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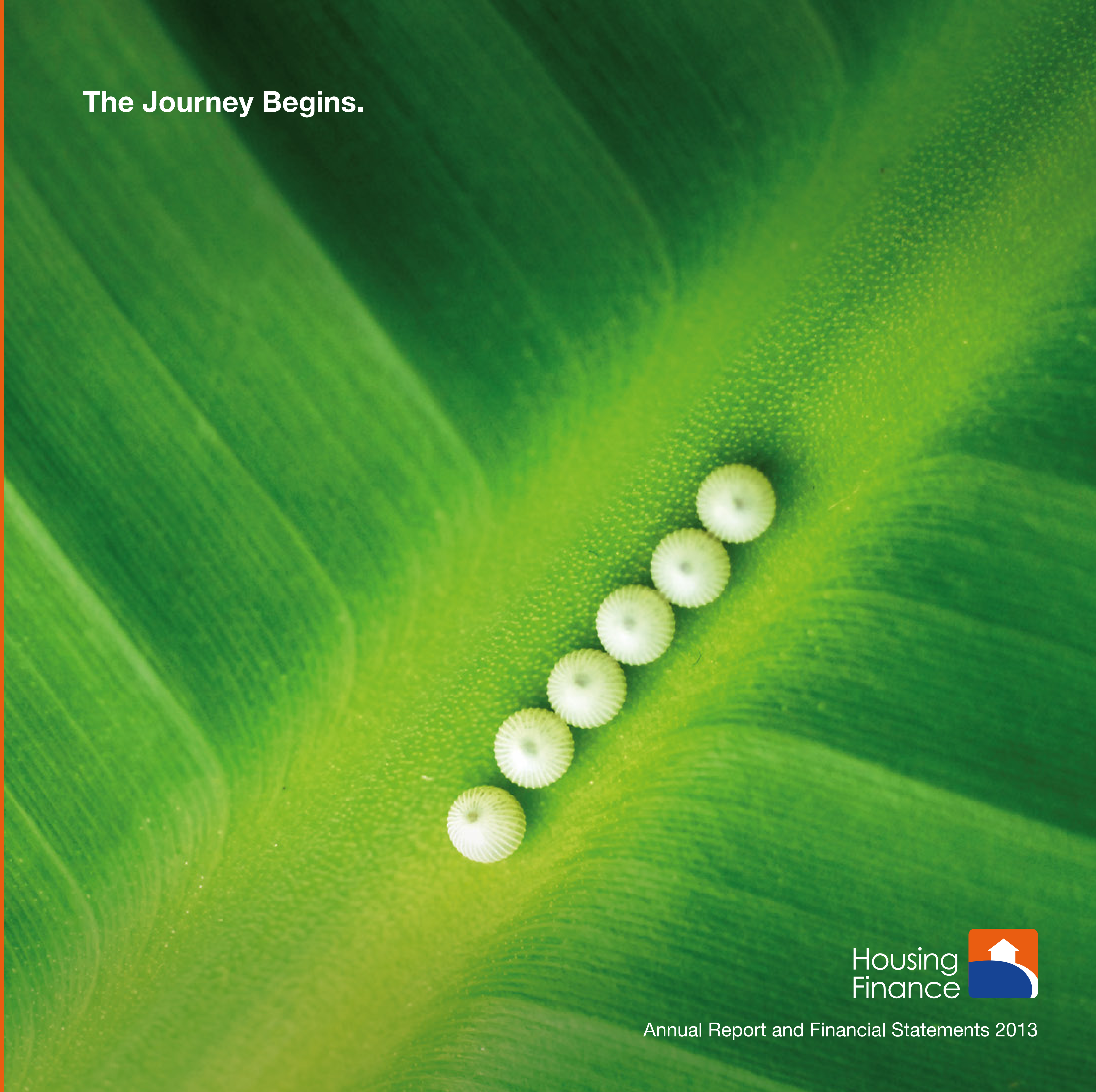
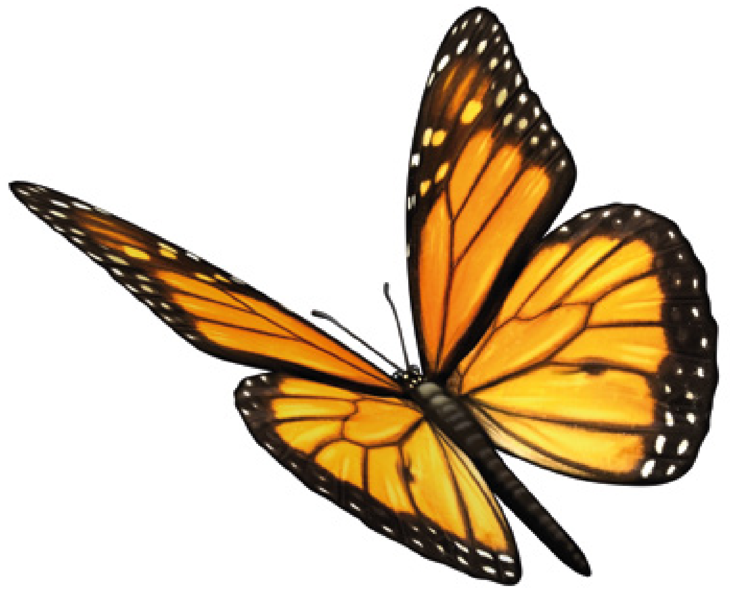
Annual Report and Financial Statements 2013

The Journey Begins.



Housing Finance

Annual Report and Financial Statements 2013



Life is a beautiful journey. It begins with a tiny nucleus and grows into a vibrant, colourful being. The same is true for life's needs and desires.

A tiny cradle grows into a full-fledged home replete with all the trappings of success.

You will visit the various stages of the journey in this annual report. It's a reminder to plan to each of the stages with offerings from Housing Finance.

DIRECTORS, OFFICERS AND ADMINISTRATION

Directors

Steve O Mainda	Chairman
Frank Ireri	Managing Director
David R Ansell	
Benson Wairegi	
Peter K Munga	
Shem Migot-Adholla	
Adan D Mohamed	
Gladys Ongayo Ogallo	Appointed 8 January 2014

Company Secretary

Regina Anyika
Rehani House
Kenyatta Avenue/ Koinange Street
PO Box 30088, 00100 Nairobi GPO.

Share Registrar

Regina Anyika, CPS (K)
Housing Finance Company of Kenya Limited
Rehani House
Kenyatta Avenue/Koinange Street
PO Box 30088, 00100 Nairobi GPO.

Auditors

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612, 00100 Nairobi GPO.

Registered Office

Plot No. LR 209/9054
Rehani House
Kenyatta Avenue/ Koinange Street
PO Box 30088, 00100 Nairobi GPO.

Principal Legal Advisors

Kaplan & Stratton Advocates
Williamson House
4th Ngong Avenue
PO Box 40111, 00100 Nairobi GPO.

Walker Kontos Advocates
Hakika House
Bishops Road
PO Box 60680, 00200 Nairobi City Square.

Bankers

Equity Bank Limited
NHIF Building, Community
PO Box 75104, 00200 Nairobi City Square.

Standard Chartered Bank Kenya Ltd
Kenyatta Avenue
PO Box 40310, 00100 Nairobi GPO.

Barclays Bank of Kenya Ltd
Barclays Plaza
PO Box 46661, 00100 Nairobi GPO.

Citibank NA
Upper Hill Road
PO Box 30711, 00100 Nairobi GPO.

Central Bank of Kenya
Haile Selassie Avenue
PO Box 60000, 00200 Nairobi City Square.

Subsidiaries

Kenya Building Society Limited
First Permanent (East Africa) Limited
Housing Finance Insurance Agency Limited

BOARD OF DIRECTORS

Steve Omenge Mainda
Chairman

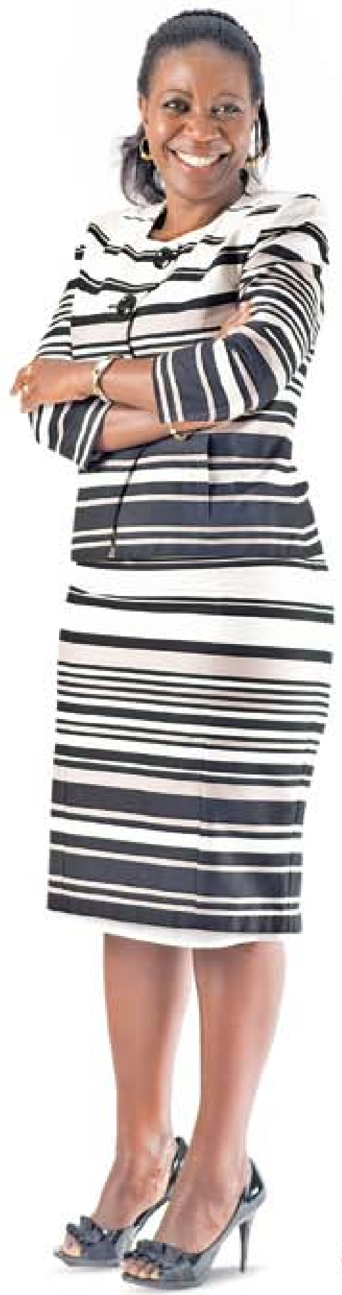
Frank Ireri
Managing Director

Adan Daud Mohamed

Peter Munga

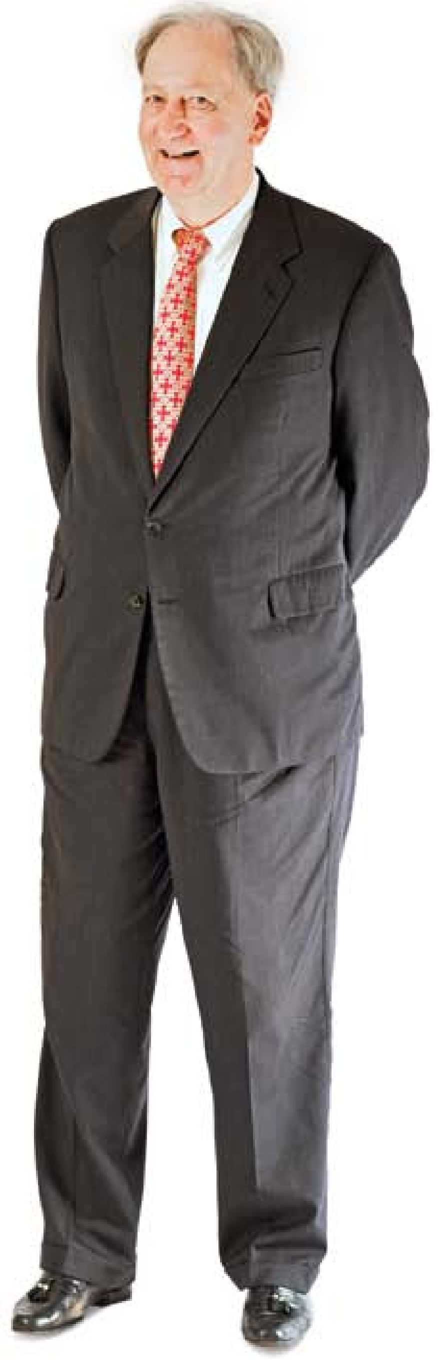
BOARD OF DIRECTORS (CONTINUED)

Benson Wairegi



Gladys Ogallo

Shem Migot Adholla



David Ansell

NOTICE OF ANNUAL GENERAL MEETING

To the Shareholders of HOUSING FINANCE COMPANY OF KENYA LIMITED

NOTICE IS HEREBY GIVEN that the 48th Annual General Meeting of the Company will be held at Nairobi on Friday 25 April 2014 at KICC AMPHITHEATRE at 11.00 am to conduct the following business:

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive and, if approved, adopt the audited Balance Sheet and Accounts for the year ended 31st December 2013, together with the Chairman's, the Directors' and Auditor's Reports thereon.
4. To declare a dividend of KShs.1.75 per share (interim of KShs.0.75 already paid) for the financial year ended 31 December 2013 and approve the closure of the Register of Members at the close of business on 09 May 2014.
5. To elect Directors:

a) Mr. Benson Wairegi retires by rotation in accordance with Article 105 of the Company's Articles of Association and being eligible offers himself for re-election.

b) Mrs.Gladys Ogallo who was appointed as a Director on 8th January 2014 retires in accordance with Article 104 of the Company's Articles of Association and being eligible offers herself for re-election

6. To pass the following Ordinary Resolution:

Special Notice pursuant to section 142 and 186 (5) of the Companies Act Cap 486 of the Laws of Kenya, having been received by the Company of the intention to move a resolution that Mr. Peter Munga who has attained the age of 70 years be re-elected as a Director of the Company not withstanding his having attained such age, to consider, and if thought fit, pass the following Resolution as an Ordinary Resolution:

" That Mr. Peter Munga who has attained the age of 70 years, and who retires by rotation be re-elected as a Director of the Company under Article 105 of the Memorandum and Articles of the Company".

7. To approve the Directors Remuneration
8. To note that the auditors, KPMG Kenya, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486) and Section 24(1) of the Banking Act (Cap 488) and to authorize the Directors to fix their remuneration.

Special Business

9. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

THAT the nominal share capital of the Company be increased from KShs.1,178,750,000 to KShs 2,500,000,000 by the creation of an additional 264,250,000 new ordinary shares of KShs.5 each to rank pari passu in all respects with the existing ordinary shares of the Company

BY ORDER OF THE BOARD: Regina K. Anyika (Mrs), Company Secretary.
Date: ______________________, P.O. Box 30088, GPO 00100. NAIROBI.

NB:
1. In accordance with Section 136 (2) of the Companies Act (Cap 486) every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy is enclosed and should be returned to The Registrar, Housing Finance Company of Kenya Limited, Rehani House, Kenyatta Avenue, P.O. Box 30088, GPO 00100, Nairobi, to arrive not later than 10 AM on 23 April 2014.

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

2. A copy of this notice, the proxy, the entire Annual Report & Accounts may be viewed on the Company's website at www.housing.co.ke or a printed copy may be obtained from the Registered Office of the Company, Rehani House, Kenyatta Avenue/Koinange Street, P.O. Box 30088-00100 GPO, and Nairobi and from all our registered Branches countrywide.

NOTISI YA MKUTANO MKUU WA PAMOJA WA MWAKA

Kwa Wanahisa wa HOUSING FINANCE COMPANY OF KENYA LIMITED

NOTISI INATOLEWA HAPA KWAMBA, Mkutano wa 48 wa pamoja wa mwaka wa kampuni utafanyika mjini Nairobi siku ya Ijumaa Aprili 25, 2014 katika Jumba la mikutano ya kimataifa KICC ukumbi wa AMPHITHEATRE kuanzia saa tano asubuhi ili kuangazia maswala yafuatayo kibiashara:

1. Kuwatambua mawakala na kukagua idadi ya waliohudhuria
2. Kusoma notisi ya kuitishwa kwa mkutano
3. Kupokea na endapo itapitishwa, kuidhinisha mizania (balance sheet) iliyokaguliwa pamoja na hesabu ya pesa kwa kipindi cha mwaka kilichomalizika Desemba 31, 2013 pamoja na ripoti kutoka kwa Mwenyekiti, Wakurugenzi na Wahasibu.
4. Kutangaza malipo ya mwisho ya mgawo wa faida ya senti 1.75 kwa kila hisa (malipo ya awali ya senti 0.75 tayari yametolewa) kwa kipindi kilichomalizika Desemba 31, 2013 na kupitisha kufungwa kwa rejista ya wanachama ifikiapo Mei 9, 2014.
5. Kuwachagua wakurugenzi:

a) Bw. Benson Wairegi anastaafu kwa zamu kwa mujibu wa Kifungu nambari 105 cha sheria za makampuni na kwa kuwa hali inamruhusu, anajitokeza ili kuchaguliwa tena.

b) Bi. Gladys Ogallo ambaye aliteuliwa Mkurugenzi Januari 8, 2014 anastaafu kwa mujibu wa kifungu nambari 104 cha sheria za makampuni na kwa kuwa hali inamruhusu, anajitokeza ili kuchaguliwa tena.

6. Kupitisha azimio lifuatalo la kawaida:

Notisi maalumu kwa mujibu wa sehemu ya 142 na 186 (5) ya sheria za kampuni kifungu nambari 486 cha sheria za Kenya baada ya kupokelewa kwa nia ya kampuni ya kupitisha azimio kwamba Bw. Peter Munga ambaye amefikisha miaka 70 achaguliwe tena kama Mkurugenzi wa Kampuni bila kuzingatia umri wake mkubwa alioufikisha, kwa kuzingatia na endapo itakubalika kupitisha azimio lifuatalo kama la kawaida:

" Kwamba Bw. Peter Munga ambaye amefikisha miaka 70 na ambaye anastaafu kwa zamu achaguliwe tena kuwa Mkurugenzi wa Kampuni chini ya kifungu nambari 105 cha memoranda na kanuni za kampuni".

7. Kupitisha marupurupu ya wakurugenzi
8. Kutambua kwamba, wakaguzi wa Pesa KPMG Kenya wataendelea mbele na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni (Cap 486) na sehemu ya 24 (1) ya sheria za mabenki (cap 488) na kuwapa uhuru Wakurugenzi kuamua malipo yao.

Shughuli Maalumu

9. Kuzingatia na endapo itaonekana kuwa sawa kupitisha azimio lifuatalo kama la kawaida:

KWAMBA thamani ya chini kwa mtaji wa hisa za kampuni uongezwe kutoka KShs. 1, 178, 750, 000 hadi KShs. 2, 500,000, 000 kwa kubuni hisa za ziada za kawaida 264, 250,000 za thamani ya KShs. 5 kwa kila hisa na kuwa sawa kwa hali yoyote na hisa za kawaida zilizoko katika kampuni.

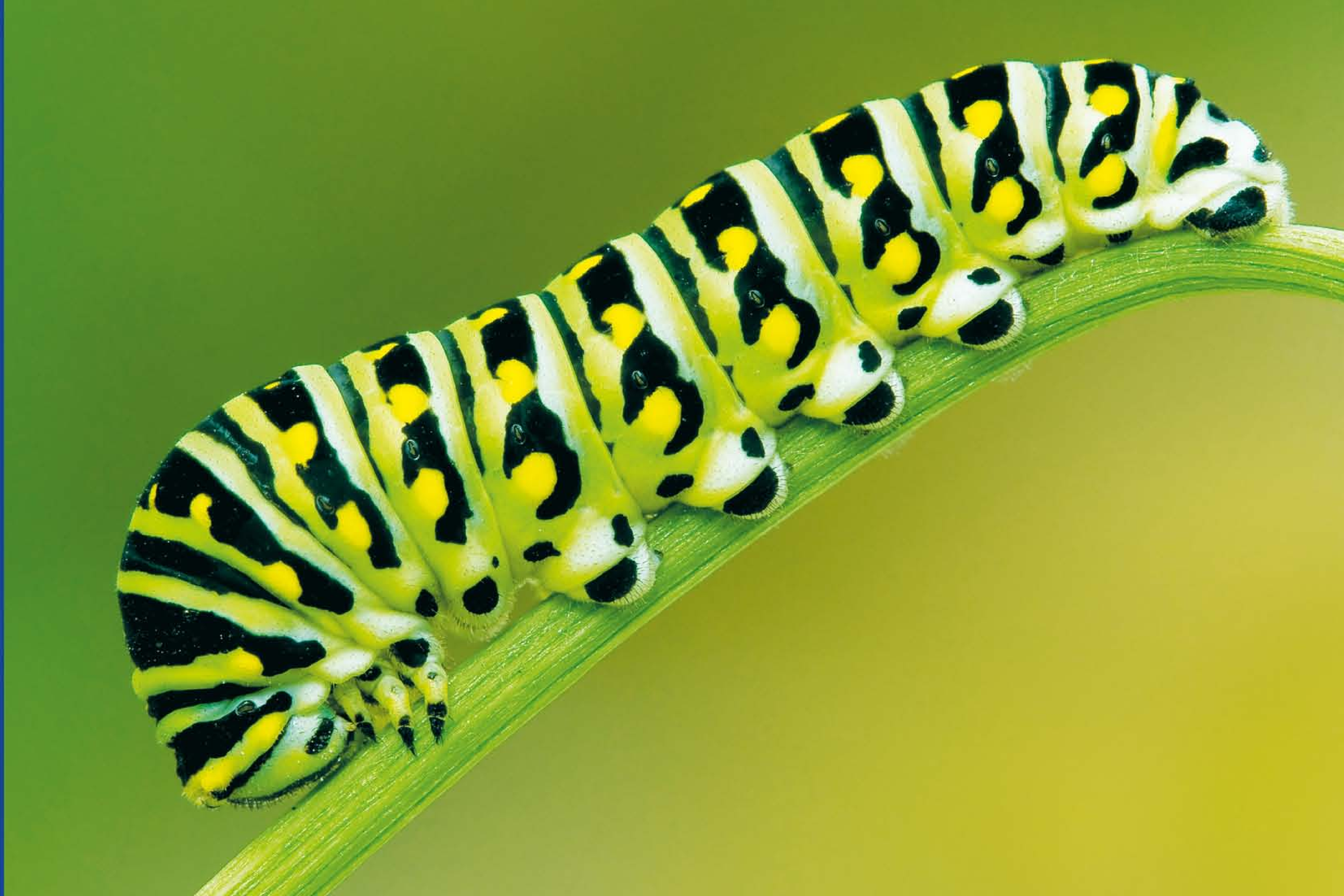
KWA AMRI YA HALMASHAURI: Regina K. Anyika (Bi.), Katibu wa Kampuni.
Tarehe: ______________________, GPO NAIROBI.

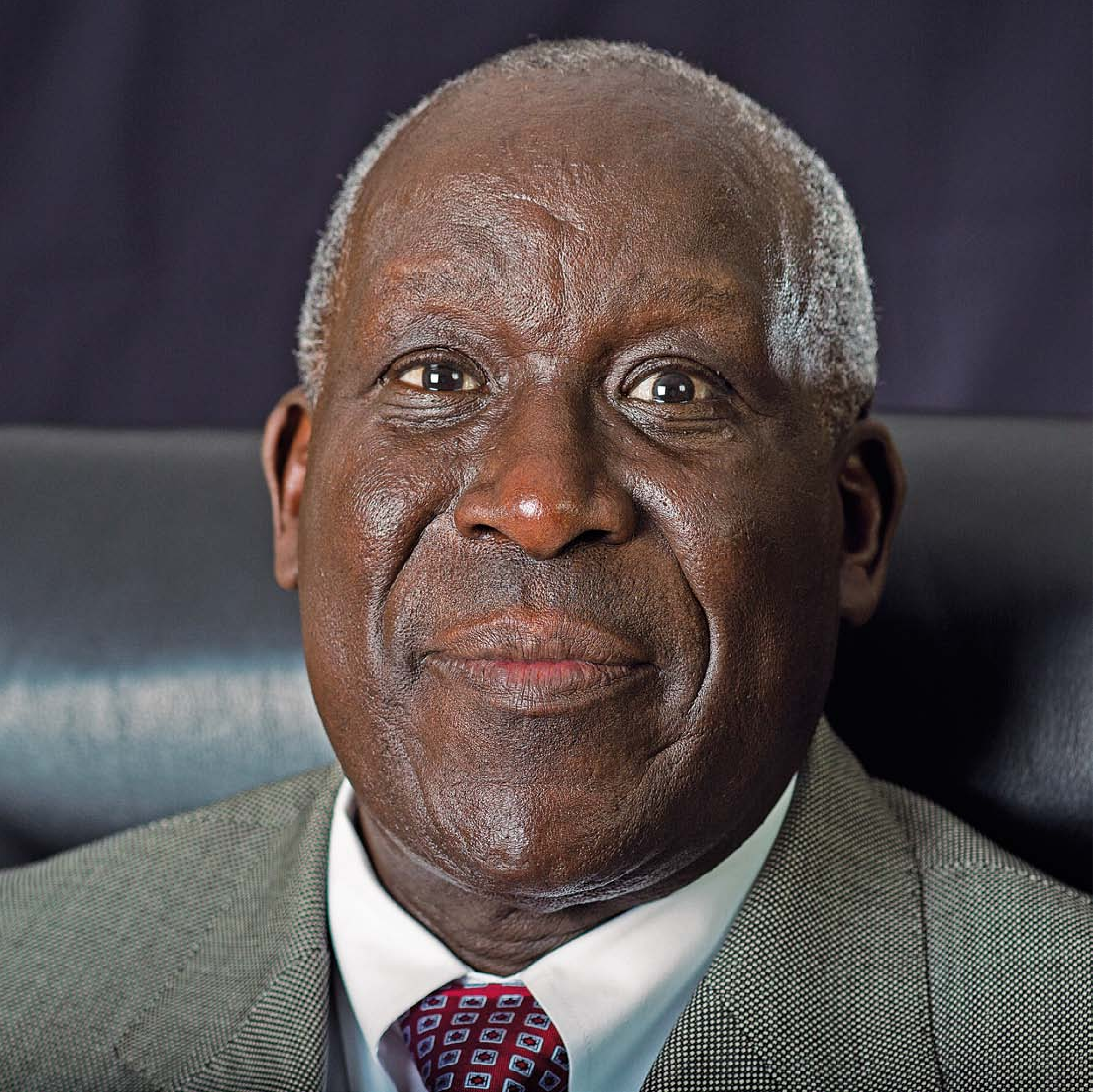
MUHIMU:
1. Kwa mujibu wa sehemu ya 136 (2) ya sheria za makampuni (Cap 486) kila mwanachama aliye na uwezo kuhudhuria mkutano uliotajwa hapo juu na kupiga kura ana uhuru kumteua wakala wake kumwakilisha na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama. Fomu ya uwakilishi imeambatanishwa na ripoti hii na inafaa kurudishwa kwa Msajili, Housing Finance Company Of Kenya, jumba la Rehani, barabara ya Kenyatta Avenue Slp 30088, GPO 00100 Nairobi ili kupokelewa kabla ya saa Kumi asubuhi Aprili 23, 2014.

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

2. Nakala kuhusu notisi hii, ripoti kamili ya ripoti hii ya mwaka pamoja na hesabu za pesa zinaweza kupatikana kupitia wavuti wa kampuni: www.housing.co.ke. Nakala iliyotolewa chapa inaweza kupatikana kupitia ofisi ya kampuni iliyosajiliwa katika jumba la Rehani, barabara ya Kenyatta/ Koinange Slp 30088-00100 GPO Nairobi au kupitia matawi yetu yote yaliyosajiliwa kote nchini.

Caterpillar:
The first step into the unknown.





CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual financial statements along with the report to the shareholders. The financial year that ended 31st December 2013 was a landmark year for Housing Finance and its group.

Overview

In the year 2013, the Kenyan economy maintained reasonable economic stability and fiscal discipline despite pressures emanating from the March 2013 General elections and the implementation of the new Constitution which saw an increase in public expenditure associated with the new devolved system of governance. Kenya's economic prospects remained high due to a low inflation rate and relatively stable interest rates in the market which spurred higher investment expected to support Kenya's economic growth. These positive developments have continued motivating Housing Finance to provide innovative solutions aimed at providing Kenyans with shelter and a wide range of financial services.

Financial Highlights

Housing Finance group achieved an excellent performance of 63% growth in group profit before tax attributed to a favourable macro-economic environment in the country. It also set the stage for strong and sustainable growth in the years to come. For the first time in the history of Housing Finance, profitability surpassed the KShs.1.0 billion mark; a major milestone for Housing Finance. I would like to highlight some of the achievements that we have made so far to appreciate our strategy, growth and the vision for the future.

Strategy Highlights

Our 2012 – 2016 five year strategy still focuses on the aggressive growth of the company. The various initiatives that were started in year 2012 have borne fruit in 2013. Notably, we have completed the construction of Komarock Phase 5A and the project is almost sold out contributing towards our group profitability. In the same year, we signed two Joint Ventures with land owners in Riruta and Kahawa to develop and supply affordable housing units to the market. The two joint ventures have been very successful with substantial units being bought even before breaking ground. We can happily report that the Housing Finance Insurance Agency has also been a profitable venture underscoring the immense contribution that the subsidiaries have had on the group's profitability, property supply and provision of a wide variety of financial services. Our five year strategy also focuses on provision of a complete suite of retail and corporate banking products and services all under one roof. This strategy envisions a wider footprint for the company as we seek to open more retail banking outlets in strategic locations to reach out to more customers and mobilize cheaper deposits. The coming year, we plan to open not less than five full service branches to achieve the stated objective.

Operation Efficiency

We have invested significant amount of resources in the acquisition of our new Core Banking System that will support operations, products and services rendered to our customers. I am happy to report that this year we will be implementing and rolling out this robust system that will boost our efficiency in customer service and reporting capabilities. We will explore and exploit the full capability of the system to achieve maximum benefits from this investment, including techno service delivery through alternate channels.

Dividend Payment

In light of the results for the year ended 31st December 2013, I am delighted to announce that the Board has proposed a full and final dividend of 1.00 per share. This, together with the interim payment of KShs 0.75 made in the year will result to a full dividend payment of KShs.1.75 per share, and is 25% better than dividend payment made in 2012. We pay this dividend in recognition that our business has registered reasonable growth being fully aware of the challenges ahead and the investment the business has to put in place to achieve even greater growth as we pursue our ambitious five-year strategy.

CHAIRMAN'S REPORT (CONTINUED)

Corporate Social Responsibility

As a responsible corporate citizen, Housing Finance has been very conscious about the inequality that exists in the socio-economic front. Through the Housing Finance Foundation, we have been actively engaged in contributing toward the social wellbeing of our citizens especially in the education sector. In February 2013, Housing Finance in partnership with the Ministry of Higher Education, Science and Technology launched a nationwide campaign targeting to train 1 million artisans by 2016 through Housing Finance Foundation. The programme christened, "army of 1 million artisans flagship project" will focus on upgrading the skills of Technical and Vocational Education and Training (TVET) institutions for sustainable economic development. The Army of 1 Million Artisans Project was granted a vision 2030 project status by the Government of Kenya in recognition of the role that this initiative will play in providing youth with marketable skills as well as providing qualified personnel to the market.

The Future

Despite the immediate challenges occasioned by the new political dispensation, Kenya's medium to long-term outlook is good. The country has an emerging huge economically active population which when gainfully employed, can spur economic growth. There are a number of flagship projects that have been set in motion to achieve Kenya's Vision 2030 in the areas of tourism, agriculture, wholesale and retail trade, manufacturing, IT services and financial services as strategic sectors for development. The plan has also outlined key infrastructure projects in energy and transport that will help exploit the vast resources found within our borders and the greater region. The recent discoveries of a major new water aquifer as well as potentially significant oil reserves in northern Kenya also promises to drive economic development.

Acknowledgements

I take this opportunity to thank the Management and Staff for their dedication and commitment. Housing Finance is grateful to the customer base for their encouragement and continued trust in Housing Finance group. This represents a source of inspiration for further enhancement of service delivery level to meet their expectations. The Board of Directors is grateful to the Regulators and Authorities for their advice and support to the group. The Board of Directors is further grateful to the shareholders for their continued confidence, trust and support to Housing Finance group and its Management.

Finally, I wish to place on record my gratitude to the Board of Directors for their expertise and keen strategic focus that has allowed us to perform well in 2013. Kenya remains the region's pivotal economic and financial hub. As the Housing Finance team, we will continue to seek opportunities to actively contribute to the country's development agenda by providing relevant financial products, services and playing a key role in realizing the goal of emerging into a middle-income economy by the Year 2030.

Steve Omenge Mainda, EBS
Chairman

RIPOTI KUTOKA KWA MWENYEKITI

Wanahisa wapendwa,

Kwa niaba ya Halmashauri ya Wakurugenzi, nina furaha kuwaletea taarifa za matumizi ya pesa pamoja na ripoti kutoka kwa wanahisa. Kipindi cha mwaka wa matumizi ya pesa kilichomalizika Desemba 31, 2013, kilikuwa chenye ufanisi mkubwa kwa Housing Finance na kundi lake.

Mtazamo

Wakati wa kipindi cha mwaka 2013, uchumi wa taifa la Kenya ulithibiti ukuaji thabiti wa kiuchumi na kifedha licha ya shinikizo kali lililotokana na zoezi la uchaguzi mwezi Machi mwaka 2013 na pia kuanza kutekelezwa kwa katiba mpya na kushuhudia kupanda kwa matumizi ya gharama za umma zikiandamana na mfumo mpya wa utawala wa ugatuzi. Matazamio ya ukuaji wa uchumi nchini Kenya yaliendelea kuwa ya juu kutokana na mfumuko wa chini wa bei za bidhaa na viwango thabiti vya riba kwenye soko ambazo zilichochea uwekezaji uliotarajiwa kuchangia ukuaji wa uchumi wa taifa la Kenya. Maendeleo haya ya kutia moyo yanaendelea kuchochea Housing Finance kubuni mbinu bunifu ambazo madhumuni yake ni kuwapa wakenya makao na aina mbali mbali za huduma za kifedha.

Vidokezo vya kiuchumi

Kundi la Housing Finance lilipata matokeo ya kufana ya ukuaji wa asilimia 63 (63%) ya kundi kabla ya kutozwa ushuru kutokana na mazingira mazuri ya jumla ya kiuchumi nchini. Pia, liliandaa jukwaa la ukuaji thabiti na wa kudumu wa miaka ijayo. Kwa mara ya kwanza kwenye historia ya Housing Finance, kiwango cha faida kilipita KShs. bilioni 1.0 huu ukiwa ni ufanisi mkubwa kwake. Ningependa kutoa baadhi ya vidokezo vya mafanikio ambayo tumeafikia hadi sasa ili kutambua mkakati wetu, ukuaji na mtazamo wa siku za usoni.

Mtazamo wa mkakati

Mkakati wetu wa miaka mitano 2012-2016 bado unaangazia ukuaji haraka wa kampuni. Mbinu mbali mbali zilizoanzishwa mwaka 2012 zimezaa matunda mwaka 2013. Hasa, tumemaliza ujenzi wa makao ya Komarock Phase 5A na tayari mradi huu uko karibu kumalizika kuuzwa hivyo kuongezea faida kwa kundi. Mwaka huo huo, tulitia sahihi mkataba wa pamoja na wamiliki wa ardhi maeneo ya Riruta na Kahawa ili kujenga na kuuza nyumba kwenye soko. Mikataba hii miwili ya pamoja imefaulu sana huku nyumba kadhaa zikinunuliwa hata kabla msingi wa ujenzi haujaanza. Tuna furaha kuripoti kwamba, wakala wetu wa bima Housing Finance Insurance Agency umekuwa ni mradi wenye faida na kutoa mchango mkubwa kwa faida ambazo kampuni tanzu zimekuwa zikichangia kwa faida za kundi, usambazaji wa mali na utoaji wa huduma mbali mbali za kifedha. Mkakati wetu wa miaka mitano unaangazia pia utoaji wa bidhaa kamili za reja reja na za kimashirika na kuwahudumia wote chini ya kituto kimoja. Mkakati huu unaakisi ukurasa mkubwa kwa kampuni huku tunapotafuta kufungua matawi zaidi ya utoaji huduma za reja reja maeneo mbali mbali muhimu ili kuwafikia wateja zaidi na kuhamasisha uwekaji akiba nafuu. Mwaka unaofuata, tunatarajia kufungua hadi matawi matano ya utoaji huduma ili kuafikia lengo lililotajwa.

Utendaji bora wa shughuli

Tumewekeza viwango vya maana vya rasili mali katika ununuzi wa mfumo muhimu wa benki ambao utasaidia kwenye shughuli, bidhaa na huduma zinazotolewa kwa wateja wetu. Nina furaha kuripoti kwamba mwaka huu tutazindua na kuanzisha mfumo huu imara ambao utaongezea nguvu utoaji wa huduma zetu kwa wateja na uwezo wa kuripoti. Tutafanya utafiti na kutumia kikamilifu uwezo kamili wa mtambo huu ili kuafikia faida kamili kutokana na uwekezaji huu ikiwemo huduma za kiteknolojia kupitia njia mbadala.

Malipo ya mgawo wa faida

Kutokana na matokeo ya mwaka uliomalizika Desemba 31, 2013, nina furaha kutangaza kwamba, Halmashauri imeidhinisha malipo ya mwisho ya mgawo wa faida ya KShs.1/= kwa kila hisa. Mgawo huu wa faida pamoja na malipo yaliyotolewa hapo awali ya KShs. 0.75 yatapelekea kufanya malipo kamili ya mgawo huu kuwa KShs. 1.75 kwa kila hisa. Malipo haya ni bora zaidi kwa asilimia 25 (25%) kuliko yale yaliyotolewa mwaka 2012. Tunatoa malipo haya ya mgawo wa faida kwa kuzingatia kwamba biashara yetu imesajili ukuaji wa maana na kwa kutambua kikamilifu changamoto zilizoko mbele na uwekezaji ambao utahitajika kuwekwa ili kuafikia ukuaji zaidi huku tunapoendelea na matamanio mkakati wetu wa miaka mitano.

RIPOTI KUTOKA KWA MWENYEKITI (INAENDELEA)

Wajibu wa shirika kwa jamii

Kama shirika linalowajibikia raia, Housing Finance imekuwa ikijali sana ukosefu wa usawa wa kiuchumi na kijamii. Kupitia wakfu wa Housing Finance Foundation, tumekuwa tukijihusisha kikamilifu kutoa mchango wetu kwa maslahi ya raia hasa kwenye sekta ya elimu. Kwa ushirikiano na wizara ya elimu ya juu, sayansi na teknolojia mnamo mwezi Februari 2013, tulizindua kampeini ya kitaifa iliyolenga kutoa mafunzo kwa wasanii milioni moja ifikiapo mwaka 2016 kupitia wakfu wa Housing Foundation. Mpango huu ambao umepewa jina “army of 1 million artisans flagship project” utaangazia kuinua taasisi zinazotoa mafunzo ya taaluma ya kifundi na elimu ya kazi na mafunzo (TVET) kwa ukuaji thabiti wa maendeleo ya kiuchumi. Mradi wa wasanii milioni moja ulipewa hadhi ya mradi wa ruwaza ya mwaka 2030 na serikali ya Kenya kwa kutambua wajibu ambao uvumbuzi huu utatekeleza kwa kuwapa vijana mafunzo ya kujitangaza na pia kuwaandaa wafanyakazi waliohitimu kwa taaluma ya kazi kwenye masoko.

Siku za Usoni

Licha ya changamoto zilizotokana na mazingira mapya ya kisiasa, mtazamo wa kadri na wa muda mrefu wa taifa la Kenya ni mzuri. Taifa lina idadi kubwa ya watu wanaoinuka kiuchumi ambao endapo wataajiriwa kazi, wanaweza kuchochea ukuaji wa uchumi. Kuna baadhi ya miradi kielelezo ambayo imetengwa kuendelea kuafikia malengo ya ruwaza ya mwaka 2030 maeneo ya kitalii, kilimo, biashara za reja reja na jumla, viwanda, huduma za habari na mawasiliano na huduma za kibiashara kama sekta muhimu za maendeleo. Mpango huu pia umeelezea miradi maalumu ya kawi na uchukuzi ambayo itasadia kuvumbua raslimali kuu zinazopatikana maeneo ya mipaka yetu na eneo nzima kwa jumla. Uvumbuzi wa hivi majuzi wa hazina kubwa ya maji pamoja na mafuta eneo la kaskazini mwa Kenya pia unatoa ahadi ya kuendeleza maendeleo ya kiuchumi.

Shukrani

Nachukua fursa hii kushukuru usimamizi na wafanyakazi kwa kujitolea kwa wajibu wao. Housing Finance inashukuru kutokana na msingi wa wateja kwa himizo lao na kuendelea kuwa waaminifu kwa kundi. Hii inatoa msingi wa hamasisho la kuboresha viwango vya huduma ili kuafikia matarajio yao. Halmashauri inatoa shukrani kwa wasimamizi wa kanuni na halmashauri kutokana na ushauri wao na usadizi kwa kundi. Zaidi ya hayo, halmashauri ya wakurugenzi inatoa shukrani kwa wanahisa kutokana na kuendelea kuwa na matumaini, imani na kwa kuunga mkono kundi la Housing Finance na usimamizi wake.

Mwisho, ningependa kutoa shukrani zangu kwa halmashauri ya wakurugenzi kutokana na ujuzi wao na kwa mtazamo wao wa kina kwenye mkakati ambao umetuwezesha kufanya vyema mwaka 2013. Kenya ingali eneo muhimu la kiuchumi na kifedha katika kanda. Kama timu ya Housing Finance, tutaendelea kutafuta nafasi ili kutoa mchango kwenye agenda ya taifa ya maendeleo kwa kutoa bidhaa zinazofaa za kifedha, huduma na kwa kutekeleza wajibu muhimu wa kuafikia lengo la kuibuka kuwa uchumi wa kipato cha kati, kufikia mwaka wa 2030.

Steve Omenge Mainda, EBS
Mwenyekiti

MANAGING DIRECTOR'S REPORT

Ladies and Gentlemen, I am pleased to advise that 2013 was a very successful year for Housing Finance. This was caused by a relatively favourable economic environment and the successful implementation of our ongoing business strategy. This notwithstanding, the country faced some challenges associated with a new political dispensation, legal and regulatory changes some of which, had a direct impact on our business.

Financial Results

Overall, the group's pre-tax profits grew by 63% from KShs. 907 million to KShs. 1.48 billion. This translated to a 34% improvement in profit after tax to KShs. 995 million from KShs. 743 million in 2012 with earning per share (EPS) increasing from KES 3.22 to KES 4.30. I am pleased to inform you that our subsidiary companies (Kenya Building Society and Housing Finance Insurance Agency) which we set up in 2012 contributed 18% of the pre-tax profits. This is a testament that our diversification strategy is beginning to deliver.

Some of the key highlights of our performance are as follows:

- Loans and advances increased by 16% from KShs. 30.29 billion to KShs. 35.21 billion while total assets recorded a 16% rise to KShs. 47.39 billion.
- Non-interest income rose by 382% to KShs. 1.368 billion from KShs.283.9 million buoyed by the sale of completed houses in the Komarock 5A project.
- Customer deposits rose by 16% to KShs. 26.51 billion from KShs. 22.94 billion.
- Interest Income grew by 8% increasing from KShs. 5 billion to KShs. 5.4 billion.
- Interest expenses decreased by 10% from KShs. 3.1 billion to KShs. 2.8 billion.
- Net Non-performing loans accounted for 6.4% of the total loan book. The increase in NPLs was attributed to the repo effect of high interest rates in 2012 and the new Land Act.

Strategy Review

This being the second year of our 2012 – 2016 strategy we have achieved some milestones as highlighted below:

Focusing on our Customers

In the 2012 – 2016 strategy we committed to put the customer at the centre of everything we do. In this regard, we commenced a project to acquire a new core banking system that focuses on offering effective and efficient services to our customers. We expect to launch the new system later this year. In July 2013 we set up our Contact Centre to enhance our customer service and communicate proactively with our customers. We also launched an innovative home ownership product dubbed Ezesha in September 2013 which enables our customers to access up to 105% financing reducing entry barriers associated with acquisition of property. Internally, we started a change management program aimed at changing our corporate values and behaviours.

Growth Highlights

In year 2013, we launched our retail banking strategy which seeks to heighten our customer acquisition. Our retail banking strategy will enable Housing Finance increase its non-funded income, reduce our cost of funds, diversify our assets portfolio and increase our branch network among other benefits. As part of this strategy, we opened two new branches; Nyali branch which previously served as a Sales and Service Center and Meru branch.

In line with the devolved governance system, we launched our County Strategy which will enable Housing Finance enter into joint ventures with County Development Authorities across the country to provide an array of added value services. We have already been involved in financing water infrastructure projects that directly impact on the housing sector.

As earlier mentioned, our subsidiary companies have started contributing to the group's profitability. Kenya Building Society completed Komarock Phase 5A comprising of 162 housing units which have nearly been sold out. In February 2013, Housing Finance entered into a joint venture with a landowner in Riruta for the construction of 174 affordable units in Riruta. In November 2013, we signed a second joint venture to deliver 220 units in Kahawa Sukari off Thika Road.

Our supply strategy is projected to accelerate home ownership in the country. We will achieve this by establishing our presence as a major supplier of affordable housing through appropriate product development for the informal sector and middle to low income earners. We are also in the process of master planning for our remaining 40 acres in Komorock and seeking more Joint venture projects with persons with large tracts of land, a move that will further raise our involvement in the supply of affordable housing units.

MANAGING DIRECTOR'S REPORT (CONTINUED)

Funding Highlights

Our business is capital intensive and requires steady long tenor funding streams. We therefore continue to look for funding sources to diversify our funding mix both locally and internationally. To this end, we secured a USD 20 million (KShs. 1.7 billion) medium term facility from the International Finance Corporation (IFC), a USD 8.3 million (Kshs 705million) facility from Ghana International Bank (GIB) and an approval to issue a KShs. 20 billion Medium Term Note from the Capital Market Authority. We continue to focus on accessing cheaper longer term funds through such partnerships to complement our retail banking strategy.

Year 2014 Outlook

I expect the business and economic environment to be shaped by growth in the Gross Domestic Product (GDP) of above 5%, inflationary pressure occasioned by rising food and energy costs, stable interest rates and security concerns both within and outside our borders. At Housing Finance, we continue to be optimistic about further growth especially in our loan book and increased low cost deposits due to the strategic initiatives already underway. Through market research we will seek for more opportunities in the areas of alternative building technology as well as the oil, gas and mining sector.

We have progressed from being just a mortgage financier to providing integrated property and commercial banking solutions for the Kenyan Market. In this regard, we will not only be able to provide easy avenues for identifying the property of choice but also bring together a host of partners and suppliers to make banking and home ownership journey more comfortable. Above all, our plan is to provide a one-stop shop across the property value chain.

Thank you and best wishes to you.

Frank Ireri, EBS.
Managing Director

RIPOTI KUTOKA KWA MENEJA MKURUGENZI

Mabibi na mabwana, nina furaha kusema kwamba 2013 ulikuwa ni mwaka wenye ufanisi kwa Housing Finance. Ufanisi huu ulitokana na mazingira mazuri na kufaulu kuzinduliwa vyema kwa mkakati wetu unaoendelea wa kibiashara . Licha ya haya, taifa lilikumbana na baadhi ya changamoto zilizoandamana na mazingira mapya ya kibiashara, mabadiliko ya sheria na kanuni ambazo baadhi yake zilikuwa na athari ya moja kwa kwa biashara yetu.

Matokeo ya kifedha

Kwa jumla, faida ya kundi kabla ya kutozwa ushuru ilikua kwa asilimia 63 (63%) kutoka KShs. milioni 907 hadi KShs. bilioni 1.48. Ukuaji huu uliwakilisha ukuaji wa asilimia 34 (34%) wa faida kabla ya kutozwa ushuru hadi kufikia KShs. milioni 995 kutoka KShs. milioni 743 mwaka 2012 huku malipo kwa kila hisa (EPS) yakiongezeka kutoka KShs. 3.22 na kufikia KShs. 4.30. Nina furaha kuwafahamisha kwamba, kampuni zetu tanzu (Kenya Building Society na Housing Finance Insurance Agency) ambayo ilianzishwa mwaka 2012 zilichangia kwa asilimia 18 (18%) za faida kabla ya ushuru. Huu ni ushahidi kwamba mkakati wetu wa upanuzi umenza kuzaa matunda.

Baadhi ya vidokezo vya matokeo yetu ni kama vifuatavyo:

- Mikopo na malipo ya awali ziliongezeka kwa asilimia 16 (16%) kutoka KShs. bilioni 30.29 hadi KShs. bilioni 35.21 huku jumla ya raslimali zikiwakilisha ongezekeo la asilimia 16 (16%) na kufikia KShs. bilioni 47.39
- Mapato yasiyo na riba yaliongezeka kwa asilimia 382 (382%) hadi KShs. bilioni 1.368 kutoka KShs. bilioni 283.9 kutokana na mauzo ya nyumba zilizokamilika kwenye mradi wa Komarock 5A.
- Akiba ya wateja iliongezeka hadi asilimia 16 (16%) na kufikia KShs. bilioni 26.51 kutoka KShs. bilioni 22.94.
- Riba ilikua kwa asilimia 8 (8%) kutoka KShs. bilioni 5 hadi KShs. bilioni 5.4
- Gharama za riba zilipungua kwa asilimia 10 (10%) kutoka KShs. bilioni 3.1 hadi KShs. bilioni 2.8
- Mikopo isiyolipika kwa jumla iliwakilisha asilimia 6.4 (6.4%) ya jumla ya mikopo. Ongezeko la mikopo isiyolipika lilitokana na viwango vya juu vya riba mwaka 2012 na sheria mpya ya ardhi.

Mtazamo wa Mkakati

Huu ukiwa ni mwaka wa pili wa mkakati wetu wa mwaka 2012 hadi 2016, tumeweza kupata mafanikio makubwa kama ilivyoelezewa hapa chini:

Kuwaangazia wateja wetu

Kwenye mkakati wetu wa mwaka 2012 hadi 2016, tulijitolea kumuweka mteja katikati ya jambo lolote tunalofanya. Kwa sababu hii, tulianzisha mradi wa kupata mfumo mpya wa benki ambao utaangazia utoaji wa huduma zinazofaa na kwa haraka kwa wateja wetu. Tunatazamia kuzindua mfumo huu baadaye mwaka huu. Mnamo mwezi Julai 2013, tulianzisha kituo chetu cha mawasiliano ili kuimarisha huduma zetu kwa wateja na kuweza kuwasiliana nao ipasavyo. Pia, tulianzisha bidhaa ya umiliki wa makao kwa jina Ezesha mwezi Septemba 2013 ambayo itawawezesha wateja kupata hadi asilimia 105 (105%) ya ufadhili na kupunguza vizingiti vinavyoambatana na umiliki wa mali. Hapa ndani, tulianzisha mpango wa mabadiliko ya usimamizi ambao madhumuni yake ni kubadilisha maadili na mienendo ya shirika letu.

Vidokezo vya ukuaji

Mwaka 2013, tulizindua mkakati wetu wa huduma za benki kwa njia za reja reja ambao unanuiwa kuhamasisha uwezo wa wateja wetu. Mkakati wetu wa utoaji huduma za benki za reja reja utaiwezesha Housing Finance kuongeza mapato yake ambayo hayajafadhiliwa, kupunguza gharama za ha kupanua aina mbali mbali za raslimali zetu na kuongeza mtandao wa matawi yetu miongoni mwa faida nyingine. Kama sehemu ya mkakati huu, tulifungua matawi mawili mapya; tawi la Nyali ambalo zamani lilihudumu kama kituo cha mauzo na utoaji huduma na tawi jingine mjini Meru.

Kufungamana na mfumo wa serikali ya ugatuzi, tulianzisha mkakati wetu wa kaunti ambao utaiwezesha Housing Finance kufanya mkataba wa pamoja na Halmashauri za maendeleo za kaunti kote nchini ili kuongeza thamani inayotokana na huduma. Tayari tumehusika na ufadhili wa miundo misingi ya miradi ya maji ambayo ina athari za moja kwa moja kwa sekta ya nyumba.

Kama ilivyoelezwa hapo awali, tayari kampuni zetu tanzu zimeanza kutoa mchango wake kwa ukuaji wa faida za kundi. Kenya Building Society ilikamilisha mradi wa Komarock Phase 5A ambao unahusisha nyumba 162 ambazo tayari zimeuzwa. Mnamo mwezi Februari 2013, Housing Finance iliingia mkataba wa pamoja na

RIPOTI KUTOKA KWA MENEJA MKURUGENZI (INAENDELEA)

mmiliki wa ardhi eneo la Riruta kwa ujenzi wa nyumba 174 kwa gharama nafuu huko. Mwezi Novemba 2013, tulitia sahihi mkataba wa pili kujenga nyumba 220 eneo la Kahawa Sukari kando mwa barabara kuu ya Thika.

Mkakati wetu wa ujenzi unatarajiwa kuchochea umiliki wa nyumba nchini. Tutaafikia hili kwa kuimarisha uwepo wetu kama mjenzi mkuu wa nyumba za gharama nafuu kupitia maendeleo ya bidhaa yanayofaa katika sekta zisizo rasmi na kwa watu wanaopata mapato ya chini. Pia tuko kwenye hatua za usanifu wa ramani ya ujenzi katika eneo la ekari 40 zilizosalia eneo la Komarock na kuingia mikataba mingine ya pamoja na watu wanaomiliki sehemu kubwa za mashamba kwa hatua ambayo itaongeza kujihusisha kwetu na usambazaji wa nyumba zaidi kwa gharama nafuu.

Vidokezo vya ufadhili

Biashara yetu inahitaji mtaji mkubwa na mbinu za muda mrefu za ufadhili. Kwa sababu hiyo, tunazidi kutafuta mbinu mbali mbali za ufadhili ili kupanua njia tofauti tofauti za ufadhili humu nchini na mataifa ya nje. Hadi kufikia sasa, tuliweza kupata mkopo wa muda wa kadri wa Dola milioni 20 (USD 20 milion) (sawa na KShs. bilioni 1.7) kutoka International Finance Corporation (IFC), Dola Milioni 8.3 (sawa na KShs. milioni 705) kutoka Ghana International Bank (GIB) na idhini ya toleo la Halmashauri ya soko la Hisa la muda wa kadri la KShs. bilioni 20. Tunazidi kuangazia upatikanaji wa mikopo nafuu kupitia ushirikiano kama huu kuongezea nguvu mkakati wetu wa utoaji huduma za benki kwa njia ya reja reja.

Mtazamo wa mwaka 2014

Natarajia mazingira ya kibiashara na kiuchumi itaimarika kutokana na ukuaji wa bidhaa za humu nchini (Gross Domestic Product- GDP) kwa zaidi ya asilimia 5 (5%), shinikizo la mfumuko wa bei za bidhaa kutokana na kupanda kwa gharama za vyakula na kawi, viwango thabiti vya riba na maswala ya kiusalama ndani na nje ya mipaka yetu. Katika Housing Finance, tunaendelea kuwa na imani kuhusiana na ustawi zaidi hasa kutokana na vitabu vyetu vya mikopo na kuzidi kuongezeka kwa gharama za chini za uwekaji akiba kutokana na mikakati ambayo tayari tunaendelea nayo. Kupitia utafiti wa masoko, tutatafuta nafasi zaidi maeneo mbadala ya teknolojia pamoja na mafuta, gesi na sekta ya madini.

Tumeendelea mbele kuwa mfadhili wa mikopo ya rehani hadi mtoaji wa suluhu la pamoja la mali na uchumi wa benki katika soko la Kenya. Kuhusiana na swala hili, hatutaweza tu kutoa njia rahisi za kutambua bidhaa zinazovutia lakini pia kuleta pamoja washirika na wauzaji ili kuifanya safari ya benki na umiliki wa nyumba kuwa ya kustarehesha. Zaidi ya hayo, mpango wetu ni kuwa na kituo kimoja cha mtandao wa mali kote nchini.

Asanteni na nawatakia kila la heri.

Frank Ireri, EBS.
Meneja Mkurugenzi

Pupa:
An instinctive sense of security.

SENIOR MANAGEMENT

Frank Ireri
Managing Director

Sam Waweru
Finance and Administration

Kevin Kihara
Business Development

Joseph Ngare
Internal Audit

Ben Lanya
Human Resources

SENIOR MANAGEMENT (CONTINUED)

Regina Anyika
Company Secretary

Winnie Imanyara
Housing Finance Foundation

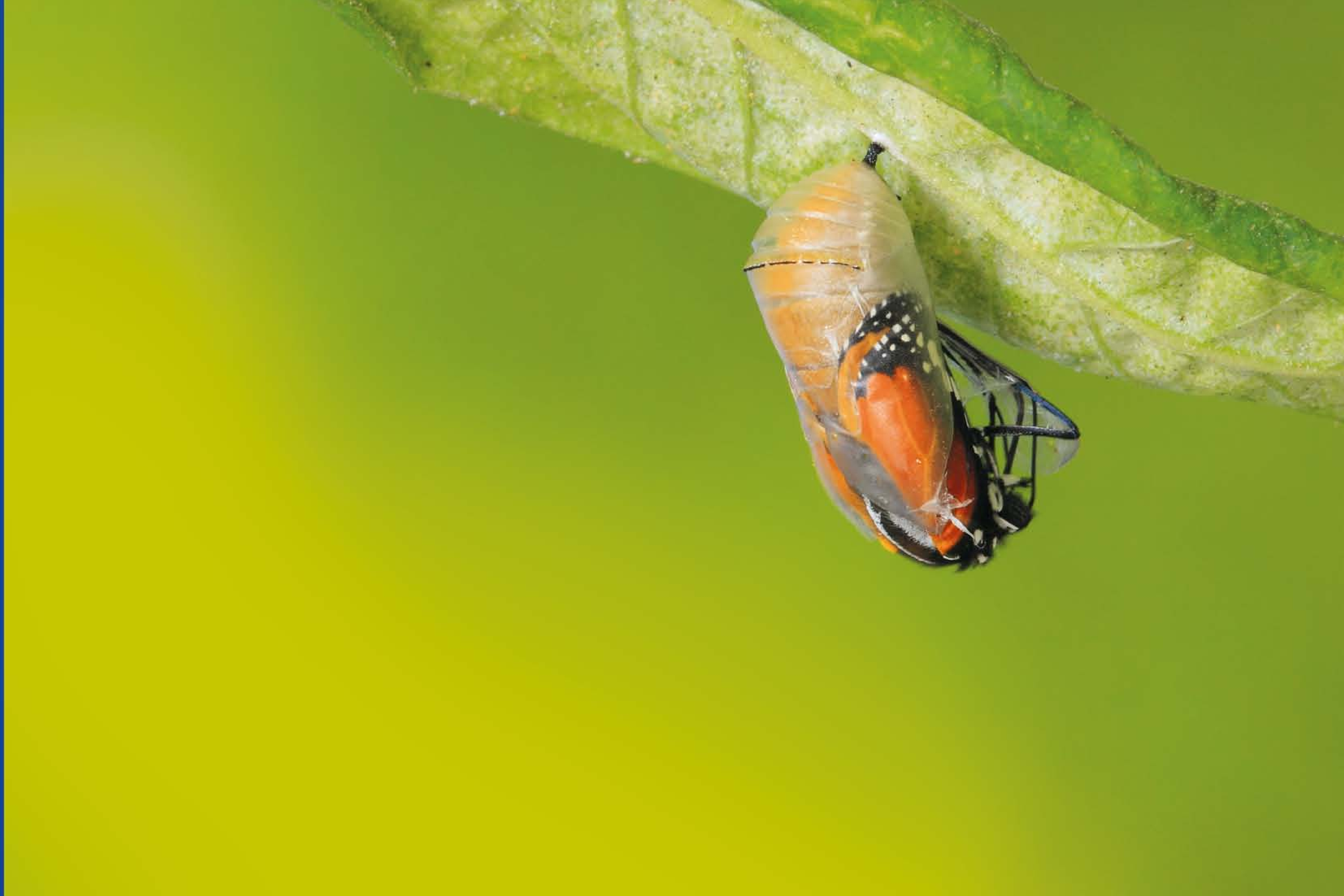
Caroline Armstrong
Strategic Projects

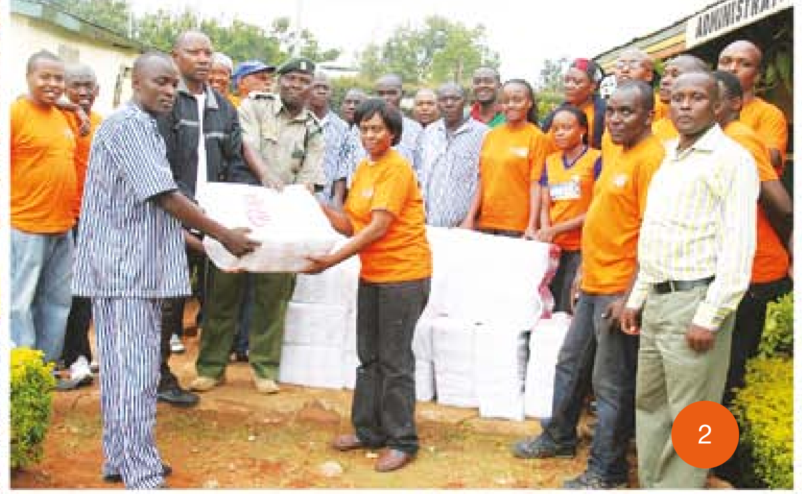
Constantine Barasa
Risk Management

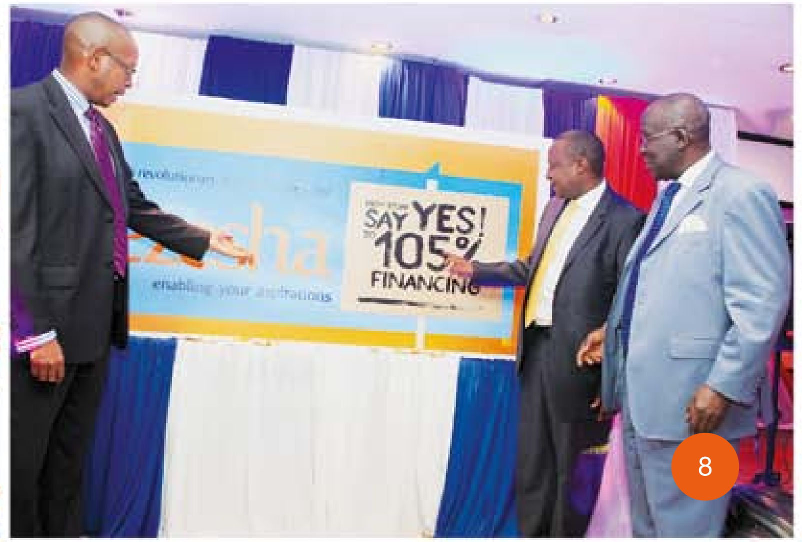
Timothy Gitonga
Business Operations

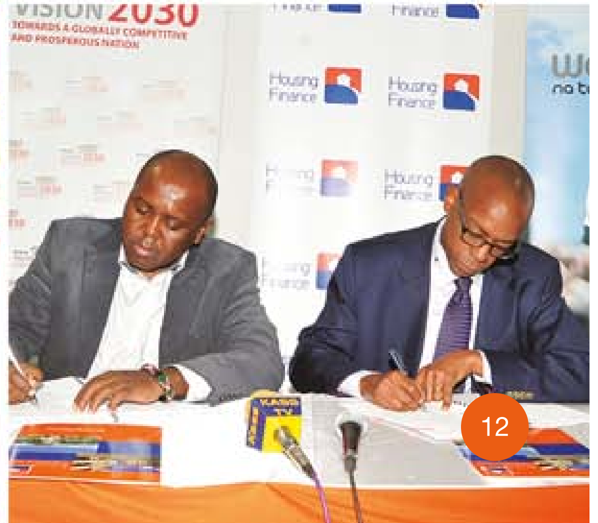
James Karanja
Kenya Building Society

Emergence:
Emerging to meet Life's challenges.









ACTIVITIES

1 HF Staff together with inmates from Bungoma G.K. Prison dig a foundation for a home in Bungoma.

2 HF Staff hand over donations to the inmates and officer in Charge at Bungoma G.K. Prison.

3 A pupil from Ndengelwa Primary School and HF Staff plant a tree in Bungoma.

4 Customers mingle at the cocktail.

5 HF Chairman Mr. Steve Mainda, HF MD Mr. Frank Ireri and Hon. Dr. Moody Awori share a light moment at the cocktail.

6 HF Rehani Branch Manager with customers.

7 HF Chairman and Hon. Dr. Moody Awori.

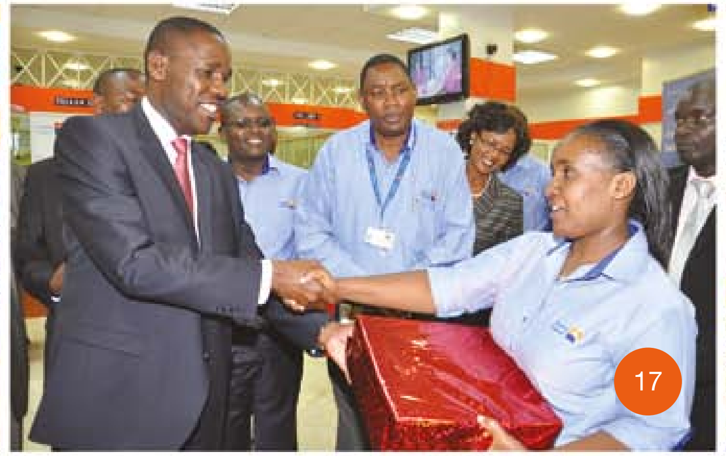
8 C.S. Henry Rotich unveils the Ezesha Product as HF MD and HF Chairman look on.

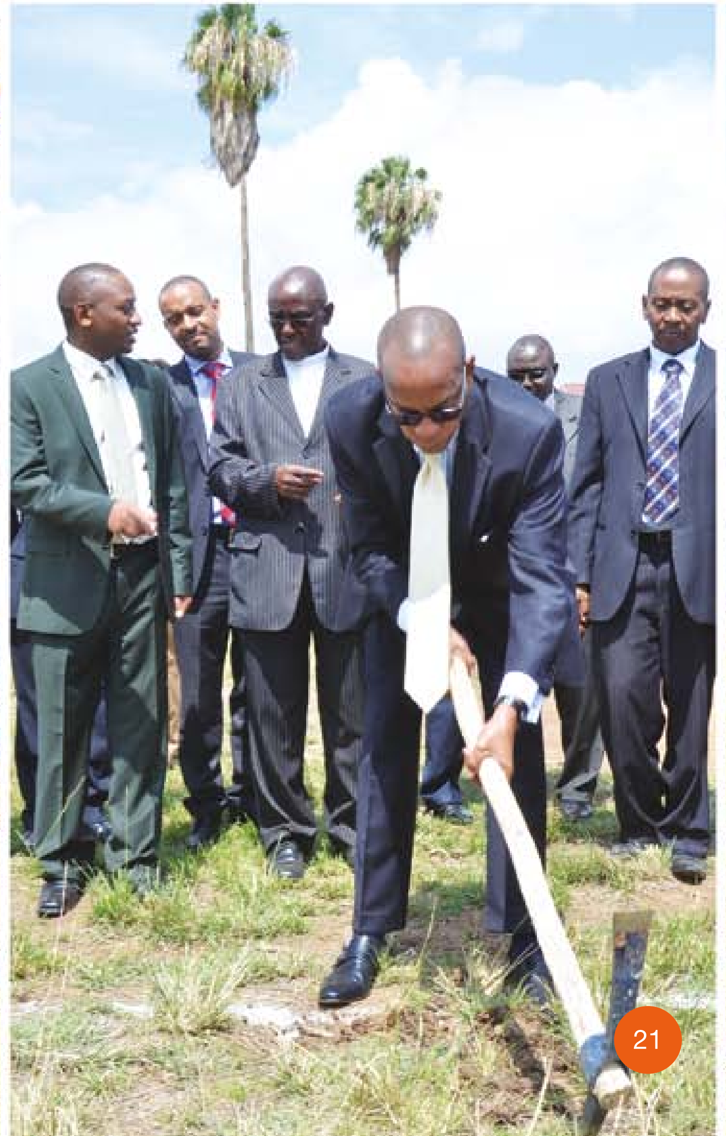
9 Vision 2030 Delivery Board Director General Mugo Kibati with HF MD at the MOU signing ceremony.

10 HF MD and HF Chairman present a gift to Cabinet Secretary Henry Rotich as Mr. Adan Mohammed looks on.

11 Sarakasi Dancers entertain guests at the Ezesha Product Launch in Serena Hotel.

12 Vision 2030 Delivery Board Director General Mugo Kibati and HF MD sign their copies of the MOU.





ACTIVITIES (CONTINUED)

13 Vision 2030 Delivery Board Director General awards HFF with Vision 2030 flagship status to create an “Army of 1 Million Artisans” by 2016.

14 Mr. Kibati and HF MD exchange the signed documents.

15 The Deputy Governor, Mr. Gerald Githinji, Kiambu County with HF MD at the ground breaking ceremony for Kahawa Downs.

16 HF MD, C.S. Rotich and HF Chairman are all smiles as the C.S. unwraps his gift.

17 Meru Governor Hon. Peter Munya receives gift from HF’s Jedida Kyalo.

18 HF MD with Meru Governor and Hon. Dawood at the Meru Branch Opening.

19 Meru Governor opens the Branch.

20 Mr. Kibathi of Kahawa Downs Development Estate breaks ground.

21 HF MD breaks ground at Kahawa Downs Development Estate in Kiambu County.

22 The contractor of Kahawa Downs Development Estate.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2013. The report discloses the state of affairs of the Group and the Company.

1. Principal activities

The company is licensed to transact banking business 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 insurance agency business.

2. Results and appropriations

	2013 KShs'000	2012 KShs'000
Gross income	**6,808,429**	**5,352,701**
Profit before taxation		
Housing Finance Company of Kenya Limited	1,213,429	902,001
Kenya Building Society Limited	228,077	574
First Permanent (East Africa) Limited	-	-
Housing Finance Insurance Agency	38,850	5,056
Group profit before taxation	1,480,356	907,631
Taxation	(485,160)	(164,297)
Profit after taxation	995,196	743,334
Retained profit brought forward	1,465,725	952,848
	2,460,921	1,696,182
Dividends – Interim paid/proposed	(404,301)	(322,823)
Change in fair value of Available for sale investments	57,018	(2,503)
Transfer from statutory reserve	3,474	94,869
Retained profit carried forward	**2,117,112**	**1,465,725**

3. Dividend

The Directors recommend a final dividend payment of KShs 231,070,000 (2012 – KShs 161,420,000). An interim dividend amounting to KShs. 173,231,000 (2012 – KShs 161,403,000) was paid during the year. The total dividend for the year is therefore KShs 1.75 per share (2012 – KShs 1.40), amounting to a total of KShs 404,301,000 (2012 – KShs 322,823,000).

4. Directors

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

5. Auditors

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

6. Approval of financial statements

The financial statements set out on pages 45 to 52 were approved at a meeting of the Directors held on 18th February 2014.

BY ORDER OF THE BOARD
Company Secretary

Date: 18th February 2014

RIPOTI YA WAKURUGENZI KWA KIPINDI CHA MWAKA ULIOMALIZIKA DESEMBA 31, 2013

Wakurugenzi wanafuraha kutoa ripoti yao pamoja na taarifa ya hesabu za pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2013. Ripoti hii inafichua hali ya shughuli za kundi na kampuni.

1. Shughuli Muhimu

Kampuni imepewa leseni kuendesha biashara za benki chini ya sheria za benki (kifungu nambari 488) na imejitolea kuhimiza na kusaidia uwekaji akiba kwa watu binafsi na umma ili kugharamia ujenzi wa makao yao.

Shughuli nyingine ndogo ni pamoja na ustawishaji na uuzaji wa nyumba za kuishi na pia wakala wa biashara za bima.

2. Matokeo na Matumizi ya pesa

	2013 KShs'000	2012 KShs'000
Mapato Kwa jumla	**6, 808, 429**	**5, 352, 701**
Faida kabla ya ushuru		
Housing Finance Company of Kenya Limited	1, 213, 429	902,001
Kenya Building Society Limited	228, 077	574
First Permanent (East Africa) Limited	-	-
Wakala wa Bima wa Housing Finance	38, 850	5,056
Faida ya kundi kabla ya ushuru	1, 480, 356	907, 631
Ushuru	(485,160)	(164, 297)
Faida baada ya ushuru	995, 196	743, 334
Faida iliyohifadhiwa na kuwasilishwa	1, 465, 725	952, 848
	2, 460, 921	1, 696, 182
Mgawo wa faida – uliolipwa awali/uliopendekezwa	(404, 301)	(322, 823)
Mabadiliko ya thamani iliyoko katika uwekezaji wa mauzo	57,018	(2, 503)
Kuhamisha kutoka hifadhi ya kisheria	3, 474	94, 869
Faida iliyohifadhiwa na kuwasilishwa	**2, 117, 112**	**1, 465, 725**

3. Mgawo wa Faida

Wakurugenzi wanapendekeza malipo ya mwisho ya mgawo wa faida ya KShs. 231, 070, 000 (2012 yalikuwa KShs 161, 420, 000). Malipo ya awali ya jumla ya KShs. 173, 231, 000 (2012 yalikuwa KShs. 161, 403,000) yalilipwa wakati wa kipindi hiki cha mwaka. Jumla ya mgawo wa faida kwa mwaka ni KShs. 1.75 kwa kila hisa (2012 yalikuwa KShs. 1.40) na kuwa jumla ya KShs 404, 301,000 (2012 yalikuwa KShs. 322, 823,000)

4. Wakurugenzi

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

5. Wakaguzi wa pesa

Wakaguzi wa Pesa KPMG Kenya wataendelea mbele 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 za mabenki (kifungu nambari 488).

Taarifa za matumizi ya pesa zilizofafanuliwa kupitia ukurasa wa 45 hadi 52 ziliidhinishwa wakati wa mkutano wa wakurugenzi uliofanyika 18 Februari 2014.

KWA AMRI YA HALMASHAURI
Katibu wa Kampuni

Tarehe: 18 Februari 2014

CORPORATE GOVERNANCE

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

In recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including The Guidelines on Corporate Governance (CBK/PG/02) issued by the Central Bank of Kenya in January 2013 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 seven non-executive Directors including an independent Chairman and one executive Director. Mr. Frank Ireri is the Managing Director. At least a third of the Directors are independent and non-executive. 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 three non-executive Directors:

- David Ansell (Chairman)
- Shem Migot-Adholla
- Benson Wairegi

All the members of this committee are 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.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee (Continued)

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

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

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

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

Risk Management Committee

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

- Shem Migot-Adholla (Chairman)
- Adan Mohammed
- 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.

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committee (Continued)

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 three Non-Executive Directors:

- David Ansell (Chairman)
- Steve O Mainda
- Adan Mohammed

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.

Board Strategy Committee

This committee is composed of four Non-Executive Directors and the Managing Director.

- Benson Wairegi (Chairman)
- Steve Mainda
- Peter K Munga
- Adan Mohammed
- 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:

CORPORATE GOVERNANCE (CONTINUED)

Attendance of Individual Directors (Continued)

Board meetings attendance for the year ended 31 December 2013	Board meetings					Total attendance
	22/1	19/2	23/4	16/7	26/10	
Steve Mainda	√	√	√	√	√	5
David R. Ansell	X	√	√	√	√	4
Benson Wairegi	√	√	√	√	√	5
Peter Munga	X	√	√	√	√	4
Shem Migot - Adholla	√	√	√	√	√	5
Adan D Mohamed	√	√	√	√	√	5
Frank Ireri	√	√	√	√	√	5

√ 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 2014, 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 Securities 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.

CORPORATE GOVERNANCE (CONTINUED)

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 2013

Name	No of shares	% age shareholding
1. Equity Bank Ltd	57,270,000	24.78
2. Equity Nominees Limited A/C 00104	23,352,293	10.11
3. British American Insurance Company (Kenya) Ltd	20,416,245	8.84
4. National Social Security Fund	15,716,448	6.80
5. Permanent Secretary Treasury	8,422,850	3.65
6. Equity Nominees Limited A/C 00110	5,249,707	2.27
7. CFC Stanbic Nominees Ltd A/C NR1030833	4,057,200	1.76
8. Mehul Patel & Praksha Patel	3,285,600	1.42
9. Jubilee Insurance Company Of Kenya Limited	2,514,772	1.09
10. Kestrel Capital Nominees Ltd A/C TERRA W.O.F	1,817,900	0.79
TOTAL	**142,103,015**	**61.50**

8. Distribution of shareholders as at 31 December 2013

Number of shares	No. of shareholders	No. of shares held	% shareholding
1-500	9,804	2,491,778	1.08
501-1,000	4,476	3,853,962	1.67
1,001-10,000	12,418	34,542,420	14.95
10,001-50,000	913	18,098,474	7.83
50,001-100,000	93	6,465,835	2.80
100,001-1,000,000	72	17,876,708	7.74
Over 1,000,000	14	147,740,823	63.94
TOTAL	**27,790**	**231,070,000**	**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 45 to 109 which comprise the statements of financial position of the Group and the Company as at 31 December 2013, and the Group's statement of profit or loss and other comprehensive income, Group's and Company statement of changes in equity and Group's statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the 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 18th February 2014 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 ilivyoelelezewa kupitia ukurasa 45 hadi 109 ambayo inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2013 na taarifa ya kina ya kundi kuhusiana na mapato, taarifa ya kampuni kuhusu mabadiliko ya 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 unahusisha: kuhakikisha kwamba mbinu iliyotumika ya uhasibu kama ilivyofafanuliwa kupitia dokezo la 2 ni ile inayokubalika kuandaa na kutoa taarifa za matumizi ya pesa kulingana na hali ilivyo, kuandaa na kutoa taarifa za matumizi ya pesa kwa mujibu wa viwango vya kimataifa na kwa njia ambayo inakubalika na sheria za vyama nchini ; na kwa hali ambayo itathibiti ukaguzi wa ndani ambao wakurugenzi wataona unafaa kuwawezesha kutekelezwa kwa matayarisho ya taarifa ya matumizi ya pesa ambayo haina udanganyifu wowote, hila au makosa.

Chini ya sheria za makampuni nchini Kenya, wakurugenzi wanahitajika kuandaa taarifa ya matumizi ya pesa kwa kila kipindi cha matumizi ya pesa ambayo itatonyesha taswira halisi ya mwelekeo wa kundi na kampuni kufikia mwisho wa kipindi hicho na pia matokeo ya shughuli mwaka huo. Pia, inawahitaji wakurugenzi kuhakikisha kwamba kundi linahifadhi vyema rekodi za hesabu ambazo zitafichua makisio ya maana ya kifedha ya kampuni na kundi.

Wakurugenzi hukubali kuchukua jukumu kuhusu taarifa ya ukaguzi wa pesa ambayo imetayarishwa kwa kuzingatia sera za ukaguzi wa pesa zinazohitajika na kuungwa mkono na uhakiki wa maana na makisio yanayofaa kufungamana na viwango vya kimataifa na kwa mujibu unaolingana 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 kuthibiti ukaguzi wa ndani wa fedha.

Wakurugenzi wametekeleza tathmini ya kundi na uwezo wa kampuni kuendelea na shughuli zake na hawana tashwishi kuamini kwamba kundi na kampuni zitaweza kuendelea mbele bila kusitisha 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 iliyoonyeshwa hapo juu iliidhinishwa na halmashauri ya Wakurugenzi mnamo 18 Februari 2014 na kutiwa sahihi kwa niaba yake na:

Mkurugenzi

Mkurugenzi

REPORT OF THE INDEPENDENT AUDITORS

We have audited the Group financial statements of Housing Finance Company of Kenya Limited set out on pages 45 to 109 which comprise the statement of financial positions of the Group and the Company at 31 December 2013, and the Group's statement of profit or loss and other comprehensive income, Group and Company statement of changes in equity and Group statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 41, the company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Kenya, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the consolidated financial position of Housing Finance Company of Kenya Limited at 31 December 2013, and the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and the statement of financial position of the Company is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Maina Gathecha - P/1610.

KPMG Kenya

Date: 18th February 2014

RIPOTI KUTOKA KWA WAHASIBU WA KUJITEGEMEA.

Tumetayarisha ukaguzi kuhusu taarifa ya matumizi ya pesa ya Housing Finance Company of Kenya Limited kama ilivyochapishwa kupitia ukurasa wa 45 hadi 109. Taarifa hii inajumuisha hali ya kifedha ya kundi na kampuni kufikia Desemba 31, 2013 pamoja na taarifa ya kina kuhusu mapato, kundi na taarifa zinazohusiana na mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika na pia muhtasari wa sera muhimu za ukaguzi wa pesa pamoja na maelezo mengine.

Wajibu wa Wakurugenzi Kuhusiana na Taarifa ya Matumizi ya Pesa

Kama ilivyoelezwa kupitia ukurasa wa 42, wakurugenzi wa Kampuni wana jukumu la kuandaa na kutoa taarifa iliyo sawa ya matumizi haya ya pesa kwa mujibu wa viwango vya kimataifa na kwa njia inayohitajika na sheria za makampuni nchini Kenya na kwa ukaguzi wa ndani wa pesa ambao wakurugenzi wataona unafaa kuwezesha utayarishaji wa taarifa za matumizi ya pesa ambazo hazina udanganyifu wowote iwe ni ni kwa udanganyifu au makosa.

Wajibu wa Wakaguzi wa Hesabu

Wajibu wetu ni kutoa maoni kuhusiana na 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 unahusisha utekelezaji wa hatua ili kupata ushahidi wa idadi na fichuzi katika taarifa ya matumizi ya pesa. Taratibu zilizoteuliwa zinategemea uamuzi wetu ukiwemo ukadiriaji wa hatari za udanganyifu kuhusu 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. Ukaguzi pia unahusisha tathmini za sera za uhasibu zilizotumika na makadirio ya makadirio ya maana ya uhasibu yaliyoandaliwa na wasimamizi pamoja na tathmini ya jumla ya mtazamo halisi 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, 2013 na pia matokeo ya kifedha ya kundi na mtiririko wa pesa mwaka uliomalizika kuambatana na viwango vya kimataifa na sheria za makampuni nchini Kenya kuhusu utoaji wa ripoti za ukaguzi wa pesa.

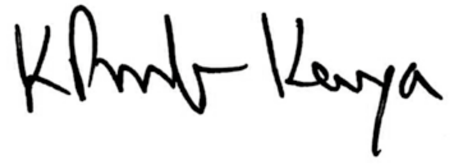
Ripoti Kuhusu Mahitaji Mengine ya kisheria

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

Tumapata maelezo na vidokezo vinavyohitajika ambavyo kwa ufahamu wetu na imani vilikuwa muhimu kwa madhumuni ya ukaguzi wetu;

- Kwa maoni yetu hifadhi njema ya rekodi ya vitabu vya hesabu imewekwa na kampuni kama inavyoonekana kupitia uchunguzi wetu wa vitabu hivyo na;
- Taarifa ya kifedha kuhusu hali ya kampuni inawiana na vitabu vya kuhifadhi hesabu.

Mshiriki aliyehusika na ukaguzi uliopelekea kuwepo kwa ripoti hii ya wakaguzi wa kujitegemea ni CPA Jacob Maina Gathecha- P/1610



Tarehe: 18 Februari 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 KShs'000	2012 KShs'000
Interest income	7	5,440,059	5,068,815
Interest expense	7	(2,886,682)	(3,118,780)
Net interest income		2,553,377	1,950,035
Impairment losses on mortgage advances	18(c)	(280,893)	(197,766)
Net interest income after impairment Losses on mortgage advances		**2,272,484**	**1,752,269**
Non-interest income	8	1,368,370	283,886
Non-interest expenses	9	(2,160,498)	(1,128,524)
Profit before taxation	**10**	**1,480,356**	**907,631**
Income tax expense	11	(485,160)	(164,297)
Net profit after tax for the year		**995,196**	**743,334**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of available-for-sale investments	34(e)	57,018	(2,503)
Total comprehensive income for the year		**1,052,214**	**740,831**
Annualised basic and diluted earnings per share – KShs		**4.30**	**3.22**
Dividends per share - KShs		1.75	1.40
Total number of shares		231,070	230,600

TThe notes set out on pages 53 to 109 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KShs'000	2012 KShs'000
Assets			
Cash and balances with banks	15	1,719,004	1,454,359
Placements with other banks	16	6,878,601	6,395,958
Investment in government securities	17	288,167	723,616
Mortgage advances to customers (Net)	18(a)	35,215,897	30,293,711
Investment in joint venture	19	190,800	86,700
Other assets	21	1,126,173	384,425
Equity investments	22	151,500	60,000
Housing development projects	23	117,822	442,055
Property and equipment	24(a)	945,515	716,708
Prepaid operating lease rentals	25	46,685	47,329
Intangible assets	26	395,935	9,923
Tax recoverable		-	69,156
Deferred tax asset	27(a)	313,278	272,637
Total Assets		**47,389,377**	**40,956,577**
Liabilities			
Customers' deposits	29	26,507,204	22,937,649
Other liabilities	30	539,835	760,214
Tax payable		71,471	-
Dividends payable		47,710	24,112
Loans from banks	31	3,803,905	1,702,834
Borrowed funds	32	347,276	181,891
Corporate bond	33	10,212,469	10,212,633
		41,529,870	**35,819,333**
Shareholders' Equity			
Share capital	34	1,155,350	1,153,000
Reserves (Page 49 & 50)		4,653,407	3,933,494
Shareholders' income notes and loans	35	50,750	50,750
		5,859,507	5,137,244
Total Liabilities And Shareholders' Equity		**47,389,377**	**40,956,577**

The financial statements set on pages 45 to 109 were approved by the Board of Directors on 18th February 2014 and were signed on its behalf by:

Director: 　　　　Director:

Director: 　　　　Company Secretary:

The notes set out on pages 53 to 109 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 KShs'000	2012 KShs'000
Assets			
Cash and balances with Central Bank of Kenya	15	1,718,991	1,454,346
Placement with other banks	16	6,878,601	6,395,958
Investment in government securities	17	288,167	723,616
Mortgage advances to customers (Net)	18(a)	35,215,897	30,293,711
Investment in subsidiaries	19	255,120	255,120
Other assets	21	367,214	388,032
Equity investments	22	151,500	60,000
Investment in joint venture	19	190,800	86,700
Property and equipment	24(b)	939,444	710,769
Prepaid operating lease rentals	25	40,326	40,787
Intangible assets	26	395,935	9,923
Tax recoverable		-	46,773
Deferred tax asset	27(b)	313,116	220,193
Total Assets		**46,755,111**	**40,685,928**
Liabilities			
Customers' deposits	29	26,588,851	22,968,209
Amounts due to subsidiary company	20	-	100
Other liabilities	30	351,478	632,223
Tax payable		68,845	-
Dividends payable		47,710	24,112
Loans from banks	31	3,803,905	1,702,834
Corporate bond	33	10,212,469	10,212,633
		41,073,258	**35,540,111**
Shareholders' Equity			
Share capital	34	1,155,350	1,153,000
Reserves (Page 51 & 52)		4,475,753	3,942,067
Shareholders' income notes and loans	35	50,750	50,750
		5,681,853	5,145,817
Total Liabilities And Shareholders' Equity		**46,755,111**	**40,685,928**

The financial statements set on pages 45 to 109 were approved by the Board of Directors on 18th February 2014 and were signed on its behalf by:

Director: 　　　　Director:

Director: 　　　　Company Secretary:

The notes set out on pages 53 to 109 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 KShs'000	2012 KShs'000
Net cash flows from operating activities	**36(a)**	**1,741,341**	**2,201,041**
Investing Activities			
Purchase of property and equipment		(107,573)	(75,230)
Investment in joint venture		(104,100)	(86,700)
Capital work in progress		(192,263)	-
Proceeds from sale of equipment		4,025	912
Additions to intangible assets		(396,410)	(10,131)
Net cash flow from investing activities		**(796,321)**	**(171,149)**
Financing Activities			
Employee Share Ownership Plan		4,700	1,750
Dividend paid		(311,052)	(319,798)
Net cash flow from financing activities		**(306,352)**	**(318,048)**
Net increase in cash and cash equivalents	**36(b)**	**638,668**	**1,711,844**

The notes set out on pages 53 to 109 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

2013:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2013	1,153,000	512,331	1,552,173	161,420	241,845	1,502,228	(36,503)	5,086,494
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	995,196	-	995,196
Change in fair value of available-for-sale investments	-	-	-	-	-	-	57,018	57,018
Transfer from statutory credit risk reserve	-	-	-	-	(3,474)	3,474	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(3,474)**	**998,670**	**57,018**	**1,052,214**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,350	-	2,350	-	-	-	-	4,700
Dividend paid - 2012	-	-	-	(161,420)	-	-	-	(161,420)
Interim dividend paid - 2013	-	-	-	-	-	(173,231)	-	(173,231)
Proposed dividends	-	-	-	231,070	-	(231,070)	-	-
Total transactions with owners for the year	**2,350**	**-**	**2,350**	**69,650**	**-**	**(404,301)**	**-**	**(329,951)**
Balance as at 31 December 2013	**1,155,350**	**512,331**	**1,554,523**	**231,070**	**238,371**	**2,096,597**	**20,515**	**5,808,757**

The notes set out on pages 53 to 109 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

2012:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2012	1,152,125	512,331	1,551,298	161,298	336,714	986,848	(34,000)	4,666,614
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	743,334	-	743,334
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(2,503)	(2,503)
Transfer from statutory credit risk reserve	-	-	-	-	(94,869)	94,869	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(94,869)**	**838,203**	**(2,503)**	**740,831**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	875	-	875	-	-	-	-	1,750
Dividend paid - 2011	-	-	-	(161,298)	-	-	-	(161,298)
Interim dividend paid - 2012	-	-	-	-	-	(161,403)	-	(161,403)
Proposed dividends	-	-	-	161,420	-	(161,420)	-	-
Total transactions with owners for the year	**875**	**-**	**875**	**122**	**-**	**(322,823)**	**-**	**(320,951)**
Balance as at 31 December 2012	**1,153,000**	**512,331**	**1,552,173**	**161,420**	**241,845**	**1,502,228**	**(36,503)**	**5,086,494**

The notes set out on pages 53 to 109 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

2013:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2013	1,153,000	512,331	1,552,173	161,420	241,845	1,510,801	(36,503)	5,095,067
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	808,969	-	808,969
Change in fair value of available-for-sale investments	-	-	-	-	-	-	57,018	57,018
Transfer from statutory credit risk reserve	-	-	-	-	(3,474)	3,474	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(3,474)**	**812,443**	**57,018**	**865,987**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	2,350	-	2,350	-	-	-	-	4,700
Dividend paid - 2012	-	-	-	(161,420)	-	-	-	(161,420)
Interim dividend paid - 2013	-	-	-	-	-	(173,231)	-	(173,231)
Proposed dividends	-	-	-	231,070	-	(231,070)	-	-
Total transactions with owners for the year	**2,350**	**-**	**2,350**	**69,650**	**-**	**(404,301)**	**-**	**(329,951)**
Balance as at 31 December 2013	**1,155,350**	**512,331**	**1,554,523**	**231,070**	**238,371**	**1,918,943**	**20,515**	**5,631,103**

The notes set out on pages 53 to 109 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

2012:	Share capital KShs'000	Revaluation reserve KShs'000	Share premium KShs'000	Proposed dividends KShs'000	Statutory credit risk reserve KShs'000	Retained profits KShs'000	Available-for-sale reserve KShs'000	Total KShs'000
At 1 January 2012	1,152,125	512,331	1,551,298	161,298	336,714	1,051,702	(34,000)	4,731,468
Total comprehensive income for the year								
Net profit after taxation	-	-	-	-	-	687,053	-	687,053
Change in fair value of available-for-sale investments	-	-	-	-	-	-	(2,503)	(2,503)
Transfer from statutory credit risk reserve	-	-	-	-	(94,869)	94,869	-	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**(94,869)**	**781,922**	**(2,503)**	**684,550**
Transactions with owners, recorded directly in equity								
Employee Share Ownership Plan	875	-	875	-	-	-	-	1,750
Dividend paid - 2011	-	-	-	(161,298)	-	-	-	(161,298)
Interim dividend paid - 2012	-	-	-	-	-	(161,403)	-	(161,403)
Proposed dividends	-	-	-	161,420	-	(161,420)	-	-
Total transactions with owners for the year	**875**	**-**	**875**	**122**	**-**	**(322,823)**	**-**	**(320,951)**
Balance as at 31 December 2012	**1,153,000**	**512,331**	**1,552,173**	**161,420**	**241,845**	**1,510,801**	**(36,503)**	**5,095,067**

The notes set out on pages 53 to 109 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013 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) and in compliance with the Kenyan Companies Act.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

(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 Bank'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. Except as otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (KShs'000).

(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) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

3. Significant Accounting Policies (Continued)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.
If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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.

3. Significant Accounting Policies (Continued)

(b) Revenue recognition (continued)

(i) Interest (continued)

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; and,
- interest on available-for-sale investment securities on an effective interest basis.

(ii) Non interest income

i. 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.

ii. Sale of houses

Revenue is recognized from sale of houses in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

iii. Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

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

(d) Property and equipment

(i) Recognition and measurement

All categories of property and equipment are initially recorded at cost. Property and equipment is subsequently shown at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed by external independent valuers. Purchased software that is integral to the functioning of related equipment is capitalized as part of that equipment. Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit or loss.

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The cost of day to day servicing of property and equipment are recognized in the profit and loss.

3. Significant Accounting Policies (Continued)

(d) Property and equipment (continued)

(ii) Depreciation

Freehold land is not depreciated.

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

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

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

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

(iii) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to the carrying amount and are recognised in 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 is 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 the software is available for use.

(f) Prepaid operating lease rental

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 profit or loss 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 profit or loss in the year to which they relate. The Group has no further obligation once the contributions have been paid.

3. Significant Accounting Policies (Continued)

(g) Employee benefits (continued)

(ii) Employee Share Ownership Plan (ESOP)

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(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. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(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 liability 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 deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. 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. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3. Significant Accounting Policies (Continued)

(h) Taxation (continued)

A deferred tax asset is recognised for unused tax losses and deductible temporary differences 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 at hand, unrestricted balances held with Central Bank of Kenya, balances with commercial banks 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. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

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.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

(ii) Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

• loans and receivables;
• held to maturity;
• available-for-sale;

Management determines the classification of its investments at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

3. Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

(ii) Classification (continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or 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. Financial assets at fair value through profit and loss are measured at fair value and changes therein are measured in profit or loss.

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, staff loans and placements with other banks. Loans and advances are subsequently measured at their amortised cost using the effective interest method.

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. If the Group were 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. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held-to-maturity or (c) financial assets at fair value through profit and loss.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to 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

3. Significant Accounting Policies (Continued)

(j) Financial assets and liabilities (continued)

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

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 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 trends. 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 profit or loss. Changes in cumulative impairment losses attributable to the effective interest method are reflected as a component of interest 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 in other comprehensive income directly in equity.

(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.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. Significant Accounting Policies (Continued)

(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.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the 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.

(l) Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Committee (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 weighted number of ordinary shares. Diluted earnings 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 significant 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments at the time value of money and the risks specific to the liability. The unwinding of the discount is regarded as a finance cost.

(p) Joint venture

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that joint control commences until the date the joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3. Significant Accounting Policies (Continued)

(q) Comparatives

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

(r) 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 2013, and have not been applied in preparing these consolidated financial statements. These are summarised below and are not expected to have a significant impact on the consolidated financial statements of the Group:

- *IFRS 9 Financial Instruments.* IFRS 9 will become mandatory for the Bank's 2018 financial statements.
  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.The Bank is still evaluating the potential effect of the adoption of IFRS 9.
- *IAS 32 Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014). The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.
- *IFRIC 21 Levies* (effective for annual periods beginning on or after 1 January 2014).
  IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. The Bank is still evaluating the potential effect of the adoption of IFRIC 21.

4. Financial Risk Management

Principles

Housing Finance faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Group's risk exposure, actions to limit risk and the constant monitoring of risk. The overarching aim of risk management is to ensure that all risks assumed in the course of the Group's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Group. Risk management and monitoring are implemented via the Group's risk management and risk control process and the organization structure corresponds to the CBK Risk Management Guidelines.

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

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Group and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Company and divisional levels, as well as by enforcing consistent operating limits for individual business activities.
- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the 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.

4. Financial Risk Management (Continued)

(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 Group 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 risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).
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 Group 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.

4. Financial Risk Management (Continued)

(i) Credit risk (continued)

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.

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.

4. Financial Risk Management (Continued)

(i) Credit risk (continued)

	Mortgage advances		Investment in government Securities		Investment in equities		Placement with other banks	
	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000	2013 KShs'000	2012 KShs'000
Exposure to credit risk								
Impaired loans	3,209,739	2,331,482	-	-	-	-	-	-
Gross amount allowance for impairment	(878,649)	(648,261)	-	-	-	-	-	-
Carrying amount	**2,331,090**	**1,683,221**	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired (normal and watch)	32,952,381	28,687,140	288,167	723,616	151,500	60,000	6,878,601	6,395,958
Allowance for impairment incurred but not reported	(67,574)	(76,650)	-	-	-	-	-	-
Carrying amount	**32,884,807**	**28,610,490**	**288,167**	**723,616**	**151,500**	**60,000**	**6,878,601**	**6,395,958**
Net carrying amount	**35,215,897**	**30,293,711**	**288,167**	**723,616**	**151,500**	**60,000**	**6,878,601**	**6,395,958**

In addition to the above, the Group has entered into lending commitments of KShs 8,193,903,790 (2012 – KShs 4,438,269,576) with various counter parties.

The carrying amounts of cash and bank balances, investments in government securities, placements and balances with other banking institutions and the amounts due from related companies equal the maximum exposure to risk. In addition, these balances are neither past due nor impaired.

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

4. Financial Risk Management (Continued)

(i) Credit risk (continued)

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

	2013 KShs'000	2012 KShs'000
Against impaired accounts	5,819,734	4,379,006
Against accounts not impaired	86,650,273	80,803,867
	92,470,007	**85,182,873**

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:

	2013 KShs'000	2012 KShs'000
Properties	92,443,172	85,160,264
Secured by Cash	26,835	22,609
	92,470,007	**85,182,873**

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 Group 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 financial institutions and commitments maturing within the next 91 days. 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:

	2013	2012
At 31 December	33.12%	36.80%
Average for the year	34.18%	29.80%
Maximum for the year	39.12%	37.69%
Minimum for the year	26.40%	21.02%

4. Financial Risk Management (Continued)

(ii) Liquidity risk (continued)

Contractual maturity analysis of financial assets and liabilities

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

31 December 2013:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 & 12 months KShs'000	Due between 1 & 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash and bank balances	1,719,004	-	-	-	-	1,719,004
Placements with other banks	-	6,878,601	-	-	-	6,878,601
Investment in Government securities	288,167	-	-	-	-	288,167
Equity investments	-	-	-	-	151,500	151,500
Net mortgage advances to customers	154,735	2,632,483	1,592,026	3,045,379	27,791,274	35,215,897
Total	**2,161,906**	**9,511,084**	**1,592,026**	**3,045,379**	**27,942,774**	**44,252,169**
Financial liabilities						
Customer deposits	7,318,699	11,623,828	3,017,766	71,364	4,475,547	26,507,204
Loans from banks	-	151,360	405,543	2,491,791	755,211	3,803,905
Borrowed funds					347,276	347,276
Corporate bond	-	-	212,469	7,030,900	2,969,100	10,212,469
Government income notes	-	-	-	-	50,750	50,750
Total	**7,318,699**	**11,775,188**	**3,635,778**	**9,594,055**	**8,597,884**	**40,921,604**
Unrecognised mortgage commitments	**-**	**4,551,681**	**3,642,223**	**-**	**-**	**8,193,904**
At 31 December 2013	**(5,156,793)**	**(6,815,785)**	**(5,685,975)**	**(6,548,676)**	**19,344,890**	**(4,862,339)**

4. Financial Risk Management (Continued)

(ii) Liquidity risk (continued)

31 December 2013:	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 & 12 months KShs'000	Due between 1 & 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets						
Cash and bank balances	1,454,359	-	-	-	-	1,454,359
Placements with other banks	-	6,395,958	-	-	-	6,395,958
Investment in Government securities	-	401,644	-	-	321,972	723,616
Equity investments	-	-	-	-	60,000	60,000
Net mortgage advances to customers	-	525,530	1,435,399	4,031,429	24,301,353	30,293,711
Total	**1,454,359**	**7,323,132**	**1,435,399**	**4,031,429**	**24,683,325**	**38,927,644**
Financial liabilities						
Customer deposits	7,907,698	3,630,282	7,683,090	276,030	3,440,549	22,937,649
Loans from banks	-	179,165	215,001	1,012,974	295,694	1,702,834
Borrowed funds	-	-	-	181,891	-	181,891
Corporate bond	-	-	212,633	-	10,000,000	10,212,633
Government income notes	-	-	-	-	50,750	50,750
Total	**7,907,698**	**3,809,447**	**8,110,724**	**1,470,895**	**13,786,993**	**35,085,757**
Unrecognised mortgage commitments	**-**	**2,569,535**	**1,868,735**	**-**	**-**	**4,438,270**
At 31 December 2012	**(6,453,339)**	**944,150**	**(8,544,060)**	**2,560,534**	**10,896,332**	**(596,383)**

4. Financial Risk Management (Continued)

(iii) Market risk

Management of market risk

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

Exposure to interest rate risk

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

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

4. Financial Risk Management (Continued)

(iii) Market risk (continued)

31 December 2013:	Average interest rate	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 & 12 months KShs'000	Due between 1 & 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets							
Cash balances	-	1,719,004	-	-	-	-	1,719,004
Placements with other banks	8.23%	-	6,878,601	-	-	-	6,878,601
Investment in Government securities	12.07%	-	-	-	-	288,167	288,167
Net mortgage advances to customers	14.01%	-	34,697,698	-	518,199	-	35,215,897
Total		**1,719,004**	**41,576,299**	**-**	**518,199**	**288,167**	**44,101,669**
Financial liabilities							
Customer deposits	6.75%	7,322,073	11,620,454	3,017,766	71,364	4,475,547	26,507,204
Loans from banks	7.34%	-	1,189,186	1,729,758	-	884,961	3,803,905
Borrowed funds	16.50%	-	-	-	347,276	-	347,276
Corporate bond	10.17%	-	-	212,469	7,030,900	2,969,100	10,212,469
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**7,322,073**	**12,809,640**	**4,959,993**	**7,449,540**	**8,380,358**	**40,921,604**
Unrecognised mortgage commitments		**-**	**4,551,681**	**3,642,223**	**-**	**-**	**8,193,904**
At 31 December 2013		**(5,603,069)**	**24,214,978**	**(8,602,216)**	**(6,931,341)**	**(8,092,191)**	**(5,013,839)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

4. Financial Risk Management (Continued)

(iii) Market risk (continued)

31 December 2012:	Average interest rate	Due on demand KShs'000	Due within 3 months KShs'000	Due between 3 & 12 months KShs'000	Due between 1 & 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Financial assets							
Cash balances	-	1,454,359	-	-	-	-	1,454,359
Placements with other banks	14.12%	-	6,395,958	-	-	-	6,395,958
Investment in Government securities	14.65%	-	401,644	-	-	321,972	723,616
Net mortgage advances to customers	15.57%	-	525,530	1,435,399	4,031,429	24,301,353	30,293,711
Total		**1,454,359**	**7,323,132**	**1,435,399**	**4,031,429**	**24,623,325**	**38,867,644**
Financial liabilities							
Customer deposits	8.03%	7,907,698	3,630,282	7,683,090	276,030	3,440,549	22,937,649
Loans from banks	7.87%	-	179,165	215,001	1,012,974	295,694	1,702,834
Borrowed funds	16.50%	-	-	-	181,891	-	181,891
Corporate bond	9.01%	-	-	212,633	-	10,000,000	10,212,633
Government income notes	8.25%	-	-	-	-	50,750	50,750
Total		**7,907,698**	**3,809,447**	**8,110,724**	**1,470,895**	**13,786,993**	**35,085,757**
Unrecognised mortgage commitments		**-**	**2,569,535**	**1,868,735**	**-**	**-**	**4,438,270**
At 31 December 2012		**(6,453,339)**	**944,150**	**(8,544,060)**	**2,560,534**	**10,836,332**	**(656,383)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

4. Financial Risk Management (Continued)

(iii) Market risk (continued)

Sensitivity analysis interest rate risk

At 31 December 2013, 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 15.433 million (2012 – KShs 13.790 million) lower arising mainly as a result of lower interest income and other components of equity would have been KShs 10.803 million (2012 – KShs 9.653 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 15.433 million (2012 - KShs 13.790 million) higher, arising mainly as a result of higher interest income on mortgage lending and other components of equity would have been KShs 10.803 million (2012 – KShs 9.653 million) higher, arising mainly as a result of higher interest income mortgages.

Sensitivity analysis foreign currency exchange risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which bank placements and borrowings are denominated and the respective functional currencies of the Group companies. The functional currency of Group is the Kenya Shillings. The Group's policy is to ensure that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.
The summary quantitative data about the Group's exposure to currency risk as reported to the management is as follows.

	2013 USD	2012 USD
Bank placements	33,103,344	9,000,000
Bank loans	(33,750,000)	(8,333,333)
Net statement of financial position exposure	**(646,656)**	**666,667**
Average rate	86.3097	86.0286
Year-end spot rate	86.2139	85.9383

A reasonably possible strengthening/(weakening) of the KShs against the USD as at 31 December 2013 would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Profit or loss		Equity	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
31 December 2013				
USD 10% Movement	64,666	(64,666)	64,666	(64,666)
31 December 2012				
USD 10% Movement	66,667	(66,667)	66,667	(66,667)

4. Financial Risk Management (Continued)

(iv) Operational risk

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

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

Risk measurement and control

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups to ensure compliance with the Group'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 Group'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 Group 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 2013 and 31 December 2012 was as follows:

	2013 KShs'000	2012 KShs'000
Tier 1 capital		
Ordinary share capital	1,155,350	1,153,000
Share premium	1,554,523	1,552,173
Retained earnings	1,939,458	1,474,298
	4,649,331	**4,179,471**
Tier 2 capital		
Collective allowances for impairment	238,371	241,845
Revaluation reserve	112,301	112,301
Qualifying subordinated liabilities	1,901,469	1,914,797
	2,252,141	**2,268,943**
Total regulatory capital	**6,901,472**	**6,448,414**
Risk weighted assets	**28,946,161**	**21,847,824**

Capital ratios	**2013**	**2012**
Total regulatory capital expressed as a percentage of total risk-weighted assets	23.80%	29.52%
Total tier 1 capital expressed as a percentage of risk-weighted assets	16.06%	19.13%

Central Bank of Kenya required the Company to maintain a minimum core capital of KShs 1 billion as at 31 December 2013.

The company is already compliant with this requirement.

5. Operating Segments

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

5. Operating Segments (Continued)

	Mortgage Lending					
	Retail		Corporate		Total	
External revenues	**2013 KShs'000**	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**	**2013 KShs'000**	**2012 KShs'000**
Interest income	3,133,568	2,901,842	2,306,491	2,166,973	5,440,059	5,068,815
Interest expense:						
- Retail	(1,488,663)	(1,566,060)	-	-	(1,488,663)	(1,566,060)
- Corporate	-	-	(1,398,389)	(1,552,798)	(1,398,389)	(1,552,798)
Net interest income	**1,644,905**	**1,335,782**	**908,102**	**614,175**	**2,553,007**	**1,949,957**
Non interest income	222,378	197,485	81,941	75,454	304,319	272,940
Reporting segment profit/(loss) before income tax	851,340	720,437	362,089	181,564	1,213,429	902,001
Loan disbursements	6,687,674	5,164,672	5,379,866	4,876,404	12,067,540	10,041,076
Loan sales	7,612,454	5,265,105	8,119,181	6,782,408	15,731,635	12,047,513
Deposits balances	11,743,599	9,813,268	14,845,251	13,154,941	26,588,851	22,968,209
Other material non cash items						
Impairment losses on mortgage loans	(206,189)	(146,893)	(74,704)	(50,872)	(280,893)	(197,766)
Capital expenditure	307,416	28,270	388,609	36,820	696,025	65,090
Reportable segment assets	**24,074,531**	**20,412,573**	**22,680,580**	**20,273,357**	**46,755,111**	**40,685,930**
Reportable segment liabilities	**19,238,424**	**16,151,432**	**21,885,584**	**19,439,430**	**41,124,008**	**35,590,862**

5. Operating Segments (Continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities	2013 KShs'000	2012 KShs'000
Net interest income		
Total net interest income for reportable segments	2,553,007	1,949,957
Other interest income adjustments	300	78
Consolidated net interest income	**2,553,377**	**1,950,035**
Non interest income		
Total non interest income for reportable segments	304,319	272,940
Other non interest income	1,064,051	10,946
Consolidated non interest income	**1,368,370**	**283,886**
Profit or loss		
Total profit or loss for reportable segments	1,213,429	902,001
Other profit or loss	266,927	5,630
Consolidated profit before income tax	**1,480,356**	**907,631**
Assets		
Total assets for reportable segments	46,755,111	40,685,930
Other assets	634,266	270,647
Consolidated total assets	**47,389,377**	**40,956,577**
Liabilities		
Total liabilities for reportable segments	41,124,008	35,590,862
Other liabilities	408,242	228,471
Consolidated total liabilities	**41,532,250**	**35,819,333**

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.

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 Group 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

Interest income	2013 KShs'000	2012 KShs'000
Arising from:		
Advances to customers	4,888,272	4,288,484
Placements with other banks	505,251	717,146
Treasury bonds	46,536	63,185
	5,440,059	**5,068,815**

Included in interest income on mortgage advances for the year is a total of KShs 411,995,347 (2012 – KShs 226,491,925) accrued on impaired assets. Interest income on treasury bonds relates to investment securities that are available for sale.

Interest expense	2013 KShs'000	2012 KShs'000
Arising from:		
Customer deposits	1,598,378	2,296,853
Interest on borrowed funds	1,288,304	821,927
	2,886,682	**3,118,780**

8. Non Interest Income

	2013 KShs'000	2012 KShs'000
Arising from:		
Fees and commission income	245,940	210,884
Rental income	40,901	43,352
House sales income	1,021,644	-
Other operating income	58,189	32,171
Gain/(loss) on sale of property and equipment	1,696	(2,521)
	1,368,370	**283,886**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

9. Non Interest Expenses

	2013 KShs'000	2012 KShs'000
Arising from:		
Salaries and employee benefits	803,850	683,512
Rental expenses	23,946	7,622
Deposit Protection Fund	37,281	32,078
Cost of sold houses	793,753	-
General administration expenses	501,668	405,312
	2,160,498	**1,128,524**
The following items are included with salaries and employee benefits:		
Compulsory social welfare contributions	818	701
Contributions to the defined contribution retirement scheme	53,833	49,605

10. Profit Before Taxation

	2013 KShs'000	2012 KShs'000
The profit before taxation is arrived at after charging/(crediting):		
Directors' remuneration:		
- Fees	2,435	3,164
- Expenses	9,039	11,222
- As executives	59,009	51,498
Auditor's remuneration	9,440	8,800
Amortisation of prepaid operating lease rentals	644	644
Amortisation of intangible assets	10,397	2,786
Depreciation	68,700	60,297

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

11. Taxation

	2013 KShs'000	2012 KShs'000
Current tax at 30% - Current year	525,801	348,779
- Prior year	-	6,206
	525,801	354,985
Deferred tax (Note 27(a)) - Current year	(40,320)	(115,602)
- Prior year	(321)	(75,086)
	(40,641)	(190,688)
	485,160	**164,297**

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

	2013 KShs'000	2012 KShs'000
Accounting profit before taxation	**1,480,356**	**907,631**
Tax at the applicable corporation tax rate of 30%	444,107	272,289
Prior year under provision – corporation tax	-	6,206
Tax effect of non-deductible costs and non-taxable income	40,732	13,506
Deferred tax asset derecognised	4	-
Deferred tax asset previously unrecognized	(325)	(52,618)
Adjustments for deferred tax asset on provisions from prior periods	-	(75,086)
	485,160	**164,297**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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:

	2013 KShs'000	2012 KShs'000
Net profit for the year attributable to shareholders	**995,196**	**743,334**
Number of ordinary shares in issue (000's)	**231,070**	**230,600**
Weighted average number of ordinary shares	**230,929**	**230,502**
Annualised earnings per share	**4.30**	**3.22**
Diluted earnings per share	**4.30**	**3.22**

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 2013 of KShs 1.00 per share (2012 - KShs 0.70) amounting to a total of KShs 231,070,000 (2012 - KShs 161,420,000) has been proposed. During the year an interim dividend of KShs 0.75 per share (2012 - KShs 0.70), amounting to a total of KShs 173,231,000 was paid. The total dividend for the year is therefore KShs 1.75 per share (2012 - KShs 1.40), amounting to a total of KShs 404,301,000 (2012 - KShs 322,823,000). Issued and fully paid ordinary shares were 231,070,000 as at 31 December 2013 (2012 – KShs 230,600,000).

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 2013:	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets				
Cash and cash equivalents	-	-	1,719,004	1,719,004
Placements with banks	-	-	6,878,601	6,878,601
Investment in government securities	-	-	-	288,167
Equity investments	-	-	-	151,500
Mortgage advances	-	35,215,897	-	35,215,897
	-	**35,215,897**	**8,597,605**	**44,253,169**
Financial Liabilities				
Customer deposits	-	-	26,507,204	26,507,204
Corporate bond	-	-	10,212,469	10,212,469
Borrowed funds	-	-	347,276	347,276
Loans from banks	-	-	3,803,905	3,803,905
	-	**-**	**40,870,854**	**40,870,854**
31 December 2012:				
Financial Assets				
Cash and cash equivalents	-	-	1,454,359	1,454,359
Placements with banks	-	-	6,395,958	6,395,958
Investment in government securities	401,644	-	321,972	723,616
Equity investments	-	-	60,000	60,000
Mortgage advances	-	30,293,711	-	30,293,711
	401,644	**30,293,711**	**8,232,289**	**38,927,644**
Financial Liabilities				
Customer deposits	-	-	22,937,649	22,937,649
Corporate bond	-	-	10,212,633	10,212,633
Borrowed funds	-	-	181,891	181,891
Loans from banks	-	-	1,702,834	1,702,834
	-	**-**	**35,035,007**	**35,035,007**

14. Financial Assets And Liabilities(Continued)

(b) Company 31 December 2013:	Held-to-maturity KShs'000	Loans and advances KShs'000	Other amortised cost KShs'000	Fair value KShs'000
Financial Assets				
Cash and cash equivalents	-		1,718,991	1,718,991
Placements with banks	-	-	6,878,601	6,878,601
Investment in government securities	-	-	-	288,167
Equity investments	-	-	-	151,500
Mortgage advances	-	35,215,897	-	35,215,897
	-	**35,215,897**	**8,597,592**	**44,253,156**
Financial Liabilities				
Customer deposits	-	-	26,588,851	26,588,851
Corporate bond	-	-	10,212,469	10,212,469
Loans from banks	-	-	3,803,905	3,803,905
	-	**-**	**40,605,225**	**40,605,225**
31 December 2012:				
Financial Assets				
Cash and cash equivalents	-	-	1,454,346	1,454,346
Placements with banks	-	-	6,395,958	6,395,958
Investment in government Securities	401,644	-	321,972	723,616
Equity investments	-	-	60,000	60,000
Mortgage advances	-	30,293,711	-	30,293,711
	401,644	**30,293,711**	**8,232,276**	**38,927,631**
Financial Liabilities				
Customer deposits	-	-	22,968,209	22,968,209
Corporate bond	-	-	10,212,633	10,212,633
Loans from banks	-	-	1,702,834	1,702,834
	-	**-**	**34,883,676**	**34,883,676**

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 Securities 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.

14. Financial Assets and Liabilities (continued)

(c) Valuation hierarchy

The valuation hierarchy, and types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs

The table below shows the classification of financial instruments held at fair value by the level in the fair value hierarchy as at 31 December 2013:

31 December 2013	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Assets				
Available for sale securities	-	288,167	-	288,167
Equity investments	151,500	-	-	151,500
Land and buildings	-	-	451,629	451,629
Total assets	**151,500**	**288,167**	**451,629**	**891,296**

31 December 2012	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Available for sale securities	-	723,616	-	723,616
Equity investments	60,000	-	-	60,000
Land and buildings	-	-	458,759	458,759
Total assets	**60,000**	**723,616**	**458,759**	**1,242,375**

15. Cash and Balances With Banks

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cash at hand	142,103	142,103	139,376	139,376
Balances with commercial banks	(29,084)	(29,097)	284,727	284,714
Balances with Central Bank of Kenya:				
- Unrestricted	808,319	808,319	341,210	341,210
- Restricted (Cash Reserve Ratio)	797,666	797,666	689,046	689,046
	1,719,004	**1,718,991**	**1,454,359**	**1,454,346**

The Cash Reserve Ratio (CRR) is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2013, the Cash Reserve Ratio was 5.25% (2012 – 5.25%) of all deposits. These funds are now available for use by the company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided that the overall average in the month is at least 5.25%.

16. Placements With Other Banks

Group and Company:	2013 KShs'000	2012 KShs'000
Placements with commercial banks	**6,878,601**	**6,395,958**

17. Investment In Government Securities

Group and Company:	2013 KShs'000	2012 KShs'000
Held to maturity		
Treasury bonds due after 180 days	-	401,644
Available-for-sale		
Treasury bonds classified as available-for-sale	288,167	321,972
	288,167	**723,616**

The weighted average effective interest rate on government securities as at 31 December 2013 was 12.07% (2012 – 14.65%).

18. Mortgage Advances to Customers

Group and Company:	2013 KShs'000	2012 KShs'000
(a) Mortgage advances at amortised cost		
Mortgages	36,162,121	31,018,622
Less: Provision for impairment losses (Note 18(b))	(946,224)	(724,911)
	35,215,897	**30,293,711**
Maturing:		
Within five years	6,485,767	7,509,510
Over five years to ten years	5,809,544	5,781,173
Over ten years to fifteen years	14,516,630	11,686,727
Over fifteen years	8,403,956	5,316,301
	35,215,897	**30,293,711**

(b) Reserve for impairment losses	Impairment losses KShs'000	Portfolio impairment KShs'000	Total KShs'000
At 1 January 2012	480,768	73,398	554,166
Impairment made in the year	246,600	3,252	249,852
Provisions no longer required	(52,086)	-	(52,086)
Written off against balance	(27,021)	-	(27,021)
At 31 December 2012	**648,261**	**76,650**	**724,911**
Impairment made in the year	487,025	(9,075)	477,950
Provisions no longer required	(197,057)	-	(197,057)
Written off against balance	(59,580)	-	(59,580)
At 31 December 2013	**878,649**	**67,575**	**946,224**

18. Mortgage Advances to Customers (Continued)

(c) Impairment losses

2013			
Impairment made in the year	487,025	(9,075)	477,950
Provisions no longer required	(197,057)	-	(197,057)
At 31 December 2013	**289,968**	**(9,075)**	**280,893**
2012			
Impairment made in the year	246,600	3,252	249,852
Provisions no longer required	(52,086)	-	(52,086)
At 31 December 2012	**194,514**	**3,252**	**197,766**

(d) Mortgage advances

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

	2013 KShs'000	2012 KShs'000
Interest on impaired mortgages which has not yet been received in cash	**191,030**	**234,433**

The weighted average effective interest rate on mortgage advances to customers as at 31 December 2013 was 14.01 % (2012 – 15.09%).

19. Investment in Subsidiaries and Joint Venture

	2013 Shareholding	2012 KShs'000	KShs'000
Subsidiaries			
Kenya Building Society Limited	100%	250,000	250,000
First Permanent (East Africa) Limited	100%	5,020	5,020
Housing Finance Insurance Agency Limited	100%	100	100
		255,120	**255,120**
Joint venture			
Precious Height Limited	50%	86,700	86,700
Kahawa Downs Limited	50%	104,100	-
		190,800	**86,700**

During the year, the Group entered into a joint venture in the name of Kahawa Downs Ltd with a land owner for development of housing units (apartments) in Kahawa Wendani, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. Housing Finance contributed capital which is equivalent to value of the land where the housing units will be developed.

In 2012, the Group entered into a joint venture in the name of Precious Heights Ltd with a land owner for development of housing units (apartments) in Riruta, Nairobi. The entity is jointly controlled with each party holding 50% of the shareholding. Housing Finance contributed capital which is equivalent to value of the land where the housing units will be developed.

20. Amounts Due To/(From) Subsidiaries

	2013 KShs'000	2012 KShs'000
Company:		
Housing Finance Insurance Agency Limited	-	100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

21. Other Assets

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Staff debtors	78,507	78,507	57,547	57,547
Prepayments	223,338	223,338	147,142	147,142
Deposits and rent receivable	8,389	8,389	7,684	7,684
Loan overpayment	-	-	9,008	9,008
House sales debtors	742,350	-	-	-
Other receivables	73,589	56,980	163,044	166,651
	1,126,173	**367,214**	**384,425**	**388,032**

Included in staff debtors are staff car loans of KShs 17,111,361 (2012 – KShs 8,208,174) and staff personal loans of KShs 60,600,843 (2012 – KShs 49,150,308).

22. Equity Investments

Group and Company:	2013 KShs'000	2012 KShs'000
Equity investments		
At 1 January	60,000	56,000
Change in fair value during the year	91,500	4,000
Available for sale investments	**151,500**	**60,000**

In 2011, the company participated in the British American Initial Public Offer and bought 10 million shares at price of KShs 9 per share. Total cost for the shares amounted to KShs 90m. The shares are listed in the Nairobi Securities Exchange and were trading at KShs 15.15 per share on 31 December 2013 (KShs 6.00 per share on 31 December 2012). The change in the fair value of KShs 91.5 million is recognised in available for sale reserve which is an equity component.

23. Housing Development Projects

Group:	2013 KShs'000	2012 KShs'000
Housing projects		
Komarock Housing Projects	**117,822**	**442,055**

There were no commitments in respect of these projects authorized in 2013 (2012 – KShs 456,241,013).

24. Property and Equipment

(a) Group 2013:	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 2013	7,000	475,596	260,703	80,155	823,454
Additions	-	-	107,573	192,263	299,836
Disposals	-	-	(6,450)	-	(6,450)
At 31 December 2013	7,000	475,596	361,826	272,418	1,116,840
Comprising:					
At cost	-	20,651	361,826	272,418	654,895
At valuation	7,000	454,945	-	-	461,945
	7,000	475,596	361,826	272,418	1,116,840
Depreciation:					
At 1 January 2013	-	23,837	82,909	-	106,746
Charge for the year	-	7,130	61,570	-	68,700
Disposals	-	-	(4,121)	-	(4,121)
At 31 December 2013	-	30,967	140,358	-	171,325
Net book value: At 31 December 2013	**7,000**	**444,629**	**221,468**	**272,418**	**945,515**

24. Property and Equipment (Continued)

(a) Group (continued) 2012:	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 2012	7,000	475,596	199,500	70,030	752,126
Additions	-	-	65,105	10,125	75,230
Disposals	-	-	(3,902)	-	(3,902)
At 31 December 2012	7,000	475,596	260,703	80,155	823,454
Comprising:					
At cost	-	20,651	260,703	80,155	361,509
At valuation	7,000	454,945	-	-	461,945
	7,000	475,596	260,703	80,155	823,454
Depreciation:					
At 1 January 2012	-	16,706	30,212	-	46,918
Charge for the year	-	7,131	53,166	-	60,297
Disposals	-	-	(469)	-	(469)
At 31 December 2012	-	23,837	82,909		106,746
Net book value: At 31 December 2012	**7,000**	**451,759**	**177,794**	**80,155**	**716,708**

The Group's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while 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.

24. Property and Equipment (Continued)

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

	2013 KShs 000	2012 KShs '000
Freehold land	206	206
Buildings	22,598	28,785

Included in equipment are assets with a gross value of KShs 7,369,304 (2012 – KShs 7,369,304) which are fully depreciated and still in use. Such assets would have attracted a notional depreciation of KShs 955,613 (2012 – KShs 955,613).

(b) Company 2013:	Freehold land KShs'000	Buildings KShs'000	equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2013	7,000	467,000	255,321	80,155	809,476
Additions	-	-	107,352	192,263	299,615
Disposals	-	-	(6,450)	-	(6,450)
At 31 December 2013	7,000	467,000	356,223	272,418	1,102,641
Comprising:					
At cost	-	54,055	-	272,418	326,473
At valuation	7,000	412,945	356,223	-	776,168
	7,000	**467,000**	**356,223**	**272,418**	**1,102,641**
Depreciation:					
At 1 January 2013	-	21,168	77,541	-	98,709
Charge for the year	-	7,056	61,553	-	68,609
Disposals	-	-	(4,121)	-	(4,121)
At 31 December 2013	-	28,224	134,973	-	163,197
Net book value: At 31 December 2013	**7,000**	**438,776**	**221,250**	**272,418**	**939,444**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

24. Property and Equipment (Continued)

(b) Company 2012:	Freehold land KShs'000	Buildings KShs'000	equipment & motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2012	7,000	467,000	194,134	70,030	738,164
Additions	-	-	65,091	10,125	75,216
Disposals	-	-	(3,902)	-	(3,902)
At 31 December 2012	7,000	467,000	255,323	80,155	809,478
Comprising:					
At cost	-	54,055	-	80,155	134,210
At valuation	7,000	412,945	255,323	-	675,267
	7,000	467,000	255,323	80,155	809,478
Depreciation:					
At 1 January 2012	-	14,112	24,844	-	38,956
Charge for the year	-	7,056	53,166	-	60,222
Disposals	-	-	(469)	-	(469)
At 31 December 2012	-	21,168	77,541	-	98,709
Net book value: At 31 December 2012	**7,000**	**445,832**	**177,782**	**80,155**	**710,769**

The Company's furniture, fittings, equipment and motor vehicles were professionally valued by an independent valuer on 1 June 2011 while 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:

	2013 KShs 000	2012 KShs '000
Freehold land	206	206
Buildings	22,598	28,785

25. Prepaid Operating Lease Rentals

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At 1 January	54,612	45,706	54,612	45,706
At 31 December	54,612	45,706	54,612	45,706
Amortisation:				
At 1 January	7,283	4,919	6,639	4,457
Charge for the year	644	461	644	462
	7,927	5,380	7,283	4,919
At 31 December	**46,685**	**40,326**	**47,329**	**40,787**

As at 31 December 2013 the un-expired lease period ranges from 68 to 87 years. Leasehold land is recognised at cost. The company leasehold land was valued professionally on 31 December 2009 at KShs 225,000,000.

26. Intangible Assets

	2013		2012	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Cost:				
At January	139,218	139,146	129,087	129,015
Additions during the year	396,410	396,410	10,131	10,131
	535,628	535,556	139,218	139,146
Amortisation:				
At January	129,296	129,223	126,509	126,444
Amortisation during the year	10,397	10,398	2,786	2,779
As at 31 December	139,693	139,621	129,295	129,223
Net book value: As at 31 December	**395,935**	**395,935**	**9,923**	**9,923**

Included in the additions above, is work in progress relating to the new core banking system project amounting to KShs 380,268,312.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

27. Deferred Tax Assets

Recognised deferred tax assets and liabilities are attributable to the following:

(a) Group	01.01.2013 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Unrecognised tax assets KShs'000	31.12.2013 KShs'000
2013:					
Arising from:					
Plant and equipment	(4,214)	-	5,358	-	1,140
Other general provisions	5,570	-	16,236		21,806
Unrealised exchange losses	1,489	-	4,566	-	6,055
Tax losses carried forward	52,319	-	(52,319)	-	-
General provision on					
mortgages	217,473	321	66,479	-	284,277
Net deferred tax	**272,637**	**321**	**40,320**	**-**	**313,278**

	01.01.2012 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Unrecognised tax assets KShs'000	31.12.2012 KShs'00
2012:					
Arising from:					
Plant and equipment	11,764	-	(15,978)	-	(4,214)
Other general provisions	2,404	-	3,166	-	5,570
Unrealised exchange losses	-	-	1,489	-	1,489
Tax losses carried forward	-	-	52,319	-	52,319
General provision on					
mortgages	67,781	75,086	74,606	-	217,473
Net deferred tax	**81,949**	**75,086**	**115,602**	**-**	**272,637**

27. Deferred Tax Assets (Continued)

(b) Company	01.01.2013 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Unrecognised tax assets KShs'000	31.12.2013 KShs'000
2013:					
Arising from:					
Plant and equipment	(4,282)		5,371		1,089
Other general provisions	5,513		16,182		21,695
Unrealised exchange losses	1,489	-	4,566	-	6,055
General provision on					
mortgages	217,473	325	66,479	-	284,277
	220,193	**325**	**92,598**		**313,116**

	01.01.2012 KShs'000	Prior year under provision KShs'000	Recognised in income KShs'000	Unrecognised tax assets KShs'000	31.12.2012 KShs'000
2012:					
Arising from:					
Plant and equipment	11,692	-	(15,974)	-	(4,282)
Other general provisions	2,404	-	3,109	-	5,513
Unrealised exchange losses	-	-	1,489	-	1,489
General provision on mortgages	67,781	75,086	74,606	-	217,473
	81,877	**75,086**	**63,230**	**-**	**220,193**

28. Employee Benefits

Employee Share Ownership Plan (ESOP)

Movement in the number of share options held for the employees under the Employee Share Ownership Plan is as follows:

	2013 Number of shares	2012 Number of shares
Outstanding at start of year	625,000	550,000
Granted during the year	785,000	675,000
Lapsed	(300,000)	(425,000)
Exercised	(470,000)	(175,000)
Outstanding at end of year	**640,000**	**625,000**
Exercise price per share – KShs	**10.00**	**10.00**

Options may be exercised at the price of KShs 10. The trading price of Housing Finance Company of Kenya Limited share as at 31 December 2013 on the Nairobi Securities Exchange was KShs 31.50 (2012- KShs 15.45). All 640,000 (2012 – 625,000) outstanding shares were exercisable as at 31 December 2013.

Back ground of Employee Share Ownership Plan

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 total number of shares approved under the ESOP amount to 5,750,000. The ESOP is for Company employees (excluding non executive board Directors) who have attained the age of 18 years, have completed the probationary period and have been confirmed as employees of the Company in accordance with their contract of employment. However, the right to exercise an Option shall terminate immediately upon the Option holder ceasing to be an eligible employee, unless the holder of an unexercised Option dies before exercising a subsisting Option, where the Option may be exercised by his personal representatives within 12 months of the date of death. The eligible employees pay for the units by cash at a price determined by Trustees either in full or by instalments until price is paid in full. The Unit holder is not allowed to sell, transfer or otherwise dispose of Units registered in his name to another Unit holder or to any third party whatsoever. The administrative offices of the ESOP – Unit Trust are the Principal Offices of the Company.

29. Customers' Deposits

	2013 Group KShs'000	2013 Company KShs'000	2012 Group KShs'000	2012 Company KShs'000
Government and parastals:				
Payable within 90 days	1,408,242	1,408,242	400,914	400,914
Payable after 90 days and within one year	313,183	313,183	478,839	478,839
Payable after one year	2,025,327	2,025,327	1,611,885	1,611,885
Private sector and individuals:				
Payable within 90 days	17,534,284	17,615,930	11,137,066	11,167,626
Payable after 90 days and within one year	2,704,583	2,704,583	7,204,251	7,204,251
Payable after one year	2,521,585	2,521,586	2,104,694	2,104,694
	26,507,204	**26,588,851**	**22,937,649**	**22,968,209**

(a) Included in customers' deposits is KShs 44,029,486 (2012 – KShs 21,460,807) due to a subsidiary, Kenya Building Society Limited, KShs 1,707,155 (2012 – 6,404) due to a subsidiary, First Permanent (East Africa) Limited and KShs 35,808,730 (2012- KShs. 9,106,282) due to a subsidiary, Housing Finance Insurance Agency Limited.

(b) The weighted average effective interest rate on customer deposits as at 31 December 2013 was 6.75% (2012 – 8.03%).

30. Other Liabilities

	2013 Group KShs'000	2013 Company KShs'000	2012 Group KShs'000	2012 Company KShs'000
Interest payable on the Government of Kenya income notes	2,093	2,093	2,093	2,093
House sales deposits	1,524	-	119,101	-
Withholding tax payable	35,843	35,843	32,236	32,236
Sundry creditors	117,147	117,147	70,892	70,892
Insurance premiums payable	-	-	238,018	238,018
Other liabilities	383,228	196,395	297,874	288,984
	539,835	**351,478**	**760,214**	**632,223**

31. Loans From Banks

Group and company:	2013 KShs'000	2012 KShs'000
Equity Bank Kenya Limited	-	93,537
European Investment Bank	884,962	889,989
Ghana International Bank (London)	1,189,186	719,308
International Finance Corporation	1,729,757	-
	3,803,905	**1,702,834**

The Equity Bank Limited loan was fully paid during the year. The loan was at 8.5% per annum for three years and was redeemed on 31 March 2013. During the year the Company received a USD 15 million loan from Ghana International Bank in London for a period of 3 years with effect from 19 September 2013 at the rate of 3 months USD LIBOR plus a margin of 5.50%. Both interest and principal of this facility are repayable on a quarterly basis. In 2012 the Company received two loan tranches from European Investment Bank of KShs 668,085,425 at 10.783 % and KShs 211,000,000 at 11.269%, both for a period of 7 years for lending to Small and Medium Enterprises in the real estate sector. Interest and principal are payable semi-annually with a 2 year grace period for principal repayments. A further USD 20m loan was received from International Finance Corporation on 1 July 2013. The loan is for 7 years at a rate of 6 months USD Libor plus a margin of 4.30%. Interest is paid half yearly with a 3 year grace period on the principal loan repayment.

32. Borrowed Funds

Group:	2013 KShs'000	2012 KShs'000
Borrowed funds from Shelter Afrique	347,276	181,891

In 2012, Kenya Building Society Ltd (KBSL) which is a 100% owned subsidiary of Housing Finance Company of Kenya Ltd entered into a financing arrangement with Shelter Afrique for development of 162 housing units at Komarock Phase V. The total amount of the facility is KShs 647 million secured by the land where the development is taking place. The loan is at Shelter Afrique's base rate currently at 13% plus 3.50% margin. Both interest and principal are payable on a quarterly basis with a 30 months grace period on the principal.

33. Corporate Bond

Group and company:	2013 KShs'000	2012 KShs'000
Corporate bond	10,000,000	10,000,000
Interest payable on Corporate bond	212,469	212,633
	10,212,469	**10,212,633**

33. Corporate Bond (Continued)

In 2012, the company raised KShs 2,969,100,000 which was the balance on the 7 year KShs 10 billion medium term note (MTN) programme. The total amount is at a fixed rate of 13%.

In 2010, the company raised KShs 7,030,900,000 under the 7 year MTN 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.

34. Capital and Reserves

(a) Ordinary share capital

Group and company:	2013 KShs'000	2012 KShs'000
235,750,000 authorised ordinary shares of KShs 5.00 each	**1,178,750**	**1,178,750**
Issued and fully paid:		
At 1 January:		
230,600,000 ordinary shares of KShs 5.00 each	1,153,000	1,152,125
470,000 (2012 –175,000) ordinary shares of KShs 5.00 each issued in the year	2,350	875
At 31 December 231,070,000 (2012 – 230,600,000) ordinary shares of KShs 5.00 each	**1,155,350**	**1,153,000**

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 231,070,000 as at 31 December 2013 (2012 – 230,600,000). During the year, 470,000 (2012, 175,000) ordinary shares were issued at KShs 10 per share leading to a share premium of KShs 5.00 per share issued.

(b) Share premium

This reserve arises when the shares of the company are issued at a price higher than the nominal (Par) value.

(c) Revaluation reserve

Revaluation reserve arise from the periodic revaluation of Group's assets. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

34. Capital and Reserves (Continued)

(e) Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments and available-for-sale Treasury bonds, excluding impairment losses, until the investment is derecognised.

	2013 KShs'000	2012 KShs'000
As at 1 January	(36,503)	(34,000)
Change in fair value during the year		
Equity investments classified as available for sale	91,500	4,000
Treasury bonds classified as available for sale	(34,482)	(6,503)
	57,018	(2,503)
As at 31 December	**20,515**	**(36,503)**

35. Shareholders' Income Notes And Loans

Group and company:	2013 KShs'000	2012 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 (2012 – 8.25%).

36. Notes to the Statement of Cash Flows

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

	2013 KShs'000	2012 KShs'000
Profit before taxation	1,480,356	907,631
Depreciation	68,700	60,297
Amortisation of intangible asset	10,397	2,786
Amortisation of prepaid operating lease rentals	644	644
(Profit)/loss on sale of property and equipment	(1,696)	2,521
Decrease of balances with Central Bank of Kenya-CRR	(108,620)	(1,030,256)
Increase in customer deposits	3,569,555	4,266,063
Increase in mortgage advances to customers	(4,922,186)	(5,070,875)
Investment in Government securities	400,967	(350,272)
Decrease/(increase) in housing project	324,233	(421,925)
Increase in other assets	(741,748)	(138,247)
(Decrease)/increase in other liabilities	(220,379)	451,496
Increase in borrowed funds	2,266,292	4,081,253
Net cash flows from operating activities before tax	**2,126,515**	**2,761,116**
Income tax paid	(385,174)	(560,075)
Net cash flows from operating activities	**1,741,341**	**2,201,041**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

36. Notes to the Statement of Cash Flows (Continued)

(b) Analyses of cash and cash equivalents

	2013 KShs'000	2012 KShs'000	Change in the year KShs'000
Cash in hand and bank	921,338	765,313	156,025
Balances due from banking institutions	6,878,601	6,395,958	482,643
	7,799,939	**7,161,271**	**638,668**

37. Contingent Liabilities

(a) Guarantees

As at 31 December 2013, the company had issued guarantees in the ordinary course of business to third parties amounting to KShs 31.518 million (2012 – KShs 13.819 million).

(b) 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 (KBSL) 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 raised a claim of KShs 340 million being their estimated loss following the termination of the contract. Housing Finance also raised a counter claim of KShs 74 million. The matter was referred for arbitration as provided for in the joint venture agreement.

In the arbitration, the Claimant was seeking KShs. 24,880,000 together with the right to possession of the subject site (Title Number Nairobi Block/ 11344), as pursuant to the case filed with the High Court, the Respondent was permitted to stay on site. By way of counter-claim in the arbitration, Respondent claimed KShs 376,550,205 in respect of monies put into the works, loss of profits or the current market value of the site, the costs of maintaining the site and general damages for defamation. The arbitrators ruled in favour of KBSL on 5 April 2012.

ICEALION has sued Housing Finance and others for loss of KShs 120m which were funds 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.

In 2010, 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 appealed against KRA's assessments for KShs 6,743,448 at the Local Committee and the appeal succeeded. However, KRA appealed against the local Committee decision at the High Court. The appeal was however dismissed by the High Court in November 2012. Out of the remaining balance of KShs 51,142,134, KRA conceded KShs 28,338,768, Housing Finance paid KShs 6,205,446 and applied for waiver of penalties and interest amounting to 16,597,920 to the Minister of Finance.

38. Operating Lease Arrangements

Group and company:

The bank as a lessor

Rental income earned during the year was KShs. 38,921,219 (2012 – KShs 41,374,367). At the reporting date, the company had contracted with tenants for the following future lease receivables:

	2013 KShs'000	2012 KShs'000
Within one year	35,220	34,212
In second to fifth year inclusive	92,343	100,162
After five years	3,315	2,893
	130,878	**137,267**

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 company had outstanding commitments under operating leases which fall due as follows:

	2013 KShs'000	2012 KShs'000
Within one year	22,654	19,651
In second to fifth year inclusive	62,321	69,473
After five years	1,652	1,301
	86,627	**90,425**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

39. Mortgage Commitments

Group and Company:

Mortgage commitments amounting to KShs. 8,193,903,790 (2012 – KShs 4,438,269,576) are analysed below:

	2013 KShs'000	2012 KShs'000
Commitment in principle but not		
authorised for payment	4,551,681	2,569,534
Authorised but not paid	3,642,223	1,868,735
	8,193,904	**4,438,269**

40. Capital Commitments

Group and company:

	2013 KShs'000	2012 KShs'000
Authorised but not contracted	300,824	402,297

41. Assets Pledged As Security

As at 31 December 2013, there were no assets pledged by the Group to secure liabilities nor secured Group liabilities other than as disclosed on Note 32.

42. Related Party Transactions

Group and company:

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

(a) Loans	2013 KShs'000	2012 KShs'000
At 1 January	798,657	606,403
Loans advanced during the year	269,286	281,457
Loans repayments received	(261,870)	(89,203)
At 31 December	**806,073**	**798,657**
Comprising:		
Mortgage advances	727,672	741,111
Personal loans	60,601	49,150
Staff car loans	17,111	8,208
Other	689	188
At 31 December	**806,073**	**798,657**

Included in related party are staff car loans of KShs. 17,111,361 (2012 – KShs 8,208,174) and staff personal loans of KShs. 60,600,843 (2012 – KShs 49,150,308). The related interest income for staff car loans and staff personal loans in 2013 was KShs 1,065,000 (2012 – KShs 596,677) and KShs 3,900,341 (2012 – KShs 3,487,354) 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 2013 amounted to KShs155,978,416 (2012 – KShs 106,039,097).

42. Related Party Transactions (Continued)

(d) Transactions with Equity Bank Limited	2013 KShs'000	2012 KShs'000
At 1 January	93,538	447,507
Loan repayments	(93,538)	(353,969)
At 31 December	**-**	**93,538**

Interest expense on the Equity Bank loan for the year ended 31 December 2013 amounted to KShs 23,076,713 (2012 – KShs 26,945,677).

SHAREHOLDER'S PROXY

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

I/We____

of ____

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

____

of ____

or failing him, the duly appointed Chairman of the meeting to be my/our proxy to vote for me/us on my/our behalf at the 48th Annual General Meeting of the Company to be held on the 25th day of April 2014, or at any adjournment thereof.

Number of shares held ____

Account number:____(if known)

Signed this ________________________ day of________________2014

____

Signed

Note:
1. In case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorized.
2. The proxy form should be completed and returned to the Registrar by 10.00 am on 23th April 2014, failing which it will be invalid.

FOMU YA UAKILISHI

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

Mimi/ Sisi____

Kutoka ____

Kama mwanachama/ wanachama wa HOUSING FINANCE COMPANY OF KENYA LIMITED

Twamteua ____

Kutoka ____

Au akikosa , tunamteua Mwenyekiti wa Mkutano kuwa wakala wangu/ wetu kupiga kura kwa niaba yangu/ yetu wakati wa Mkutano wa 48 wa Pamoja wa Mwaka wa Kampuni utakaofanyika Aprili 25, 2014 au kuahirishwa kwake.

Idadi ya hisa zinazoshikiliwa ____

Nambari ya akaunti ____ (Kama inajulikana)

Imetiwa sahihi ________________________ siku ya mwezi ________________2014

____

Sahihi

Muhimu:
1. Endapo mwanachama ni shirika, fomu ya uwakala iwe imepigwa mhuri halisi wa kampuni na kutiwa sahihi na afisa aliyeteuliwa kufanya hivyo.
2. Fomu ya uwakala iwe imejazwa vizuri na kurudishwa kwa msajili kabla ya saa nne asubuhi Aprili 23, 2014 na kama itakosa itakuwa haina maana.

Butterfly:
When the cycle is complete, it's a joy forever.

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