Box 30088, GPO 00100, Nairobi, to arrive not later than 48 hours before the meeting or any adjournment thereof.

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

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. These include mortgage advances to customers and placements with other banks. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills, treasury bonds and government stock.

iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

iii) Identification and measurement of impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

iv) Derecognition

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

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

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

(k) Impairment for non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

l) Segmental reporting

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.

m) Dividends

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

n) Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) 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.

p) 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.

q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements and will be applicable retrospectively. This interpretation is not expected to have an effect on the Group's financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group is currently in the process of evaluating the potential effect of this amendment.

- Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.

(q) New standards and interpretations not yet adopted (Continued)

- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments (see Note 5). This standard will have no effect on the Group's reported total profit or loss or equity. The Group is currently in the process of determining the potential effect of this standard on the Group's segment reporting.

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements as the Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The standard is not expected to have an impact on the Group's financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(q) New standards and interpretations not yet adopted (Continued)

- Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009consolidated financial statements with retrospective application required, are not expected to have any significant impact on the consolidated financial statements.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group does not expect this amendment to have an impact on the financial statements.

4. FINANCIAL RISK MANAGEMENT

Principles

Housing Finance faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risk, the quantification of the Group's risk exposure, actions to limit risk and the constant monitoring of risk.

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

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

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies.

- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.

- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Company and divisional levels, as well as by enforcing consistent operating limits for individual business activities.

- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.

- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.

- Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the newly adopted risk management framework. It is further supplemented by specific guidelines for measuring and monitoring individual risk types as issued by the CBK Risk management guidelines.

The section below provides details of the Group's exposure to various risks and describes the methods used by management to control risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk mainly interest risk and operational risk.

(i) Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the company or if an obligor otherwise fails to perform as agreed.

Management of credit risk

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

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

The Board provides effective oversight of the overall credit portfolio through the Board Credit Committee (BCC). This committee is the decision making body with responsibility for loans that exceed the scope of authority of the management lending committee. Acting on the basis of the powers granted it by the Board, the BCC decides on the overall lending limits for the Group and approves the credit risk strategies to be adopted.

The company has adequate Board approved Credit Policies which are reviewed annually and which cover all aspects of credit risk management (mortgage origination, analysis and appraisal, acceptable collateral, approval authorities and non-performing loan management).

At the management level, there is a Credit Risk Division staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this division there is a fully fledged mortgage recoveries and rehabilitation unit with the responsibility of formulating workout solutions and restructuring mortgages in distress.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

Management of credit risk (Continued)

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 obtain collateral.

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

Impaired loans

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

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category until satisfactory performance after restructuring.

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group Credit determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (continued)

Exposure to credit risk	**Mortgage advances**		**Investment securities**		**Placement with other banks**	
	2008 KShs'000	**2007 KShs'000**	**2008 KShs'000**	**2007 KShs'000**	**2008 KShs'000**	**2007 KShs'000**
Impaired loans	2,096,801	2,593,354	-	-	-	-
Gross amount allowance for impairment	(871,664)	(1,188,571)	-	-	-	-
Carrying amount	**1,225,137**	**1,404,783**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	9,216,676	6,370,144	478,594	478,590	2,585,603	1,344,578
Allowance for impairment incurred but not reported	(27,155)	(28,867)	-	-	-	-
Carrying amount	**9,189,521**	**6,341,277**	**478,594**	**478,590**	**2,585,603**	**1,344,578**
Net carrying amount	**10,414,658**	**7,746,060**	**478,594**	**478,590**	**2,585,603**	**1,344,578**

In addition to the above, the Group has entered into lending commitments of KShs 2,613,418,522 (2007 – KShs 2,399,224,000) with various counter parties.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4.FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (continued)

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

	2008 KShs'000	2007 KShs'000
Against impaired accounts	2,112,110	2,132,782
Against accounts not impaired	20,672,650	13,736,066
	22,784,760	**15,868,848**

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

	2008 KShs'000	2007 KShs'000
Properties	**22,784,760**	**15,868,848**

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

(ii) Liquidity risk

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

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

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

The Group has access to a diverse funding base. Funds are raised mainly from deposits 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.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting period were as follows:

	2008	**2007**
At 31 December	30.40%	20.00%
Average for the period	27.35%	23.13%
Maximum for the period	40.09%	26.25%
Minimum for the period	15.58%	20.00%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities

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

31 December 2008	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash balances	186,896	-	-	-	-	186,896
Placements with other banks	536,438	1,349,165	700,000	-	-	2,585,603
Investment in Government securities	-	-	8,594	470,000	-	478,594
Net mortgage advances to customers	-	251,050	1,540,278	1,549,587	7,073,743	10,414,658
Total	**723,334**	**1,600,215**	**2,248,872**	**2,019,587**	**7,073,743**	**13,665,751**
Financial liabilities						
Customer deposits	-	4,284,193	1,216,189	3,230,285	1,333,163	10,063,830
Loan from Bank	-	400,000	-	-	-	400,000
Government income notes	-	-	-	-	50,750	50,750
Total	**-**	**4,684,193**	**1,216,189**	**3,230,285**	**1,383,913**	**10,514,380**
Unrecognised mortgage commitments	**-**	**1,204,450**	**1,408,967**	**-**	**-**	**2,613,417**
At 31 December 2008	**723,334**	**(4,288,428)**	**(376,284)**	**(1,210,698)**	**5,689,830**	**537,754**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (continued)

31 December 2007	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash and bank balances	116,604	-	-	-	-	116,604
Placements with other banks	-	994,578	350,000	-	-	1,344,578
Investment in Government securities	-	-	8,590	470,000	-	478,590
Net mortgage advances to customers	-	416,942	161,572	1,273,294	5,894,252	7,746,060
Total	**116,604**	**1,411,520**	**520,162**	**1,743,294**	**5,894,252**	**9,685,832**
Financial liabilities						
Customer deposits	-	3,493,449	3,376,085	1,840,082	67,210	8,776,826
Government income notes	-	-	-	-	50,750	50,750
Total	**-**	**3,493,449**	**3,376,085**	**1,840,082**	**117,960**	**8,827,576**
Unrecognised mortgage commitments	**-**	**549,775**	**1,849,449**	**-**	**-**	**2,399,224**
At 31 December 2007	**116,604**	**(2,631,704)**	**(4,705,372)**	**(96,788)**	**5,776,292**	**(1,540,968)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4.FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

Management of market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

Exposure to interest rate risk

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

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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

31 December 2008	Average interest %	Due on Demand KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial Assets							
Cash balances	2.00	186,896	-	-	-	-	186,896
Placements with other banks	9.56	536,438	1,349,165	700,000	-	-	2,585,603
Investment in Government securities	6.75	-	-	8,594	470,000	-	478,594
Net mortgage advances to customers	4.78	-	251,050	1,540,278	1,549,587	7,073,743	10,414,658
Total		**723,334**	**1,600,215**	**2,248,872**	**2,019,587**	**7,073,743**	**13,665,751**
Financial liabilities							
Customer deposits	5.09	-	4,284,193	1,216,189	3,230,285	1,333,163	10,063,830
Loan from Bank	11.57	-	400,000	-	-	-	400,000
Government income notes	8.25	-	-	-	-	50,750	50,750
Total		**-**	**4,684,193**	**1,216,189**	**3,230,285**	**1,383,913**	**10,514,580**
Unrecognised mortgage commitments		**-**	**1,204,450**	**1,408,967**	**-**	**-**	**2,613,417**
At 31 December 2008		**723,334**	**(4,288,428)**	**(376,284)**	**(1,210,698)**	**5,689,830**	**537,754**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

31 December 2007	Average interest %	Due on Demand KShs'000	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets							
Cash and bank balances	2.00	116,604	-	-	-	-	116,604
Placements with other banks	7.60	-	994,578	350,000	-	-	1,344,578
Investment in Government securities	6.75	-	-	8,590	470,000	-	478,590
Net mortgage advances to customers	6.27	-	416,942	161,572	1,273,294	5,894,252	7,746,060
Total		**116,604**	**1,411,520**	**520,162**	**1,743,294**	**5,894,252**	**9,685,832**
Financial liabilities							
Customer deposits	3.37	-	3,493,449	3,376,085	1,840,082	67,210	8,776,826
Government income notes	8.25	-	-	-	-	50,750	50,750
Total		**-**	**3,493,449**	**3,376,085**	**1,840,082**	**117,960**	**8,827,576**
Unrecognised mortgage commitments		**-**	**549,775**	**1,849,449**	**-**	**-**	**2,399,224**
At 31 December 2007		**116,604**	**(2,631,704)**	**(4,705,372)**	**(96,788)**	**5,776,292**	**(1,540,968)**

4.FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

Sensitivity analysis interest rate risk

At 31 December 2008, if interest rates at that date had been 100 basis points lower with all other variables held constant, pre-tax profit for the year would have been KShs 37.445 million (2007 - KShs 13.729 million) higher arising mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been KShs 26.211 million (2007 – KShs 9.61 million) higher arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held to maturity.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been KShs 35.914 million lower, arising mainly as a result of higher interest expense on variable borrowings and other components of equity would have been KShs 25.140 million (2007 – KShs 7.883 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as held to maturity.

Profit is more sensitive to interest rate decreases than increase because of borrowing with capped interest rates.

Sensitivity analysis foreign currency exchange risk

The Group's assets and liabilities are held in the local currency and therefore fluctuations in the foreign exchange rate are not expected to have any significant impact on the Group.

(iv) Operational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Group standards for the management of operational risks. Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit committee and senior management of the Group.

Risk measurement and control

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

NOTES TO THE FINANCIAL STATEMENTS
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(v) Capital management

The Central Bank of Kenya sets and monitors capital requirements for banks and other non-bank financial institutions. In implementing the current capital requirements Central Bank of Kenya requires the company to maintain a prescribed ratio of total risk weighted assets. This requirement is calculated far market risk in the banking portfolio of Housing Finance Company of Kenya Limited.

The regulatory capital is analysed in two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual bonds, retained earnings, translation reserve and minority interest after deduction of goodwill and intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

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

The company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There has been no material changes in the Group's management of capital during the year.

The company's regulatory capital position as at 31 December was as fallows:

	2008 KShs'000	2007 KShs'000
Tier 1 capital		
Ordinary share capital	1,150,000	575,000
Share premium	1,549,173	25,705
Retained earnings	168,162	138,838
	2,867,335	739,543
Tier 2 capital		
Collective allowances for impairment	88,459	70,479
Qualifying subordinated liabilities	99,105	99,105
	187,564	169,584
Total regulatory capital	**3,054,899**	**909,127**
Risk weighted assets		
Capital ratios	**2008**	**2007**
Total regulatory capital expressed as a percentage of total risk-weighted assets	43.17%	16.12%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	40.52%	13.12%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments.

The Group is organised in three main business segments: Mortgage, Real Property Development and Estate Advisory services. This is based on the Group's management and internal reporting structure.

31 December 2008:	Mortgage business KShs'000	Property development KShs'000	Estate advisory services KShs'000	Eliminations KShs'000	Total 31.12.08 KShs'000
Gross revenue (external)	**1,513,692**	**850**	**18,490**	**-**	**1,533,032**
Segment profit/(loss)					
before tax	195,806	(1,037)	7,901	-	202,670
Taxation	(64,186)	231	(2,288)	-	(66,243)
Segment profit/(loss) after tax	**131,620**	**(806)**	**5,613**	**-**	**136,427**
Other information:					
Segment assets	14,330,495	108,726	61,121	(205,974)	14,294,368
Segment liabilities	10,669,189	6,242	38,029	(71,506)	10,641,954
Depreciation/amortisation					
expense	(54,921)	(265)	(10)	-	(55,196)
Capital expenditure	19,337	-	-	-	19,337

31 December 2007:	Mortgage business KShs'000	Property development KShs'000	Estate advisory services KShs'000	Eliminations KShs'000	Total 31.12.07 KShs'000
Gross revenue (external)	**1,150,489**	**79**	**7,057**	**-**	**1,157,625**
Segment profit/(loss)					
before tax	130,723	(2,257)	4,931	(20,000)	113,397
Taxation	(38,431)	23	(1,481)	-	(39,889)
Segment profit/(loss) after tax	**92,292**	**(2,234)**	**3,450**	**(20,000)**	**73,508**
Other information:					
Segment assets	10,414,540	108,654	48,730	(202,004)	10,369,920
Segment liabilities	8,954,572	5,365	31,249	(40,283)	8,950,903
Depreciation/amortisation					
expense	(49,562)	(258)	(4)	-	(49,824)
Capital expenditure	56,949	49	48	-	57,046

Geographical segments

The Group's operations are all within Kenya. Geographical analysis is not relevant.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

6. USE OF ESTIMATES AND JUDGEMENTS

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j)(iii).
The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

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

7. INTEREST INCOME

	2008 KShs'000	2007 KShs'000
Arising from:		
Advances to customers	1,085,606	857,587
Treasury bills	-	4,263
Treasury bonds	31,733	34,398
Placements with other banks	202,069	84,341
	1,319,408	**980,589**

Included in interest income on mortgage advances for the year is a total of KShs 37,133,178 (2007 - KShs 161,197,981) accrued on impaired assets. Interest income on treasury bills and treasury bonds relates to investment securities that are held to maturity.

INTEREST EXPENSE

	2008 KShs'000	2007 KShs'000
Arising from:		
Customer deposits	439,862	292,941
Interest on borrowed funds	48,828	4,187
	488,690	**297,128**

8. NON INTEREST INCOME

	2008 KShs'000	2007 KShs'000
Arising from:		
Fees and commission income	167,371	135,115
Rental income	34,368	25,751
Other operating income	10,973	16,170
Gain on sale of investment property, property and equipment	912	-
	213,624	**177,036**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

9. NON INTEREST EXPENSES

	2008 KShs'000	2009. KShs'000
Arising from:		
Salaries and employee benefits	417,711	383,485
Rental expenses	11,494	24,342
Deposit Protection Fund	13,994	12,164
General administration expenses	299,726	252,317
	742,925	**672,308**
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions	535	554
Contributions to the defined contribution retirement scheme	24,773	24,473
Increase in the defined benefit scheme asset (Note 26(a))	-	(9,851)

10. PROFIT BEFORE TAXATION

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

Directors' remuneration:		
- Fees	2,296	2,472
- Expenses	3,704	2,005
- As executives	24,669	20,808
Auditor's remuneration	6,815	4,990
Amortisation of prepaid operating lease rentals	645	643
Amortisation of intangible assets	21,332	21,879
Depreciation	33,222	27,302
Profit on sale of equipment	(912)	-

11. TAXATION

Current tax at 30%	68,988	60,085
Prior Year over provision	-	(286)
Deferred tax (credit)/charge (Note 25(a))	(2,745)	(19,910)
	66,243	**39,889**

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

	2008 KShs'000	2007 KShs'000
Accounting profit before taxation	202,670	113,397
Tax at the applicable corporation tax rate of 30%	60,801	34,019
Utilisation of unrecognised tax losses brought forward	-	(286)
Tax effect of non-deductible costs and non-taxable income	5,442	6,156
	66,243	**39,889**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

12. EARNINGS PER SHARE

Basic

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

	2008 KShs'000	2007 KShs'000
Net profit for the year attributable to shareholders	136,427	73,508
Number of ordinary shares in issue (in thousands)	230,000	115,000
Weighted average number of ordinary shares	172,500	-
Basic earnings per share	KShs 0.79	KShs 0.64
Diluted earnings per share	KShs 0.79	KShs 0.64

13. DIVIDEND PER SHARE

	2008 KShs'000	2007 KShs'000
Dividend	69,000	28,750
Number of ordinary shares (000's)	230,000	115,000
Dividends per share	KShs 0.30	KShs 0.25

The dividend per share is based on the number of issued and fully paid ordinary shares.

14. FINANCIAL ASSETS AND LIABILITIES

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

(a) Group

	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
31 December 2008:				
Financial Assets				
Cash and cash equivalents	-	-	186,896	186,896
Placements with banks	-	-	2,585,603	2,585,603
Investment in government securities	478,594	-	-	435,231
Mortgage advances	-	10,414,658	-	10,414,658
	478,594	**10,414,658**	**2,772,499**	**13,622,388**
Financial Liabilities				
Customer deposits	-	-	10,063,830	10,063,830
Loan from bank	-	-	400,000	400,000
	-	-	**10,463,830**	**10,463,830**
31 December 2007:				
Financial Assets				
Cash and cash equivalents	-	-	116,604	116,604
Placements with banks	-	-	1,344,578	1,344,578
Investment in government securities	478,590	-	-	475,782
Mortgage advances	-	7,746,060	-	7,746,060
	478,590	**7,746,060**	**1,461,182**	**9,683,024**
Financial Liabilities				
Customer deposits	-	-	**8,776,826**	**8,776,826**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Company

31 December 2008:	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets				
Cash and cash equivalents	-	-	186,880	186,880
Placements with banks	-	-	2,585,603	2,585,603
Investment in government securities	478,594	-	-	435,231
Mortgage advances	-	10,414,658	-	10,414,658
	478,594	**10,414,658**	**2,772,483**	**13,622,372**
Financial Liabilities				
Customer deposits	-	-	10,088,797	10,088,797
Loan from bank	-	-	400,000	400,000
	-	**-**	**10,488,797**	**10,488,797**
31 December 2007:				
Financial Assets				
Cash and cash equivalents	-	-	116,564	116,564
Placements with banks	-	-	1,344,578	1,344,578
Investment in government securities	478,590	-	-	475,782
Mortgage advances	-	7,746,060	-	7,746,060
	478,590	**7,746,060**	**1,461,142**	**9,682,984**
Financial Liabilities				
Customer deposits	**-**	**-**	**8,787,945**	**8,787,945**

The fair value of treasury bonds is based on the indicative price of the specific issues as at the balance sheet date.
The indicative prices are derived from trading at the Nairobi Stock Exchange. For Treasury bills, placements with other banks, cash and cash equivalents and deposits the amortised cost is deemed a reasonable approximation of fair value because of their short term nature.
The fair value of loans and advances has not been disclosed as this cannot be determined reliably because of lack of a developed market for securitised assets.

15. CASH AND BANK BALANCES

	2008		2007	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cash at hand	113,321	113,318	113,971	113,964
Current account balances	73,575	73,562	2,633	2,600
	186,896	**186,880**	**116,604**	**116,564**

16. INVESTMENT IN GOVERNMENT SECURITIES

Group and Company	2008 KShs'000	2007 KShs'000
Held to Maturity		
Treasury bonds due after 180 days	**478,594**	**478,590**

The weighted average effective interest rate on government securities as at 31 December 2008 was 6.93% (2007 – 6.87%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

17. MORTGAGE ADVANCES TO CUSTOMERS

Group and Company

	2008 KShs'000	2007 KShs'000
(a) Mortgage advances at amortised cost		
Mortgages	11,313,477	8,963,498
Less: Provision for impairment losses (Note 17(b))	(898,819)	(1,217,438)
	10,414,658	**7,746,060**
Maturing:		
Within five years	2,789,893	1,851,808
Over five years to ten years	3,760,513	3,358,781
Over ten years to fifteen years	2,877,348	2,167,791
Over fifteen years	986,904	367,680
	10,414,658	**7,746,060**

(b) Reserve for impairment losses

	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2007	1,966,801	19,028	1,985,829
Impairment made in the year	64,953	9,839	74,792
Written off against balance	(843,183)	-	(843,183)
At 31 December 2007	**1,188,571**	**28,867**	**1,217,438**
Impairment made in the year	100,459	(1,712)	98,747
Written off against balance	(417,366)	-	(417,366)
At 31 December 2008	**871,664**	**27,155**	**898,819**

(c) Mortgage advances

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

	2008 KShs'000	2007 KShs'000
Interest on impaired mortgages which has not yet been received in cash	**894,898**	**1,180,157**

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2008 was 12.85% (2007 – 12.23%).

18. INVESTMENT IN SUBSIDIARIES

	Shareholding	2008 KShs'000	2007 KShs'000
Kenya Building Society Limited	100%	125,000	125,000
First Permanent (East Africa) Limited	100%	5,020	5,020
		130,020	**130,020**

19. AMOUNTS DUE TO SUBSIDIARIES

Company:

	2008 KShs'000	2007 KShs'000
First Permanent (East Africa) Limited	**20,997**	**19,655**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

20. OTHER ASSETS

	2008		2007	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	20,222	20,222	30,364	30,364
Prepayments	37,622	37,622	16,254	16,254
Deposits and rent receivable	3,614	3,614	3,035	3,035
Other receivables	57,016	45,667	110,009	88,270
	118,474	**107,125**	**159,662**	**137,923**

Included in staff debtors is staff car loans of KShs 19,089,852 (2007 – KShs 28,845,483).

21. HOUSING DEVELOPMENT PROJECTS

Group:	2008 KShs'000	2007 KShs'000
Housing projects		
Komarock Housing Projects	**20,130**	**12,850**

No commitments in respect of these projects were authorised both in 2008 and 2007.

22. PROPERTY AND EQUIPMENT

(a) Group

2008:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2008	7,000	233,651	488,498	729,149
Additions	-	-	19,337	19,337
Disposals	-	-	(2,332)	(2,332)
At 31 December 2008	7,000	233,651	505,503	746,154
Comprising:				
At cost	-	20,651	505,503	526,154
At valuation	7,000	213,000	-	220,000
	7,000	233,651	505,503	746,154
Depreciation:				
At 1 January 2008	-	9,675	355,733	365,408
Charge for the year	-	3,302	29,920	33,222
Disposals	-	-	(2,332)	(2,332)
At 31 December 2008	-	12,977	383,321	396,298
Net book value:				
At 31 December 2008	**7,000**	**220,674**	**122,182**	**349,856**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

.22. PROPERTY AND EQUIPMENT (Continued)

(a) Group - continued

2007:	**Freehold land KShs'000**	**Buildings KShs'000**	**Furniture, fixtures, equipment & motor vehicles KShs'000**	**Total KShs'000**
Cost or valuation:				
At 1 January 2007	7,000	233,651	434,723	675,374
Additions	-	-	53,775	53,775
At 31 December 2007	7,000	233,651	488,498	729,149
Comprising:				
At cost	-	20,651	488,498	509,149
At valuation	7,000	213,000	-	220,000
	7,000	233,651	488,498	729,149
Depreciation:				
At 1 January 2007	-	6,413	331,692	338,105
Charge for the year	-	3,262	24,040	27,302
At 31 December 2007	-	9,675	355,732	365,407
Net book value:				
At 31 December 2007	**7,000**	**223,976**	**132,766**	**363,742**
At 31 December 2006	**7,000**	**227,238**	**103,031**	**337,269**

The Group's land and buildings were professionally valued by the Group's valuer on an open market basis on 31 December 2005. The resulting surplus was credited to revaluation reserve.

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

	2008 KShs 000	**2007 KShs '000**
Freehold land	206	206
Buildings	44,533	47,720

Included in equipment are assets with a gross value of KShs 296,079,132 (2007 – KShs 307,224,490) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 50,668,300 (2007 – KShs 53,032,610).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company

2008:	**Freehold land KShs'000**	**Buildings KShs'000**	**Furniture, fixtures, equipment & motor vehicles KShs'000**	**Total KShs'000**
Cost or valuation:				
At 1 January 2008	7,000	225,055	483,132	715,187
Additions	-	-	19,337	19,337
Disposal	-	-	(2,332)	(2,332)
At 31 December 2008	7,000	225,055	500,137	732,192
Comprising:				
At cost	-	12,055	500,137	512,192
At valuation	7,000	213,000	-	220,000
	7,000	225,055	500,137	732,192
Depreciation:				
At 1 January 2008	-	7,381	350,366	357,747
Charge for the year	-	3,227	29,920	33,147
Disposals	-	-	(2,332)	(2,332)
At 31 December 2008	-	10,608	377,954	388,562
Net book value:				
At 31 December 2008	**7,000**	**214,447**	**122,183**	**343,630**
2007:				
Cost or valuation:				
At 1 January 2007	7,000	225,055	429,357	661,412
Additions	-	-	53,775	53,775
At 31 December 2007	7,000	225,055	483,132	715,187
Comprising:				
At cost	-	12,055	483,132	495,187
At valuation	7,000	213,000	-	220,000
	7,000	225,055	483,132	715,187
Depreciation:				
At 1 January 2007	-	4,193	326,326	330,519
Charge for the year	-	3,188	24,040	27,228
At 31 December 2007	-	7,381	350,366	357,747
Net book value:				
At 31 December 2007	**7,000**	**217,674**	**132,766**	**357,440**
At 31 December 2006	**7,000**	**220,862**	**103,031**	**330,893**

The company's land and buildings were professionally valued by the Group's valuer on an open market basis on 31 December 2005. The resulting surplus was credited to revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

22. PROPERTY AND EQUIPMENT (Continued)

(b) Company - continued

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

	2008 KShs 000	2007 KShs '000
Freehold land	206	206
Buildings	44,533	47,720

Included in equipment are assets with a gross value of KShs 288,709,828 (2007 - KShs 299,855,186) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 49,519,060 (2007 – KShs 51,883,369).

23. PREPAID OPERATING LEASE RENTALS

	2008 Group KShs'000	2008 Company KShs'000	2007 Group KShs'000	2007 Company KShs'000
Cost:				
At 1 January	54,612	45,706	54,612	45,706
Disposals in the year	-	-	-	-
	54,612	45,706	54,612	45,706
Amortisation:				
At 1 January	4,067	2,612	3,424	2,150
Charge for the year	645	462	643	462
Disposals	-	-	-	-
	4,712	3,074	4,067	2,612
At 31 December	**49,900**	**42,632**	**50,545**	**43,094**

As at 31 December 2008 the un-expired lease period ranges from 65 to 87 years.

24. INTANGIBLE ASSETS

	2008 Group KShs'000	2008 Company KShs'000	2007 Group KShs'000	2007 Company KShs'000
Cost				
At January	125,146	125,049	121,875	121,875
Additions during the year	261	261	3,271	3,174
	125,407	125,310	125,146	125,049
Amortisation				
At January	94,455	94,448	72,576	72,576
Amortisation during the year	21,332	21,312	21,879	21,872
As at 31 December	115,787	115,760	94,455	94,448
Net book value				
As at 31 December	**9,620**	**9,550**	**30,691**	**30,601**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

(a) Group

31 December 2008:	**01.01.2008 KShs'000**	**Recognised in income KShs'000**	**31.12.2008 KShs '000**
Arising from:			
Plant and equipment	600	(4,246)	(3,646)
Other general provisions	(305)	(202)	(507)
General provision on mortgages	(10,099)	1,953	(8,146)
Tax losses carried forward	(52,473)	(250)	(52,723)
Net deferred tax	**(62,277)**	**(2,745)**	**(65,022)**

31 December 2007:	**01.01.2007 KShs'000**	**Recognised in income KShs'000**	**31.12.2007 KShs '000**
Arising from:			
Plant and equipment	869	(269)	600
Other general provisions	(655)	350	(305)
General provision on mortgages	(5,708)	(4,391)	(10,099)
Defined benefit asset	15,590	(15,590)	-
Tax losses carried forward	(52,463)	(10)	(52,473)
Net deferred tax	**(42,367)**	**(19,910)**	**(62,277)**
Comprising:			
Deferred tax assets	52,584		62,277
Deferred tax liabilities	10,217		-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

25. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

(b) Company

31 December 2008:	01.01.2008 KShs'000	Recognised in income KShs'000	31.12.2008 KShs '000
Arising from:			
Plant and equipment	734	(4,265)	(3,531)
Other general provisions	(305)	179	(126)
General provision on mortgages	(10,099)	1,953	(8,146)
	(9,670)	**(2,133)**	**(11,803)**

31 December 2007:	01.01.2007 KShs'000	Recognised in income KShs'000	31.12.2007 KShs '000
Arising from:			
Plant and equipment	834	(100)	734
Other general provisions	(499)	194	(305)
General provision on mortgages	(5,708)	(4,391)	(10,099)
Defined benefit asset	15,590	(15,590)	-
	10,217	**(19,887)**	**(9,670)**

26. EMPLOYEE BENEFITS

(a) Retirement benefits asset

Group and Company

Movements in the net asset recognised in the balance sheet are as follows:

	2008 KShs'000	2007 KShs'000
Net asset at 1 January 2007 and 2004	-	(51,967)
Net income recognised in the income statement	-	(9,851)
Received from the pension fund	-	61,818
Net asset in the balance sheet at 31 December	-	-

In 2007, KShs 9,851,000 was recognised as income. This arose due to increase in the fair value of plan assets. The defined benefit asset of KShs 61,818,000 was transferred to the sponsor when the defined benefit scheme was converted to a defined contribution scheme.

(b) Employee Share Option Plan (ESOP)

On 26 July 2006, the shareholders gave approval for an Employee Share Ownership Plan (ESOP) to be set up to facilitate the ownership of shares in Housing Finance Company of Kenya Limited by employees of the company. There after, steps have been taken to operationalise the Plan.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

27. CUSTOMERS' DEPOSITS

	2008 Group KShs'000	2008 Company KShs'000	2007 Group KShs'000	2007 Company KShs'000
Government and parastatals:				
Payable within 90 days	299,410	299,410	539,069	539,069
Payable after 90 days and within one year	97,591	97,591	174,312	174,312
Payable after one year	873,017	873,017	633,682	633,682
Private sector and individuals:				
Payable within 90 days	3,984,782	4,009,749	2,954,380	2,965,499
Payable after 90 days and within one year	1,811,914	1,811,914	3,201,773	3,201,773
Payable after one year	2,997,116	2,997,116	1,273,610	1,273,610
	10,063,830	**10,088,797**	**8,776,826**	**8,787,945**

(c) Included in customers' deposits is KShs 351,048 (2007 – KShs 1,284,581) due to a subsidiary, Kenya Building Society Limited and KShs 24,616,197 (2007 – KShs 9,834,200) due to subsidiary, First Permanent (East Africa) Ltd.

(d) The weighted average effective interest rate on customer deposits as at 31 December 2008 was 5.09% (2007 – 3.98%).

28. OTHER LIABILITIES

	2008 Group KShs'000	2008 Company KShs'000	2007 Group KShs'000	2007 Company KShs'000
Interest payable on the Government of Kenya Income Notes	2,093	2,093	2,093	2,093
House sales deposits	1,524	-	1,524	-
Withholding tax payable	11,397	11,397	10,977	10,977
Unclaimed dividends	11,048	11,048	11,137	11,137
Sundry creditors	57,879	57,879	45,376	45,376
Other liabilities	94,181	71,984	75,051	60,010
	178,122	**154,401**	**146,158**	**129,593**

29. LOAN FROM BANK

	2008 KShs'000	2007 KShs'000
Loan from Bank	**400,000**	-

The company received a loan of KShs 400m from Standard Chartered Bank of Kenya Ltd in the year. The loan is redeemable after ninety days at a rate of 3% plus the treasury bill rate of the last auction day immediately preceding the end of every month.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

30. CAPITAL AND RESERVES
Group and company:

(a) Ordinary share capital

	2008 KShs'000	2007 KShs'000
235,750,000 Authorised ordinary shares of KShs 5.00 each	1,178,750	1,178,750
Issued and fully paid ordinary shares of KShs 5.00 each	1,150,000	575,000

The ordinary share capital increased due to 1:1 rights issue exercise conducted in the year that was fully subscribed. The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual general meetings of the company. Issued and fully paid ordinary shares were 230 million shares in 2008 and 115 million shares in 2007.

(b) Share premium

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

(c) Revaluation reserve

Revaluation reserves arise from the periodic revaluation of freehold land and buildings. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(d) Statutory reserve

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

31. 5HAREHOLDERS' INCOME NOTES AND LOANS

Group and company	2008 K5hs'000	2007 KShs'000
Government of Kenya - Income Notes	50,750	50,750

The Government of Kenya - Income Notes carry no redemption date and are charged interest at a fixed rate of 8.25% per annum (2007 - 8.25%).

Housing Finance

FOMU YA UAKILISHI

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

Mimi/Sisi____

Kutoka____

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

____

Kutoka____

Au akikosekana____

Kutoka____

Kama wangu/wetu kupiga kura kwa niaba yangu/yetu wakati wa mkutano mkuu wa 43 wa mwaka utakaofanyika Aprili 29, 2009 au kuahirishwa kwake.

Idadi ya hisa zilizohifadhiwa ______________________________

Nambari ya akaunti______________________________(endapo inajulikana)

Imetiwa sahihi siku hii ________________ tarehe ________________2009

____

Sahihi

____

Kumbuka:

1 Kwa hiari yako unaweza kumteua Mwenyekiti kama wakala wako wakati wa mkutano

2 Endapo mwanachama ni shirika wakala lazima awe ametiwa muhuri na kutiwa sahihi na afisa au wakili aliyeruhusiwa

3 Fomu ya wakala ijazwe na kuwasilishwa chini ya muda wa saa 48 kabla ya kuanza kwa mkutano au kuahirishwa kwake.

PROXY FORM

To: **The Registrar**
Housing Finance Company of Kenya Limited
Rehani House
Kenyatta Avenue
PO Box 30088
00100 NAIROBI GPO

I/We ____

of ____

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

____

of ____

or failing him____

of ____

as my/our proxy to vote for me/us on my/our behalf at the 43rd Annual General Meeting of the Company to be held on the 29th day of April 2009 and at any adjournment thereof.

Number of Shares held ______________________________

Account number:______________________________(if known)

Signed this ____________________ day of ____________________ 2009

____

Signed

____

Note:

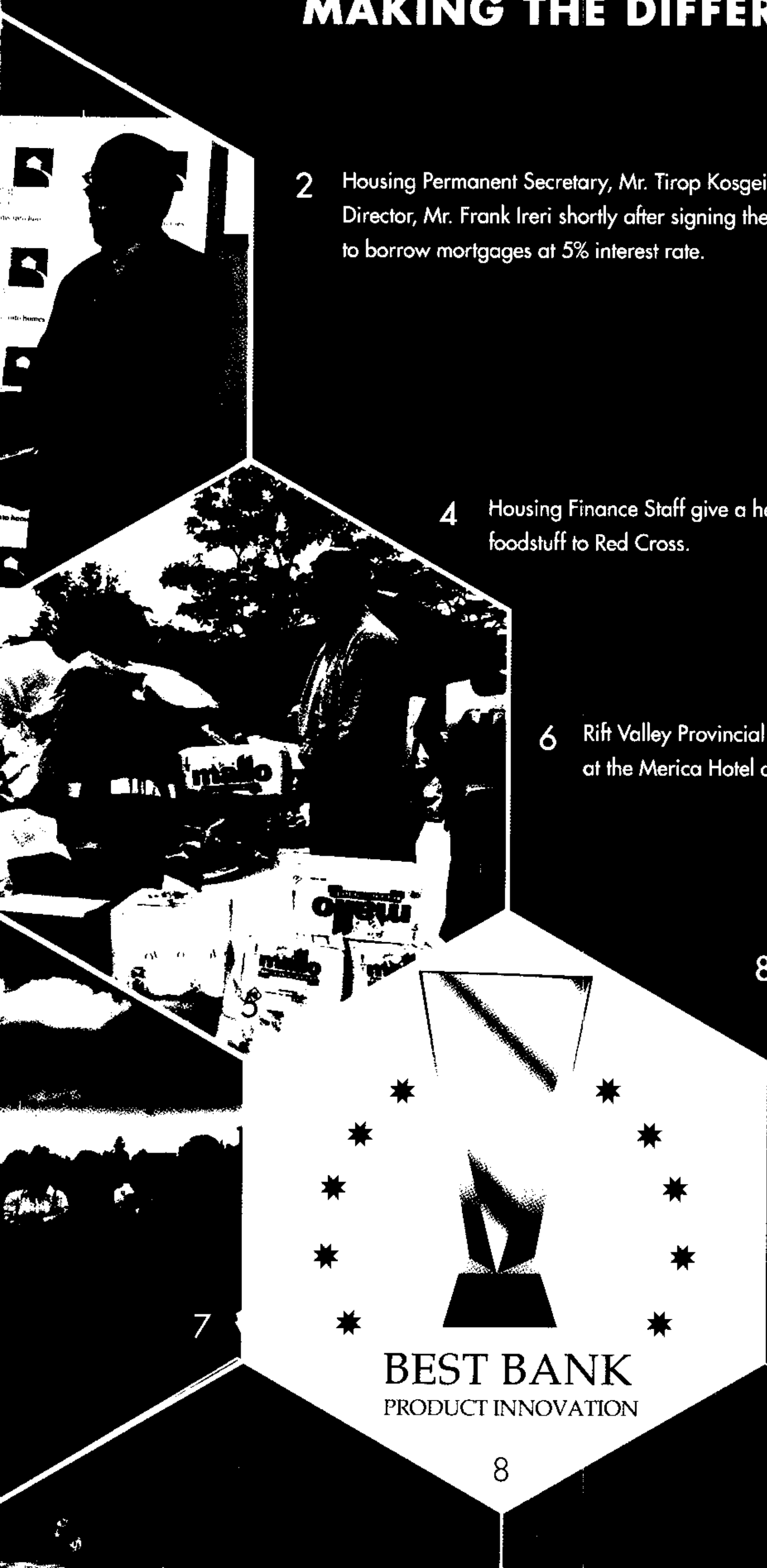
1 If you wish you may appoint the Chairman of the meeting as your proxy

2 In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.

3 The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

NOTES

MAKING THE DIFFERENCE



2 Housing Permanent Secretary, Mr. Tirop Kosgei (left) shakes hand with Housing Finance Managing Director, Mr. Frank Ireri shortly after signing the Civil Servants Housing Scheme allowing Civil Servants to borrow mortgages at 5% interest rate.

4 Housing Finance Staff give a helping hand during the donation of foodstuff to Red Cross.

6 Rift Valley Provincial Commissioner, Mr. Hassan Noor addresses customers at the Merica Hotel during a customer appreciation day in Nakuru.

8 An award presented to Housing Finance for being the Best Bank in Product Innovation at the Banking Awards 2008.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

32. NOTES TO THE CASH FLOW STATEMENT

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

	2008 KShs'000	2007 KShs'000
Group profit before taxation	202,670	113,397
Depreciation	33,222	27,302
Amortisation of intangible asset	21,332	21,879
Amortisation of prepaid operating lease rentals	645	643
Profit on sale of property and equipment	(912)	-
Increase in customer deposits	1,287,004	1,158,103
Net movement in mortgage advances to customers	(2,668,598)	(1,400,711)
Investment in Government securities	(4)	70,429
Decrease (Increase) in other assets	41,188	(45,069)
Increase in other liabilities	31,964	14,030
Decrease in defined benefit asset	-	51,967
Increase in loan from bank	400,000	-
Increase in housing projects	(7,280)	(3,167)
Net cash flows from operating activities before tax	**(658,769)**	**8,803**
Income tax paid	(80,946)	(33,383)
Net cash flows from operating activities	**(739,715)**	**(24,580)**

(b) Analyses of cash and cash equivalents

	2008 KShs'000	2007 KShs'000	Change in the year KShs'000
Cash in hand and bank	186,896	116,604	70,292
Balances due from banking institutions	2,585,603	1,344,578	1,241,025
	2,772,499	**1,461,182**	**1,311,317**

33. CONTINGENT LIABILITIES

As at 31 December 2008, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 23,277 (2007 - KShs 6.686 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

34. OTHER CONTINGENT LIABILITIES

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

The significant claim is described below:

Kenya Building Society Limited (KBS) is a 100% owned subsidiary of Housing Finance. The company entered into a joint venture agreement with Santack Limited for the development of a housing project in Komarock (Komarock Phase V). KBS terminated the contract because Santack Limited was unable to perform as per the contract.

Upon termination of the contract Santack has raised a claim of KShs 340 million being their estimated loss following the termination of the contract. Housing Finance has also raised a counter claim of KShs 74 million. The matter has been referred for arbitration as provided for in the joint venture agreement. The proceedings are ongoing.

Housing Finance is optimistic that the case will be ruled in their favour.

35. OPERATING LEASE ARRANGEMENTS

Group and company

The bank as a lessor

Rental income earned during the year was KShs 27,839,039 (2007 - KShs 25,752,195). At the balance sheet date, the bank had contracted with tenants for the following future lease receivables:

	2008 KShs'000	2007 KShs'000
Within one year	27,604	22,408
In second to fifth year inclusive	82,723	102,017
After five years	5,194	26,114
	115,521	**150,539**

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:

	2008 KShs'000	2007 KShs'000
Within one year	9,554	9,256
In second to fifth year inclusive	41,666	40,478
After five years	-	10,472
	51,220	**60,206**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

36. MORTGAGE COMMITMENTS

Group and Company

Mortgage commitments amounting to KShs 2,613,418,522 (2007 – KShs 2,399,224,000) are analysed below:

	2008 KShs'000	2007 KShs'000
Commitment in principle but not authorised for payment	2,613,418	1,849,449
Authorised but not paid	-	549,775
	2,613,418	**2,399,224**

37. CAPITAL COMMITMENTS

Group and company

	2008 KShs'000	2007 KShs'000
Authorised but not contracted	**39,976**	**15,000**

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2008, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

39. RELATED PARTY TRANSACTIONS

Group and company

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

(a) Loans

	2008 KShs'000	2007 KShs'000
At 1 January	255,195	179,648
Loans advanced during the year	34,451	95,182
Loans repayments received	(44,103)	(19,635)
At 31 December	**245,543**	**255,195**
Comprising:		
Mortgage advances	225,321	224,831
Staff car loans	19,090	28,845
Other	1,132	1,519
At 31 December	**245,543**	**255,195**

Included in the related party are staff car loans of KShs 19,089,852 (2007 – KShs 28,845,483). The related interest income in 2008 was KShs 1,684,558 (2007 – KShs 2,269,033).

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

(b) Remuneration to directors is disclosed under Note 10.

(c) Compensation to senior management for the year ended 31 December 2008 amounted to KShs 66,559,182 (2007 – KShs 60,226,619).

Housing
Finance