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Our Vision

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

Our Mission

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

1980 1985 1990 1995 2000 2005 2010

Mr. Steve Omenge Mainda, EBS	Chairman
Frank Ireri	Managing Director
David R Ansell*	
Peter Kahara Munga, EBS	
Prof. Shem Migot Adholla	
Benson Irungu Wairegi	
Kungu Gatabaki	Resigned 6 April 2010
Beatrice Sabana	Resigned 6 April 2010
Naftali Mogere	Resigned 6 April 2010
Arthur Odera	Appointed 16 October 2010

* American

COMPANY SECRETARY
Joseph Kania
Rehani House
Kenyatta Avenue/Koinange Street
P.O. Box 30088
00100 Nairobi GPO

SHARE REGISTRAR
Sarah Kinyua, CPS (K)
Housing Finance Company of Kenya Limited
Rehani House
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00100 Nairobi GPO

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

PRINCIPAL LEGAL ADVISORS
Kaplan & Stratton Advocates
Williamson House
4th Ngong Avenue
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Walker Kontos Advocates
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Bishops Road
P.O. Box 60680 00200
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REGISTERED OFFICE
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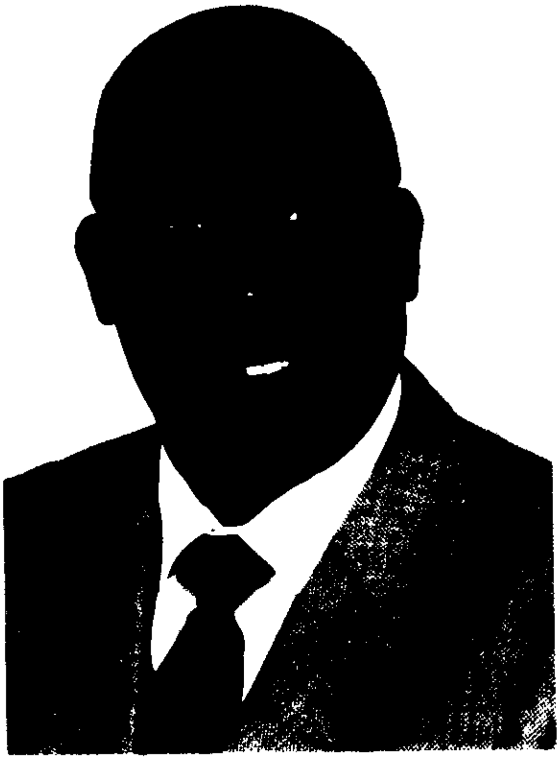
BANKERS
Equity Bank Limited
NHIF Building, Community
P.O. Box 75104
00200 Nairobi City Square

Standard Chartered Bank Ltd
Kenyatta Avenue
P.O. Box 40310
00100 Nairobi GPO

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

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

SUBSIDIARIES
Kenya Building Society Limited
First Permanent (East Africa) Ltd



Steve Omenge Mainda, EBS - Chairman

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.

Frank Ireri, Managing Director

Frank Ireri was appointed Managing Director in July 2006. He is a seasoned Banker with more than 20 years experience and joined from Barclays Bank of Kenya where he was Head of Barclay Card Africa, incharge of 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.

David R Ansell

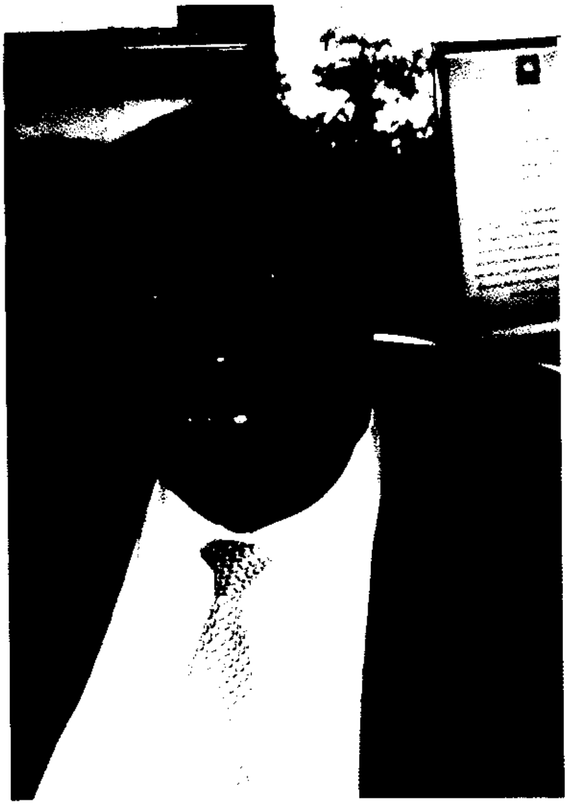
David Ansell was appointed Director in October 2001, having retired from Citibank in February 2001, after 30 years of Service, including an assignment as Director of Citibank's African Businesses based in Nairobi. He was also the Managing Director of Ecobank Transnational Inc. based in Lome, Togo. He 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 children.

Benson 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.

45 years Turning dreams into homes.

1975 1980 1985 1990 1995 2000 2005 **2010**

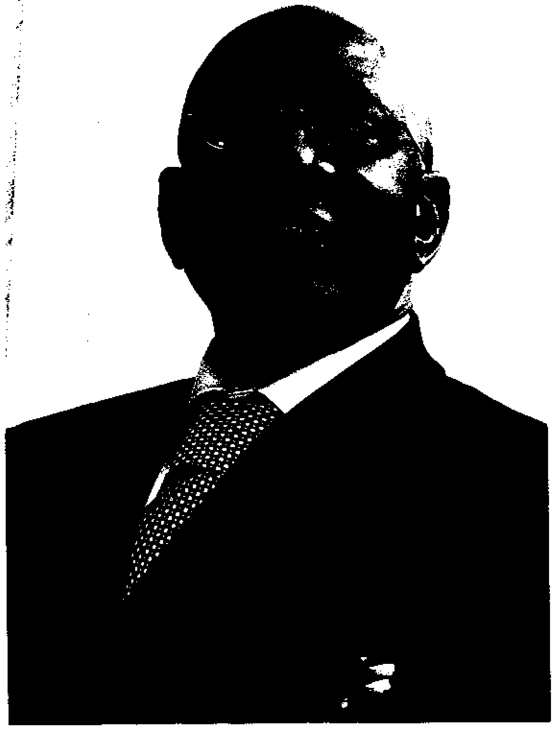


Peter K Munga, EBS

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.

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. He has also worked 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.



1975 1980 1985 1990 1995 2000 2005 **2010**

Arthur Odera

Arthur is a Chartered Banker, with over 10 years experience in banking, working for Barclays Bank. While working for Barclays he won several national and Africa-wide performance awards. He left banking to pursue his passion for leadership development. He now runs a consulting company that specialises in leadership development and performance management. He is also a Trustee of the National Social Security Fund. He chairs the Operations, Investment and Strategy Committee of NSSF which is responsible for an investment portfolio of over KShs 80bn. He has had a stint as a Graduate Assistant at university before launching into his banking career. Within Housing Finance, he is a member of the Strategy, Credit and Risk Committees of the Board.

I have chosen to focus on the various milestones the company has marked in its 45 years of existence, and also paint a picture of the Board and Management's vision for the future.

Dear Shareholders,

I take great pleasure in presenting to you once again the Annual Report and Financial Statements for Housing Finance for the year ended 31st December 2010. I am especially pleased to note that the results highlight an extremely successful year. I have chosen to focus on the various milestones the company has marked in its 45 years of existence, and also paint a picture of the Board and Management's vision for the future.

Financial Results

During the year, Housing Finance grew by an impressive 60% to post a pre-tax profit of KShs 561 million. This growth is a true testament to the hard work put in by the board and management to ensure growth and success in a highly vibrant and competitive sector of the economy. The year under review saw the entry of many banks into the mortgage and property financing space. It was also a year that was significantly characterised by high fuel and food costs leading to higher inflation. Housing Finance's lending operations during the year continued on a positive trend.

- Loan approvals amounted to KShs 10.7B compared to KShs 9.8B in 2009, an increase of 9%.
- Disbursements grew by 41% from KShs 6.3 B in 2009 to KShs 8.9B in 2010
- Profits before tax in 2010 was KShs 561 million, compared to KShs 351 million in 2009, a 60% increase
- The balance sheet assets grew to KShs 29.2B from KShs 18.2B in 2009.

Two thousand and ten (2010) was a historic year for the country as Kenya finally got a new constitution which was promulgated on August 27th 2010. The results of the population census were released during the same year and confirmed an extremely youthful population. These two events were important to Housing Finance as we embark on the next step of our journey as a company. Businesses are expected to adapt to the everchanging and dynamic needs of a young population. Housing Finance is certainly ready to take on these challenges. The new constitution contains many opportunities for growth in the housing sector, when taken together with Vision 2030. I wish to assure our shareholders, that the Board and Management is critically studying the emerging opportunities and is well prepared to take full advantage of them.

Housing Finance at 45

Forty five years is an important juncture to look back and take stock of our achievements to date. Some of the key milestones and achievements I wish to highlight are as follows:

- Housing Finance was incorporated in 1965 jointly by the Government of Kenya and CDC. Today, the company is mainly owned by Kenyan individuals and institutional investors, as well as our anchor shareholders Equity Bank and British American Investments Company Limited. It is truly a Kenyan-owned institution.
- In 2002, The Company rebranded its trading name to Housing Finance and adopted a vibrant new identity.
- In 2008, Housing Finance successfully raised KShs 2.3 billion in additional capital through a rights issue.
- In 2010, we had a highly oversubscribed (by 41%) Bond Issue which raised KShs 7 Billion to directly fund business growth. The bell ringing to begin trading of the bond shares was officially presided over by H.E. The President, Hon. Mwai Kibaki, which was a great honour for the company and a show of faith in our strategy and position as an institution.

These are a few milestones we are celebrating as Housing Finance turns 45 years. The company has been on a growth momentum in terms of profitability in the last few years owing to the strategic direction that was set in 2007. We have continued to drive our vision "to be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya" which allows us to focus not only on enabling more Kenyans to own homes, but also on providing the affordable housing that they require.

Strategic Direction

At forty five (45) years, it is also a crucial stage at which to ask what the future has in store for Housing Finance and how we will ensure that the growth momentum that has been set continues. The next few years will be characterised by further expansion of our business, both within Kenya and the region. As mentioned earlier, the new constitution, as well as Vision 2030 offers many opportunities for our business. We will ensure that we play a vital role in ensuring affordable and decent housing for Kenyans and contributing our expertise in the new decentralised and devolved structure of service provision. Demand for housing remains high, making us optimistic in the area of development.

Housing Finance will continue to work with the government and through key strategic partnerships to harness greater capacity in provision of quality, affordable housing for Kenyans in greater quantities. In the next 5 years, we also hope to grow our focus beyond Kenya and into the larger region where there is great demand for affordable home ownership solutions. The board and management will be undertaking a full strategic planning exercise in 2011 to plot the next steps of this journey, and to ensure that our strategy in the next 5 years is focussed and vibrant enough to meet our objectives and challenges. We will act swiftly to take up opportunities in order to deliver superior shareholder value.

These plans are geared at positioning Housing Finance not only to retain its existing market share but also to increase it as well as enable Housing Finance foray into other markets.

Board

During the year, we were pleased to welcome Mr. Arthur Odera to our board. Mr. Odera is currently a management consultant and also a Trustee of NSSF.

Dividend

Based on the improved results highlighted in this report, I am pleased to announce that the Board has proposed a full and final dividend of 35cents. This dividend comes after the interim dividend of 35 cents paid out earlier in the year, thus bringing the full dividend payment in 2010 to 70 cents, a 40% increase over the previous year.

Appreciation

On behalf of my fellow Directors, I acknowledge with appreciation the support and understanding of all shareholders. I also want to thank the management and staff for their loyalty, dedication and commitment to our collective determination to remain the leading mortgage provider and one of the best in the continent.

Finally I wish to express my profound gratitude to my colleagues on the Board for the confidence they have reposed in me. The task ahead is challenging and onerous and I like to count on their support and co-operation as we jointly chart the course that will take Housing Finance to greater heights.

Mr. Steve O. Mainda, EBS
CHAIRMAN

Nimechagua kuangazia mafanikio mbali mbali ambayo kampuni imepata kwa muda wa miaka 45 ambapo imekuwa ikihudumu na pia kutoa picha ya maono ya Halmashauri na wasimamizi ya siku za usoni.

Kwenu wanahisa,

Nachukua fursa hii kuwaletea tena ripoti ya mwaka pamoja na taarifa ya matumizi ya pesa ya kampuni ya Housing Finance kwa kipindi cha mwaka uliomalizika Desemba 31, 2010. Hasa, nina furaha kudokeza kwamba matokeo haya yanaashiria ufanisi mkubwa kipindi hiki cha mwaka. Nimechagua kuangazia mafanikio mbali mbali ambayo kampuni imepata kwa muda wa miaka 45 ambapo imekuwa ikihudumu na pia kutoa picha ya maono ya Halmashauri na wasimamizi ya siku za usoni.

Matokeo ya kibiashara

Wakati wa kipindi hiki cha mwaka, Housing Finance ilikua kwa kiwango cha kuvutia cha asilimia 60 (60%) na kuandikisha faida kabla ya ushuru ya Sh. milioni 561. Ukuaji huu ni ushahidi wa kweli wa kazi kubwa iliyofanywa na Halmashauri na usimamizi kuhakikisha ukuaji na ufanisi katika sekta ya uchumi inayokua haraka na shindani. Mwaka unaongaziwa ulishuhudia benki nyingi zikijiingiza kwenye biashara ya rehani na ufadhili wa raslimali. Ulikuwa ni mwaka ulioshuhudia kupanda kwa bei za mafuta na gharama za vyakula na kupelekea kuwepo kwa mfumuko mkubwa wa bei za bidhaa.

Shughuli za Housing Finance za utoaji mikopo wakati wa kipindi hiki cha mwaka ziliendelea kwenye mwelekeo wa mwema:-

- Mikopo iliyoidhinishwa ilifikia Sh. bilioni 10.7 ikilinganishwa na Sh. bilioni 9.8 mwaka 2009 kiwango ambacho kiliwakilisha asilimia 9 (9%).
- Utoaji wa mikopo ulikua kwa asilimia 41 (41%) kutoka Sh. bilioni 6.3 mwaka 2009 hadi Sh. bilioni 8.9 mwaka 2010.
- Faida kabla ya ushuru mwaka 2010 ilikuwa Sh. bilioni 561 ikilinganishwa na Sh. bilioni 351 mwaka 2009 hili likiwa ongezeko la asilimia 60 (60%).
- Raslimali kwenye mizania ziliongezeka hadi Sh. bilioni 29.2 kutoka Sh. bilioni 18. 2 mwaka 2009.

2010 ulikuwa mwaka wa kihistoria nchini Kenya kwani tulipata katiba mpya iliyozinduliwa Agosti 27, 2010. Matokeo ya sensa yalitolewa kipindi hiki cha mwaka na kuthibitisha idadi kubwa ya vijana. Matukio haya mawili yalikuwa muhimu sana kwa Housing Finance huku tunapoingia awamu ya pili ya safari ya Kampuni. Biashara zinatarajiwa kubadilika na kuafikiana na mahitaji ya vijana. Housing Finance iko tayari kukabiliana na changamoto hizi. Ikijumuishwa pamoja na ruwaza ya 2030, katiba mpya inatoa nafasi mbali mbali za ukuaji kaatik sekta ya makao. Ningependa kuwahakikishia wanahisa wetu kwamba, Halmashauri na usimamizi zinachunguza nafasi zinazojitokeza na iko tayari kutwaa manufaa yake.

Miaka 45 ni kituo muhimu tunapoangalia nyuma na kuangazia matokeo yetu hadi sasa. Baadhi ya mafanikio muhimu muhimu ambayo ningependa kudokeza yafuatayo:-

- Housing Finance ilijumuishwa pamoja na serikali ya Kenya na CDC mwaka 1965. Kwa sasa, kampuni inasimamiwa na wakenya na wawekezaji pamoja na manahodha wanahisa Equity Bank na British American Investment Company Limited ambazo kwa hakika ni taasisi zinazomilikiwa na wakenya.
- Mwaka 2002, kampuni ilizindua upya jina lake la kibiashara la Housing Finance na kutwaa sura mpya.
- Mwaka 2008 Housing Finance ilifaulu kuinua mtaji zaidi wa Sh. bilioni 2.3 kupitia umiliki wa hisa.
- Mwaka 2010 dhamana za hisa zilinunuliwa kupita kiwango kwa asilimia 41 (41%) ambapo Sh. bilioni 7 zilipatikana moja kwa moja kufadhili ukuaji wa biashara. Biashara ya uuzaji wa hisa za dhamana ilizinduliwa rasmi na Mhe. Rais Mwai Kibaki kitendo ambacho kilikuwa ni heshima kubwa kwa kampuni na onyesho la imani kwenye mkakati na nafasi yetu kama taasisi.

Haya ni mafanikio machache na makubwa tunayosherehekea huku Housing Finance ikitimiza miaka 45. Kampuni imekuwa katika hatua za ukuaji kifaida miaka michache iliyopita kutokana na mwelekeo wa mkakati ulioanzishwa mwaka 2007. Tumekuwa tukiendeleza mwito wetu ambao ni " kuwa kiongozi kwa utoaji wa suluhu la pamoja la umiliki, maendeleo na uimarishaji wa raslimali nchini Kenya" ambao bali na kuturuhusu kuwapa uwezo wakenya wengi kumiliki makao yao, lakini pia makao nafuu wanayohitaji.

Mwelekeo wa mkakati.

Miaka 45 ni kituo muhimu tunachofaa kujiuliza yaliyomo mbele ya Housing Finance na jinsi tutakavyohakikisha kasi ya ukuaji iliyoko inazidi kuwepo. Miaka michache ijayo itashuhudia upanuzi wa biashara yetu kote nchini Kenya na kanda nzima. Kama ilivyotajwa hapo awali, katiba mpya pamoja na ruwaza ya 2030 zinatoa nafasi nyingi kwa biashara yetu. Tutahakikisha kwamba tunatekeleza jukumu kubwa kuhakikisha uwepo wa makao nafuu na ya kisasa kwa wakenya na kutoa mchango wetu wa kitaalamu kwenye mfumo wa ugatuzi wa utoaji huduma. Hitaji la nyumba lingali la juu na kutufanya kuwa na matumaini kwenye eneo la maendeleo.

Housing Finance itazidi kufanya kazi na serikali na kupitia mkakati muhimu wa ushirikiano kuimarisha utoaji wa makao ya hali ya juu na nafuu kwa wakenya kwa kiwango cha juu.Kwa muda wa miaka 5 ijayo, tunatarajia pia kuimarisha mtazamo wetu nje ya Kenya na eneo nzima ambapo kuna mahitaji makubwa ya umiliki wa nyumba kwa bei nafuu. Halmashauri na wasimamzi watafanya mpango kamili wa zoezi la mkakati mwaka 2011 kupanga hatua zitakazofuata katika safari hii na kuhakikisha kwamba kwa muda wa miaka 5 ijayo lina mwelekeo wa uwezo kamili kutimiza lengo letu na changamoto. Tutatekeleza haraka kutumia nafasi zitakazojitokeza ili kuleta thamani ya juu kwa wanahisa. Mipango hii inanuiwa kuiweka Housing Finance katika nafasi nzuri na wala si kuthibiti nafasi yake kwenye masoko, bali pia kuongeza na pia kuiwezesha kampuni kuvamia masoko mengine.

Halmashauri

Wakati wa kipindi hiki, tuna furaha kumkaribisha Bw. Arthur Odera katika Halmashauri. Kwa sasa, Bw. Odera ni meneja mshauri na pia mdhamini wa NSSF.

Mgawo wa faida

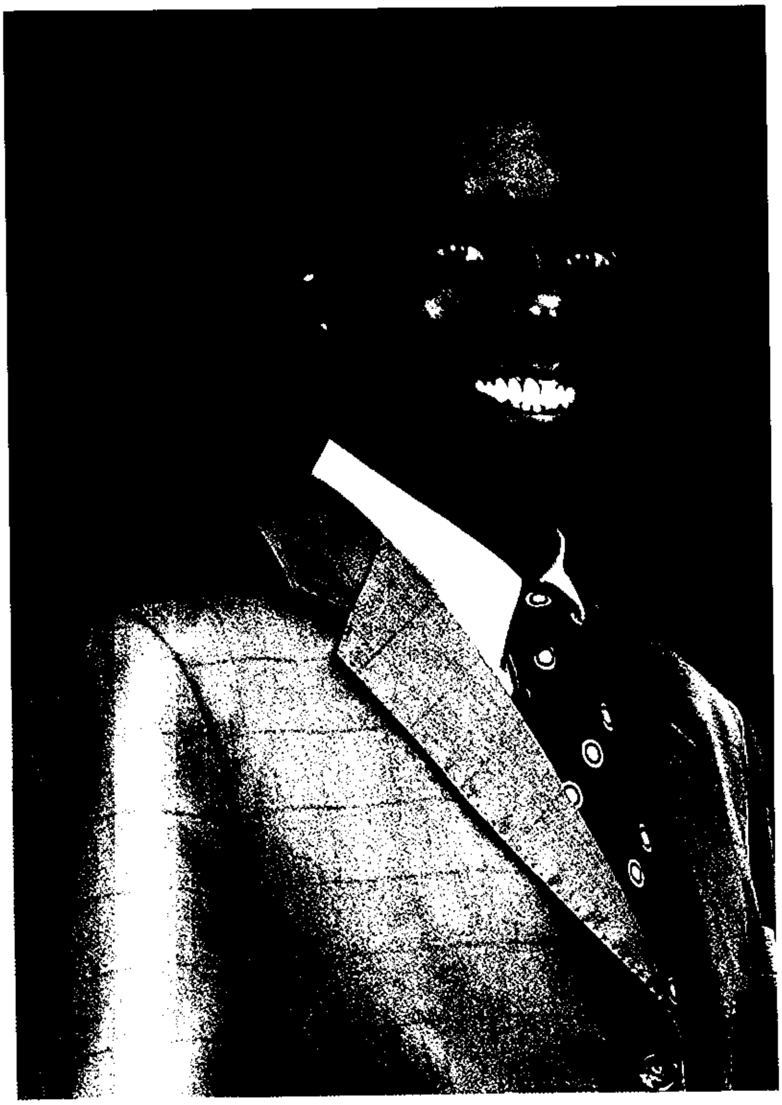
Kufungamana na kuimarika kwa matokeo yaliyopewa umuhimu kupitia ripoti hii, nina furaha kutangaza kwamba Halmashauri imependekeza mgawo kamili na wa mwisho wa senti 35. Mgawo huu wa faida unawadia baada ya kutolewa kwa malipo ya muda ya senti 35 mapema mwaka huu na kufanya malipo kamili ya mgawo wa faida mwaka 2010 kufikia senti 70. Hili ni ongezeko la asilimia 40 (40%) zaidi dhidi ya mwaka uliotangulia.

Shukrani

Kwa niaba ya wakurugenzi wenzangu, natambua kwa shukrani mchango na ufahamu kutoka kwa wanahisa wote. Pia, ningependa kuwashukuru wasimamizi na wafanyakazi kutokana na uaminifu, kujitolea na kuwajibikia azimio letu la kuzidi kuwa viongozi wa utoaji huduma za mikopo ya ujenzi wa makao na mojawapo wa walio bora barani.

Mwisho, ningependa kutoa shukrani zangu kwa wanahalmashauri wenzangu kutokana na imani ambayo wamedhihirisha kwangu. Jukumu lililoko mbele yetu ni kubwa na zito na ninategemea usaidizi na ushirikia wao tunapojadili njia ambazo Housing Finance Company itachukua katika viwango vya juu.

Bw. Steve O. Mainda, EBS
MWENYEKITI



The developments in the larger macro-economy are also worth noting, especially as they relate to our business.

2010 has been another successful year for Housing Finance. It was a year characterised by increasing competition in the banking sector, specifically the mortgage sector with the entry of a majority of commercial banks into this space. It was also a year of significant growth in the real estate construction sector, which has been a preferred sector for investment in the country. Positively, this growth is now more directed towards the middle income market which is our area of strategic focus.

The developments in the larger macro-economy are also worth noting, especially as they relate to our business. The promulgation of the new constitution, focus on Vision 2030, and the release of the population census are all positive developments that will have a positive impact on our business at Housing Finance. We are already aligning our strategy to take advantage of these opportunities.

Financial Results

I am pleased to report the financial results for 2010, another successful year for 2010. Pre-tax profit grew to KShs 561million, a 60% increase on the previous year when we posted KShs 351 million. The highlights of these results are as follows:

- Mortgage sales grew from KShs 9.8B in 2009 to KShs 10.7B while disbursements grew by 41% from KShs 6.3B to KShs 8.9B.
- The value of our loan book grew from KShs 14.5B to KShs 19.5B
- Mortgage interest income increased by 43% from KShs 1.5B to KShs 2.2B.
- Customer deposits grew by 30% from KShs 12.2B to KShs 15.9B.

Business Performance

For Housing Finance, 2010 was the year in which we successfully raised KShs 7 billion from the bond market to fund our business growth. The bond was oversubscribed by 41% from the original target of KShs 5 billion. This was the first tranche of a KShs 10 billion bond offer.

As mentioned in the Chairman's statement, the bell-ringing ceremony to launch official trading of the bond shares on the Nairobi Stock Exchange was presided over by H.E. The President, Hon. Mwai Kibaki which was a great honour and a show of confidence in our company and strategy.

In 2010 we also signed up several strategic partnerships. These included an MOU with Shelter Afrique for co-financing of large projects, as well as partnerships with Zap for money transfer services and Nairobi Water and Sewerage Services for bill payments in our branches. We also launched a joint product with Aon and British American Insurance on an all risks insurance policy for construction projects known as Aon Wrap.

During the 2010 budget, the Minister for Finance announced that mortgage finance institutions will now be allowed to offer current accounts. This was an exciting development for us as it enables us to further expand our product offering and also creates a more level playing field. We are looking forward to introducing current accounts in 2011.
In 2010, Housing Finance also began work on the brand strategy. This enables us to take a critical look at where our brand is positioned today and plan for the future to ensure that the brand remains vibrant and consistent with our growth strategy. The last brand positioning exercise took place in 2002 so this is a good time to undertake this review. We will be unveiling the new brand strategy later this year.

Property supply remains key to our strategy as it is the means by which we can deliver quality, affordable homes to Kenyans. The building blocks for this strategy are now in place and we will be announcing Private-Public Partnerships (PPP's) and joint ventures with key players in the coming year. In 2010 we officially opened several key developments with some of our partners and developers whom we have financed. These included Waterfront Gardens and Golden Mile, and we shall be unveiling many more such projects for the middle to lower income market in line with our strategy.

Operational Improvements

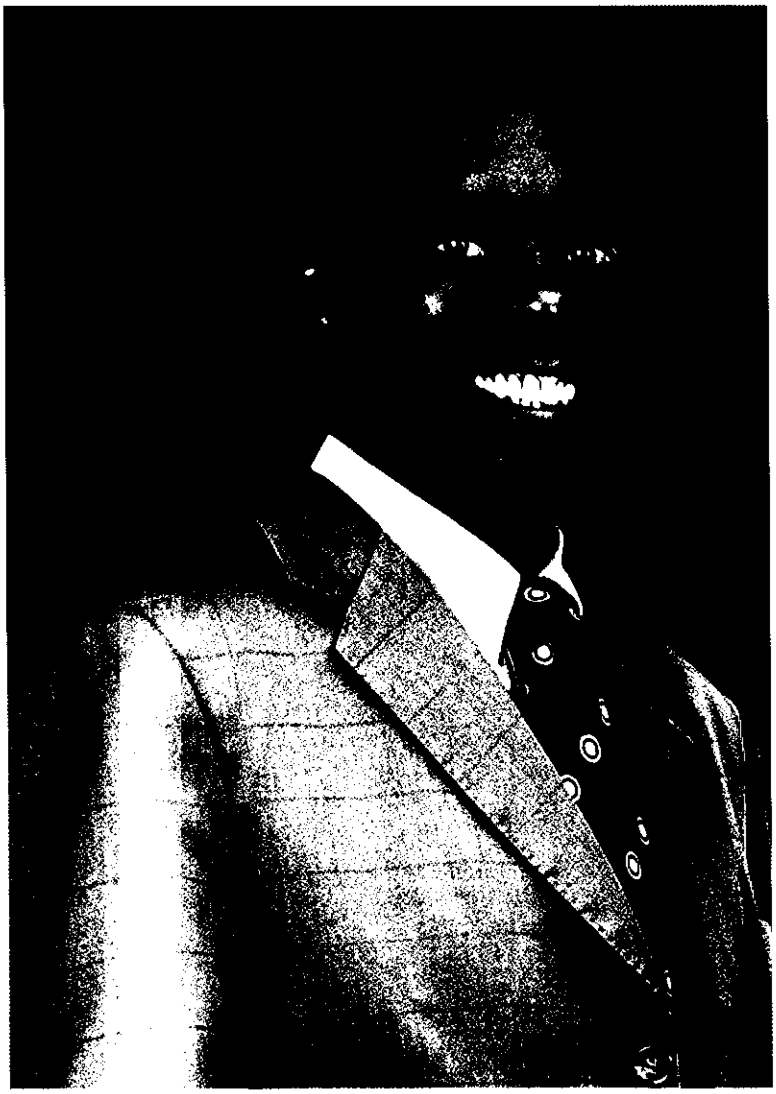
In 2010, we continued to improve our operations to enable us to deliver better to our customers. The focus in this year was people and we undertook several initiatives to motivate and also equip our staff to deliver on the strategy. I wish to highlight here the job evaluations that we undertook with key consultants to help us grade the jobs in the organisation. We will be getting the results of this in the first quarter of 2011 and are confident that it will have a positive impact on organisational performance. We also launched a key talent assessment tool to enable us identify the right talent for key jobs in the organisation.

In addition to the two mentioned above, we also continued to practice prudent cost management which has positively impacted our cost-income ratio from 57.28% in 2009 to 51.7% in 2010. We have also continued to improve our risk management practices under a fully staffed risk management department.

Ladies and gentlemen, we are confident that the initiatives outlined above, and many others in the pipeline, will bear fruit and position us in line with our vision: 'To be the leading provider of integrated solutions for the acquisition, development and improvement of property in Kenya.'

Thank you and best wishes

Frank Ireri
Managing Director.



Pia, ni muhimu kufahamu maendeleo katika sekta kubwa ya kiuchumi kwani yanahusiana na biashara yetu.

2010 ulikuwa mwaka mwingine wenye ufanisi kwa Housing Finance. Ulikuwa mwaka uliokumbwa na ushindani katika sekta ya benki na hasa kwenye kitengo cha utoaji mkopo kwa ujenzi wa nyumba (rehani). Hii ni kutokana na kujiunga kwa benki nyingi za kibiashara kwenye biashara hii. Pia, ulikuwa ni mwaka mwingine uliodhihirisha ukuaji mkubwa katika sekta ya ujenzi wa mitaa ambayo imevutia wawekezaji nchini. Kwa bahati nzuri, kwa sasa, ukuaji huu unaelekezwa zaidi katika masoko ya watu wanaopata mapato ya kadri eneo ambalo ni mtazamo wa mkakati wetu.

Pia, ni muhimu kufahamu maendeleo katika sekta kubwa ya kiuchumi kwani yanahusiana na biashara yetu. Kutiwa sahihi kwa katiba mpya, mtazamo katika ruwaza ya 2030 na kutolewa kwa sensa ya watu ni mwelekeo wenye manufaa ambao utaathiri vyema biashara yetu ya Housing Finance. Tayari tumeandaa vyema mkakati wetu ili kupata manufaa kutokana na nafasi hii.

Matokeo ya kifedha

Nina furaha kutoa ripoti ya matokeo ya mwaka 2010, mwaka mwingine wenye ufanisi. Faida kabla ya kutozwa ushuru iliimarika hadi shilingi milioni 561 hili likiwa ongezeko la asilimia sitini (60%) ikilinganishwa na mwaka uliotangulia ambapo tulipata shilingi milioni 351. Muhtasari wa matokeo haya ni kama ufuatao:

- Mauzo kutokana na rehani yaliimarika kutoka shilingi Billioni 9.8 mwaka 2009 hadi Billioni 10.7 huku mikopo ikikua kwa asilimia 41 (41%) kutoka Billioni 6.3 hadi Billioni 8.9.
- Thamani ya vitabu vyetu vya mikopo ilikua kutoka Bilioni 14.5 hadi Bilioni 19. 5
- Mapato kutokana na riba ya rehani yaliimarika kwa asilimia 43 (43%) kutoka Billioni 1.5 hadi Billioni 2.2.
- Akiba ya wateja iliimarika kwa asilimia 30 (30%) kutoka Billioni 12.2 hadi Billioni 15.9.

Matokeo ya biashara

2010 ulikuwa mwaka ambapo Housing Finance ilifaulu kupata shilingi bilioni 7 kutoka soko la dhamana ya hisa kugharamia ukuaji wa biashara yetu. Dhamana hii ilizidi kwa asilimia 41 (41%) kutoka kiwango cha bilioni 5 kilicholengwa. Hili lililkuwa toleo la dhamana za hisa la kwanza la shilingi bilioni 10.

Kama ilivyotajwa hapo awali kupitia taarifa ya Mwenyekiti, hafla ya uzinduzi wa uuzaji wa dhamana za hisa kwenye soko la hisa la Nairobi ambayo iliongozwa na Mheshimiwa . Rais Mwai Kibaki ilikuwa ni heshima kubwa na dhihirisho la imani kwa kampuni na mkakati wake. Pia, mwaka 2010, tuliweka sahihi mikakati mbali mbali ya ushirikiano.

Mikakati hii ilikuwa ni pamoja na mkataba wa makubaliano na Shelter Afrique kufadhili pamoja miradi mikubwa pamoja na kushirikiana na Zap kwa huduma za utumaji pesa na pia kampuni ya Nairobi Water & Sewerage Services kama wakala wake wa ulipiaji huduma zake kupitia matawi yetu. Pia, tulizindua huduma ya makapuni ya bima ya Aon na British American kwa huduma zote za bima ya ujenzi inayojulikana kama Aon Wrap.

Wakati wa kusomwa kwa bajeti mwaka 2010, waziri wa fedha alitangaza kwamba taasisi za utoaji mikopo ya rehani zitakubaliwa kutoa huduma ya akaunti ya hundi (current account). Haya yalikuwa ni maendeleo ya kufurahisha kwetu sisi kwani yalituwezesha kupanua huduma zetu na pia kubuni usawa katika utekelezaji biashara. Tunatazamia kuanzisha huduma ya akaunti ya hundi mwaka 2011.

Mwaka 2010, Housing Finance pia ilianzisha mkakati wa sura yake. Hii inatuwezesha kuchukua mtazamo mkali kuangalia mahali bidhaa zetu zilivyojiimarisha leo na kufanya mpango wa siku zijazo kuhakikisha kwamba bidhaa zetu zinabaki kuwa imara na kwenda sambamba na mkakati wetu wa ukuaji. Zoezi la mwisho la kujiimarisha masoko lilifanyika mwaka 2002 na huu ni wakati bora kufanya zoezi hili. Tutazindua zoezi hili baadaye mwaka huu.

Utoaji wa huduma utabakia kuwa mkakati muhimu kwani ndiyo njia tutakayoweza kutoa huduma za makao ya hali ya juu na nafuu kwa wakenya. Mawe ya ujenzi kwa mkakati huu yako tayari na hivi karibuni tutatangaza ushirikiano wa sekta za kibnafsi na ule wa umma (PPP's) na washika dau wengine muhimu mwaka ujao. Mwaka 2010 tulizindua rasmi miradi muhimu ya maendeleo kwa ushirikiano na washirika wetu na wajenzi ambao tumefadhili. Wao ni pamoja na Waterfront Gardens & Golden Mile. Tutazidi kuzindua miradi kama hii kwa masoko ya mapato ya kadri kwa kufungamana na mkakati wetu.

Maendeleo kwenye shughuli

Mwaka 2010 tulizidi kuimarisha shughuli zetu kutuwezesha kutoa huduma bora kwa wateja wetu. Mtazamo wetu mwaka huu ni kwa watu na tulitekeleza mikatati mbali mbali kuhamasisha na pia kuimarisha uwezo wa wafanyakazi wetu kufanikisha mkakati huu. Ningependa kufafanua hapa kwamba tulifanya tathmini kwa ushirikiano na washauri muhimu ili kutusaidia kupanga vyema viwango vya kazi kwenye shirika. Tutapata matokeo ya tathmini hii muhula wa kwanza wa mwaka 2011 na tuna imani kwamba utakuwa na athari njema kwa matokeo ya shirika. Pia, tulitambua na kuanzisha kifaa muhimu cha kutathmini taaluma za wafanyakazi na kutusaidia kutambua maeneo wanayostahili kufanya kazi.

Zaidi ya hayo mawili tuliyotaja hapo juu, pia, tulizidi kutekeleza mbinu muhimu za kudhibiti gharama ambazo zimeathiri vyema uwiano baina ya mapato na gharama kutoka asilimia 57.28 (57.28%) hadi asilimia 51.7 (51.7%) mwaka 2010. Pia tumezidi kuimarisha juhudi zetu za kukabiliana na hatari za kibiashara chini ya idara kamili.

Mabibi na mabwana, tuna imani kwamba mikakati iliyotajwa hapo juu na mingine mingi iliyoko itazaa matunda na kutuweka sambamba na ndoto yetu ya " kuwa kiongozi kwa utoaji wa suluhu la pamoja la umiliki, maendeleo na uimarishaji wa raslimali nchini Kenya.

Asanteni na nawatakia kila la heri

Frank Ireri
Meneja Mkurugenzi.


Frank Ireri
Managing Director
Joseph Ngari
Head of Internal Audit
Cynthia Kantai
Head of Marketing
[illegible]
Head of Branch Business
Sam Waweru
Finance & Administration Director
Caroline Armstrong
Shared Services Director

Geoffrey Kimaita
Head of Credit

Constantine Barasa
Head of Risk

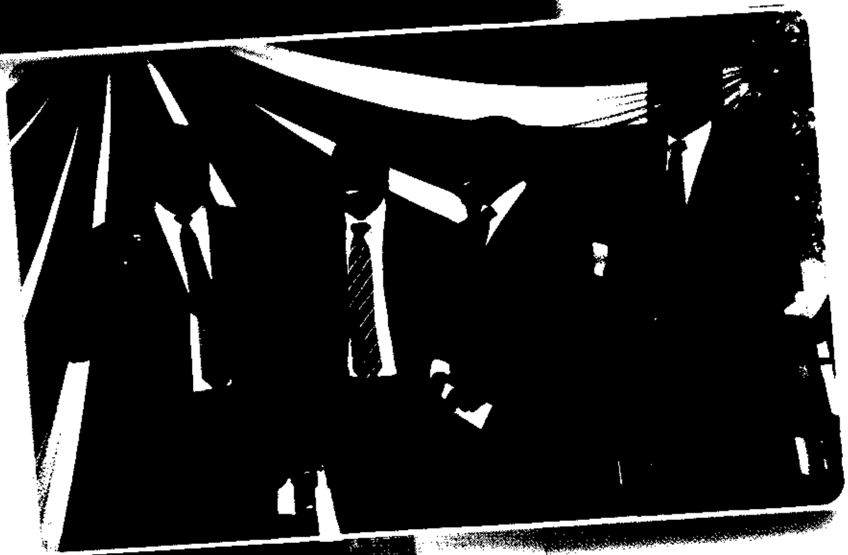
Joseph Kania
Company Secretary & Head of Legal

David Maveke
Head of Mortgage Sales

James Karanja
Head of Project Finance

Winnie Kathurima -Imanyara
Change & Strategy Director

Bond Bell Ringing

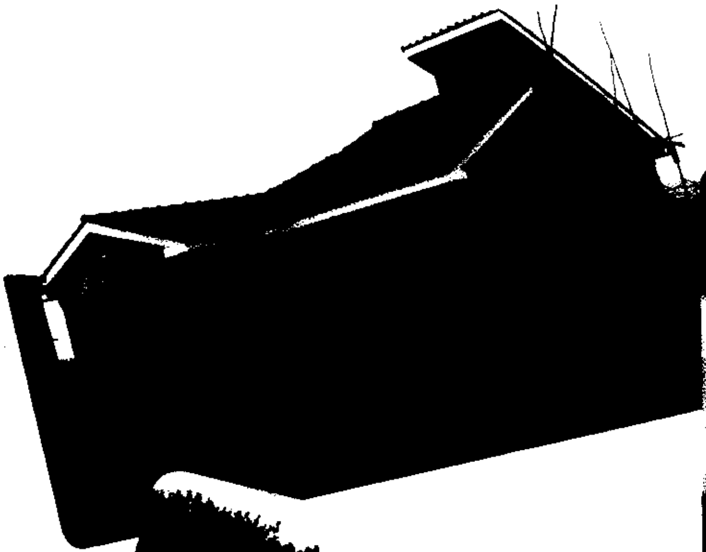
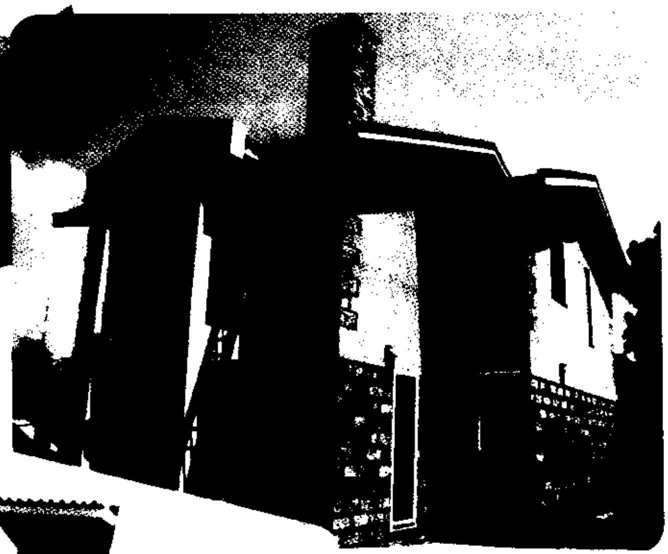
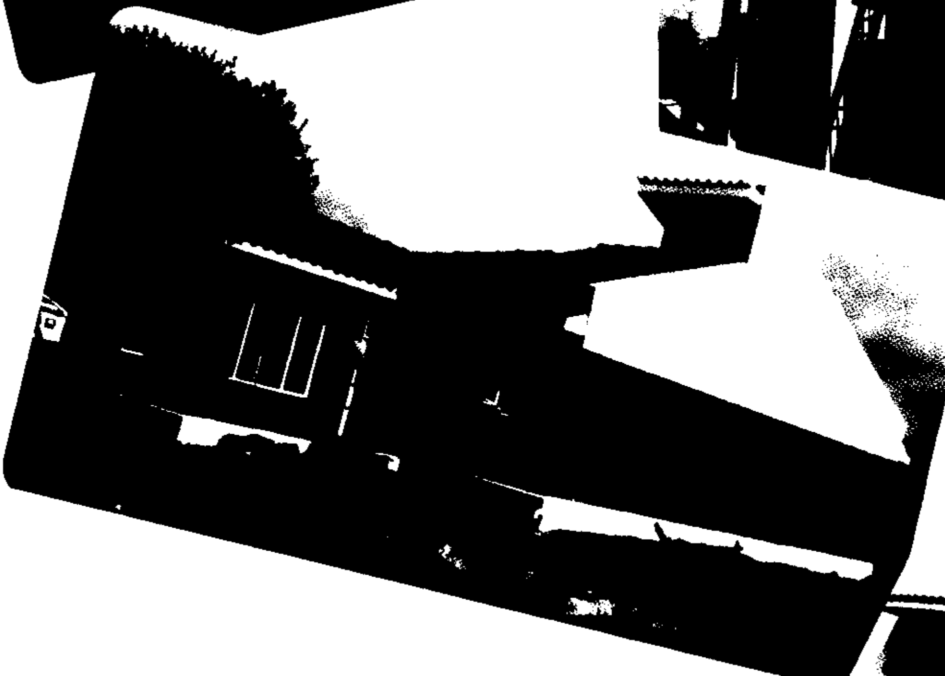


His Excellency the President of the Republic of Kenya, Hon. Mwai Kibaki C.G.H MP presides over the Bell Ringing Ceremony for the Bond Issue which raised KShs. 7 billion against a target of KShs. 5 billion, an overwhelming over subscription of 41%.

Project Finance

Developments done under Project Finance, a specialised solution where an in house team of experts work closely with established professionals and developers to develop multiple units built as either for sale or rent.Financing of the projects is normally based on anticipated cash inflows or income of the property being developed.

Makao


Some of the houses built under Makao - The hassle free building solution that aims to help potential home owners who already own a piece of land to build a home, conveniently and cost effectively.

The directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2010. The report discloses the state of affairs of the Group and the Company.

1. Principal activities

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

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

2. Results and appropriations

	2010 KShs'000	[redacted]
Gross income	**2,730,010**	**2,031,024**
Profit before taxation		
Housing Finance Company of Kenya Limited	560,235	353,875
Kenya Building Society Limited	793	23
First Permanent (East Africa) Limited	-	(2,780)
Group profit before taxation	561,028	351,118
Taxation	(181,497)	(116,942)
Profit after taxation	379,531	234,176
Retained profit brought forward	174,216	159,272
	553,747	393,448
Dividends – Interim Paid	(80,500)	-
– Final proposed	(80,500)	(115,000)
Transfer from/(to) statutory reserve	82,293	(104,232)
Retained profit carried forward	**475,040**	**174,216**

3. Dividend

The directors recommend a final dividend payment of KShs 80,500,000 (2009 – KShs 115,000,000). An interim dividend amounting to KShs 80,500,000 (2009: Nil) was paid during the year. The total dividend for the year is therefore KShs 0.70 per share (2009: KShs 0.50), amounting to a total of KShs 161,000,000 (2009: KShs 115,000,000).

4. Directors

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

5. Auditors

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

Report of the Directors
for the year ended 31 December 2010 (continued)

6. Approval of financial statements

The financial statements set out on pages 32 to 72 were approved at a meeting of the Directors held on 1 March 2011

BY ORDER OF THE BOARD

Company Secretary

Date: 1 March 2011

Ripoti ya Wakurugenzi
kwa kipindi cha mwaka uliomalizika Desemba 31, 2010

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2010. Ripoti inafichua hali ya kundi na kampuni.

1. Shughuli Muhimu

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

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

2. Matokeo na Matumizi

	2010 Kshs'000	[illegible]
Mapato Kwa jumla	2, 730,010	2, 031, 024
Faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	560,235	353, 875
Kenya Building Society Limited	793	23
First Permanent (East Africa) Limited	-	(2, 780)
Faida ya kundi kabla ya ushuru	561, 028	351, 118
Ushuru	(181, 497)	(116, 942)
Faida baada ya ushuru	379, 531	234, 176
Jumla ya faida iliyowasilishwa	174, 216	159, 272
	553, 747	393, 448
Mgawo- uliotolewa kwa muda	(80, 500)	-
- uliopendekezwa mwisho	(80, 500)	(115, 000)
Mchango kwa hazina ya serikali	82, 293	(104, 232)
Faida iliyohifadhiwa na kuwasilishwa	475, 040	174, 216

3.Mgawo wa Faida

Wakurugenzi wanapendekeza kutolewa kwa malipo ya mwisho ya mgawo wa faida ya Kshs. 80, 500,000 (2009- Kshs. 115, 000, 000). Malipo ya muda ya mgawo wa faida ya jumla ya Kshs. 80, 500, 000 (2009- Sufuri) yalitolewa wakati wa kipindi hiki cha mwaka. Kwa sababu hiyo, Jumla ya mgawo wa faida kwa kipindi hiki cha mwaka ni senti 0.70 kwa kila hisa (2009 senti 0.50) na kufanya jumla ya Kshs. 161, 000, 000 (2009 Kshs. 115, 000, 000)

4. Wakurugenzi

Wakurugenzi waliohudumu wakati wa kipindi hiki cha mwaka wamefafanuliwa kupitia ukurasa wa pili.

5. Wakaguzi wa Pesa

KPMG wameonyesha nia yao ya kuendelea na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni nchini Kenya (kifungu nambari 486) na kwa kutegemea sehemu ya 24 (1) ya sheria na mabenki (kifungu nambari 488).

6. Kuidhinishwa kwa taarifa za matumizi ya pesa

Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 32 hadi 72 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 1 Machi 2011

KWA AMRI YA HALMASHAURI

KATIBU WA KAMPUNI

Imenukuliwa: 1 Machi 2011

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 Resigned 6 April 2010
- Beatrice Sabana Resigned 6 April 2010
- Prof. Shem Migot-Adholla
- Benson Wairegi Appointed April 2010

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:

- Prof. Shem Migot-Adholla (Chairman)
- Beatrice Sabana Resigned 6 April 2010
- Arthur Odera Appointed 16 October 2010
- 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:

- David Ansell (Chairman)
- Steve D Mainda
- Naftali Mogere Resigned 6 April 2010
- Beatrice Sabana Resigned 6 April 2010
- Arthur Odera Appointed 16 October 2010

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
- Arthur Odera Appointed 16 October 2010
- 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.

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 for the year ended 31 December 2010	Board meetings							Total attendance
Dates	23/2	6/4	27/4	28/5	20/7	16/10	30/11	
Kungu Gatabaki	√	√	N/A	N/A	N/A	N/A	N/A	2
David Ansell	√	√	√	X	√	√	√	6
Naftali Mogere	√	√	N/A	N/A	N/A	N/A	N/A	2
Beatrice Sabana	√	√	N/A	N/A	N/A	N/A	N/A	2
Benson Wairegi	√	√	√	√	√	√	√	7
Frank Ireri	√	√	√	√	√	√	√	7
Peter K Munga	√	√	√	√	√	√	√	7
Steve O Mainda	√	√	√	√	√	√	√	7
Prof. Shem Migot-Adholla	√	√	√	√	√	√	√	7
Arthur Odera	N/A	N/A	N/A	N/A	N/A	√	X	1

√ 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 and Management Strategy committee (STRATCOM). The Board appoints other committees as and when necessary.

3. Board effectiveness evaluation

To assess the performance of the Board, its committees and individual directors, the Board conducts a rigorous performance evaluation each year. The process is led by the Chairman and supported by the Company Secretary.

In February 2011, the Directors completed the annual evaluation that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya.

The Nomination & Remuneration Committee approved an evaluation process for non-executive directors, which entails conducting one to one meetings with the non-executive directors to discuss their performance and contribution.

4. 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.

5. 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.

6. 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.

7. Major shareholders as at 31 December 2010

Name	No of shares	[redacted]
1 Equity Bank Ltd	57,270,000	24.90
2 British American Investments Co. of Kenya Ltd	16,250,000	7.07
3 National Social Security Fund	15,716,448	6.83
4 British American Insurance Company (Kenya) Ltd	12,282,045	5.34
5 Permanent Secretary Treasury	8,422,850	3.66
6 Ndungu Paul Wanderi	6,129,800	2.67
7 Mobicom Investments Ltd	6,000,000	2.61
8 Steel Son Limited	4,080,068	1.77
9 North Bound Holdings Limited	3,229,336	1.40
10 The Jubilee Insurance Company of Kenya Ltd	2,726,672	1.19
TOTAL	**132,107,219**	**57.44**

8. Distribution of shareholders as at 31 December 2010

Number of shares	No. of shareholders	[redacted]	%age shareholding
1-500	9,890	2,800,887	1.2
501-1,000	5,032	4,333,494	1.9
1,001-10,000	13,742	38,523,625	16.8
10,001-50,000	1,021	19,520,004	8.5
50,001-100,000	101	7,422,060	3.2
100,001 – 1,000,000	79	20,481,703	8.9
Over 1,000,000	13	136,918,227	59.5
TOTAL	**29,878**	**230,000,000**	**100%**

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of Housing Finance Company of Kenya Limited set out on pages 32 to 72 which comprise the statements of financial position of the Group and the Company at 31 December 2010, 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 2 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 e 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 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 1 March 2011 and were signed on its behalf by:

Director

Director

Taarifa kuhusu Wajibu wa Wakurugenzi

Wakurugenzi wana wajibu wa kuandaa na kutoa taarifa ya matumizi ya pesa ya Housing Finance Company of Kenya Limited kama ilivyofafanuliwa kutoka Uk. 32 hadi 72 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2010 na taarifa ya kina ya kundi kuhusu mapato,mabadiliko kuhusu umiliki wa hisa na mtiririko wa fedha kwa kipindi cha mwaka uliomalizika na pia muhtasari wa vipengele muhimu vya sera za uhasibu miongoni mwa vidokezo vingine.

Wajibu wa wakurugenzi unahusu: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni mbinu inayokubalika kuandaa na kutoa taarifa ya matumizi ya pesa kwa hali ilivyo ; kuandaa, kupitisha na kuendeleza ukaguzi wa ndani ulio muhimu katika uandaalizi na utoaji wa taarifa hii ya matumizi ya pesa ambayo haina udanganyifu wowote, hila au makosa, kutenga na kutumia sera mwafaka za ukaguzi wa pesa na kuweka makadirio ya maana ya uhasibu.

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

Wakurugenzi hukubali kuchukua jukumu kuhusu taarifa ya ukaguzi wa pesa ambayo imetayarishwa kwa kufuata kanuni za ukaguzi wa pesa zinazohitajika na zinazoungwa mkono na uhakiki wa maana na makadirio yanayofaa kwa kufungamana na viwango vya kimataifa na kwa njia inayolingana na sheria za makampuni nchini Kenya .Wakurugenzi wanakubaliana kwa kauli moja kwamba, taarifa ya ukaguzi wa pesa inaonyesha hali halisi kuhusiana na maswala ya kifedha na matokeo ya shughuli za kundi na kampuni.

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

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

Kuidhinishwa Kwa Taarifa ya Matumizi ya Pesa

Taarifa ya matumizi ya pesa kama ilivyoonyeshwa hapo juu iliidhinishwa na Halmashauri ya Wakurugenzi 1 Machi 2011 na kutiwa sahihi kwa niaba yake na :-

Mkurugenzi

Mkurugenzi

Ripoti ya Wahasibu wa Kujitegemea
kwa wanachama wa Housing Finance Company of Kenya Limited

Tumeandaa taarifa kuhusu matumizi ya pesa ya Housing Finance Company kama ilivyoonyeshwa kupitia kurasa za 32 hadi 72 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2010 pamoja na taarifa ya kina kuhusu mapato ya kundi, taarifa kuhusu mabadiliko ya umiliki wa hisa na taarifa kuhusu mtiririko wa pesa kwa kipindi cha mwaka uliomalizika na pia muhtasari wa sera maalumu za uhasibu na vidokezo vingine.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa

Kama ilivyoelezwa kupitia ukurasa wa 29, wakurugenzi wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa. Wajibu huu unahusu, kuandaa, kubuni, kuanzisha na kudumisha maingizo ya fedha ambayo yatatumika kuandaa taarifa ya fedha isiyo danganyifu iwe ni kwa hila au makosa; kutenga na kutumia sera za uhasibu na kutoa makadirio ya pesa ya maana kulingana na hali ilivyo.

Wajibu wa Wakaguzi wa Hesabu

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

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

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

Maoni

Kwa maoni yetu, taarifa za matumizi ya pesa zinatoa mtazamo wa kweli na halisi kuhusu hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2010 na pia matokeo ya kifedha ya kundi na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika kuambatana na viwango vya kimataifa na sheria za makampuni kuhusu utoaji wa ripoti za ukaguzi wa pesa.

Ripoti Kuhusu Mahitaji Mengine ya kisheria

Kama inavyohitajika kupitia sheria za makampuni nchini Kenya na kwa kutegemea ukaguzi wetu wa pesa, tunaripoti kwenu kwamba;

i) Tumekusanya maelezo na ufafanuzi zote ambazo kwa ufafahamu na imani yetu zilikuwa muhimu kwa madhumuni ya ukaguzi huu.

ii) Kwa maoni yetu, rekodi bora ya hesabu imehifadhiwa na kampuni kama inavyoonyesha kupitia ufafanuzi wa vitabu hivyo; na

iii) Taarifa ya kifedha kuhusu hali ya kampuni inawiana na vitabu vya kuhifadhi hesabu.

KPMG Kenya

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

Imenukuliwa Tarehe: 1 Machi 2011

Consolidated Statement of Financial Position
as at 31 December 2010

	[redacted]	[redacted]	[redacted]
ASSETS			
Cash and bank balances	15	[redacted]	319,839
Placements with other banks	16	[redacted]	2,106,419
Investment in Government securities	17	[redacted]	509,507
Mortgage advances to customers (Net)	18(a)	[redacted]	14,495,208
Other assets	21	[redacted]	83,203
Housing development projects	22	[redacted]	20,130
Property and equipment	23(a)	[redacted]	580,907
Prepaid operating lease rentals	24	[redacted]	49,257
Intangible assets	25	[redacted]	4,146
Deferred tax asset	26(a)	[redacted]	70,743
TOTAL ASSETS		[redacted]	**18,239,359**
LIABILITIES			
Customers' deposits	28	[redacted]	12,219,449
Other liabilities	29	[redacted]	220,443
Tax payable		[redacted]	26,091
Loans from banks	30	[redacted]	1,700,000
Corporate bond	31	[redacted]	-
		[redacted]	**14,165,983**
SHAREHOLDERS' EQUITY			
Share capital	32	[redacted]	1,150,000
Reserves		[redacted]	2,872,626
Shareholders' income notes and loans	33	[redacted]	50,750
		[redacted]	**4,073,376**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		[redacted]	**18,239,359**

The financial statements set on pages 32 to 72 were approved by the Board of Directors on 1 March 2011 and were signed on its behalf by:

Director: ______________________ Director: ______________________

Director: ______________________ Company Secretary: ______________________

The notes set out on pages 38 to 72 form an integral part of these financial statements.

Company Statement of Financial Position
as at 31 December 2010

	Note	[redacted]	2009 KShs'000
ASSETS			
Cash and bank balances	15	420,377	319,839
Placement with other banks	16	7,866,266	2,106,419
Investment in Government securities	17	539,835	509,507
Mortgage advances to customers (Net)	18(a)	19,503,400	14,495,208
Investment in subsidiaries	19	130,020	130,020
Other assets	21	203,819	83,109
Property and equipment	23(b)	594,341	574,756
Prepaid operating lease rentals	24	41,710	42,171
Intangible assets	25	3,068	4,094
Deferred tax asset	26(b)	23,006	15,638
TOTAL ASSETS		29,325,842	18,280,761
LIABILITIES			
Customers' deposits	28	15,945,317	12,234,645
Amounts due to subsidiary company	20	14,958	2,851
Other liabilities	29	441,326	208,841
Loans from banks	30	1,573,369	1,700,000
Corporate Bond	31	7,030,900	-
Tax payable		50,441	50,193
		25,056,311	14,196,530
SHAREHOLDERS' EQUITY			
Share capital	32	1,150,000	1,150,000
Reserves		3,068,781	2,883,481
Shareholders' income notes and loans	33	50,750	50,750
		4,269,531	4,084,231
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29,325,842	18,280,761

The financial statements set on pages 32 to 72 were approved by the Board of Directors on 1 march 2011 and were signed on its behalf by:

Director:__________ Director:__________

Director:__________ Company Secretary:__________

The notes set out on pages 38 to 72 form an integral part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2010

		[redacted]	[redacted]
Net cash flows from operating activities	34(a)	[redacted]	**(265,520)**
INVESTING ACTIVITIES			
Purchase of property and equipment		[redacted]	(11,801)
Purchase of intangible assets		[redacted]	-
Proceeds from sale of equipment		[redacted]	80
Net cash flow from investing activities		[redacted]	**(11,721)**
FINANCING ACTIVITIES			
Oividend paid		[redacted]	(69,000)
Net cash flow from financing activities		[redacted]	**(69,000)**
Net increase/(decrease) in cash and cash equivalents	34(b)	[redacted]	**(346,241)**

The notes set out on pages 38 to 72 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2010

	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory reserve KShs'000	Retained profits KShs'000	Total KShs'000
At 1 January 2009	1,150,000	193,418	1,549,173	69,000	480,803	159,272	3,601,666
Total comprehensive income for the year							
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**
Total comprehensive income for the year							
Net profit after taxation	-	-	-	-	-	379,531	379,531
Transfer from statutory reserve	-	-	-	-	(82,293)	82,293	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(82,293)**	**461,824**	**379,531**
Transactions with owners, recorded directly in equity							
Dividend paid-2009	-	-	-	(115,000)	-	-	(115,000)
Interim dividend paid-2010	-	-	-	-	-	(80,500)	(80,500)
Proposed dividends	-	-	-	80,500	-	(80,500)	-
Total transactions with owners for the year	**-**	**-**	**-**	**(34,500)**	**-**	**(161,000)**	**(195,500)**
Balance as at 31 December 2010	**1,150,000**	**449,202**	**1,549,173**	**80,500**	**502,742**	**475,040**	**4,206,657**

The notes set out on pages 38 to 72 form an integral part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2010

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]ry 2009	1,150,000	193,418	1,549,173	69,000	480,803	168,162	3,610,556
[illegible]rehensive [illegible] for the year							
[illegible] after tax[illegible]	-	-	-	-	-	236,141	236,141
[illegible] surplus	-	255,784	-	-	-	-	255,784
[illegible] to statutory [illegible]	-	-	-	-	104,232	(104,232)	-
[illegible] compr[illegible]	**-**	**255,784**	**-**	**-**	**104,232**	**131,909**	**491,925**
[illegible]ns with [illegible] directly [illegible]							
[illegible]paid	-	-	-	(69,000)	-	-	(69,000)
[illegible] dividends	-	-	-	115,000	-	(115,000)	-
[illegible]actions [illegible] for th[illegible]	**-**	**-**	**-**	**46,000**	**-**	**(115,000)**	**(69,000)**
[illegible] at [illegible]ber 200[illegible]	**1,150,000**	**449,202**	**1,549,173**	**115,000**	**585,035**	**185,071**	**4,033,481**
[illegible]prehensi[illegible] [illegible] the year							
[illegible] after tax[illegible]	-	-	-	-	-	380,800	380,800
[illegible] from stat[illegible]	-	-	-	-	(82,293)	82,293	-
[illegible] compr[illegible]	**-**	**-**	**-**	**-**	**(82,293)**	**463,093**	**380,800**
[illegible]ons with [illegible] directly [illegible]							
[illegible]aid-200[illegible]	-	-	-	(115,000)	-	-	(115,000)
[illegible]vidend p[illegible]	-	-	-	-	-	(80,500)	(80,500)
[illegible] dividends	-	-	-	80,500	-	(80,500)	-
[illegible]action[illegible] [illegible]rs for [illegible]	**-**	**-**	**-**	**(34,500)**	**-**	**(161,000)**	**(195,500)**
[illegible] at [illegible]ber 20[illegible]	**1,150,000**	**449,202**	**1,549,173**	**80,500**	**502,742**	**487,164**	**4,218,781**

The notes set out on pages 38 to 72 form an integral part of these financial statements.

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 2. The consolidated financial statements of the Group as at and for the year ended 31 December 2010 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 1 March 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where otherwise stated in the accounting policies below.

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period 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 years 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 2010. 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 19.

(b) Revenue recognition

Income is recognised on an accrual basis.

(i) Interest

Interest income and expense are recognised in profit or loss 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 effec tive 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. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at the reporting date. The resulting realised and unrealised differences from conversion and translations are recognised in profit or loss. 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	2D%
Dffice 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 profit or loss in the period 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 profit or loss 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. 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 Dwnership Plan (ESDP)

Approval to issue additional shares, listing of shares and allotment to the Employee Share Ownership Plan (ESOP) was approved by Capital Market Authority on 20 December 2D1D. The necessary steps will be taken to complete the process.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Employee benefits (continued)

(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 current tax and the 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 recognized in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the tax asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is calculated on the basis of the tax rates enacted at the reporting date.

(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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

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 profit or loss.

(iii) Identification and measurement of impairment of financial assets

At each reporting 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.

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to 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 profit or loss.

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

(iv) Derecognition

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

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

The Group enters into transactions whereby it transfers assets recognised on its 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 profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K)Impairment for non financial assets (Continued)

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 expens es, including revenues and expenses that relate to transactions with any of the Group's other components. 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 year 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 Group 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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Group, with the exception of:

- IFRS 9 Financial Instruments retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised costs and fair value. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the finan cial asset. The guidance in IAS 39 on impairment of financial as sets and hedge accounting continues to apply. IFRS 9 will be come mandatory for the Company's 2014 financial statements and is not expected to have a significant effect on the financial statements.

4. FINANCIAL RISK MANAGEMENT

Principles

Housing Finance faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant 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 pow ers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clar ity of their roles and responsibilities.

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

- Risk management is increasingly being linked to management pro cesses such as strategic planning, annual budgeting and perfor mance measurement.

4. FINANCIAL RISK MANAGEMENT (Continued)

- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

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

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

(i) Credit risk

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

Management of credit risk

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

Credit risk is the 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. 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (continued)

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	[illegible]	2009 KShs'000	[illegible]	2009 KShs'000	[illegible]	2009 KShs'000
Impaired loans	1,467,815	1,815,135	-	-	-	-
Gross amount allowance for impairment	(382,378)	(596,490)	-	-	-	-
Carrying amount	**1,085,437**	**1,218,645**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	18,470,033	13,308,875	539,535	509,507	7,866,266	2,106,419
Allowance for impairment incurred but not reported	(52,070)	(32,312)	-	-	-	-
Carrying amount	**18,417,963**	**13,276,563**	**539,535**	**509,507**	**7,866,266**	**2,106,419**
Net carrying amount	**19,503,400**	**14,495,208**	**539,535**	**509,507**	**7,866,266**	**2,106,419**

FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (continued)

In addition to the above, the Group has entered into lending commitments of KShs 6,585,885,192 (2009 – KShs 5,851,242,321) 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.

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

	[illegible]	[illegible]
Against impaired accounts	2,049,810	2,067,062
Against accounts not impaired	43,021,535	28,894,606
	45,071,345	**30,961,668**

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:

	[illegible]	[illegible]
Properties	**45,071,345**	**30,961,668**

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, corporate bond 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (continued)

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 year were as follows:

	[illegible]	2009
At 31 December	55.73%	23.90%
Average for the year	38.35%	26.00%
Maximum for the year	64.61%	27.60%
Minimum for the year	28.84%	23.90%

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 2010	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial assets						
Cash balances	420,390	-	-	-	-	420,390
Placements with other banks	-	6,599,080	1,267,186	-	-	7,866,266
Investment in Government securities	-	-	9,835	530,000	-	539,835
Net mortgage advances to customers	-	324,479	1,069,660	2,295,392	15,813,869	19,503,400
Total	**420,390**	**6,923,559**	**2,346,681**	**2,825,392**	**15,813,869**	**28,329,891**
Financial liabilities						
Customer deposits	-	6,199,573	2,744,267	4,591,549	2,407,952	15,943,341
Loans from Banks	-	78,858	646,771	847,740	-	1,573,369
Corporate Bond	-	-	-	-	7,030,900	7,030,900
Government income notes	-	-	-	-	50,750	50,750
Total	**-**	**6,278,431**	**3,391,038**	**5,439,289**	**9,489,602**	**24,598,360**
Unrecognised mortgage commitments	**-**	**2,384,128**	**4,201,757**	**-**	**-**	**6,585,885**
At 31 December 2010	**420,390**	**(1,739,000)**	**(5,246,114)**	**(2,613,897)**	**6,324,267**	**(2,854,354)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (continued)

Financial assets						
Cash balances	319,839	-	-	-	-	319,839
Placements with other banks	100,092	1,293,775	712,552	-	-	2,106,419
Investment in Government securities	-	-	9,507	500,000	-	509,507
Net mortgage advances to customers	-	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	-	5,295,805	1,447,054	3,790,230	1,686,360	12,219,449
Loans from Banks	-	700,000	-	1,000,000	-	1,700,000
Government incom[illegible]	-	-	-	-	50,750	50,750
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 [illegible]	**419,931**	**(7,005,139)**	**(3,189,523)**	**(2,234,886)**	**9,619,149**	**(2,390,468)**

(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)

	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 bala nces	-	420,390	-	-	-	-	420,390
Placements with other banks	4.7	-	6,599,080	1,267,186			7,866,266
Investment in Government securities	6.92	-	-	9,835	530,000	-	539,835
Net mortgage advances to customers	5.41	-	324,479	1,069,660	2,295,392	15,813,869	19,503,400
Total		**420,390**	**6,923,559**	**2,346,681**	**2,825,392**	**15,813,869**	**28,329,891**
Financial liabilities							
Customer deposits	3.91	4,495,580	6,199,573	2,744,267	95,969	2,407,952	15,943,341
Loans from banks	7.92	-	78,858	646,771	847,740	-	1,573,369
Corporate Bond	7.32	-	-	-	-	7,030,900	7,030,900
Government income notes	8.25	-	-	-	-	50,750	50,750
Total		**4,495,580**	**6,278,431**	**3,391,038**	**943,709**	**9,489,602**	**24,598,360**
Unrecognised mortgage commitments		**-**	**2,384,128**	**4,201,757**	**-**	**-**	**6,585,885**
At 31 December 2010		**(4,075,190)**	**(1,739,000)**	**(5,246,114)**	**1,881,683**	**6,324,267**	**(2,854,354)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (continued)

Financial assets							
Cash balances	0.00	319,839	-	-	-	-	319,839
Placements with other banks	8.97	100,092	1,293,775	712,552	-	-	2,106,419
Investment in Government securities	6.72	-	-	9,507	500,000	-	509,507
Net mortgage advances to customers	5.50	-	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	5.42	4,946,839	4,117,450	1,447,054	21,746	1,686,360	12,219,449
Loans from banks	10.32	-	700,000	-	1,000,000	-	1,700,000
Government income notes	8.25	-	-	-	-	50,750	50,750
Total		**4,946,839**	**4,817,450**	**1,447,054**	**1,021,746**	**1,737,110**	**13,970,199**
Unrecognised mortgage commitments		**-**	**2,673,346**	**3,177,896**	**-**	**-**	**5,851,242**
At 31 December 2009		**(4,526,908)**	**(5,826,784)**	**(3,189,523)**	**1,533,598**	**9,619,149**	**(2,390,468)**

Sensitivity analysis interest rate risk

At 31 December 2010, 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 10,186 million (2009 – KShs 50.438 million) lower arising mainly as a result of lower interest income and other components of equity would have been KShs 7,130 million (2009 – KShs 35.307 million) lower arising mainly as a result of lower interest income mortgages.

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profits would have been KShs 10,186 million (2009 - KShs 36.754 million) higher, arising mainly as a result of higher interest income on mortgage lending and other components of equity would have been KShs 7,130 million (2009 – KShs 25.728 million) higher, arising mainly as a result of higher interest income mortgages.

Sensitivity analysis foreign currency exchange risk

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

(iv) Operational risk

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Group standards for the management of operational

4. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Operational risk (continued)

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 and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups to ensure compliance with the company's risk limits. The 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 change in the Group's management of capital during the year.

4. FINANCIAL RISK MANAGEMENT (Continued)

(v) Capital management (continued)

The company's regulatory capital position as at 31 December 2010 and 31 December 2009 was as follows:

Tier 1 capital		
Ordinary share capital	1,150,000	1,150,000
Share premium	1,549,173	1,549,173
Retained earnings	487,164	185,071
	3,186,337	**2,884,244**
Tier 2 capital		
Collective allowances for impairment	163,468	116,004
Qualifying subordinated liabilities	3,022,869	163,051
	3,186,337	**279,055**
Total regulatory capital	**6,372,674**	**3,163,299**
Risk weighted assets	**13,077,391**	**9,280,302**
Capital ratios		
	2010	**2009**
Total regulatory capital expressed as a percentage of total risk-weighted assets	48.73%	34.09%
Total tier 1 capital expressed as a percentage of risk-weighted assets	24.37%	31.08%

Central Bank of Kenya requires the Company to maintain a minimum core capital of KShs 250 million. However, the Central Bank of Kenya amended the Banking Act in 2009 to require banks to increase their core capital as follows:

Compliance date	Minimum core capital
31 December 2010	500 million
31 December 2011	700 million
31 December 2012	1,000 million

The company is already compliant with this new requirement.

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 sourcing for deposits from retail customers which are then used to finance the Group's mortgage products.

5. OPERATING SEGMENTS (Continued)

- Corporate Deposits: This segment is responsible for sourcing for deposits from corporate organizations.

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	**Retail**		**Mortgage Lending Schemes**		**Projects**		**Deposits Mobilisation Corporate**		**Deposits Mobilisation Retail**		**Others**		**Totals**	
	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**	[illegible]	**2009 KShs'000**
Interest income	1,251,923	1,015,528	505,107	358,423	288,905	182,911	254,024	247,260	-	-	175,855	-	**2,475,814**	**1,804,122**
Interest expense:														
- Retail	-	-	-	-	-	-	-	-	(233,181)	(197,423)	-	-	**(233,181)**	**(197,423)**
- Corporate	-	-	(50,822)	(43,416)	-	(1,982)	(509,469)	(328,850)	-	-	(281,381)	(85,010)	**(841,672)**	**(459,258)**
Net interest income	**1,251,923**	**1,015,528**	**454,285**	**315,007**	**288,905**	**180,929**	**(255,445)**	**(81,590)**	**(233,181)**	**(197,423)**	**(105,526)**	**(85,010)**	**1,400,961**	**1,147,441**
Non interest income	77,795	70,417	-	-	25,791	15,655	-	-	63,391	72,424	85,479	50,275	**252,456**	**208,771**
Depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	(44,448)	(42,374)	**(44,448)**	**(42,374)**
Reporting segment profit/(loss) before income tax	511,913	283,338	185,758	82,215	118,134	51,307	(104,452)	(21,295)	(95,348)	(32,624)	(55,770)	(9,066)	**560,235**	**353,875**
Loan disbursements	4,987,788	2,957,978	2,044,962	1,299,051	1,896,133	2,092,756	-	-	-	-	-	-	**8,928,883**	**6,349,785**
Loan sales	5,586,375	4,522,646	2,248,897	1,842,952	3,367,821	3,443,405	-	-	-	-	-	-	**11,203,093**	**9,809,003**
Deposits balances	-	-	2,407,953	1,686,360	-	178,247	6,568,517	4,139,045	6,968,847	6,230,993	-	-	**15,945,317**	**12,234,645**
Other material non cash items														
Impairment losses on mortgage loans	228,586	186,277	7,250	10,265	2,609	28,945	-	-	-	-	-	-	**238,445**	**225,487**
Capital expenditure	-	-	-	-	-	-	-	-	-	-	40,177	11,801	**40,177**	**11,801**
Reportable segment assets	9,608,475	7,077,769	6,255,367	4,197,202	2,606,191	2,033,639	8,826,478	2,935,764	-	-	2,029,331	2,036,387	**29,325,842**	**18,280,761**
Reportable segment liabilities	-	-	2,407,953	1,686,360	-	178,247	6,473,230	4,139,045	6,967,435	6,230,993	9,258,443	2,012,635	**25,107,861**	**14,247,280**

5. OPERATING SEGMENTS (Continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities.

	[redacted]	
Net interest income		
Total net interest income for reportable segments	[redacted]	1,147,441
Other interest income adjustments	[redacted]	102
Consolidated net interest income	[redacted]	**1,147,543**
Non interest income		
Total non interest income for reportable segments	[redacted]	208,771
Other non interest income	[redacted]	18,131
Consolidated non interest income	[redacted]	**226,902**
Profit or loss		
Total profit or loss for reportable segments	[redacted]	353,875
Other profit or loss	[redacted]	(2,757)
Consolidated profit before income tax	[redacted]	**351,118**
Assets		
Total assets for reportable segments	[redacted]	18,280,761
Other assets	[redacted]	(41,402)
Consolidated total assets	[redacted]	**18,239,359**
Liabilities		
Total liabilities for reportable segments	[redacted]	14,247,280
Other liabilities	[redacted]	(81,297)
Consolidated total liabilities	[redacted]	**14,165,983**

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j).

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.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(i) Allowances for credit losses (Continued)

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.

(ii) Income taxes

The company is subject to income taxes in Kenya. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- The classification of financial assets;
- Whether assets are impaired; and
- Depreciation rates for property and equipment.

7. INTEREST INCOME AND INTEREST EXPENSE

	2010 KShs'000	2009 KShs'000
Interest income		
Arising from:		
Advances to customers	2,221,791	1,556,862
Treasury bond	35,222	32,556
Placements with other banks	218,801	214,704
	2,475,814	**1,804,122**

Included in interest income on mortgage advances for the year is a total of KShs144,992,807 (2009 – KShs 92,545,871) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are held to maturity.

	2010 KShs'000	2009 KShs'000
Interest expense		
Arising from:		
Customer deposits	793,444	571,569
Interest on borrowed funds	281,382	85,010
	1,074,826	**656,579**

8. NON INTEREST INCOME

	[redacted]	
Arising from:		
Fees and commission income	[illegible]	169,092
Rental income	[illegible]	32,280
Other operating income	[illegible]	25,450
Gain on sale of property and equipment	[illegible]	80
	[illegible]	**226,902**

9. NON INTEREST EXPENSES

	[redacted]	
Arising from:		
Salaries and employee benefits	[illegible]	414,118
Rental expenses	[illegible]	12,106
Deposit Protection Fund	[illegible]	17,163
General administration expenses	[illegible]	354,453
	[illegible]	**797,840**

The following items are included with salaries and employee benefits:

	[redacted]	
Compulsory social welfare contributions	[illegible]	459
Contributions to the defined contribution retirement scheme	[illegible]	27,041

10. PROFIT BEFORE TAXATION

	[redacted]	
The profit before taxation is arrived at after charging/(crediting):		
Directors' remuneration:		
- Fees	[illegible]	1,988
- Expenses	[illegible]	4,106
- As executives	[illegible]	25,431
Auditors' remuneration	6,815	6,815
Amortisation of prepaid operating lease rentals	642	643
Amortisation of intangible assets	2,720	5,474
Depreciation	41,352	36,530
Profit on sale of equipment	222	(80)

11. TAXATION

	2010 KShs'000	2009 KShs'000
Current tax at 30%- Current year	182,644	122,663
- Prior year under provision	4,160	-
Deferred tax credit (Note 26(a)) - Current year	(4,915)	(5,721)
- Prior year	(392)	-
	181,497	116,942

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

	2010 KShs'000	2009 KShs'000
Accounting profit before taxation	561,028	351,118
Tax at the applicable corporation tax rate of 30%	168,308	105,335
Prior year under provision – corporation tax	4,160	-
Tax effect of non-deductible costs and non-taxable income	7,290	11,607
Deferred tax asset written off	2,181	-
Prior year over provision – deferred tax	(392)	-
	181,497	116,942

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:

	2010 KShs'000	2009 KShs'000
Net profit for the year attributable to shareholders	379,531	234,176
Number of ordinary shares in issue (000's)	230,000	230,000
Basic earnings per share	KShs1.65	KShs 1.02
Diluted earnings per share	KShs1.65	KShs 1.02

13. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. A final dividend in respect of the year ended 31 December 2010 of KShs 0.35 per share (2009: KShs 0.50) amounting to a total of KShs 80,500,000 (2009: KShs 115,000,000) has been proposed. During the year an interim dividend of KShs 0.35 per share, amounting to a total of KShs 80,500,000 was paid. The total dividend for the year is therefore KShs 0.70 per share (2009: KShs 0.50), amounting to a total of KShs 161,000,000 (2009: KShs 115,000,000). Issued and fully paid ordinary shares were 230,000,000 as at 31 December 2010.

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

31 December 2010:	[redacted]			
Financial Assets				
Cash and cash equivalents	-	-	420,390	420,390
Placements with banks	-	-	7,866,266	7,866,266
Investment in government securities	539,835	-	-	548,938
Mortgage advances	-	19,503,400	-	19,503,400
	[illegible]	**19,503,400**	**8,286,656**	**28,338,994**
Financial Liabilities				
Customer deposits	-	-	15,943,341	15,943,341
Corporate Bond	-	-	7,030,900	7,030,900
Loans from banks	-	-	1,573,369	1,573,369
	-	-	**24,547,610**	**24,547,610**

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**

14. FINANCIAL ASSETS AND LIABILITIES [Continued]

(b) Company

31 December 2010:	[illegible]	[illegible]	[illegible]	[illegible]
Financial Assets				
Cash and cash equivalents	-	-	420,377	420,377
Placements with banks	-	-	7,866,266	7,866,266
Investment in government securities	539,835	-	-	548,938
Mortgage advances	-	19,503,400	-	19,503,400
	539,835	**19,503,400**	**8,286,643**	**28,338,981**
Financial Liabilities				
Customer deposits	-	-	15,945,317	15,945,317
Corporate Bond	-	-	7,030,900	7,030,900
Loans from banks	-	-	1,573,369	1,573,369
	-	**-**	**24,549,586**	**24,549,586**
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**

The fair value of treasury bonds is based on the indicative price of the specific issues as at the reporting 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

	2010		2009	
	Group KShs'000	**Company KShs'000**	**Group KShs'000**	**Company KShs'000**
Cash at hand	101,224	101,224	106,118	106,118
Current account balance	319,166	319,153	213,721	213,721
	420,390	**420,377**	**319,839**	**319,839**

16. PLACEMENTS WITH OTHER BANKS

Group and Company:	2010 KShs'000	2009 KShs'000
Placements with commercial banks	7,866,268	2,106,419

17. INVESTMENT IN GOVERNMENT SECURITIES

Group and Company:	2010 KShs'000	2009 KShs'000
Held to Maturity		
Treasury bonds due after 180 days	539,835	509,507

The weighted average effective interest rate on government securities as at 31 December 2010 was 6.92%% (2009 – 7.0%).

18. MORTGAGE ADVANCES TO CUSTOMERS

Group and Company:	[redacted]	[illegible]
(a) Mortgage advances at amortised cost		
Mortgages	19,937,848	15,124,010
Less: Provision for impairment losses (Note 18(b))	(434,448)	(628,802)
	19,503,400	14,495,208
Maturing:		
Within five years	3,689,531	3,703,752
Over five years to ten years	4,560,441	4,504,914
Over ten years to fifteen years	6,849,438	4,346,073
Over fifteen years	4,403,990	1,940,469
	19,503,400	14,495,208

(b) Reserve for impairment losses	Impairment losses KShs'000	Portfolio Impairment KShs'000	Total KShs'000
At 1 January 2009	871,664	27,155	898,819
Impairment made in the year	229,601	5,157	234,758
Provisions no longer required	(9,271)	-	(9,271)
Bad debts recovered	(1,592)	-	(1,592)
Written off against balance	(493,912)	-	(493,912)
At 31 December 2009	596,490	32,312	628,802
Impairment made in the year	234,386	19,758	254,144
Provisions no longer required	(15,699)	-	(15,699)
Written off against balance	(432,799)	-	(432,799)
At 31 December 2010	382,378	52,070	434,448

18. MORTGAGE ADVANCES TO CUSTOMERS (Continued)

(c)Impairment losses	Impairment losses KShs'000	Portfolio Impairment KShs'000	Total KShs'000
2010			
Impairment made in the year	234,386	19,758	254,144
Provisions no longer required	(15,699)	-	(15,699)
At 31 December 2010	**218,687**	**19,758**	**238,445**
2009			
Impairment made in the year	229,601	5,157	234,758
Provisions no longer required	(9,271)	-	(9,271)
At 31 December 2009	**220,330**	**5,157**	**225,487**

(d) Mortgage advances

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

	2010 KShs'000	2009 KShs'000
Interest on impaired mortgages which has not yet been received in cash	283,632	555,353

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2010 was 12.80% (2009 – 13.09%).

19. INVESTMENT IN SUBSIDIARIES

	Shareholding	2010 KShs'000	2009 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

20. AMOUNTS DUE TO/ (FROM) SUBSIDIARIES

	2010 KShs'000	2009 KShs'000
Company:		
Kenya Building Society Limited	(48)	-
First Permanent (East Africa) Limited	15,006	2,851
	14,958	2,851

21. OTHER ASSETS

	[illegible]	[illegible]	2009	
	[illegible]	[illegible]	**Group**	**Company**
	[illegible]	[illegible]	**KShs'000**	**KShs'000**
Staff debtors	[illegible]	[illegible]	15,538	15,538
Prepayments	[illegible]	[illegible]	18,977	18,977
Deposits and rent receivable	[illegible]	[illegible]	8,612	8,612
Other receivables	[illegible]	[illegible]	40,076	39,982
	[illegible]	[illegible]	**83,203**	**83,109**

Included in staff debtors are staff car loans of KShs 17, 836,916 (2009 – KShs 14,776,669).

22. HOUSING DEVELOPMENT PROJECTS

Group:

	[illegible]	2009
	[illegible]	**KShs'000**
Housing projects		
Komarock Housing Projects	[illegible]	**20,130**

No commitments in respect of these projects were authorised both in 2010 and 2009.

23. PROPERTY AND EQUIPMENT

(a)Group 2010:	Freehold land KShs'000	Buildings KShs'000	Furniture, fixtures, equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2010	7,000	475,596	515,119	-	997,715
Additions	-	-	40,177	20,685	60,862
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	7,000	475,596	551,616	20,685	1,054,897
Comprising:					
At cost	-	20,651	551,616	20,685	592,952
At valuation	7,000	454,945	-	-	461,945
	7,000	475,596	551,616	20,685	1,054,897
Depreciation:					
At 1 January 2010	-	2,443	414,365	-	416,808
Charge for the year	-	7,131	34,221	-	41,352
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	-	9,574	444,906	-	454,480
Net book value:					
At 31 December 2010	**7,000**	**466,022**	**106,710**	**20,685**	**600,417**
2009:					
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**

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.

23. PROPERTY AND EQUIPMENT (Continued)

(a) Group - continued

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

	2010 KShs 000	2009 KShs '000
Freehold land	206	206
Buildings	38,159	41,346

Included in equipment are assets with a gross value of KShs 304,112,531 (2009 – KShs 299,707,541) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 58,510,242 (2009 – KShs 58,024,081).

(b)Company **2010:**	**Freehold land** **KShs'000**	**Buildings** **KShs'000**	**Furniture, fixtures, equipment & motor vehicles** **KShs'000**	**Work in progress** **KShs'000**	**Total** **KShs'000**
Cost or valuation:					
At 1 January 2010	7,000	467,000	509,753	-	983,753
Additions	-	-	40,177	20,685	60,862
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	7,000	467,000	546,250	20,685	1,040,935
Comprising:					
At cost	-	54,055	546,250	20,685	620,990
At valuation	7,000	412,945	-	-	419,945
	7,000	467,000	546,250	20,685	1,040,935
Depreciation:					
At 1 January 2010	-	-	408,997	-	408,997
Charge for the year	-	7,056	34,221	-	41,277
Disposals	-	-	(3,680)	-	(3,680)
At 31 December 2010	-	7,056	439,538	-	446,594
Net book value:					
At 31 December 2010	7,000	459,944	106,712	20,685	594,341

23. PROPERTY AND EQUIPMENT (Continued)

(b)Company - Continued

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**

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:

	2010 KShs 000	2009 KShs '000
Freehold land	206	206
Buildings	38,159	41,346

Included in equipment are assets with a gross value of KShs 296,743,227 (2009 – KShs 292,338,237) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 51,140,938 (2009 – KShs 50,654,777).

24. PREPAID OPERATING LEASE RENTALS

	2010		2009	
	Group KShs'000	**Company KShs'000**	**Group KShs'000**	**Company KShs'000**
Cost:				
At 1 January	54,612	45,706	54,612	45,706
Amortisation:				
At 1 January	5,355	3,535	4,712	3,074
Charge for the year	642	461	643	461
	5,997	3,996	5,355	3,535
At 31 December	48,615	41,710	49,257	42,171

As at 31 December 2010 the un-expired lease period ranges from 64 to 86 years.

25. INTANGIBLE ASSETS

	2010		2009	
	Group KShs'000	**Company KShs'000**	**Group KShs'000**	**Company KShs'000**
Cost:				
At January	125,407	125,310	125,407	125,310
Reclassification		25	-	-
Additions during the year	1,659	1,659	-	-
	127066	126,994	125,407	125,310
Amortisation:				
At January	121,261	121,216	115,787	115,760
Amortisation during the year	2,720	2,710	5,474	5,456
As at 31 December	123,981	123,926	121,261	121,216
Net book value:				
As at 31 December	3,085	3,068	4,146	4,094

26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

(a) Group

31 December 2010:	**01.01.2010 KShs'000**	**Prior year/ under provision KShs'000**	**Recognised in income KShs'000**	**31.12.2010 KShs'000**
Arising from:				
Plant and equipment	5,882	(42)	1,414	7,254
Other general provisions	2,335	-	(2,123)	212
General provision on mortgages	9,693	-	5,928	15,621
Tax losses carried forward	52,833	434	(304)	52,963
Net deferred tax	**70,743**	**392**	**4,915**	**76,050**

31 December 2009:	**01.01.2009 KShs'000**	**Prior year/ under provision KShs'000**	**Recognised in income KShs'000**	**31.12.2009 KShs'000**
Arising from:				
Plant and equipment	3,646	-	2,236	5,882
Other general provisions	507	-	1,828	2,335
General provision on mortgages	8,146	-	1,547	9,693
Tax losses carried forward	52,723	-	110	52,833
Net deferred tax	**65,022**	**-**	**5,721**	**70,743**

(b) Company

31 December 2010:	**01.01.2010 KShs'000**	**Prior year/ under provision KShs'000**	**Recognised in income KShs'000**	**31.12.2010 KShs'000**
Arising from:				
Plant and equipment	5,790	42	1,341	7,173
Other general provisions	154	-	58	212
General provision on mortgages	9,694	-	5,927	15,621
Net deferred tax	**15,638**	**42**	**7,326**	**23,006**

31 December 2009:	**01.01.2009 KShs'000**	**Prier year/ under provision 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
Net deferred tax	**11,803**	**-**	**3,835**	**15,638**

27. 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. Approval to issue additional shares, listing of shares and allotment to the Employee Share Ownership Plan (ESOP) was approved by Capital Market Authority on 20 December 2010. The necessary steps will be taken to complete the process.

28. CUSTOMERS' DEPOSITS

	2010		2009	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Government and parastatals:				
Payable within 90 days	652,446	652,446	269,800	269,800
Payable after 90 days and within one year	202,920	202,920	192,010	192,010
Payable after one year	1,326,248	1,326,248	913,296	913,296
Private sector and Individuals:				
Payable within 90 days	5,546,355	5,548,331	5,026,005	5,026,005
Payable after 90 days and within one year	2,541,347	2,541,347	1,255,044	1,255,044
Payable after one year	5,674,025	5,674,025	4,563,294	4,578,490
	15,943,341	**15,945,317**	**12,219,449**	**12,234,645**

(a) Included in customers' deposits is KShs 1,976,527 (2009 – KShs 651,978) due to a subsidiary, Kenya Building Society Limited and KShs Nil (2009 – KShs 14,543,828) due to a subsidiary, First Permanent (East Africa) Limited.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2010 was 3.91% (2009 – 5.42%).

29. OTHER LIABILITIES

	2010		2009	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Interest payable on the Government of Kenya income notes	2,093	2,093	2,093	2,093
Interest payable on Corporate bond	125,444	125,444	-	-
House sales deposits	1,524	-	1,524	-
Withholding tax payable	19,609	19,609	15,000	15,000
Unclaimed dividends	17,730	17,730	18,126	18,126
Sundry creditors	91,175	91,175	87,627	87,627
Other liabilities	189,467	185,275	96,073	85,995
	447,042	**441,326**	**220,443**	**208,841**

30. LOANS FROM BANKS

Group and Company:	2010 KShs'000	2009 KShs'000
Loans from banks	1,573,369	1,700,000

This balance relates to two loan facilities of KShs 800 million from Standard Chartered Bank Ltd and KShs 773,369,130 from 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 for three years.

31.CORPORATE BOND

Group and Company:	2010 KShs'000	2009 KShs'000
Corporate Bond	7,030,900	-

The company raised KShs 7,030,900,000 through a medium term note programme (MTN) issued during the year whose programme size is KShs 10,000,000,000. The total notes on a fixed rate of 8.5% per annum amount to KShs 5,865,400,000 while the total notes on floating rate are KShs 1,165,500,000. The floating rate notes are on a margin of 3% plus 182 day Treasury bill rate of the last auction immediately preceding the interest payment date subject to a minimum of 5% per annum and maximum of 9.5% per annum.

32. CAPITAL AND RESERVES

Group and Company:

(a)Ordinary share capital	2010 KShs'000	2009 KShs'000
235,750,000 Authorised ordinary shares of KShs 5.00 each	1,178,750	1,178,750
Issued and fully paid Ordinary shares of KShs 5.00 each	1,150,000	1,150,000

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual general meetings of the company. Issued and fully paid ordinary shares were 230 million as at 31 December 2010.

(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.

33. SHAREHOLDERS' INCOME NOTES AND LOANS

Group and Company:	2010 KShs'000	2009 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 (2009 – 8.25%).

34. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flows from operating activities	2010 KShs'000	2009 KShs'000
Group profit before taxation	561,028	351,118
Depreciation	41,352	36,530
Amortisation of intangible asset	2,720	5,474
Amortisation of prepaid operating lease rentals	642	643
Profit on sale of property and equipment	(222)	(80)
Increase in customer deposits	3,723,892	2,155,619
Net movement in mortgage advances to customers	(5,008,192)	(4,080,550)
Investment in Government securities	(30,328)	(30,913)
(Increase)/decrease in other assets	(117,005)	35,271
Increase in other liabilities	226,599	42,321
Increase in funds from Corporate bonds	7,030,900	-
(Decrease)/Increase in loans from banks	(126,631)	1,300,000
Net cash flows from operating activities before tax	**6,304,755**	**(184,567)**
Income tax paid	(186,558)	(80,953)
Net cash flows from operating activities	**6,118,197**	**(265,520)**

(b) Analyses of cash and cash equivalents

	2010 KShs'000	2009 KShs'000	Change in the year KShs'000
Cash in hand and bank	420,390	319,839	100,551
Balances due from banking institutions	7,866,266	2,106,419	5,759,847
	8,286,656	2,426,258	5,860,398

35. CONTINGENT LIABILITIES

As at 31 December 2010, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs1.033 million (2009 – KShs 1.033 million).

36. 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 claims are 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.

Insurance Company of East Africa (ICEA) has sued HF and others for a loss of KShs 120m which funds were withdrawn by the third defendant, ICEA's former Assistant General Manager and deposited with Nyaga Stock Brokers. The Company's advocates have filed a defence against ICEA.

Kenya Revenue Authority carried out a tax audit of Housing Finance for the years 2006 – 2009 and raised a claim of KShs 61,369,382 (including penalties and interest). Housing Finance has appealed against KRA's assessments. The matter is scheduled for hearing at the Local Committee.

37. OPERATING LEASE ARRANGEMENTS

Group and Company:

The bank as a lessor

Rental income earned during the year was KShs 39,217,788 (2009 – KShs 28,519,727). At the reporting date, the bank had contracted with tenants for the following future lease receivables:

	2010	2009
	KShs'000	KShs'000
Within one year	31,182	30,191
In second to fifth year inclusive	83,878	86,748
After five years	-	643
	115,060	**117,582**

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

	2010	2009
	KShs'000	KShs'000
Within one year	13,335	11,579
In second to fifth year inclusive	30,726	39,342
After five years	10,670	-
	54,731	**50,921**

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

38. MORTGAGE COMMITMENTS

Group and Company:

Mortgage commitments amounting to KShs 6,585,885,192 (2009 – KShs 5,851,242,321) are analysed below:

	2010 KShs'000	2009 KShs'000
Commitment in principle but not authorised for payment	6,585,885	5,851,242
Authorised but not paid	-	-
	6,585,885	**5,851,242**

39. CAPITAL COMMITMENTS

	2010 KShs'000	2009 KShs'000
Group and Company:		
Authorised but not contracted	60,655	63,008

40. ASSETS PLEDGED AS SECURITY

As at 31 December 2010, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2009 – Nil).

41. RELATED PARTY TRANSACTIONS

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

(a) Loans

	2010 KShs'000	2009 KShs'000
At 1 January	318,845	245,543
Loans advanced during the year	205,197	162,049
Loans repayments received	(64,181)	(88,747)
At 31 December	459,861	318,845
Comprising:		
Mortgage advances	432,121	303,307
Personal loans	8,189	-
Staff car loans	17,836	14,777
Other	1,715	761
At 31 December	**459,861**	**318,845**

Included in the related party are staff car loans of KShs 17,835,916 (2009 – KShs 14,776,669) and staff personal loans of KShs 8,188,696 (2009 – KShs Nil). The related interest income for staff car loans and staff personal loans in 2010 was KShs 1,289,155 (2009 – KShs 1,237,777) and KShs 136,162 (2009 – KShs Nil) respectively.

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 2010 amounted to KShs 71,241,980 (2009 – KShs 56,463,942).

(d) Transactions with Equity Bank Limited

	2010 KShs'000	2009 KShs'000
At 1 January	700,000	-
Loans received during the year	300,000	700,000
Loan Repayments	(226,631)	-
At 31 December 2010	773,369	700,000

Interest expense on the Equity Bank loan for the year ended 31 December 2010 amounted to Kshs 85,080,269 (2009 – Kshs 17,677,052).

Notes