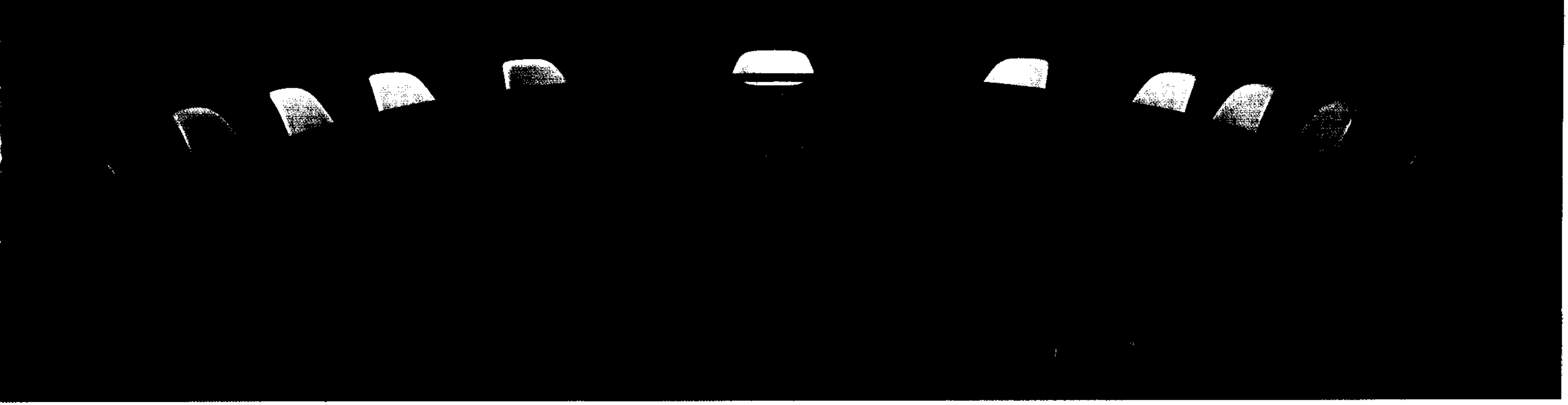
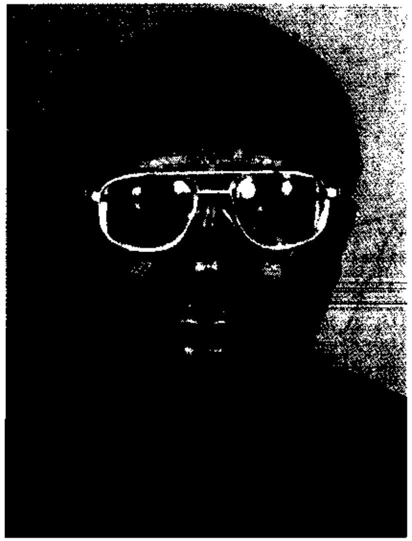
Members of the Board





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 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.

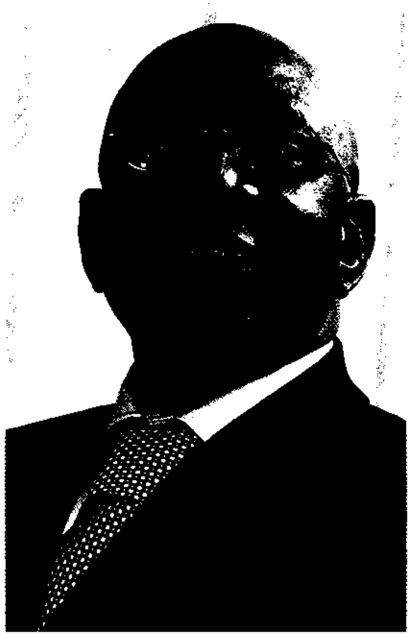
He studied Economics, Project Finance and Management at Legon and Bradford Universities. He is married with 4 grown up children.

Frank Ireri

Frank Ireri was appointed Managing Director in July 2006. He is a seasoned Banker with more than 20 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 Lanka and Zambia.

Mr. Ireri is an 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 Chairman of the Kenya Institute of Bankers.

He is married with 2 children.



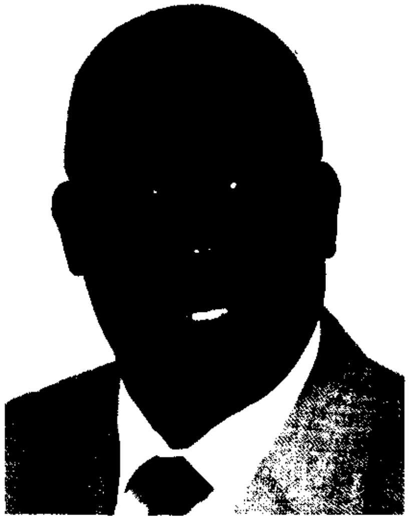
Prof. Shem Migot-Adholla

Prof Shem Migot-Adholla is a renowned Sociologist, with broad and extensive experience on land policy, agriculture, rural development and environmental issues.

He is currently a Non-Executive Director of Equity Bank Kenya Limited and Vice-Chairman of the Board of Trustees of Kenya Wildlife Service (KWS). He is a former Chairman of the Board of Directors at the Institute of Policy Analysis and Research (IPAR) and holds membership in various professional organisations.

He has previously served as the Permanent Secretary, Ministry of Agriculture and Rural Development and with the World Bank as the Regional Land Policy Specialist, Eastern and Southern Africa.

Prof. Migot-Adolla holds a Doctor of Philosophy in Sociology of Development from the University of California, Los Angeles, and a Master of Arts in Sociology from the same University. He was a Special Graduate Student in Agricultural Economics at the Michigan State University and was awarded a Bachelor of Arts (Honors) degree from the University College, Dar es Salaam University of East Africa.



Mr. Steve Omenge Mainda

Mr. Steve Omenge Mainda was appointed Director in July 2009. He has broad and extensive financial, insurance, investment, educational and management background in the Financial Services industry.

Steve is currently Chairman of the Insurance Regulatory Authority, Chairman Mediheal Hospital, Eldoret, Chairman, Pay Bill Company Limited and Fountech Africa Corporate ICT Solutions. He has previously served as Managing Director, National Housing Corporation, Director PTA Bank Eastern and Southern Trade Development Bank and as Regional Secretary, East Africa Examination Council.

He has a M.A. from Princeton University and a BA from SM College, Poona.

Naftali Mogere

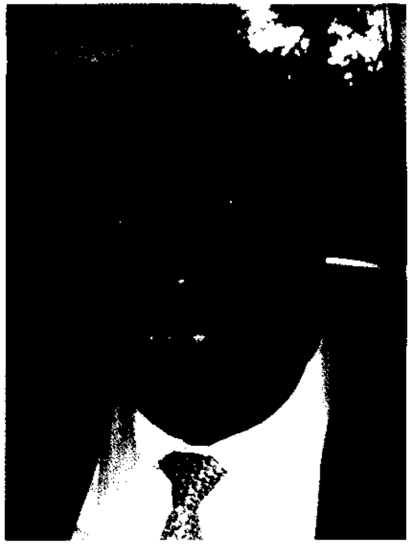
Naftali Mogere was appointed Director in July 2004. He was formerly the Managing Trustee of NSSF. He has a wide experience in Finance, having served on various company boards including: Consolidated Bank, Bamburi Cement Ltd, EA Portland Cement, National Bank of Kenya, International Board of Social Security-Geneva- for 4 years and Finance and Administration Director in COMESA for 10 years. He is a 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 Obtained an MBA Degree from JKUAT specializing in Finance, Investments and Portfolio Management.

In 2005, he was honored by his Excellency the President with Moran of the burning Spear for exemplary service to the public sector. He is married with 5 children.

Ms Beatrice Sabana

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.

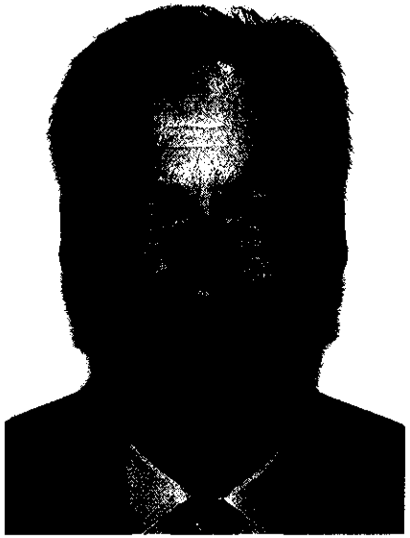


Peter Kahara Munga, *EBS*

Mr. Peter Munga is the founder and Chairman of Equity Building Society Ltd, the predecessor of Equity Bank Ltd where he also serves as Board Chairman. Peter 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 travelling.

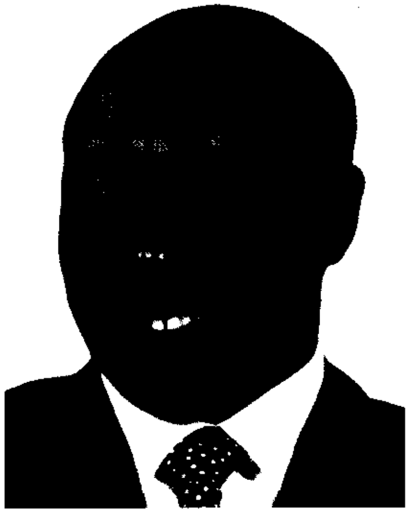


David R. Ansell

David Ansell was appointed Director in October 2001. He retired from Citibank in February 2001, after 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

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.

Chairman's Statement

Dear Shareholders, I am once again pleased to present the annual report and financial statements for Housing Finance in 2009, and to report another successful year for the company.

Following our successful rights issue in 2008, the company has continued to respond positively to the capital injection from you our shareholders, and to the growth measures put in place by the board and management. I take great pleasure in highlighting some of these measures and developments here.

Financial Results

The company continued in the growth momentum begun last year and we were able to record a pre-tax profit growth of 73% with profits at Kshs 351m up from Kshs 203 million in 2008. These results have been achieved despite some difficult economic conditions in 2009 both locally and globally. Globally we saw slow demand arising from the global economic crisis. This was matched by poor weather conditions leading to drought and rising cost of power amongst others which led to depressed economic growth rate in Kenya. In the third quarter of 2009, some previously strongly performing sectors of the economy also moved into recession. These included construction at -1.1%. Ladies and gentlemen, it is thus extremely gratifying to report that Housing Finance continues to perform well and reflect the growth rates that we are reporting here. I am confident that the growth we have reported is sustainable and that you will continue to see a return on the investment you have made in the company.

Strategic Direction

The above results would not have been achieved without a clear and focused strategy, and the right team to execute it. Ladies and gentlemen, I have previously underscored our vision 'To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya'. This vision is the inspiration for our existing business model which not only focuses on creating mortgages and enabling more Kenyans to own homes, but also goes backwards into property supply to ensure that we are contributing to the supply of homes and property in Kenya. Through supply of affordable homes in Kenya we will enable more Kenyans to enter the home ownership ladder and ensure the sustainability of our business.

Last year, I intimated that we were working towards the revival of the Kenya Building Society which will be instrumental in building affordable homes for Kenyans on a large scale. We continue to work on making this a reality and are hopeful that this will come to fruition in the year 2010. Meanwhile, we continue to play a role through financing of housing projects, and working with Government and other partners to upgrade the building code to allow for the use of alternative building technologies in Kenya.

"Last year, I intimated that we were working towards the revival of the Kenya Building Society"

On our core mortgage business, despite competition in the industry, Housing Finance continues to retain its leadership position. In addition, Housing Finance has continued to lead the market in product innovation and thus set the standards for value-added products and services.

To reinforce the company's strategic focus, the board and management undertook a mid-point review of our 5 year strategy which runs from 2007 to 2011. The review reinforced our confidence that the strategic direction is sound and vibrant enough to meet the growth projections that we have set out.

Strategic Partners

In 2007, we welcomed our new shareholders Equity Bank Ltd and British American Investments Company Ltd as anchor shareholders. Since then, we have continued to harness the core strengths brought about by the synergies from the three institutions. We have in the past year harnessed this in the form of joint launches of new products and services, as well as back-office operations to create greater efficiencies.

Business Environment

As mentioned earlier in this report, the business environment in Kenya has been challenging. However, the real estate sector remains vibrant and, despite the slight recession recorded in the construction sector, we remain confident that the sector will continue to perform well. We are well positioned to reap benefits from a vibrant real estate sector due to the strategic direction I have explained above. In addition, Kenya continues to experience a shortfall in the supply of housing, estimated at 35,000 annually against an estimated demand of 150,000. In our quest to deliver strong performance and bridge the demand and supply shortfall, we have chosen to work through partnerships so as to harness the strengths of working together with others to achieve common goals. To this end, we are already in working partnerships with bodies such as the UN Habitat to extend affordable housing to lower income groups. In addition, we continue to use our Corporate Social Responsibility initiatives with organisations such as Habitat for Humanity to make a difference in the lives of the less fortunate and provide them with decent housing.

Board

In the last year, we were pleased to welcome two new members to our Board of Directors. These are Mr. Steve Mainda who is currently the Chairman of the Insurance Regulatory Authority, and Professor Shem Migot-Adhola, a renowned sociologist, and a Non-Executive director of Equity Bank.

They bring with them a wealth of experience and we look forward to their contribution to the growth of Housing Finance.

Dividend

In the light of improved results highlighted above, I am pleased to announce that this year the Board has proposed a full and final dividend of 50 cts, being a 67% improvement over the 30 cts paid last year. We pay this dividend in recognition that our business is in a growth phase and that we will need to retain some reserve to help propel growth even further.

Finally, I wish to thank you our shareholders for the faith you have placed in us to grow this company. We remain committed to its success and to turning it into 'The premier property company in Kenya'.

Thank you and God bless you all.

Chairman
Mr. Kung'u Gatabaki.

Taarifa ya Mwenyekiti

Kwenu Wanahisa, Mwaka huu, Housing Finance inatimiza miaka 45 na, nina furaha kuwatangazia ripoti na matokeo ya fedha mwaka 2009 na pia kuripoti mwaka mwingine wa ufanisi kwa kampuni.

Kufuatia zoezi la haki miliki za hisa mwaka 2008, kampuni imezidi kufanya vyema kutokana na mtaji wa wanahisa na hatua za ukuaji zilizowekwa na Halmashauri na wasimamizi. Ninachukua fursa hii kudokeza baadhi ya hatua hizi na maendeleo yaliyopatikana.

Matokeo ya fedha

Mwendo wa ukuaji wa kampuni ulianza mwaka uliopita baada ya uendeshaji na upangaji upya wa fedha. Tuliandikisha rekodi ya faida kabla ya kutozwa ushuru ya Shilingi Milioni 351 kiwango kilichoongezeka kutoka Milioni 203 mwaka 2008 na kuwakilisha asilimia 73 (73%).Matokeo haya yamepatikana licha ya kuwepo kwa hali ngumu ya kiuchumi nchini na kimataifa mwaka 2009. Kimataifa, tulishuhudia kupunguka kwa mahitaji kutokana na kudorora kwa uchumi. Hali hii ilichochewa zaidi na hali mbaya ya anga iliyopelekea kutokea kwa kiangazi na kusababisha gharama za umeme kupanda, miongoni mwa sababu nyinginezo. Hali hizi zote zilipelekea kupunguka kwa kiwango cha ukuaji wa uchumi nchini Kenya. Katika kipindi cha tatu cha mwaka 2009, baadhi ya sekta za kiuchumi zilizokuwa zikipata matokeo mema zikiwemo ujenzi ziliathirika kutokana na mdororo huu.Mabibi na Mabwana, ni fahari kuripoti kwamba, Housing Finance inazidi kupata matokeo mema na kuashiria viwango vya ukuaji tunavyoripoti hapa. Nina imani kwamba kiwango cha ukuaji tulichoripoti kitadhibitiwa na kwamba mtazidi kushuhudia faida kutokana na uwekezaji wenu kwenye kampuni.

Mweleko wa Mkakati

Matokeo yaliyotajwa hapo juu ni matunda ya mkakati wazi na wenye maono na pia timu iliyo bora kuutekeleza. Mabibi na mabwana, hapo awali nilisistiza mwito wetu " kuongoza katika utoaji wa suluhisho pana la kupata, kustawisha na kuboresha mali nchini Kenya" Mwito huu ni msukumo wa aina ya biashara yetu iliyoko ambayo mbali na kuangazia mikopo ya rehani na kuwawezesha wakenya wengi kuwa na makao yao binafsi, inaweka pamoja usambazaji wa mali na kuhakikisha tunatoa mchango wetu kwa utoaji wa makao na mali nchini Kenya. Kupitia utoaji wa makao nafuu nchini tutawasaidia wakenya wengi kuingia katika kizazi cha umiliki wa nyumba ambayo imesalia kuwa nanga ya biashara yetu.

Mwaka jana, nilitangaza kwamba tunaendeleza shughuli za kufufua Kenya Building Society ambayo kwa kiwango kikubwa itakuwa chombo cha ujenzi wa makao nafuu kwa wakenya. Tunaendelea kuhakikisha kuwa ndoto hii inatimia na tuna matumaini kwamba itazaa matunda mwaka 2010. Wakati huo huo, tutazidi kutekeleza jukumu muhimu ya ufadhili wa miradi ya makao kwa kushirikiana na serikali na washirika wengine ili kuimarisha sheria ya ujenzi na kutoa nafasi kwa matumizi ya teknolojia badala nchini.

"Mwaka jana, nilitangaza kwamba tunaendeleza shughuli za kufufua Kenya Building Society"

Licha ya kuwepo kwa ushindani kwenye biashara yetu muhimu ya rehani, Housing Finance inazidi kushikilia uongozi hasa katika uvumbuzi ambapo tumeweka viwango kuongeza thamani zaidi katika bidhaa na huduma.

Ili kuongezea nguvu mtazamo wa mkakati wa kampuni, Halmashauri na Wasimamizi walichukua hatua kufanya tathmini ya kati ya mkakati wa miaka 5 ambao ulioanza 2007 hadi 2011. Tathmini ilibaini imani yetu kwamba mwelekeo wa mkakati ambao tumeanzisha ni imara na unatosha kuafikia malengo ya ukuaji tulioweka. Nina fahari kuwahakikishia wanahisa kuwa biashara ya Housing Finance si thabiti tu, bali inaelekea kutwaa nafasi ya kati katika sekta ya mashirika siku za usoni.

Washirika kwenye mkakati

Ushirika na wanahisa muhimu; Benki ya Equity na British American umetuwezesha kuvumbua manufaa mbali mbali yaliyotokana na ushirikiano wa pamoja na taasisi hizi tatu. Kwa muda wa miaka michache iliyopita, tumetekeleza jukumu la pamoja la uzinduzi wa bidhaa na huduma mpya pamoja na shughuli za ndani ofisini ili kuimarisha utendaji kazi. Ushirikiano huu utaimarika huku tunapotafiti ushirika zaidi.

Mazingira ya Biashara

Kama nilivyotaja hapo awali kupitia ripoti hii, mazingira ya biashara nchini Kenya yamekuwa na changamoto. Hata hivyo, sekta ya ujenzi wa nyumba imekuwa imara na hata kama kumekuwa na upungufu mdogo mwaka jana, tuna imani kwamba sekta hii itazidi kupata matokeo mema. Tumejihami barabara kupata faida zote kutokana na sekta ya ujenzi inayokuwa kwa haraka kutokana na mwelekeo wa mkakati ambao nimesimulia hapo juu.Huku taifa la Kenya likizidi kushuhudia upungufu wa huduma za makao ili kukidhi mahitaji yapatao 150,000, tutazidi kuwajibikia upatikanaji wa matokeo imara na kuziba pengo la mahitaji na usambazaji. Kwa sababu hiyo, tutazidi kutafuta ushirikiano ili kuimarisha uwezo wa kufanya kazi pamoja na wengine na kufanikisha malengo yetu muhimu. Kufikia sasa, tayari tunaendelea kushirikiana na mashirika kama vile UN Habitat ili kuwezesha makundi yanayopata mapato ya chini kuwa na makao. Zaidi ya hayo, tunazidi kutumia mikakati ya wajibu wetu kwa jamii kuongezea nguvu juhudi za mashirika kama vile Habitat for Humanity ili kuleta mabadiliko kwa maisha ya wale wasiobahatika katika jamii na kuwapa makao ya kisasa.

Halmashauri

Mwaka jana tulikuwa na furaha kuwakaribisha wanachama wawili wapya kwenye Halmashauri ya Wakurugenzi. Wanachama hawa walikuwa Mabw. Steve Mainda ambaye kwa sasa ni Mwenyekiti wa Halmashauri ya kusimamia Bima (Insurance Regulatory Authority) na Shem Migot- Adhola mwanasosholojia mtajika na Mkurugenzi asiye na mamlaka katika Benki ya Equity. Wataalamu hawa wamekuja na ujuzi mwingi na tunatazamia kupata msaada wao wa dhati kwa ukuaji wa Housing Finance.

Mgao wa Faida

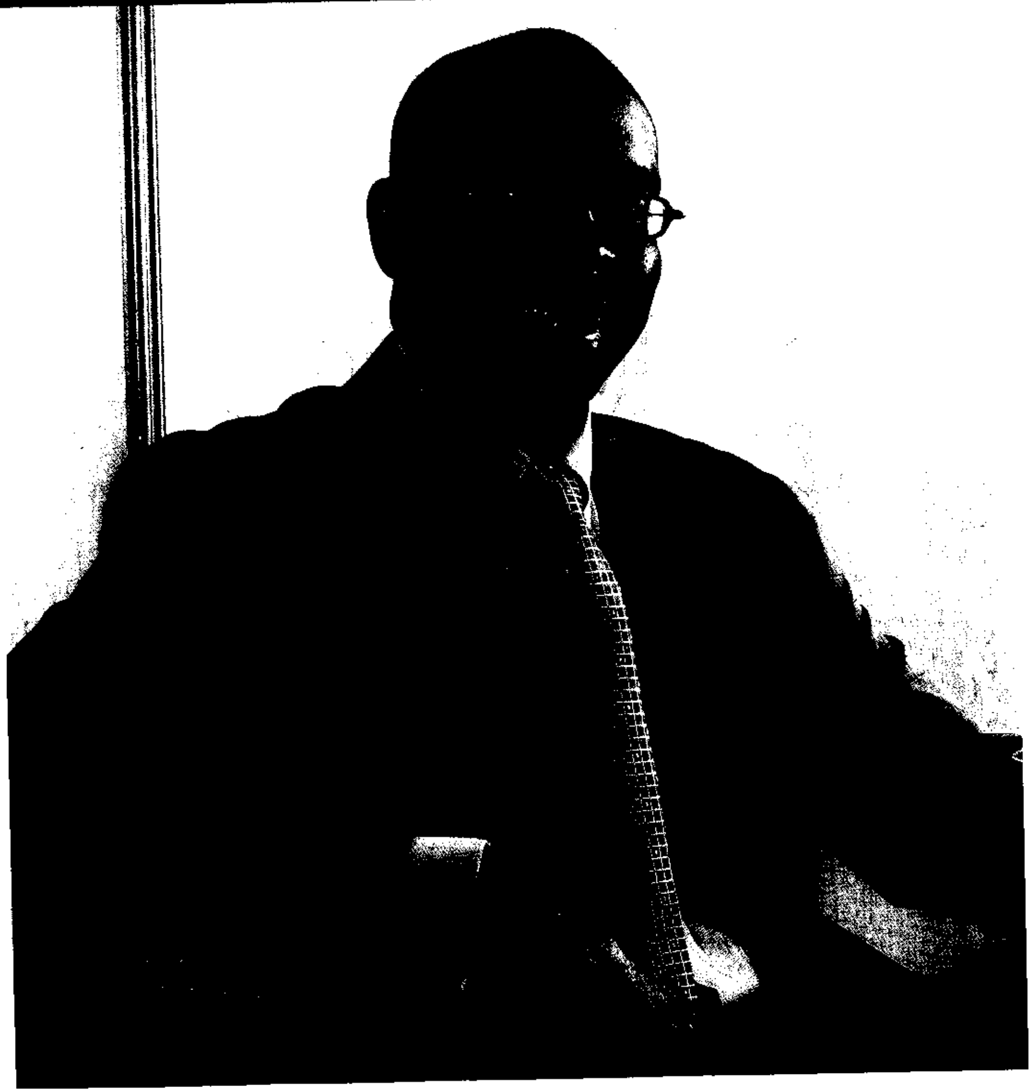
Kutokana na kuimarika kwa matokeo kama ilivyotajwa hapo juu, nina furaha kutangaza kwamba mwaka huu, Halmashauri imependekeza kutolewa kwa malipo ya mwisho ya mgao wa faida wa senti 50 hili likiwa imariko la asilimia 67 (67%) dhidi ya senti 30 zilizolipwa mwaka jana. Tunatoa malipo haya ya mgao wa faida tukizingatia kwamba biashara yetu imo kwenye hatua ya ukuaji na kuwa tutahitaji kuhifadhi kiwango fulani cha hazina kuchochea ukuaji huu hata zaidi.

Mwisho nashukuru usimamizi kutokana na uaminifu wake na kujitolea kuinua kampuni yetu hadi upeo iliyofikia kimashirika. Nawashukuru pia washikadau wetu na ninyi wanahisa kutokana na imani ambayo mmedhihirisha kwetu kukuza kampuni hii. Tutazidi kuwajibikia mafanikio yake na kuigeuza kampuni kuwa " kampuni inayoongoza kwa mali nchini Kenya".

Ahsanteni na Mungu Awabariki

Bw. Kung'u Gatabaki
Mwenyekiti

Managing Director's Report



2009 was a year in which we consolidated our strategy and took significant steps to actualise it. It was a year of success despite significant challenges especially in the economic performance of the country.

MANAGING DIRECTOR'S STATEMENT

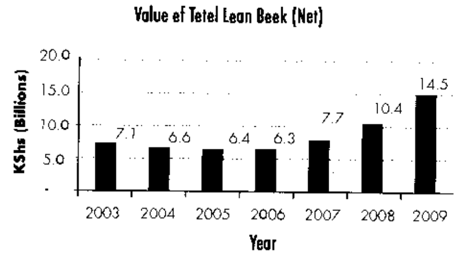
2009 was a year in which we consolidated our strategy and took significant steps to actualise it. It was a year of success despite significant challenges especially in the economic performance of the country. This was further exacerbated by severe drought and famine in most parts of the country. The resulting effects of the above were felt in high food and fuel prices, depressed spending power brought on by inflation, and a bearish run at the Nairobi Stock Exchange thus affecting the investment climate.

Despite all this, I am pleased to report Housing Finance posted a growth in pre-tax profit of 73% from Kshs 203 million to Kshs 351 million in 2009. I wish to highlight here the key financial achievements for the year.

Financial results

- Mortgage sales increased by 71% from Kshs 5,726 million to Kshs 9,809 million while mortgage disbursements increased by 42% from Kshs 4,474 million to Kshs 6,350 million.
- Mortgage interest income increased by 44% from Kshs 1,083 million to Kshs 1,557 million. This was driven by the increase of 42% in loan disbursements
- Total net income over the period increased by 32% from Kshs 1,025 million to Kshs 1,356 million
- Total costs over the period increased by 6% from Kshs 730 million to Kshs 777 million.
- The total net mortgage loan book increased by 39% from Kshs 10,415 million to Kshs 14,495 million. This was driven by our various products launched in the last few years targeting various market segments.
- Customer deposits increased by 21% from Kshs 9,977 million to Kshs 12,120 million.

Cross-over is a savings account with features and benefits that link one directly to a mortgage.



New Products

In 2009, the company continued in its chosen strategy of leadership in product innovation which is one of our key strategic pillars. To this end, we launched two key products, namely Cross-over and Home Freedom.

Cross-over is a savings account with features and benefits that link one directly to a mortgage. It encourages customers to begin saving for the home by offering very attractive interest rates on their savings, and then offering discounts on your mortgage once you are ready to migrate. In addition, it offers loyalty points on one's savings that are redeemable for household goods as well as other attractive prizes. We believe that the Cross- over product will go a long way in growing the numbers of people taking up mortgages through mobilisation of their own savings, as well as helping grow the savings culture in Kenya.

The Home Freedom product is pension-backed mortgage product we introduced following Government legislation allowing for assignment of pension benefits towards a mortgage. With the Home Freedom mortgage, one can assign up to 60% of accrued retirement benefits to acquire a home. The Home Freedom mortgage offers up to 115% financing for a mortgage which includes mortgage closing costs. The Home Freedom product provides another great opportunity to increase mortgage access in the country. This is especially so because many potential mortgage takers are put off by the mortgage closing costs which can account for up to 20% of the total mortgage costs. The Home Freedom product is a joint initiative with British American, a key shareholder and collaboration partner of Housing Finance.

I am also pleased to announce that for the second year running, Housing Finance won the award for 'Best Bank in Product Innovation' at the 2009 Banking Awards for our Makao product.

Corporate Social Responsibility

Housing Finance continues to engage in various ways with the communities in which we operate in the quest to be a socially responsible company. Our relationship with Habitat for Humanity has continued and this remains our key Corporate Social Responsibility partner. Habitat for Humanity is a Christian NGO operating in various parts of the country and is engaged in upgrading the living standards through decent shelter for those in difficult circumstances. In 2009, in addition to engaging with the regular home building activities, Housing Finance also contributed greatly towards construction of homes for IDP's in Mai Mahiu through this partnership.

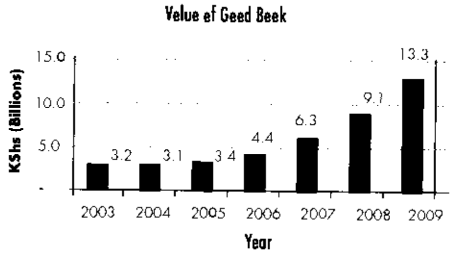
Housing Finance also responded to the famine appeal that went out in the early part of the year and, through the contributions of our staff and company CSR kitty, we were able to make a substantial contribution through the Kenya Red Cross.

We will continue to encourage the spirit of giving and involvement in the community amongst our staff as we believe it is important to engage responsibly in the communities in which we operate.

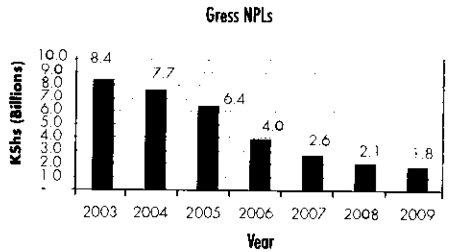
Mid-Term Strategy Review and future plans

2009 marked the mid-point in our 5 year strategy running from 2007-2011. The Board and Management took the opportunity to perform a mid-point strategy review, and also used the opportunity to plan for the next 3 years up to 2012. I am pleased to report that the review showed that the strategic plan is performing to expectations, which is also reflected in the improved financials that we have had over the last 3 years. We will continue to keep a close eye on our strategic direction that focuses on ensuring that HF:

- Is the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya.
- Is top of mind for anything to do with acquisition and development of property.
- Is the leader in product innovation
- Is the leader across the property value chain as a supplier of housing stock, financier for property purchase and development and, a retailer and marketer

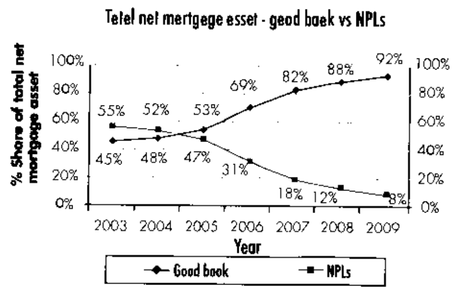


It is important to note that a strategy cannot come alive without the right people to deliver it. As you are aware, we continue to take a keen interest in the welfare and training of our staff to provide them with the right skills and motivation to deliver the company's goals. In 2009, we stepped up leadership and change training for all staff in the organisation. I am happy to report that we have seen the effects of this in a more focussed and energetic workforce and we look forward to seeing the fruits of this in the coming year.

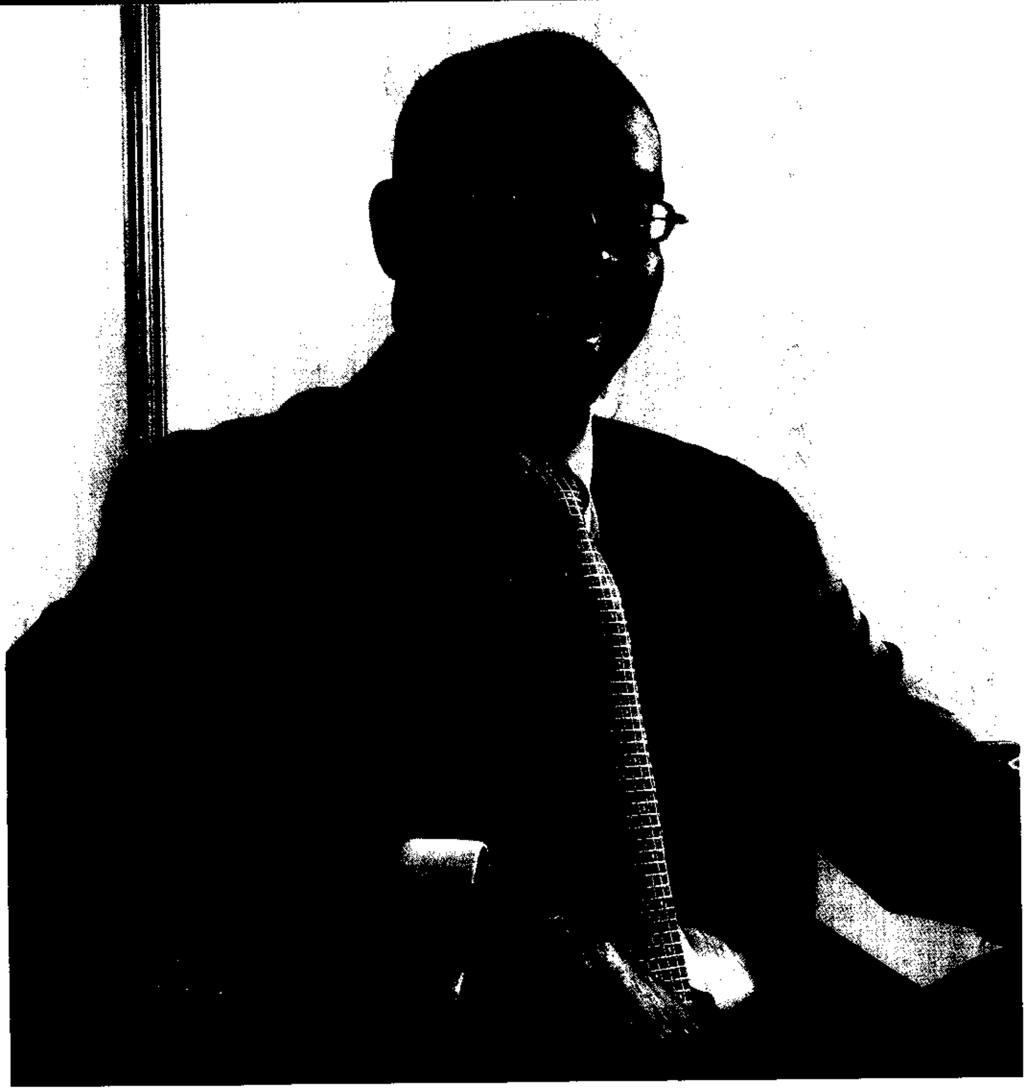


Thank you and best wishes

Frank Ireri
Managing Director



Taarifa ya Meneja Mkurugenzi



2009 ulikuwa mwaka ambapo tuliweka pamoja mkakati wetu na kuchukua hatua muhimu kuutimiza. Ulikuwa mwaka ulioshuhudia mafanikio ingawa kulikuwa na changamoto hasa kwenye matokeo ya kifedha nchini.

2009 ulikuwa mwaka ambapo tuliweka pamoja mkakati wetu na kuchukua hatua muhimu kuutimiza. Ulikuwa mwaka ulioshuhudia mafanikio ingawa kulikuwa na changamoto hasa kwenye matokeo ya kifedha nchini. Matokeo haya yalichochewa zaidi kwa kuwepo na kiangazi na njaa maeneo mengi ya nchi. Athari za matokeo haya zilishuhudia kupanda kwa bei ya vyakula na mafuta, kupungua kwa uwezo kununua bidhaa kutokana na mfumuko wa bei na uendeshaji mbaya wa soko la Hisa la Nairobi na hivyo kuathiri mazingira ya uwekezaji.

Licha ya haya yote,nina furaha kuripoti kwamba, Housing Finance iliandikisha ongezeko la faida kabla ya kutozwa ushuru la asilimia 73 kutoka shilingi Milioni 203 hadi Milioni 351 mwaka 2009. Ningependa kutoa vidokezo muhimu vya mafanikio ya kifedha mwaka huu.

Matokeo ya kifedha

- Mauzo kutokana na mkopo wa nyumba yaliongezeka kwa asilimia 71 (71%) kutoka shilingi Milioni 5, 726 hadi Milioni 9, 809 huku mkopo uliotolewa kwa rehani ukiongezeka kwa asilimia 42 (42%) kutoka Shilingi Milioni 4, 474 hadi milioni 6, 350.
- Riba iliyotokana na rehani iliongezeka kwa asilimia 44 (44%) kutoka shilingi milioni 1, 083 hadi Milioni 1, 557. Hali hii ilichochewa na ongezeko la asilimia 42 (42%) la utoaji mikopo.
- Mapato kwa jumla kipindi hiki yaliongezeka kwa asilimia 32 (32%) kutoka shilingi Milioni 1,025 hadi milioni 1, 356.
- Gharama kwa jumla katika kipindi hiki ziliongezeka kwa asilimia 6 (6%) kutoka Shilingi Milioni 730 hadi milioni 777
- Mkopo wa jumla wa rehani uliongezeka kwa asilimia 39 (39%) kutoka shilingi Milioni 10, 415 hadi Milioni 14, 495. Ongezeko hili lilichochewa na uzinduzi wa bidhaa mbali mbali zilizoanzishwa miaka michache iliyopita na kulenga vitengo mbali mbali vya masoko.
- Akiba za wateja ziliongekeza kwa asilimia 21 (21%) kutoka shilingi Milioni 9, 977 hadi Milioni 12, 120.

Cross-over ni akaunti ya uwekaji akiba ambayo ina sifa na manufaa yanayomuunganisha mteja na mkopo wa nyumba (rehani).

Bidhaa Mpya

Mwaka 2009, kampuni iliendelea na mkakati wake teule wa uongozi katika uvumbuzi wa bidhaa ambao ni mojawapo wa nguzo muhimu ya mkakati wetu. Hadi kufikia sasa, tumezindua bidhaa mbili muhimu ambazo ni Cross- over na Home Freedom.

Cross-over ni akaunti ya uwekaji akiba ambayo ina sifa na manufaa yanayomuunganisha mteja na mkopo wa nyumba (rehani). Huduma hii inawahamasisha wateja kuanza kuweka akiba ili kuwa na nyumba kwa kuwatoza riba inayovutia na kisha kuwapunguzia malipo ya mkopo wa rehani mara tu wanapokuwa tayari. Zaidi ya hayo, huduma hii inawapa wateja alama kwenye akiba zao ambazo hatimaye zinaweza kutumika kununua bidhaa za nyumbani au zawadi nyingine za kuvutia. Tunaamini kwamba huduma ya cross-over itaongeza idadi ya watu wanaotaka mikopo ya rehani kupitia akiba zao na pia kusaidia kuimarisha tabia ya uwekaji akiba nchini Kenya.

Home Freedom ni huduma ya uwekaji rehani inayounganishwa na akiba ya uzeeni. Tulizindua huduma hii kufuatia sheria ya serikali inayoruhusu faida inayotokana na hazina ya uzeeni kutumiwa kama mkopo kununua nyumba. Kupitia huduma ya Home Freedom, mteja anaweza kutoa hadi asilimia 60 (60%) ya faida yake ya hazina ya uzeeni kununua nyumba. Huduma ya rehani ya Home Freedom inasimamia udhamini wa hadi asilimia 115 (115%) kwa rehani ambao unajumuisha gharama za mwisho. Huduma ya Home Freedom inatoa nafasi nyingine muhimu kuimarisha uafikiaji wa mkopo wa rehani nchini. Hii ni kwa sababu, wengi wanaochukua mkopo wa rehani wanavunjwa moyo na gharama za mwisho ambazo zinaweza kufikia asilimia 20 (20%) ya gharama zote. Home Freedom ni mpango wa pamoja baina ya kampuni ya British American ambaye ni mwanahisa muhimu na mshiriki wa Housing Finance.

Nina furaha kutangaza kwamba, kwa mwaka wa pili mfululizo, Housing Finance imepokea tuzo la " benki bora kwa uvumbuzi wa bidhaa" kupitia hafla ya kuyatuza mabenki mwaka 2009 kutokana na bidhaa yake ya makao.

Wajibu wa shirika kwa jamii

Housing Finance inazidi kujihusisha na jamii inakohudumu kwa njia mbali mbali ili kuwa kampuni inayowajibika kijamii. Ushirikiano wetu na Habitat for Humanity unazidi kuendelea na umekuwa mshiriki wetu mkuu wa wajibu kwa jamii. Habitat for Humanity ni shirika la kidini lisilo la kiserikali linalotoa huduma zake maeneo mbali mbali nchini na linajihusisha na uimarishaji wa hali ya maisha kupitia makao ya kisasa kwa wale walio katika hali ngumu. Mbali na kujihusisha na shughuli za kawaida za ujenzi wa nyumba, kupitia ushirikiano huu, mnamo mwaka 2009, Housing Finance ilitoa mchango wake kwa ujenzi wa makao kwa wakimbizi wa ndani kwa ndani maeneo ya Mai Mahiu .

Pia, Housing Finance iliitikia mwito wa njaa iliyotokea mapema kipindi cha mwaka. Kupitia michango ya wafanyakazi wake na mfuko wa kampuni katika wajibu wake kwa jamii, tuliweza kutoa mchango mkubwa kwa Shirika la Msalaba Mwekundu.

Tutazidi kuunga mkono moyo wa utoaji na kuwashirikisha maafisa wetu na jamii kwani tunaamini kwamba ni muhimu kuwajibikia jamii mahali tunakohudumu.

Tathmini ya kati ya mkakati

Mwaka 2009 uliadhimisha kufanyika kwa tathmini ya kati ya mkakati wetu wa miaka 5 ulioanza mwaka 2007 hadi 2011. Halmashauri na usimamizi zilichukua nafasi hii kufanya tathmini ya kati na pia kutwaa nafasi kufanya mpango wa miaka 3 hadi 2012. Nina furaha kuripoti kwamba tathmini hii ilionyesha kuwa mpango wa mkakati unaendelea kama ilivyotarajiwa huku matokeo yake yakidhihirika kupitia kuimarika kwa mapato ambayo tumeshuhudia zaidi ya miaka mitatu iliyopita. Tutazidi kuchunguza kwa karibu mwelekeo wa mkakati wetu ili kuhakikisha kwamba Housing Finance:

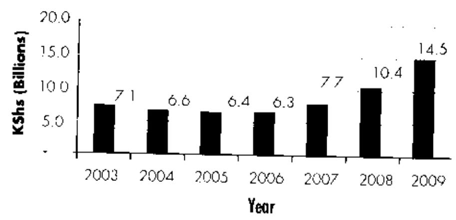
- Inaongoza katika maswala ya umiliki, maendeleo na uimarishaji wa mali nchini Kenya.
- Inaongoza katika hali zote zinazohusiana na uvumbuzi wa umiliki na maendeleo ya mali
- Inaongoza katika uvumbuzi wa bidhaa
- Inaongoza kote katika mlolongo wa mali kama muuzaji wa nyumba, mdhamini kwa ununuzi wa mali na maendeleo na mchuuzi wa reja reja.

Ni muhimu kufahamu kwamba mkakati hauwezi kufanikiwa bila ya kuwepo kwa watu wanaofaa kuufanikisha. Kama mnavyofahamu , tunazidi kuangazia kwa kina maslahi na utoaji mafunzo kwa wafanyakazi wetu ili kuwapa maarifa yanayohitajika na kuwahamisha kufanikisha malengo ya kampuni.Mnamo 2009, tulianzisha mafunzo ya usimamizi na mabadiliko kwa wafanyakazi wote kwenye shirika. Nina furaha kuripoti kwamba, tumeshuhudia athari zake kupitia timu ya wafanyakazi wenye maono na nguvu na tunatazamia kupata matunda yake mwaka unaokuja.

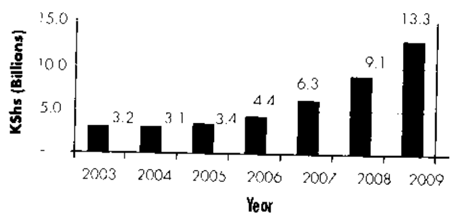
Asanteni na nawatakia kila la heri

Frank Ireri
Meneja Mkurugenzi

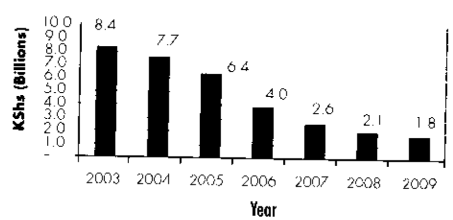
Value of Total Loan Book (Net)



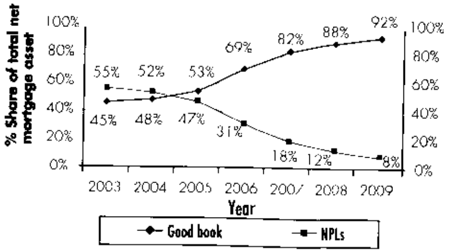
Value of Good Book



Gross NPLs



Total net mortgage asset - good book vs NPLs



Senior Management

STANDING L - R

Joseph Kania Company Secretary & Head of Legal

Constantine Baraza Head of Risk

Cynthia Kantai Head of Marketing

Frank Ireri Managing Director

Caroline Armstrong Director Shared Services

Moses Wekesa Director Property Supply

Geoffrey Kimaita Head of Credit

SEATED L - R

David Maveke Head of Mortgage Sales

Winnie Kathurima-Imanyara Director Change & Strategy

Sam Waweru Director Finance and Administration

Julius Ngugi Head of Branch Business

Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2009

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2009.

The report discloses the state of affairs of the Group and the Company.

1. PRINCIPAL ACTVITIES

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 2009 KShs'000	**31 December 2008 KShs'000**
Gross income	2,031,024	**1,533,032**
Profit before taxation		
Housing Finance Company of Kenya Limited	[illegible]	195,806
Kenya Building Society Limited	[illegible]	(1,037)
First Permanent (East Africa) Limited	[illegible]	7,901
Group profit before taxation	[illegible]	202,670
Taxation	(116,942)	(66,243)
Profit after taxation	[illegible]	136,427
Retained profit brought forward	159,272	125,141
	[illegible]	261,568
Dividends – proposed	[illegible]	(69,000)
Transfer to statutory reserve	(104,232)	(33,296)
Retained profit carried forward	124,216	**159,272**

3. DIVIDEND

The directors recommend the payment of a dividend of KShs 115,000,000 (2008 – KShs 69,000,000).

4. DIRECTORS

The Directors who served during the year are set out on page 4.

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 28 to 63 were approved at a meeting of the Directors held on 4 March 2010.

BY ORDER OF THE BOARD

Company Secretary

Date: 4 March 2010

Ripoti ya Wakurugenzi

KWA KIPINDI CHA MWAKA ULIOMALIZIKA 31 DESEMBA 2009

Wakurugenzi wanafuraha kutoa ripoti ya pamoja na taarifa ya hesabu za pesa iliyokaguliwa katika kipindi cha mwaka uliomalizika 31 Desemba 2009.
Ripoti hii inafichua msimamo wa hali ya kundi na kampuni.

1. SHUGHULI MUHIMU

Kampuni imepewa leseni kama kituo cha kuendesha shughuli za utoaji mkopo kwa ujenzi wa nyumba chini ya sheria za benki (kifungu nambari 488) na imejitolea kuhimiza na kusaidia uwekaji akiba kwa watu binafsi na umma ili kugharamia ujenzi wa makao.
Shughuli nyingine ndogo ni pamoja na kuuza na kukodisha nyumba zilizostawishwa na kutoa huduma za ushauri kuhusu mali.

2. Matokeo na Makisio	Desemba 31 2009 KShs'000	**Desemba 31 2008 KShs'000**
Mapato Kwa jumla	2,031,024	**1,533,032**
Faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	353,875	195,806
Kenya Building Society Limited	23	(1,037)
First Permanent (East Africa) Limited	(2,780)	7,901
Faida ya kampuni kabla ya ushuru	351,118	202,670
Ushuru	(116,942)	(66,243)
Faida baada ya ushuru	234,176	136,427
Jumla ya faida iliyowasilishwa	159,272	125,141
	393,448	261,568
Mgao wa faida uliopendekezwa	(115,000)	(69,000)
Mchango kwa Hazina ya serikali	(104,232)	(33,296)
Faida iliyohifadhiwa	174,216	**159,272**

3. MGAO WA FAIDA

Wakurugenzi wanapendekeza malipo ya mgao wa faida wa Shilingi Milioni 115, 000, 000 (2008- Milioni 69, 000, 000)

4. WAKURUGENZI

Wakurugenzi waliohudumu mwaka huu wameangaziwa ukurasa wa nne.

5. WAHASIBU

Wahasibu wa kampuni ya KPMG Kenya wameonyesha nia yao ya kutaka kuendelea na jukumu hili kwa mujibu wa kifungu nambari 159(2) cha sheria za makampuni za Kenya (kifungu nambari 486) na kwa mujibu wa sehemu ya 24 (1) ya sheria za benki (kifungu nambar488)

6. KUIDHINISHWA KWA TAARIFA YA MATUMIZI YA PESA

Taarifa za kifedha zilizoko ukurasa wa 28 hadi 63 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 4 Machi 2010.

KWA AMRI YA HALMASHAURI

Katibu wa Kampuni

Imenukuliwa: 4 Machi 2010

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, Nomination and Remuneration, Credit and Strategy.

Audit Committee

This is composed of four non-executive Directors:

- David Ansell (Chairman)
- Naftali Mogere
- Beatrice Sabana
- Shem Migot-Adholla

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 Group'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 two non-executive Directors and the Managing Director:

- Shem Migot-Adholla (Chairman)
- Beatrice Sabana
- Frank Ireri

The Risk Management committee's primary responsibility is to ensure the quality, integrity and reliability of the Group'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.

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:

- Peter Munga (Chairman)
- Benson Wairegi
- Frank Ireri

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 Group;
- 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:

- Steve O Mainda (Chairman)
- David Ansell
- Naftali Mogere
- Beatrice Sabana

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.

Board Strategy Committee
This committee is composed of three Non-Executive Directors and the Managing Director.

- Benson Wairegi (Chairman)
- Peter K Munga
- Steve D Mainda
- Frank Ireri

The principal roles of the committee are to:
- Oversee the implementation of the Group'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.

Corporate Governance (continued)

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 2009	BOARD MEETINGS					Total Attendance
Dates	17/2	28/4	21/7	17/10	1/12	
Kungu Gatabaki	√	√	√	√	√	5
David Ansell	√	√	√	√	√	5
Anne K Mugo	√	√	N/A	N/A	N/A	2
Naftali Mogere	X	√	X	√	√	3
Beatrice Sabana	√	√	X	√	√	4
Benson Wairegi	√	√	√	√	√	5
Frank Ireri	√	√	√	√	√	5
Babatunde Soyoye	X	√	N/A	N/A	N/A	1
Peter K Munga	√	X	√	X	√	3
Steve O Mainda	N/A	N/A	√	√	√	3
Shem Migot-Adholla	N/A	N/A	√	√	√	3

√ 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 Group through its audit programmes.

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 disseminated 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 2009

	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	3.67
5	Ndungu Paul Wanderi	6,336,300	2.76
6	Mobicom Investments Ltd	6,000,000	2.61
7	Northbound Holdings Ltd	5,287,436	2.29
8	British American Insurance Company (Kenya) Ltd	5,169,400	2.25
9	Steel Son Limited	4,080,068	1.77
10	Nomura Nominees Ltd A/C JMM	3,621,026	1.58
	TOTAL	**129,153,528**	**56.16**

7. Distribution of shareholders as at 31 December 2009

Shareholder (Number of shares)	No. of shareholders	No. of shares held	% age shareholding
1-500	9,978	2,880,739	1.25
501-1,000	5,305	4,572,971	1.99
1,001-10,000	14,565	40,928,723	17.80
10,001-50,000	1,071	20,672,202	8.99
50,001-100,000	89	6,539,935	2.84
100,001 – 1,000,000	75	18,196,875	7.91
Over 1,000,000	14	136,208,555	59.22
TOTAL	**31,097**	**230,000,000**	**100%**

Statement of Director's Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2009

The Directors are responsible for the preparation and presentation of the financial statements of Housing Finance Company of Kenya Limited set out on pages 28 to 63 which comprise the statement of financial positions of the Group and the Company at 31 December 2009, and the Group's statement of comprehensive income, statement of changes in equity and statement of cash flows 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 4 March 2010 and were signed on its behalf by:

Frank Ireri

Managing Director

Kung'u Gatabaki

Director

Taarifa kuhusu wajibu wa Wakurugenzi

KWA KIPINDI CHA MWAKA ULIOMALIZIKA 31 DESEMBA 2009

Wakurugenzi wana wajibu wa kuandaa na kutangaza taarifa kuhusu matokeo ya fedha ya Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kupitia ukurasa wa 28 hadi 63 ambao unajumuisha taarifa kuhusu hali ya fedha ya kampuni na kundi kufikia 31 Desemba 2009. Pia inajumuisha taarifa ya kina kuhusu mapato, mabadiliko kuhusu umiliki na mtiririko wa pesa katika kipindi cha mwaka uliomalizika na muhtasari kuhusu sera maalumu za uhasibu na vidokezo vingine vinavyohitaji ufafanuzi.

Wajibu wa wakurugenzi unahusu: kufanya uamuzi kwa mujibu wa taratibu za uhasibu kama ilivyofafanukiwa kupitia vidokezo nambari tatu kuwa vinakubalika kwa maandalizi na uwasilishaji wa taarifa za matumizi ya pesa kwa njia ya ; kuandaa, kuzindua na kuhifadhi udhibiti wa ndani ambao ni muhimu kutayarisha na kuwasilisha taarifa hizi za fedha ambazo hazitakuwa danganyifu iwe ni kwa hila au makosa ; kuteua na kutumia sera zinazohitajika za uhasibu na kutoa makadirio ya maana ya pesa.

Chini ya Sheria za Makampuni za Kenya, wakurugenzi wanahitajika kuandaa ripoti ya uhasibu kwa kila kipindi cha mwaka cha matumizi ya pesa ambayo itatoa sura kamili ya hali ya kundi na kampuni na pia matokeo ya uendeshaji ya kundi. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi zinazofichua hali halisi ya kifedha.

Wakurugenzi wanakubali kuwajibikia matokeo ya kifedha ya kampuni ambayo yametayarishwa kwa kutumia sera za uhasibu na kuungwa mkono na uamuzi wa busara na wa maana na makadirio kwa kufungamana na viwango vya kimataifa vya kuripoti matokeo ya fedha na kwa njia ambayo inakubalika na sheria za makampuni za Kenya. Wakurugenzi wana imani kwamba matokeo ya fedha ni ya kweli kuhusu hali ya kifedha ya kundi na kampuni pamoja na shughuli za uendeshaji.

Zaidi ya hayo wakurugenzi jukumu la uhifadhi wa rekodi za uhasibu ambazo zinaweza kutegemewa wakati wa matayarisho ya taarifa na pia usimamizi wa ndani wa fedha.

Wakurugenzi wamefanya tathmini yao kuhusu uwezo wa kundi na kampuni kuendelea na shughuli zake na hawana kikwazo chochote kuamini kwamba Kundi na Kampuni hazitaweza kutekeleza majukumu yake kwa kipindi cha miezi 12 ijayo kuanzia siku ya kutolewa kwa taarifa hii.

Kuidhinishwa Kwa Taarifa za Fedha

Taarifa za matumizi ya pesa zilizoonyeshwa hapo juu zilipitishwa na Halmashauri ya Wakurugenzi 4 Machi 2009 na kutiwa sahihi kwa niaba yake na;

Frank Ireri

Meneja Mkurugenzi

Kung'u Gatabaki

Mkurugenzi

Report of the Independent Auditors
To the members of Housing Finance Company of Kenya Limited

FOR THE YEAR ENDED 31 DECEMBER 2009

We have audited the Group financial statements of Housing Finance Company of Kenya Limited set out on pages 28 to 63 which comprise the statement of financial positions of the Group and the Company at 31 December 2009, and the Group's statement of comprehensive income, statement of changes in equity and statement of cash flows 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 24, 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 2009, 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 Group, so far as appears from our examination of those books; and

(iii) The statement of financial position of the Group is in agreement with the books of account.

KPMG Kenya

KPMG KENYA, CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 40612 NAIROBI

Date: 4 March 2010

Ripoti ya Wahasibu wa kujitegemea
Kwa wanachama wa Housing Finance Company of Kenya Limited

KWA KIPINDI CHA MWAKA ULIOMALIZIKA 31 DESEMBA 2009

RIPOTI KWA WANACHAMA WA HOUSING FINANCE COMPANY OF KENYA LIMITED KUTOKA KWA WAHASIBU WA KUJITEGEMEA

Tumefanya ukaguzi wa taarifa za matumizi ya pesa ya kundi, za Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kupitia ukurasa wa 28 hadi 63. Taarifa hii inahusisha hali ya kundi na kampuni kufikia 31 Desemba 2009 na taarifa ya kina ya mapato , mabadiliko ya umiliki wa hisa na mtiririko wa pesa katika kipindi cha mwaka uliomalizika na pia muhtasari wa sera muhimu za uhasibu na ufafanuzi wa vidokezo vingine.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa za Matumizi ya Pesa

Kama ilivyofafanuliwa kupitia ukurasa wa 25, wakurugenzi wana wajibu wa kuandaa na kutoa ripoti isiyopendelea kuhusu taarifa hii ya matumizi ya pesa kwa mujibu wa viwango vya kimataifa. Wajibu huu unahusu ; kutayarisha, kuzindua na kuhifadhi usimamizi na udhibiti wa ndani unaohitajika kutayarisha na kuwasilisha taarifa ya matumizi ya fedha isiyodanganyifu iwe ni kutokana na hila, makosa, ubaguzi na kutumia sera hitajika za uhasibu na kufanya makadirio ya maana kwa hali zake.

Wajibu wa Wakaguzi wa Fedha

Wajibu wetu ni kutoa maoni kuhusu taarifa hii ya matumizi ya pesa kwa mujibu wa ukaguzi wetu. Tuliendesha zoezi letu la ukaguzi kwa mujibu wa viwango vya uhasibu vya kimataifa. Viwango hivyo vinatuhitaji kuafikiana na mahitaji fulani ya kimaadili, kupanga na kuendesha ukaguzi wa hesabu ili kupata uhakika wa maana kuthibitisha kwamba taarifa ya matumizi ya pesa haina udanganyifu wowote.

Ukaguzi wa pesa unahusu kufuata taratibu kubainisha ushahidi unaohusiana na viwango na fichuzi zilizoko kwenye taarifa ya matumizi ya pesa. Hatua zilizochaguliwa zinategemea hukumu yetu ikiwemo tathmini ya hatari ya kutoa taarifa isiyo sahihi ya kifedha iwe ni kutokana na hila au makosa. Wakati wa kufanya tathmini kuhusu hatari hizo, tunazingatia usimamizi wa ndani ambao ni muhimu kuandaa na kuwasilisha taarifa ya matumizi ya pesa iliyo ya haki lakini si kwa madhumuni ya kutoa maoni. Ukaguzi wa pesa pia unahusu kufanyia tathmini matumizi ya sera za pesa zilizotumika na uhalisi wa maana wa makadirio yaliyotumiwa na wasimamizi pamoja na uwasilishaji wa jumla wa taarifa.
Tunaamini kwamba ushahidi kuhusu ukaguzi wa pesa ambao tumepata unatosha na unafaa kusimamia msingi wa maoni yetu.

Maoni

Kwa maoni yetu, taarifa za matumizi ya pesa zinatupatia hali halisi ya mtazamo wa fedha wa kundi na kampuni kufikia 31 Desemba 2009 na matokeo ya fedha ya kundi na mtiririko wa pesa katika kipindi hiki kwa mujibu wa viwango vya kimataifa na sheria za makampuni za Kenya.

Ripoti Kuhusu Mahitaji Mengine ya Kisheria

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

i) Tumepata maelezo yote na fafanuzi ambazo kwa uwezo wetu tunaamini kuwa zilikuwa muhimu kuhusiana na ukaguzi huu ;
ii) Kwa maoni yetu, kundi limehifadhi vyema rekodi zake za hesabu kama inavyoashiriwa kupitia ukaguzi wa vitabu hivyo ;na
iii) Taarifa ya fedha kuhusiana na hali ya kampuni inakubaliana na ile ya vitabu vya hesabu.

KPMG Kenya

KPMG KENYA, CERTIFIED PUBLIC ACCOUNTANTS
S.L.P. 40612 NAIROBI
Tarehe: 4 Machi 2010

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 KShs'000	2008 KShs'000
INTEREST INCOME	7	1,804,122	1,319,408
INTEREST EXPENSE	7	(656,579)	(488,690)
NET INTEREST INCOME		1,147,543	830,718
IMPAIRMENT LOSSES ON MORTGAGE ADVANCES	17(b)	(225,487)	(98,747)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON MORTGAGE ADVANCES		922,056	**731,971**
NON INTEREST INCOME	8	226,902	213,624
NON INTEREST EXPENSES	9	(797,840)	(742,925)
PROFIT BEFORE TAXATION	10	351,118	**202,670**
INCOME TAX EXPENSE	11	(116,942)	(66,243)
NET PROFIT AFTER TAX FOR THE PERIOD		234,176	**136,427**
OTHER COMPREHENSIVE INCOME			
REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	22(b)	255,784	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		489,960	**136,427**
BASIC AND DILUTED EARNINGS PER SHARE	12	KShs 1.02	**KShs 0.79**

The notes set out on pages 34 to 63 form an integral part of these financial statements.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2009

Assets	Note	2009 KShs'000	2008 KShs'000
Cash and bank balances	15	319,839	186,896
Placements with other banks		2,106,419	2,585,603
Investment in Government securities	16	509,507	478,594
Mortgage advances to customers (Net)	17(a)	14,495,208	10,414,658
Other assets	20	83,203	118,474
Housing development projects	21	20,130	20,130
Property and equipment	22(a)	580,907	349,856
Prepaid operating lease rentals	23	49,252	49,900
Intangible assets	24	4,146	9,620
Deferred tax asset	25(a)	70,743	65,022
Tax recoverable		-	15,615
TOTAL ASSETS		**18,239,359**	**14,294,368**
LIABILITIES			
Customers' deposits	27	12,219,449	10,063,830
Other liabilities	28	220,443	178,122
Tax Payable		26,091	-
Loans from banks	29	1,700,000	400,000
		14,165,983	10,641,952
SHAREHOLDERS' EQUITY			
Share capital	30	1,150,000	1,150,000
Reserves		2,872,626	2,451,666
Shareholders' income notes and loans	31	50,750	50,750
		4,073,376	3,652,416
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**18,239,359**	**14,294,368**

The notes set out on pages 34 to 63 form an integral part of these financial statements.

The financial statements set out on pages 28 to 63 were approved by the Board of Directors on 4 March 2010 and were signed on its behalf by:

Frank Ireri

Managing Director

David Ansell

Director

Kung'u Gatabaki

Chairman

Joseph Kania

Company Secretary

Company Statement of Financial Position

AS AT 31 DECEMBER 2009

ASSETS	Note	2009 KShs'000	2008 KShs'000
Cash and bank balances	15	319,839	186,880
Placement with other banks		2,106,419	2,585,603
Investment in Government securities	16	509,507	478,594
Mortgage advances to customers (Net)	17(a)	14,495,208	10,414,658
Investment in subsidiaries	18	130,020	130,020
Other assets	20	83,109	107,125
Property and equipment	22(b)	574,756	343,630
Prepaid operating lease rentals	23	42,171	42,632
Intangible assets	24	4,094	9,550
Dividend receivable		-	20,000
Deferred tax asset	25(b)	15,638	11,803
TOTAL ASSETS		18,280,761	14,330,495
LIABILITIES			
Customers' deposits	27	12,234,645	10,088,797
Amounts due to subsidiary company	19	2,851	20,997
Other liabilities	28	208,841	154,401
Loans from banks	29	1,700,000	400,000
Tax payable		50,193	4,994
		14,196,530	10,669,189
SHAREHOLDERS' EQUITY			
Share capital	30	1,150,000	1,150,000
Reserves		2,883,481	2,460,556
Shareholders' income notes and loans	31	50,750	50,750
		4,084,231	3,661,306
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,280,761	14,330,495

The notes set out on pages 34 to 63 form an integral part of these financial statements.

The financial statements set out on pages 28 to 63 were approved by the Board of Directors on 4 March 2010 and were signed on its behalf by:

Frank Ireri

Managing Director

David Ansell

Director

Kung'u Gatabaki

Chairman

Joseph Kania

Company Secretary

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 KShs'000	2008 KShs'000
Net cash flows from operating activities	32(a)	(265,520)	**(739,715)**
INVESTING ACTIVITIES			
Purchase of property and equipment		(11,801)	(19,337)
Proceeds from sale of equipment		80	912
Purchase of intangible assets		-	(261)
Net cash flow from investing activities		(11,721)	**(18,686)**
FINANCING ACTIVITIES			
Dividend paid		(69,000)	(28,750)
Proceeds from rights issue		-	2,098,468
Net cash flow from financing activities		(69,000)	**2,069,718**
Net (decrease)/increase in cash and cash equivalents	32(b)	(346,241)	**1,311,317**

The notes set out on pages 34 to 63 form an integral part of these financial statements.

Consolidated Statement of changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	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 1st January 2008	575,000	193,418	25,705	28,750	447,507	125,141	1,395,521
Total comprehensive income for the period							
Net profit after taxation	-	-	-	-	-	136,427	136,427
Transfer to statutory reserve	-	-	-	-	33,296	(33,296)	-
Total comprehensive income	**-**	**-**	**-**	**-**	**33,296**	**103,131**	**136,427**
Transactions with owners, recorded directly in equity							
Rights issue	575,000	-	1,523,468	-	-	-	2,098,468
Dividend paid	-	-	-	(28,750)	-	-	(28,750)
Proposed dividends	-	-	-	69,000	-	(69,000)	-
Total transactions with owners for the year	**575,000**	**-**	**1,523,468**	**40,250**	**-**	**(69,000)**	**2,069,718**
Balance as at 31 December 2008	**1,150,000**	**193,418**	**1,549,173**	**69,000**	**480,803**	**159,272**	**3,601,666**
Total comprehensive income for the period							
Net profit after taxation	-	-	-	-	-	234,176	234,176
Revaluation surplus	-	255,784	-	-	-	-	255,784
Transfer to statutory reserve	-	-	-	-	104,232	(104,232)	-
Total comprehensive income	**-**	**255,784**	**-**	**-**	**104,232**	**129,944**	**489,960**
Transactions with owners, recorded directly in equity							
Dividend paid	-	-	-	(69,000)	-	-	(69,000)
Proposed dividends	-	-	-	115,000	-	(115,000)	-
Total transactions with owners for the year	**-**	**-**	**-**	**46,000**	**-**	**(115,000)**	**(69,000)**
Balance as at 31 December 2009	1,150,000	449,202	1,549,173	115,000	585,035	174,216	4,022,626

DIVIDEND PER SHARE (Note 13) - KShs 0.50 The notes set out on pages 34 to 63 form an integral part of these financial statements.

Company Statement of changes in Equity

FOR THE YEAR ENOEO 31 OECEMBER 2009

	Share capitai 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 2008	575,000	193,418	25,705	28,750	447,507	138,838	1,409,218
Total comprehensive income for the period							
Net profit after taxation	-	-	-	-	-	131,620	131,620
Transfer to statutory reserve	-	-	-	-	33,296	(33,296)	-
Total comprehensive income	-	-	-	-	33,296	98,324	131,620
Transactions with owners, recorded directly in equity							
Rights issue	575,000	-	1,523,468	-	-	-	2,098,468
Dividend paid	-	-	-	(28,750)	-	-	(28,750)
Proposed dividends	-	-	-	69,000	-	(69,000)	-
Total transactions with owners for the year	575,000	-	1,523,468	40,250	-	(69,000)	2,069,718
Balance as at 31 December 2008	1,150,000	193,418	1,549,173	69,000	480,803	168,162	3,610,556
Total comprehensive income for the period							
Net profit after taxation	-	-	-	-	-	236,141	236,141
Revaluation surplus	-	255,784	-	-	-	-	255,784
Transfer to statutory reserve	-	-	-	-	104,232	(104,232)	-
Total other comprehensive income	-	255,784	-	-	104,232	131,909	491,925
Transactions with owners, recorded directly in equity							
Dividend paid	-	-	-	(69,000)	-	-	(69,000)
Proposed dividends	-	-	-	115,000	-	(115,000)	-
Total transactions with owners for the year	-	-	-	46,000	-	(115,000)	(69,000)
Balance as at 31 December 2009	1,150,000	449,202	1,549,173	115,000	585,035	185,071	4,033,481

The notes set out on pages 34 to 63 form an integral part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

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 4. The consolidated financial statements of the Group as at and for the year ended 31 December 2009 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 4 March 2010.

(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) Changes in accounting policies

Starting as of 1 January 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments; and
- Presentation of financial statements.

(i) Operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that is internally provided to the Executive Committee (EXCO) of the company, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting which has now been withdrawn.
Comparative segment information has been re-presented in conformity with the transitional requirements of the standard. Since the change in accounting policy only impacts presentation and disclosure aspects there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by EXCO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to EXCO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(ii) Presentation of financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been represented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(e) 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 2009. 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 statement of comprehensive income 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 statement of comprehensive income 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.

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 statement of financial position date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at the statement of financial position date. The resulting realised and unrealised differences from conversion and translations are recognised in the statement of comprehensive income. 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 statement of comprehensive income 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 statement of financial position 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 statement of comprehensive income 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 statement of comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits (Continued)

(i) Employee Retirement Benefits Plan - Continued

Contributions are determined by the local statute and the Group's contributions are charged to the statement of comprehensive income in the year to which they relate. The Group has 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 it.

(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.

Deferred tax is provided using the statement of financial position 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 statement of financial position.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

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.

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 statement of comprehensive income 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 statement of comprehensive income.

(iii) Identification and measurement of impairment of financial assets

At each statement of financial position 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

i) Identification and measurement of impairment of financial aasets - continued

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 the statement of comprehensive income 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 the statement of comprehensive income.

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 the statement of comprehensive income.

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 the statement of comprehensive income.

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 statement of financial position, 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 statement of financial position. 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 the statement of comprehensive income. 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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Segmental reporting (continued)

All operating segments' operating results are reviewed regularly by the Group's EXCO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(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 is 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.

(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 statement of financial position 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

Other than those adopted as explained in Note 2(d), a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group.

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 risks, 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 Group'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 Group's risk management and risk control process and the organization structure corresponds to the CBK Risk Management Guidelines.
In order to ensure continuous improvement of 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

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 Group'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 to 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 Department staffed with highly skilled personnel who ensure credit risks are identified and mitigated. Within this department there is a fully fledged mortgage recoveries and rehabilitation unit with the responsibility of formulating workout solutions and restructuring mortgages in distress.

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 statement of financial position. 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 statement of financial position.

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 mortgage advances

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 mortgages

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.

Mortgages with renegotiated terms

Mortgages with renegotiated terms are mortgages 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Mortgages with renegotiated terms - continued

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 mortgages / 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.

Exposure to credit risk	Mortgage advances		Investment securities		Placement with other banks	
	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**
Impaired loans	1,815,135	2,096,801		-	-	-
Gross amount allowance for impairment	(596,490)	(871,664)		-	-	-
Carrying amount	1,218,645	**1,225,137**	-	-	-	-
Neither past due nor impaired (normal and watch)	13,308,884	9,216,676	509,507	478,594	2,106,419	2,585,603
Allowance for impairment incurred but not reported	(32,321)	(27,155)	-	-		-
Carrying amount	13,276,563	**9,189,521**	509,507	**478,594**	2,106,419	**2,585,603**
Net carrying amount	14,495,208	**10,414,658**	509,507	**478,594**	2,106,419	**2,585,603**

In addition to the above, the Group has entered into lending commitments of KShs 5,851,242,321 (2008 - KShs 2,613,418,522) with various counter parties. The Group holds collateral against mortgage 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.

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:

	2009 KShs'000	2008 KShs'000
Against impaired accounts	2,067,062	2,112,110
Against accounts not impaired	28,894,606	20,672,650
	30,961,668	22,784,760

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:

	2009 KShs'000	2008 KShs'000
Properties	30,961,668	22,784,760

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 the 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 mortgage demand and deposit withdrawals, regulatory requirements (liquidity 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 statement of financial position 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, share capital and loans. 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:

	2009	2008
At 31 December	23.9%	30.40%
Average for the period	26.0%	27.35%
Maximum for the period	27.6%	40.09%
Minimum for the period	23.9%	15.58%

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 2009:	**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	319,839	-	-	-		319,839
Placements with other banks	100,092	1,293,725	712,552	-		2,106,419
Investment in Government securities			9,502	500,000		509,502
Net mortgage advances to customers	-	370,297	713,368	2,055,344	11,356,259	14,495,209
Total	419,931	1,664,012	1,435,427	2,555,344	11,356,259	17,430,973
Financial liabilities						
Customer deposits	-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loans from Banks	-	[illegible]	-	[illegible]		[illegible]
Government income notes	-	-	-	-	[illegible]	[illegible]
Total	-	5,995,805	1,447,054	4,790,230	1,737,110	13,970,199
Unrecognised mortgage commitments	-	2,673,346	3,177,896	-	-	5,851,242
At 31 December 2009	419,931	(7,005,139)	(3,189,523)	(2,234,886)	9,619,149	(2,390,468)

4. FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk (continued)

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**	**10,514,580**
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**

(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. 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:

4. **FINANCIAL RISK MANAGEMENT (Continued)**

iii) Market risk (continued)

31 December 2009:	Average interest rate %	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets							
Cash balances	[illegible]	[illegible]			-	-	[illegible]
Placements with other banks	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Investment in Government securities	[illegible]			[illegible]	[illegible]		[illegible]
Net mortgage advances to customers	[illegible]	-	370,237	713,368	2,055,344	11,356,259	14,495,208
Total		419,931	1,664,012	1,435,427	2,555,344	11,356,259	17,430,973
Financial liabilities							
Customer deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Loans from banks	[illegible]		[illegible]		[illegible]		[illegible]
Government income notes	[illegible]				-	[illegible]	[illegible]
Total		6,633,199	4,817,450	1,447,054	1,071,746	50,750	13,970,199
Unrecognised mortgage commitments		-	2,673,346	3,177,896	-	-	5,851,242
At 31 December 2009		(6,213,268)	(5,826,784)	(3,189,523)	1,533,598	11,305,509	(2,390,468)

4. FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (continued)

31 December 2008:	Average interest rate %	Due on demand KShs'000	Due within 3 months KShs '000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	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**

Sensitivity analysis interest rate risk

At 31 December 2009, 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 50.438 million (2008 – KShs 37.445 million) higher arising mainly as a result of lower interest expense on variable borrowings, and other components of equity would have been KShs 35.307 million (2008 – KShs 26.211 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 36.754. million (2008 - 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 25.728 million (2008 – KShs 25.140 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (continued)

Sensitivity onolysis 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 Board Audit committee and senior management of the Group.

Risk measurement ond 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 Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions.

(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 for 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

iii) Market risk (continued)

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

	2009 KShs'000	2008 KShs'000
Tier 1 capital		
Ordinary share capital	1,150,000	1,150,000
Share premium	1,549,173	1,549,173
Retained earnings	185,071	168,162
	2,884,244	2,867,335
Tier 2 capital		
Collective allowances for impairment	116,004	88,459
Qualifying subordinated liabilities	163,051	99,105
	279,055	187,564
Total regulatory capital	3,163,299	3,054,899
Risk weighted assets	9,280,302	7,076,724
Capital ratios	2009	2008
Total regulatory capital expressed as a percentage of total risk-weighted assets	34.09%	43.17%
Total tier 1 capital expressed as a Percentage of risk-weighted assets	31.08%	40.52%

5. OPERATING SEGMENTS

The Group is organised in two main reporting segments: Mortgages and Deposits mobilisation. This is based on the Group's management and internal reporting structure. The mortgage segment is further split between Retail mortgages, Schemes mortgages and Projects, while deposits mobilisation segment is further split between Retail deposits and Corporate deposits.

The following summary describes the operations of each Group's reportable segment;

- **Retail mortgages:** This segment is mainly responsible for sourcing residential mortgages for individual owner occupiers and it forms the major proportion of the mortgage lending of the Group.
- **Schemes mortgages:** This segment is mainly responsible for arranging corporate mortgage packages with employers such that the employees of the participating companies can enjoy preferential interest rates on their mortgage loans.
- **Projects:** This segment provides lending to property developers for construction. This includes construction of residential houses for sale, construction of office blocks, schools, hospitals and other related infrastructure.
- **Retail Deposits:** This segment plays a critical role in the operations of the Group by sourcing for deposits from retail customers which are then used to finance the Group's mortgage products.
- **Corporate Deposits:** This segment is responsible for sourcing for deposits from corporate organizations.

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5. OPERATING SEGMENTS (Continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's EXCO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of each.

External revenues	Mortgage Lending						Deposits Mobilisation				Others		Totals	
	Retail		Schemes		Projects		Corporate		Retail					
	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**	2009 KShs'000	**2008 KShs'000**
Interest income	1,015,528	753,876	358,423	234,821	182,911	96,909	247,260	233,671	-	-		-	1,804,122	**1,319,277**
Interest expense														
- Retail	-	-	-	-	-	-		-	(197,423)	(162,142)		-	(197,423)	**(162,142)**
- Corporate		-	(43,416)	(41,202)	(1,982)	-	(328,850)	(236,518)	-	-	(85,010)	(48,828)	(459,258)	**(326,548)**
Net Interest Income	1,015,528	**753,876**	315,007	**193,619**	180,929	**96,909**	(81,590)	**(2,847)**	(197,423)	**(162,142)**	(85,010)	**(48,828)**	1,147,441	**830,587**
Non interest income	[illegible]	66,697	-	-	[illegible]	8,294		-	[illegible]	74,757	[illegible]	44,668	208,771	**194,416**
Depreciation and amortisation		-		-	-	-		-		-	(42,377)	(54,926)	(42,377)	**(54,926)**
Reporting segment profit/(loss) before income tax	[illegible]	156,670	[illegible]	37,067	[illegible]	20,140	[illegible]	(545)	[illegible]	(16,729)	[illegible]	(797)	353,875	**195,806**
Loan disbursements	[illegible]	2,449,490	[illegible]	1,014,666	[illegible]	1,009,965		-		-		-	6,349,785	**4,474,121**
Loan sales	[illegible]	2,767,950	[illegible]	1,333,625	[illegible]	1,624,462		-		-		-	9,809,003	**5,726,037**
Deposits balances		-	[illegible]	1,333,163	[illegible]	-	[illegible]	3,351,740	[illegible]	5,403,894		-	12,234,645	**10,088,797**
Other material non cash items														
Impairment losses on mortgage loans	-	89,050	-	7,276	-	2,421		-		-		-	225,487	**98,747**
Capital expenditure		-		-		-		-		-	[illegible]	19,598	11,801	**19,598**
Reportable segment assets	-	5,176,450	[illegible]	3,031,494	[illegible]	1,008,732	[illegible]	3,251,077		-	-	1,862,742	18,280,761	**14,330,495**
Reportable segment liabilities		-	[illegible]	1,333,163	[illegible]	-	[illegible]	3,351,740	[illegible]	5,403,894	[illegible]	626,142	14,247,280	**10,714,939**

5. OPERATING SEGMENTS (Continued)

Reconciliations of reportabio segmont revenues, profit or loss, assets and liabilities.

	2009 KShs'000	**2008 KShs'000**
Net interest income		
Total net interest income for reportable segments	1,142,441	830,587
Other interest income adjustments	102	131
Consolidated net interest income	1,142,543	830,718
Non interest income		
Total non interest income for reportable segments	208,771	194,416
Other non interest income	18,131	19,208
Consolidated non interest income	226,902	213,624
Profit or loss		
Total profit or loss for reportable segments	353,875	195,806
Other profit or loss	(2,757)	6,864
Consolidated profit before income tax	351,118	202,670
Assets		
Total assets for reportable segments	18,280,761	14,330,495
Other assets	(41,402)	(36,127)
Consolidated total assets	18,239,359	14,294,368
Liabilities		
Total liabilities for reportable segments	14,247,280	10,714,939
Other liabilities	(81,297)	(72,987)
Consolidated total liabilities	14,165,983	10,641,952

6. USE OF ESTIMATES ANO JUOGEMENTS

Allowances for credit iosses

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 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.

Notes to the Financial Statements

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7. INTEREST INCOME	2009 KShs'000	**2008 KShs'000**
Arising from:		
Advances to customers	[illegible]	1,085,606
Treasury bonds	[illegible]	31,733
Placements with other banks	[illegible]	202,069
	1,804,122	**1,319,408**

Included in interest income on mortgage advances for the year is a total of KShs 92,545,871 (2008 – KShs 37,133,178) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are held to maturity.

INTEREST EXPENSE	2009 KShs'000	**2008 KShs'000**
Arising from:		
Customer deposits	[illegible]	439,862
Interest on borrowed funds	[illegible]	48,828
	656,579	**488,690**

8. NON INTEREST INCOME

	2009 KShs'000	**2008 KShs'000**
Arising from:		
Fees and commission income	[illegible]	167,371
Rental income	[illegible]	34,368
Other operating income	[illegible]	10,973
Gain on sale of property and equipment	[illegible]	912
	226,902	**213,624**

9. NON INTEREST EXPENSES

	2009 KShs'000	**2008 KShs'000**
Arising from:		
Salaries and employee benefits	[illegible]	417,711
Rental expenses	[illegible]	11,494
Deposit Protection Fund	[illegible]	13,994
General administration expenses	[illegible]	299,726
	797,840	**742,925**
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions		535
Contributions to the defined contribution retirement scheme	[illegible]	24,773

10. PROFIT BEFORE TAXATION

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

	2009 KShs'000	2008 KShs'000
Directors' remuneration:		
- Fees	1,988	2,296
- Expenses	4,106	3,704
- As executives	25,431	24,669
Auditors' remuneration	6,815	6,815
Amortisation of prepaid operating lease rentals	643	645
Amortisation of intangible assets	5,474	21,332
Depreciation	36,530	33,222
Profit on sale of equipment	(80)	(912)

11. TAXATION

	2009 KShs'000	2008 KShs'000
Current tax at 30%	122,663	68,988
Deferred tax (credit)/charge (Note 25(a))	(5,721)	(2,745)
	116,942	66,243

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

	2009 KShs'000	2008 KShs'000
Accounting profit before taxation	351,118	202,670
Tax at the applicable corporation tax rate of 30%	105,335	60,801
Tax effect of non-deductible costs and non-taxable income	11,607	5,442
	116,942	66,243

12. EARNINGS PER SHARE

Basic

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

	2009 KShs'000	2008 KShs'000
Net profit for the year attributable to shareholders	234,176	136,427
Number of ordinary shares in issue (000's)	230,000	230,000
Weighted average number of ordinary shares (000's)	230,000	172,500
Basic earnings per share	KShs 1.02	KShs 0.79
Diluted earnings per share	KShs 1.02	KShs 0.79

13. DIVIDEND PER SHARE

	2009 KShs'000	2008 KShs'000
Dividend	115,000	69,000
Number of ordinary shares (000's)	230,000	230,000
Dividends per share	KShs 0.50	KShs 0.30

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 2009:				
Financial Assets				
Cash and cash equivalents		-	319,839	319,839
Placements with banks		-	2,106,419	2,106,419
Investment in government securities	509,507	-		510,417
Mortgage advances		14,495,208		14,495,208
	509,507	14,495,208	2,426,258	17,431,883
Financial Liabilities				
Customer deposits			12,219,449	12,219,449
Loans from banks	-		1,700,000	1,700,000
	-	-	13,919,449	13,919,449
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

(b) Company	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
31 December 2009:				
Financial Assets				
Cash and cash equivalents		-	319,839	319,839
Placements with banks			2,106,419	2,106,419
Investment in government securities	509,507	-	-	510,417
Mortgage advances		14,495,208		14,495,208
	509,507	14,495,208	2,426,258	17,431,883
Financial Liabilities				
Customer deposits	-		12,234,645	12,234,645
Loans from banks	-		1,700,000	1,700,000
	-	-	13,934,645	13,934,645
31 December 2008:				
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

14. FINANCIAL ASSETS AND LIABILITIES (Continued)

The fair value of treasury bonds is based on the indicative price of the specific issues as at the statement of financial position 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 mortgage advances has not been disclosed as this cannot be determined reliably.

15. CASH AND BANK BALANCES

	2009		2008	
	Group	Company	**Group**	**Company**
	KShs'000	KShs'000	**KShs'000**	**KShs'000**
Cash at hand	106,118	106,118	113,321	113,318
Current account balances	213,721	213,721	73,575	73,562
	319,839	319,839	**186,896**	**186,880**

16. INVESTMENT IN GOVERNMENT SECURITIES

Group and Company:	2009	**2008**
	KShs'000	**KShs'000**
Held to Maturity		
Treasury bonds due		
after 180 days	509,507	**478,594**

The weighted average effective interest rate on government securities as at 31 December 2009 was 7.0% (2008 – 6.93%).

17. MORTGAGE ADVANCES TO CUSTOMERS

Group and Company:	2009	**2008**
	KShs'000	**KShs'000**
(a) Mortgage advances at amortised cost		
Mortgages	15,124,010	11,313,477
Less: Provision for impairment losses (Note 17(b))	(628,802)	(898,819)
	14,495,208	**10,414,658**
Maturing:		
Within five years	3,703,752	2,789,893
Over five years to ten years	4,504,914	3,760,513
Over ten years to fifteen years	4,346,073	2,877,348
Over fifteen years	1,940,469	986,904
	14,495,208	**10,414,658**

(b) Reserve for impairment losses	**Impairment losses**	**Portfolio Impairment**	**Total**
	KShs'000	**KShs'000**	**KShs'000**
At 1 January 2008	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
Impairment made in the year	220,330	5,157	225,487
Written off against balance	(495,504)	-	(495,504)
At 31 December 2009	596,490	32,312	628,802

FOR THE YEAR ENDED 31 DECEMBER 2009

17. MORTGAGE ADVANCES TO CUSTOMERS (Continued)

(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:

	2009 KShs'000	2008 KShs'000
Interest on impaired mortgages which has not yet been received in cash	555,353	**894,898**

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2009 was 13.09% (2008 – 12.85%).

18. INVESTMENT IN SUBSIDIARIES

	Shareholding	2009 KShs'000	2008 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:

	2009 KShs'000	2008 KShs'000
First Permanent (East Africa) Limited	2,851	**20,997**

20. OTHER ASSETS

	2009		2008	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	[illegible]	[illegible]	20,222	20,222
Prepayments	[illegible]	[illegible]	37,622	37,622
Deposits and rent receivable	[illegible]	[illegible]	3,614	3,614
Other receivables	[illegible]	[illegible]	57,016	45,667
	83,203	83,109	**118,474**	**107,125**

Included in staff debtors are staff car loans of KShs 14,776,669 (2008 – KShs 19,089,852).

21. HOUSING DEVELDPMENT PROJECTS

Group:	2009 KShs'000	2008 KShs'000
Housing projects		
Komarock Housing Projects	20,130	**20,130**

No commitments in respect of these projects were authorised both in 2009 and 2008.

22. PROPERTY AND EQUIPMENT

(a) Group 2009:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2009	7,000	233,651	505,503	746,154
Additions	-	-	11,801	11,801
Disposals	-	-	(2,185)	(2,185)
Revaluation Surplus	-	241,945	-	241,945
At 31 December 2009	7,000	475,596	515,119	997,715
Comprising:				
At cost	-	20,651	515,119	535,770
At valuation	7,000	454,945	-	461,945
	7,000	475,596	515,119	997,715
Depreciation:				
At 1 January 2009	-	12,977	383,321	396,298
Charge for the year	-	3,301	33,229	36,530
Disposals	-	-	(2,185)	(2,185)
Revaluation	-	(13,835)	-	(13,835)
At 31 December 2009	-	2,443	414,365	416,808
Net book value:				
At 31 December 2009	7,000	473,153	100,754	580,907

22. PROPERTY AND EQUIPMENT (Continued)
(a) Group (Continued)

(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**

The Group's land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2009. The resulting surplus was credited to revaluation reserve.

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

	2009 KShs 000	2008 KShs '000
Freehold land	206	206
Buildings	41,346	44,533

Included in equipment are assets with a gross value of KShs 299,707,541 (2008 – KShs 296,079,132) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 58,024,081 (2008 – KShs 50,668,300).

(b) Company 2009:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Total KShs'000
Cost or valuation:				
At 1 January 2009	7,000	225,055	500,137	732,192
Additions	-	-	11,801	11,801
Revaluation surplus	-	241,945	-	241,945
Disposal	-	-	(2,185)	(2,185)
At 31 December 2009	7,000	467,000	509,753	983,753
Comprising:				
At cost	-	54,055	509,753	563,808
At valuation	7,000	412,945	-	419,945
	7,000	467,000	509,753	983,753
Depreciation:				
At 1 January 2009	-	10,608	377,954	388,562
Charge for the year	-	3,229	33,228	36,457
Revaluation	-	(13,837)	-	(13,837)
Disposals	-	-	(2,185)	(2,185)
At 31 December 2009	-	-	408,997	408,997
Net book value:				
At 31 December 2009	**7,000**	**467,000**	**100,756**	**574,756**

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22. PROPERTY AND EQUIPMENT (Continued)

(b) Company - continued

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**

The company's land and buildings were professionally valued by an independent valuer on an open market basis on 31 December 2009. The resulting surplus was credited to revaluation reserve.

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

	2009 KShs 000	**2008 KShs '000**
Freehold land	[illegible]	206
Buildings	[illegible]	44,533

Included in equipment are assets with a gross value of KShs 292,338,237 (2008 – KShs 288,709,828) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 50,654,777 (2008 – KShs 49,519,060).

23. PREPAID OPERATING LEASE RENTALS

	2009 Group KShs'000	2009 Company KShs'000	**2008 Group KShs'000**	**2008 Company KShs'000**
Cost:				
At 1 January	54,612	45,706	54,612	45,706
Amortisation:				
At 1 January	4,712	3,074	4,067	2,612
Charge for the year	643	461	645	462
	5,355	3,535	4,712	3,074
At 31 December	49,257	42,171	**49,900**	**42,632**

As at 31 December 2009 the un-expired lease period ranges from 64 to 86 years.

24. INTANGIBLE ASSETS

	2009 Group KShs'000	2009 Company KShs'000	**2008 Group KShs'000**	**2008 Company KShs'000**
Cost:				
At January	[illegible]	[illegible]	125,146	125,049
Additions during the year		-	261	261
	[illegible]	[illegible]	125,407	125,310
Amortisation:				
At January	[illegible]	[illegible]	94,455	94,448
Amortisation during the year	[illegible]	[illegible]	21,332	21,312
As at 31 December	[illegible]	[illegible]	115,787	115,760
Net book value:				
As at 31 December	4,146	4,094	**9,620**	**9,550**

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

(a) Group

31 December 2009:	01.01.2009 KShs'000	Recognised in income KShs'000	31.12.2009 KShs '000
Arising from:			
Plant and equipment	(3,646)	(2,275)	(5,921)
Other general provisions	(507)	(1,828)	(2,335)
General provision on mortgages	(8,146)	(1,547)	(9,693)
Tax losses carried forward	(52,723)	(71)	(52,794)
Net deferred tax	**(65,022)**	**(5,721)**	(70,743)

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)**
Comprising:			
Deferred tax assets	**62,277**		**65,022**

(b) Company

31 December 2009:	01.01.2009 KShs'000	Recognised in income KShs'000	31.12.2009 KShs '000
Arising from:			
Plant and equipment	(3,531)	(2,259)	(5,790)
Other general provisions	(126)	(28)	(154)
General provision on mortgages	(8,146)	(1,548)	(9,694)
	(11,803)	**(3,835)**	(15,638)

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)**

26. EMPLOYEE BENEFITS - 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.

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27. CUSTOMERS' DEPOSITS

	2009 Group KShs'000	2009 Company KShs'000	2008 Group KShs'000	2008 Company KShs'000
Government and parastatals:				
Payable within 90 days	269,800	269,800	299,410	299,410
Payable after 90 days and within one year	192,010	192,010	97,591	97,591
Payable after one year	913,296	913,296	873,017	873,017
Private sector and individuals:				
Payable within 90 days	5,026,305	5,026,005	3,984,782	4,009,749
Payable after 90 days and within one year	1,255,044	1,255,044	1,811,914	1,811,914
Payable after one year	4,563,294	4,578,490	2,997,116	2,997,116
	12,219,449	12,234,645	10,063,830	10,088,797

(a) Included in customers' deposits is KShs 651,978 (2008 – KShs 351,048) due to a subsidiary, Kenya Building Society Limited and KShs 14,543,828 (2008 - KShs 24,616,197) due to subsidiary, First Permanent (East Africa) Limited.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2009 was 5.42% (2008 – 5.09%).

28. OTHER LIABILITIES

	2009 Group KShs'000	2009 Company KShs'000	2008 Group KShs'000	2008 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	15,000	15,000	11,397	11,397
Unclaimed dividends	18,176	18,176	11,048	11,048
Sundry creditors	87,677	87,677	57,879	57,879
Other liabilities	96,073	85,995	94,181	71,984
	220,443	208,841	178,122	154,401

29. LOANS FROM BANKS

	2009 KShs'000	2008 KShs'000
Loans from banks	1,700,000	400,000

This balance relates to two loan facilities of KShs 1 billion and KShs 700 million from Standard Chartered Bank Ltd and Equity Bank Ltd respectively. The Standard Chartered Bank Limited loan is for three years at a rate of 2.75% plus the Treasury bill rate of the last auction day immediately preceding the end of every month while the loan from Equity Bank Limited is at 8.5% per annum.

30. CAPITAL AND RESERVES

Group and company:

	2009 KShs'000	2008 KShs'000
(a) Ordinary share capital		
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	1,150,000

30. CAPITAL AND RESERVES (Continued)

Group and company: (Continued)

(a) Ordinary share capital - Continued

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 2009.

(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. SHAREHOLDERS' INCOME NOTES AND LOANS

	2009	2008
Group and company:	KShs'000	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 (2008 – 8.25%).

32. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flows from operating activities	2009 KShs'000	2008 KShs'000
Group profit before taxation	351,118	202,670
Depreciation	36,530	33,222
Amortisation of intangible asset	5,474	21,332
Amortisation of prepaid operating lease rentals	643	645
Profit on sale of property and equipment	(80)	(912)
Increase in customer deposits	2,155,619	1,287,004
Net movement in mortgage advances to customers	(4,080,550)	(2,668,598)
Investment in Government securities	(30,913)	(4)
Decrease in other assets	35,271	41,188
Increase in other liabilities	42,321	31,964
Increase in loans from banks	1,300,000	400,000
Increase in housing projects	-	(7,280)
Net cash flows from operating activities before tax	**(184,567)**	**(658,769)**
Income tax paid	(80,953)	(80,946)
Net cash flows from operating activities	**(265,520)**	**(739,715)**

(b) Analyses of cash and cash equivalents	2009 KShs'000	2008 KShs'000	Change in the year KShs'000
Cash in hand and bank	319,839	186,896	132,943
Balances due from banking institutions	2,106,419	2,585,603	(479,184)
	2,426,258	**2,772,499**	**(346,241)**

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33. CONTINGENT LIABILITIES

As at 31 December 2009, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 1.033 million (2008 – KShs 23.277 million).

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 28,519,727 (2008 – KShs 27,839,039). At the statement of financial position date, the bank had contracted with tenants for the following future

	2009 KShs'000	2008 KShs'000
Within one year	30,191	27,604
In second to fifth year inclusive	86,748	82,723
After five years	643	5,194
	117,582	115,521

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 statement of financial position date, the bank had outstanding commitments under operating leases which fall due as follows:

	2009 KShs'000	2008 KShs'000
Within one year	11,579	9,554
In second to fifth year inclusive	39,342	41,666
After five years	-	-
	50,921	51,220

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

36. MORTGAGE COMMITMENTS

Group and Company:

Mortgage commitments amounting to KShs 5,851,242,321 (2008 – KShs 2,613,418,522) are analysed below:

	2009 KShs'000	2008 KShs'000
Commitment in principle but not authorised for payment	5,851,242	2,613,418
Authorised but not paid	-	-
	5,851,242	2,613,418

37. CAPITAL COMMITMENTS

	2009	2008
	KShs'000	KShs'000
Group and company:		
Authorised but not contracted	63,008	39,976

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2009, 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	2009	2008
	KShs'000	KShs'000
At 1 January	245,543	255,195
Loans advanced during the year	162,049	34,451
Loans repayments received	(88,747)	(44,103)
At 31 December	318,845	245,543
Comprising:		
Mortgage advances	303,307	225,321
Staff car loans	14,777	19,090
Other	761	1,132
At 31 December	318,845	245,543

Included in the related party are staff car loans of KShs 14,776,669 (2008 – KShs 19,089,852). The related interest income in 2009 was KShs 1,237,777 (2008 – KShs 1,684,558).

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 2009 amounted to KShs 56,463,942 (2008 – KShs 66,559,182).