



Housing Finance Company of Kenya Limited

Incorporated in Kenya under the Companies Act (Chapter 486, Laws of Kenya)

(Registration Number C.21/97)

Information Memorandum

28th January 2015

In respect of

Rights Issue of 116,666,667 New Ordinary Shares at an Offer Price of KES 30 per share in the ratio of one (1) New Ordinary Share for every two (2) Ordinary Shares held

This Information Memorandum is issued in compliance with all applicable laws including the Companies Act (Cap 486), the Capital Markets Act (Cap 485A) and the Nairobi Securities Exchange Listing Manual.

Lead Transaction Advisor



Lead Sponsoring Broker



KESTREL CAPITAL

Reporting Accountant



Legal Advisor



Receiving Bank



Registrar



Public Relations



Blueprint Marketing Limited

Vision

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

Mission

*“We will be the leading **integrated solutions enabler** for the property industry.*

We will offer innovative products and services, delivered under one roof by exceptionally committed people to enhance shareholder value.

We will operate across the property value-chain as suppliers and financiers that offer unique solutions to all while being environmentally responsible.”

Objectives

Housing Finance:

- Provides integrated financial solutions;
- Focuses on both commercial and residential property;
- Focuses on both supply and demand; and
- Aims to be the clear leader in this arena for the benefit of our stakeholders.

1 IMPORTANT NOTICE

THIS DOCUMENT IS IMPORTANT FOR CONSIDERING WHAT ACTION TO TAKE AND REQUIRES YOUR CAREFUL ATTENTION AS IT INCLUDES LEGAL, MARKET AS WELL AS HISTORIC, CURRENT AND FUTURE FINANCIAL INFORMATION

This Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act (Cap. 486), the requirements of the Capital Markets Act (Cap. 485A), the Rules and Regulations made there under and the Rules of the Nairobi Securities Exchange (“NSE”).

This Information Memorandum is issued by Housing Finance Company of Kenya Limited (“**Housing Finance**” or “**the Bank**” or “**the Issuer**” or “**the Company**” or “**the Group**”) and has been prepared in respect of the issue and subscription of the New Shares being issued under Housing Finance’s capital raising exercise (the “**Rights Issue**”) and subsequent listing of the New Shares on the Main Investment Market Segment (“**MIMS**”) of the NSE. This follows approval of the Rights Issue by the Board and shareholders through resolutions dated 11th November and 05th December 2014 respectively.

Application has been made to the Capital Markets Authority (“**CMA**”) and approval has been granted for the Rights Issue. As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Approval of the Rights Issue and the subsequent listing are not to be taken as an indication of the merits of the Bank or of the New Shares.

The NSE has given permission for listing of the New Shares on MIMS. It is expected that the admission of the New Shares will commence on 01st April 2015. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Information Memorandum. Admission of the shares issued pursuant to the Rights Issue on MIMS is not to be taken as an indication of the merits of the Bank or of the New Shares.

If you are in doubt as to the meaning of the contents of this Information Memorandum or as to what action to take, please consult your investment bank, financial advisor, stockbroker or other professional advisor, duly authorized under the Capital Markets Act, who specializes in advising on the acquisition of shares and other securities.

If you have sold or transferred all your ordinary shares in Housing Finance, please forward this Information Memorandum and the Entitlement and Acceptance Form to the purchaser or transferee, or to the stockbroker or agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Pursuant to section 40(6) of the Companies Act, this is a Rights Issue where the applicant has the right to renounce in favour of other persons and relates to shares that are to be in all respects uniform with shares previously issued; therefore, this Information Memorandum may not contain all the information generally required of a prospectus or form of application.

A copy of this Information Memorandum together with the documents required by Section 43 of the Companies Act (Cap. 486) to be attached hereto, have been delivered to the Registrar of Companies for registration.

Directors’ Responsibility

The individual members of the Board of Directors of Housing Finance (the “**Directors**”) being the persons named in Section 12.8 (*Board of Directors*) of this Information Memorandum have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are true and accurate in all material respects, and there are no other material facts the omission of which would make any statement herein, whether of fact or opinion, misleading. All the Directors of Housing Finance accept responsibility accordingly.

Legal Advisor’s Opinion

Walker Kontos, the Legal Advisors, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their Legal Opinion (attached as Section 14), and the references to their names, in the form and context in which they appear, and have authorized the contents of the said Legal Opinion.

Reporting Accountant’s Opinion

This Information Memorandum contains statements from KPMG Kenya, the Reporting Accountants, which constitutes a statement made by an expert in terms of Section 42(1) of the Companies Act. The Reporting

Accountants have given and not withdrawn their consent to the issue of the said statements in the form and context in which they are included in this Information Memorandum.

Forward-looking statement

This Information Memorandum contains “forward-looking statements” relating to the Company’s business. These forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “is expected to”, “will”, “will continue”, “should”, “would be”, “seeks” or “anticipates” or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from the future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of these factors are discussed in more detail under “Risk Factors” and “Business Overview”. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Information Memorandum as anticipated, believed, estimated or expected.

This Information Memorandum is dated: 28th January 2015

2 CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I would like to extend our invitation to enhance your investment in Housing Finance Company of Kenya Limited through this Rights Issue.

The Board and Shareholders of the Company have resolved to undertake a Rights Issue and the Incorporation of a wholly owned subsidiary of the Company and the proposed transfer of the mortgage finance business of the company to such subsidiary.

Rationale of the Proposed Rights Issue – (The Rights Issue)

The Rights Issue is aimed at raising capital to fund the growth and expansion plans of the company and of its subsidiaries. The Rights Issue is subject to a number of authorizations and approvals including, the Central Bank of Kenya, the Capital Markets Authority and the Nairobi Securities Exchange.

Rationale of the Incorporation of a wholly owned subsidiary of the Company and the proposed transfer of the mortgage finance business of the company to such subsidiary - (The Re-organization)

The Banking Act currently prohibits the Company as a mortgage finance company licensed and supervised by the Central Bank of Kenya, from:

- i. Lending to non-regulated subsidiaries
- ii. Engaging directly in wholesale and retail trade except in satisfaction of debts due to it or
- iii. Injecting more than 25% of its core capital as equity into its non-mortgage finance subsidiaries.

The Act now permits non-operating holding companies approved and regulated by the Central Bank of Kenya to own more than 25% of the equity of banks, financial institutions and mortgage finance companies whilst also investing in subsidiaries engaged in other businesses. This allows the company the opportunity to invest the company's capital needed to establish and grow subsidiaries engaged in providing complementary services and to allow the company to offer integrated property solutions to its customers.

The Shareholders will continue to own the same shares that they own before the re-organization and these shares would remain listed on the Nairobi Stock Exchange. After the re-organization, the wholly owned subsidiary will report to the Central Bank of Kenya supervision as a licensed mortgage finance institution, while the company will report to the Central Bank of Kenya and be supervised as a non-operating holding company. The company will continue to be subject to regulations of the Capital Markets Authority and the listing rules of the Nairobi Stock Exchange.

The Rights Issue and the Re-organization, will give the organization the impetus to register further growth and optimally deliver on its growth strategy.

Strategy Highlights

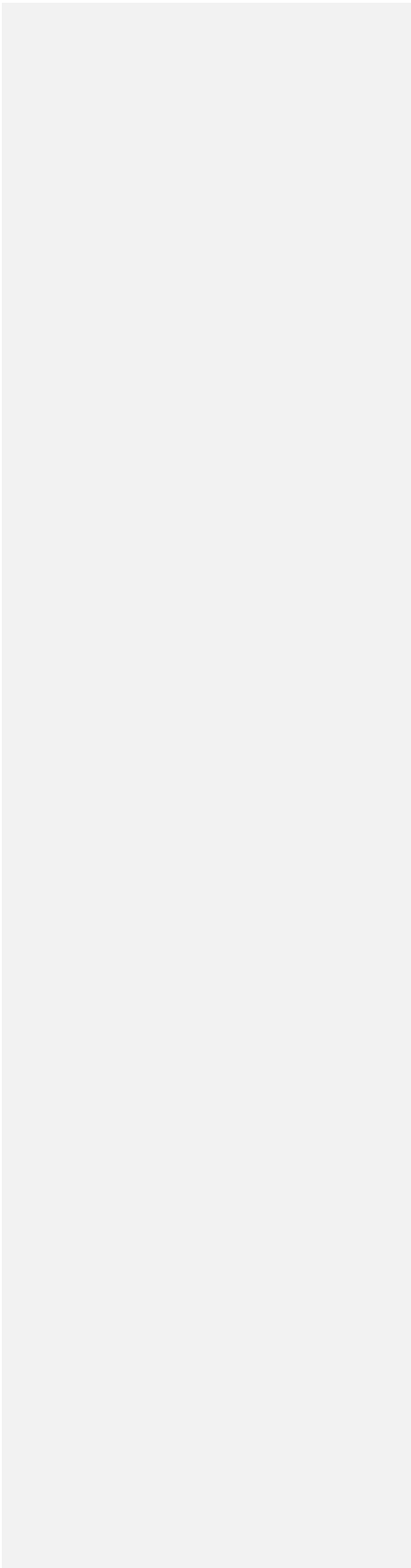
Our current strategy continues to focus on the aggressive growth of the company. The subsidiaries contribution to the business has grown significantly and this trend is expected to continue. The commercial banking strategy is also taking shape and has positively impacted the Group's profitability. Further we are increasing our retail foot print with branches already open at Sameer Business Park and Thika Road Mall, and plans underway to open branches in Kitegela, Westlands, Ongata Rongai and Naivasha before the end of the year. An additional seven new branches are set to be rolled out in 2015, in line with business growth strategy. Our strategy also focuses on a county strategy and we have so far advanced a loan to Embu Water and Sanitation Company and has set aside funds to provide similar services to approximately ten other counties in the coming months.

I thank you greatly and urge you to continue supporting your Company as we continue to grow the business in line with the set out strategies.

Yours faithfully,

Steve Mainda, EBS

Chairman



3 DIRECTORS' STATEMENT

The Directors of Housing Finance Company of Kenya Limited accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with facts and does not omit anything likely to affect the import of such information.

The Directors declare that all information stated in this Information Memorandum and the statements contained herein are correct and neither the Board of Directors, minutes, audit reports or any other internal documents contain information which could distort the interpretation of this Information Memorandum.

Signed by:

Steve Mainda, EBS
Chairman

Frank M. Ireri, EBS
Managing Director

4 CORPORATE INFORMATION

CONTACT INFORMATION FOR THE COMPANY

<p>Housing Finance Company of Kenya Limited Rehani House Kenyatta Avenue/ Koinange Street P.O. Box 30088 – 00100 Nairobi, Kenya</p>	
<p>Frank Ileri Managing Director Housing Finance Company of Kenya Limited Email: frank.ileri@housing.co.ke</p>	<p>Sam Waweru Finance & Administration Director Housing Finance Company of Kenya Limited Email: sam.waweru@housing.co.ke</p>

CURRENT DIRECTORS OF THE COMPANY

Name	Position	Nationality	Address
Steve Mainda	Chairman (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Frank M. Ileri	Managing Director (Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Benson Wairegi	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
David R. Ansell	Director (Non-Executive)	American	P.O. Box 30088 – 00100 Nairobi
Prof. Shem Migot-Adholla	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Peter K. Munga	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Adan Daud Mohamed	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Gladys Ogolla	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi
Constance Gakonyo	Director (Non-Executive)	Kenyan	P.O. Box 30088 – 00100 Nairobi

OTHER CORPORATE INFORMATION

Company Secretary	<p>Regina Anyika Mezzanine Floor, Rehani House Kenyatta Avenue/Koinange Street P.O. Box 30088-00100 Nairobi, Kenya Email: regina.anyika@housing.co.ke</p>
Registered Office	<p>Plot No. LR 209/9054 Rehani House Kenyatta Avenue/Koinange Street P.O Box 30088 – 00100 Nairobi</p>
Financial Calendar	<p>Financial Year end – 31st December</p>

Auditors	<p>KPMG Kenya Certified Public Accountants 8th Floor, ABC Towers Waiyaki Way P.O Box 40612 – 00100 Nairobi, Kenya</p>
Legal Advisors	<p>Kaplan & Stratton Advocates Williamson House 4th Ngong Avenue P.O Box 40111 – 00100 Nairobi, Kenya</p> <p>Walker Kontos Advocates Hakika House Bishops Road P.O Box 60680 – 00200 Nairobi, Kenya</p>
Bankers	<p>Equity Bank Limited NHIF Building, Community P.O Box 75104 – 00200 Nairobi, Kenya</p> <p>Standard Chartered Bank Kenya Ltd Kenyatta Avenue P.O Box 40310 – 00100 Nairobi, Kenya</p> <p>Barclays Bank of Kenya Ltd Barclays Plaza P.O Box 46661 – 00100 Nairobi, Kenya</p> <p>Citibank NA Upper Hill Road P.O Box 30711 – 00100 Nairobi, Kenya</p> <p>Central Bank of Kenya Haile Selassie Avenue P.O Box 60000 – 00200 Nairobi, Kenya</p>
Subsidiaries of the Company	<p>The Company’s 100% beneficially owned subsidiaries as at the date of publication of this Information Memorandum comprise of Kenya Building Society Limited, First Permanent (East Africa) Limited, Housing Finance Insurance Agency Limited and Housing Finance Foundation. The various subsidiaries are discussed in more detail in section 11.6 of this Information Memorandum.</p>

TRANSACTION ADVISORS AND AGENTS

LEAD ARRANGER	LEAD SPONSORING BROKER
<p>NIC Capital Limited NIC House Masaba Road P.O. Box 44599-00100 Nairobi, Kenya Tel: +254 20 2888000 / 4948000 Fax: +254 20 2888505 Contact: Maurice Opiyo Email: maurice.opiyo@nic-capital.com</p>	<p>Kestrel Capital (East Africa) Limited ICEA Building, 5th Floor Kenyatta Avenue P.O. Box 40005 - 00100 Nairobi, Kenya Tel: +254 20 2251758 Fax: +254 20 2243264 Contact: Andre DeSimone Email: adesimone@kestrelcapital.com</p>
LEGAL ADVISOR	REPORTING ACCOUNTANT
<p>Walker Kontos Advocates Hakika House Bishops Road P.O. Box 60680 – 00200 Nairobi, Kenya Tel: +254 20 2713023-6 Fax: +254 20 2718429 Contact: Peter Mwangi Email: pmwangi@walkerkontos.com Contact: Rahma W. Karanja Email: rkaranja@walkerkontos.com</p>	<p>KPMG Kenya 8th Floor, ABC Towers Waiyaki Way P.O. Box 40612 – 00100 Nairobi, Kenya Tel: +254 20 2806000 Contact: Jacob Gathecha Email: jgathecha@kpmg.co.ke Contact: Maurice Gachuhi Email: mgachuhi@kpmg.co.ke</p>
REGISTRAR	PUBLIC RELATIONS
<p>Comprite Kenya Limited Crescent Business Centre, 2nd Floor The Crescent off Parklands Road, P.O. Box 63428-00619 Nairobi, Kenya Tel: +254 (20) 269-0955 Contact: Stephen Kiwinda Email: stevo@comp-rite.com</p>	<p>BluePrint Marketing Limited CVS Plaza, 3rd Floor, Kasuku Rd, off Lenana Rd, Kilimani P.O. Box 24823-00100 Nairobi, Kenya Tel: +254 (20) 2719251 Fax: +254 (20) 2724988 Contact: Alfred Ng'ang'a Email: alfred.nganga@blueprint.co.ke</p>

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6 DEFINITIONS AND INTERPRETATIONS

Unless otherwise stated and as the context allows, the words in the first column have the meaning stated opposite them in the second column, throughout this Information Memorandum, its appendices and enclosures. Words in the singular include the plural and vice versa, words signifying one gender include the other gender and references to a person include references to juristic persons and associations of persons:

Subject	Definition
Additional Shares	Shares applied for by Eligible Shareholders in excess of their Entitlement.
Application Money or Application Monies	Monies paid by Eligible Shareholders in respect of the New Shares they apply for.
Authorized Agent	CMA licensed stock brokers and/or investment banks, or commercial banks licensed by the CBK and appointed by Housing Finance for purposes of the Rights Issue to accept applications from Eligible Shareholders and Investors.
Bank	Housing Finance Company of Kenya Limited and its subsidiaries identified in Section 10.7 (<i>Subsidiaries</i>).
Banking Act	The Banking Act (Chapter 488 of the Laws of Kenya).
Board	The Board of Directors of Housing Finance.
Business Day	A day (other than a Saturday or a Sunday or Gazetted Public Holiday) on which commercial banks are open for business in Kenya.
CAGR	Compound Annual Growth Rate.
CBK	The Central Bank of Kenya.
CDS	Central Depository System, an electronic share transfer facility to facilitate the deposit and dealing of immobilized shares at the NSE.
CDS 7 Form	A private transfer form obtainable from any Authorized Agent.
CDS Account	A securities account opened on behalf of a shareholder with the CDSC for purposes of recording the deposit and dealing of immobilized shares.
CDSC	The Central Depository and Settlement Corporation Limited.
Closing Date	March 13 th , 2015. The last day for receipt of Applications and Application Money.
CMA	Capital Markets Authority of Kenya established under the Capital Markets Act (Chapter 485A of the Laws of Kenya).
Director	A director of Housing Finance Company of Kenya Limited.
EFT	Electronic Funds Transfer.
Eligible Shareholder	Those Shareholders who are registered as holders of shares as at the Record Date.
Entitlement	The entitlement to New Shares of an Eligible Shareholder as at Record Date, pursuant to the Rights Issue at the Entitlement Ratio.

Subject	Definition
Entitlement and Acceptance Form	Refers to the PAL, Form E or Form R to be completed by shareholders, investors and renounces to apply and accept New Shares in the Rights Issue offer.
Entitlement or Rights Issue ratio	The entitlement to 1 New Ordinary Share for every 2 Ordinary Shares held as at the Record Date.
Existing Shares	Ordinary Shares of value KES 5.00 each in Housing Finance and held by Eligible Shareholders as of the Record Date.
IM	Information Memorandum. This document dated and issued on 28 th January 2015.
Independent Director	means a director who: (i) has not been employed by the Company in an executive capacity within the last five years; (ii) is not associated to an adviser or consultant to the Company or a member of the Company's senior management or a significant customer or supplier of the Company or with a not-for-profit entity that receives significant contributions from the Company; or within the last five years, has not had any business relationship with the Company (other than service as a director) for which the Company has been required to make disclosure; (iii) has no personal service contract(s) with the Company, or a member of the Company's senior management; (iv) is not employed by a public listed company at which an executive officer of the Company serves as a director; (v) is not a member of the immediate family of any person described above; or (vi) has not had any of the relationships described above with any affiliate of the Company.
Kenyan Bank	A bank licensed to conduct banking business in Kenya under the Banking Act.
KES or KShs	Kenya Shillings, the lawful currency of the Republic of Kenya.
New Shares	116,666,667 Ordinary Shares in the capital of Housing Finance to be issued pursuant to the Rights Issue.
Housing Finance or Housing Finance Group or Group	Housing Finance Company of Kenya Limited and its subsidiaries identified in Section 9.6 (<i>Subsidiaries</i>).
NSE	Nairobi Securities Exchange.
Offer Period	The period from Record Date to the Closing Date.
Offer Price	KES 30 per New Share.
Ordinary Shares	The ordinary shares of KES 5.00 each in the capital of Housing Finance.
PAL	The Provisional Allotment Letter, which indicates an Eligible Shareholders' Entitlement and comprises the Entitlement and Acceptance Form, and the Renunciation and Transfer Form.

Subject	Definition
Postbank	Kenya Post Office Savings Bank.
Provisional Rights	The number of New Shares offered based on the entitlement ratio.
RTGS	Real Time Gross Settlement, a payment system used by commercial banks to effect electronic payment of funds.
Receiving Bank	Housing Finance Company of Kenya Limited.
Record Date	Wednesday, January 28 th , 2015. The date for determining entitlements of Eligible Shareholders to participate in the Offer.
Register	The register of members of Housing Finance Company of Kenya Limited.
Renounce	The act of giving up or abandoning your Rights formally.
Renounee	Any person not less than 18 years of age as at the date of renunciation and in whose favor the Rights or part of the Rights of an Eligible Shareholder have been renounced under the terms of this Information Memorandum and PAL.
Renunciation and Transfer Form	The form by which Eligible Shareholders may renounce and transfer their rights to a third party.
Rights	The right to subscribe for New Shares under the terms of this IM and the PAL.
Rights Issue Documents	Means a) the Abridged Information Memorandum and the Information Memorandum b) the PAL and c) any other written communication or notification made by Housing Finance to Eligible Shareholders in connection with the Rights Issue.
TZS	Tanzania Shillings, the lawful currency of the United Republic of Tanzania.
Untaken Rights	The aggregate of New Shares not subscribed for, howsoever that may occur.
UGX	Uganda Shillings, the lawful currency of the Republic of Uganda.
USSD	Unstructured Supplementary Service Data.

7 KEY FEATURES OF THE OFFER

This section contains a summary of the offer for New Shares. You should read this Information Memorandum in full along with other documents available for inspection for a full appreciation of the Offer (defined below).

7.1 The Offer

Housing Finance is offering a total of 116,666,667 New Shares at KES 30 per Share to raise approximately KES 3,500,000,000 (before expenses) under this Information Memorandum on the basis of 1 New Share for every 2 Ordinary Shares held on the Record Date (3.00 pm on Wednesday, January 28th, 2015) (the “Offer”).

The number of New Shares that you are entitled to is shown on the PAL. The Entitlement Ratio, once declared, will not be altered.

Rights are renounceable, which means that Eligible Shareholders who do not wish to take up all or part of their New Shares may choose to abandon, sell, or transfer their Rights to a third party.

7.2 Rights Issue Statistics

Offer Price	KES 30 per New Share
Total number of New Shares offered	116,666,667 Ordinary Shares, to rank pari passu in all respects with the existing ordinary shares in Housing Finance
Total amount to be raised before expenses	KES 3,500,000,000
Ratio of Entitlement	1 New Share for every 2 Ordinary Shares held

7.3 Reasons for the Offer

The proceeds of the Rights Issue shall be used to expand the Company’s lending capacity.

7.4 Use of funds from earlier Rights Issue

In 2008, Housing Finance carried out a Rights Issue whereby the Company raised KShs 2.3 billion. The objective was to strengthen its capital base in order to position it to expand its lending capacity via expanding its deposit base and leveraging its balance sheet. The increased lending capacity enabled the Company to remain the leading mortgage provider, in terms of mortgage asset base, in the rapidly growing property development sector in Kenya;

Furthermore, the additional capital significantly increased Housing Finance’s additional deposits and therefore it’s lending capacity to over KShs 20 billion. In addition, the Rights Issue positioned Housing Finance to leverage its balance sheet by raising further capital via longer dated debt instruments. The additional deposit taking, leveraging of the balance sheet and the resultant enhanced lending capacity significantly boosted Housing Finance’s capacity to participate in financing the impressive growth experienced, and expected to continue in the property development sector in Kenya.

7.5 Timetable of Principal Events

Activity	Timing
Record Date	Friday, January 16 th , 2015
Distribution of IM and PALs to Eligible Shareholders	Wednesday, January 28 th , 2015
Commencement of trading in Rights on the NSE	Monday, February 09 th , 2015
Last date for immobilization of Rights	Thursday, February 19 th , 2015
Last date for renunciation (by way of private transfer)	Monday, March 02 nd , 2015

Activity	Timing
Last date for trading in Rights	Monday, March 02 nd , 2015
Closing Date	Monday, March 02 nd , 2015
Final date for confirmation of payment for New Shares to Receiving Bank for applications against Irrevocable Bank Guarantees	Friday, March 13 th , 2015
Announcement of Offer Results	Monday, March 23 rd , 2015
Final date for payment for New Shares to Receiving Bank for applications against Letters of Undertaking	Thursday, March 26 th , 2015
Electronic crediting of CDS accounts	Monday, March 30 th , 2015
Dispatch of payment of Refunds through Electronic Funds Transfer or Refund Cheques	Tuesday, April 14 th , 2015
Listing and Commencement of Trading at the NSE	Wednesday, April 15 th , 2015

These dates are subject to change and are indicative only. Housing Finance reserves the right to amend this indicative timetable and subject to approval from the CMA, a supplementary Rights Issue timetable will be issued. In particular, Housing Finance reserves the right, subject to the CMA's approval to close the Offer early, to extend the Closing Date or to withdraw the Offer. Any extension of the Closing Date will have a consequential effect on the date of the issue of New Shares. Any such amendments will be published in the press.

7.6 Intention of Major Shareholders

Pursuant to a Share Purchase Agreement between Equity Bank Limited and British American Insurance Company (Kenya) Limited. British American Insurance Company (Kenya) Limited a fully owned subsidiary of British-American Investments Company (Kenya) Limited completed the acquisition of 57,270,000 shares (the "Shares") in Housing Finance Company of Kenya Limited owned by Equity Bank Limited on 31st December 2014 raising Britam's direct and indirect shareholding in Housing Finance to 46.03%. Britam hereby confirms its intention to subscribe for their full entitlement under the Housing Finance Rights Issue.

7.7 Minimum Subscription

The Rights Issue is subject to a minimum subscription of fifty percent (50%) of the New Shares that is KES 1,750,000,000 or 58,333,334 New Shares. The Directors reserve the right not to proceed with the final allotment of the New Shares unless this minimum threshold is achieved. Also, should there be an undersubscription on the offer but one above the minimum subscription threshold, the Directors will seek to utilize the funds raised in a manner that will still achieve the objectives set out in the Information Memorandum.

7.8 Underwriting

The Rights Issue is not underwritten.

7.9 Basis of Offer Price

The Offer Price represents a discount of 28.9% to the weighted average closing market price of an Ordinary Share for the six (6) months trading period ended 31st October, 2014, being the date the Directors made the Rights Issue announcement.

The Offer Price has been determined from the trading history at the NSE of Housing Finance shares and the following factors:

- Recent performance of the index and turnover at the NSE;
- The Company's recent announcement of the financial results for the year ended 31 December 2013;
- Past performance of Rights Issues at the NSE;
- The current macro-economic environment;
- The banking sector environment; and
- Housing Finance's strategic plan.

Month	Price in KES		Weighted Average Price (KES)	Number of Shares Traded	Turnover (KES)
	Low	High			
May-14	36.00	42.00	37.98	10,542,600	400,377,625
Jun-14	37.75	42.75	39.69	2,213,900	87,871,975
Jul-14	44.00	50.00	47.10	4,349,800	204,876,725
Aug-14	43.50	45.75	44.91	3,376,800	151,664,225
Sep-14	44.25	50.25	46.90	2,526,200	118,486,975
Oct-14	45.25	49.00	46.89	1,476,900	69,247,100
Total for the Period				24,486,200	1,032,524,625
Six Month Weighted Average Price of Housing Finance Shares (KES)				42.17	
Closing Price on 31 October 2014 (KES)				45.00	

7.10 Key Financial Data

Par Value of each Share	KES 5
Total number of authorized shares of Housing Finance	500,000,000
Total number of issued and fully paid up shares before the Rights Issue	235,750,000
Authorized share capital of Housing Finance	KES 2,500,000,000
Fully paid up share capital of Housing Finance before the Rights Issue	KES 1,178,750,000
Net Profit for the year ended 31 December 2013	KES 995,196,000
Total Dividends declared and paid for the year ended December 2013	KES 311,052,000
Earnings per share (EPS) for the year ended 31 December 2013	KES 4.30
Dividend per share (DPS) for the year ended 31 December 2013	KES 1.75
Price/Earnings (PE) ratio based on the closing price of KES 45.00 at the Nairobi Securities Exchange on 31 st October, 2014 based on the results for the year ended 31 December 2013	10.47x
Net Asset Value per share for the year ended 31 December 2013	KES 24.85
Market Capitalization based on the closing price of KES 45.00 on the Nairobi Securities Exchange on 31 st October, 2014	KES 10,608,750,000
Offer Price per share	KES 30
Number of New Shares on offer under the Rights Issue	116,666,667
Gross proceeds of the offer (assumes no ineligible Rights arise)	KES 3,500,000,000
Net Proceeds of the offer	KES 3,331,210,571
Minimum subscription required [50% of KES 3.5 billion]	KES 1,750,000,000
Total number of issued and fully paid up shares after the Rights Issue assuming full subscription	352,416,667
Net Asset Value per share for the year ended 31 December 2013 accommodating the Rights Issue	KES 16.62
Fully paid up share capital of Housing Finance post Rights Issue assuming full subscription	KES 1,762,083,335

7.11 Acceptance and Application Procedures

Eligible Shareholders may take up all, some or none of their Rights. Eligible Shareholders wishing to take up all their Rights are required to observe the procedures set out in Section 7.17 (*Acceptance Procedure*).

Eligible Shareholders wishing to renounce some or all of their Rights are invited to follow the steps set out in Section 7.19 (*Renunciation of Rights*). Please note that Eligible Shareholders may renounce their Rights by way of private transfer or selling the same in accordance with the said paragraph.

Eligible Shareholders wishing to apply for Additional Shares must do so in the manner set out in Section 7.18 (*Application for Additional Shares and Allocation Policy*).

7.12 Offer for Subscription

1. Housing Finance hereby offers to Eligible Shareholders by way of renounceable rights, a total of 116,666,667 New Shares at the Offer Price of KES 30 per New Share payable in full on acceptance in the terms set out below.
2. Persons who are not Eligible Shareholders as of the Record Date will not be entitled to participate in the offer except as stipulated in 5 below.
3. The Rights Issue is on the basis of a ratio of 1 New Share for every 2 Existing Shares.
4. The number of New Shares that an Eligible Shareholder is entitled to (i.e. your entitlement or your number of Rights) is shown on the PAL.
5. Rights are renounceable and may be sold or transferred to third parties subject to the provisions of this IM. Information on how Rights may be sold or transferred is set out in Section 7.19.
6. Eligible Shareholders may also, at their option, choose not to take any action at all and untaken Rights will be allocated by the Directors in accordance with the Allocation Policy.

7.13 Status of the New Shares

The New Shares will rank *pari passu* in all respects with the Existing Shares including the right to receive in full all dividends and other distributions declared, made or paid in respect of the Ordinary Shares, for the financial year ending 31st December 2014. There are therefore no time limitations in respect of the right to dividend for the said financial year.

7.14 Opening and Closing Date of the Rights Issue

The Rights Issue will open at 9:00 a.m. on Thursday, February 19th, 2015 and close at 3:00 p.m. on Friday, March 13th, 2015.

7.15 Entitlement

- 7.15.1 Your Entitlement is shown on the PAL.
- 7.15.2 The number of New Shares offered to Eligible Shareholders has been calculated *pro rata* on the basis of the Entitlement Ratio and no restrictions are placed on the number of Existing Shares to be held before entitlement accrues. However, mathematically, this might result in fractional entitlements to New Shares and in such an event, fractions will be rounded downwards to the nearest whole number. Kindly, therefore note that where this occurs, the Eligible Shareholder will be allotted the number of New Shares after rounding down.
- 7.15.3 Fractions of New Shares that result from applying the Entitlement Ratio will form part of the Untaken Rights.
- 7.15.4 Eligible Shareholders with CDS Accounts will have such accounts credited with the applicable Entitlement. In this regard, the Bank will notify the Eligible Shareholders of their credited Entitlement through the PAL (PAL-I).
- 7.15.5 Eligible Shareholders without CDS Accounts will be notified of their Rights by the Bank through the PAL (PAL-II).
- 7.15.6 Investors who wish to become shareholders in Housing Finance via this Rights Issue can purchase Rights being sold on the NSE by Eligible Shareholders. Such investors will be issued with a Form E

(see below) from their Authorized Agent which is required to be duly completed, accepted and fully paid for as per the Acceptance Procedure below.

7.15.7 Eligible Shareholders and other investors are required to note that if they wish to take any action other than (a) full acceptance of their Entitlement or (b) to allow their Entitlement to lapse in full are asked to note that the following documents may be required for the alternative actions as described below:

Form R	Form of Renunciation for Private Transfers to be used by Eligible Shareholders without CDS Accounts renouncing or transferring their Rights by way of private transfer and by Renounees to take up their New Shares. The beneficiary shareholder will be required to have a CDS Account.
CDS Form 1	CDS Account Opening form to be used by new shareholders to open a CDSC Account for means or acquiring Rights through purchase on the NSE or means of private transfer.
CDS Form 7	To be used in connection with a private transfer by Eligible Shareholders with CDS Accounts.
Form Z	To be completed by Eligible Shareholders wishing to appoint a third party as their lawful attorney or agent to act on their behalf in connection with the Rights Issue.
Form F	Provision of loan facilities is to be used where Lenders are involved in financing the New Shares as well as CDS Form 5 for holders of CDS Accounts.
Form E	Form of Entitlement for Purchased Rights or Renounced Rights to be used in the case of Rights purchased on the NSE by any person and issued in favour of such person or renounced and issued in favour of any person.
CDS Form 5	To be used by investors with CDS accounts utilizing loan facilities to subscribe for New Shares.

7.16 Shareholders without CDS accounts

It is not mandatory for an Eligible Shareholder to open a CDS Account. However, without a CDS Account, Eligible Shareholders will not be able to trade their Rights on the NSE. Eligible Shareholders who do not have CDS Accounts but wish to open one are requested to submit duly completed and signed CDS Account opening forms, together with their PAL II to the Authorized Agents to enable crediting of Entitlements to the newly opened accounts.

7.17 Acceptance Procedure

Acceptance of the Offer, once given is irrevocable. Full details of the procedure for acceptance and payment are set out below:

- 7.17.1 Persons wishing to apply for New Shares must complete the Entitlement and Acceptance Form (PAL I or PAL II).
- 7.17.2 Copies of the IM may be obtained from the Authorized Agents referred to in Section 15 of this IM.
- 7.17.3 Except in the case of negligence or willful default on the part of Housing Finance, their Advisors or any of the Authorized Agents, neither the Issuer, nor any of the Advisors nor any of the Authorized Agents nor its Processing Agent shall be under any liability whatsoever should an Entitlement and Acceptance Form not be received by the Closing Date.
- 7.17.4 Acceptance may ONLY be communicated by submitting a duly completed Entitlement and Acceptance Form together with Application Money for the number of New Shares applied for, which cannot be withdrawn and constitutes a binding application for the number of New Shares (including any Additional Shares) specified in the Entitlement and Acceptance Form on the terms set out in this Information Memorandum. The Entitlement and Acceptance Form must be signed so as to be binding.
- 7.17.5 The Entitlement and Acceptance Form, once duly completed and signed, must be returned to Housing Finance either directly or through any Authorized Agent, together with the Application Money for the number of New Shares. Payment of the Application Money by all Eligible Shareholders must be made as specified in Section 7.21 (*Application Money*) no later than 3.00 pm on Friday, March 13th, 2015.
- 7.17.6 New Shares in respect of which duly completed and signed Entitlement and Acceptance Forms together with the Application Money, paid in accordance with Section 7.17.5 above, which are not received by Housing Finance or an Authorized Agent by the dates and times stipulated in Section 7.17.5 above will be deemed not to have been duly subscribed for and any Rights in connection with the same will have lapsed.
- 7.17.7 Eligible Shareholders who wish to take up their full Entitlement are required to duly complete the section entitled “Full Acceptance of New Shares” (PART 1A) as well as other relevant sections of the PAL. Eligible Shareholders wishing to accept only part of their entitlement are required to duly complete the section of the PAL entitled “Partial Acceptance of New Shares” (PART 2) as well as other relevant sections of the PAL. Please note that partial acceptance will not be permitted for less than One hundred (100) New Shares.

7.18 Application for Additional Shares and Allocation Policy

- 7.18.1 Eligible Shareholders who have taken up all their Entitlement may apply for Additional Shares by completing the section for Application for Additional Shares on their PAL and signing and returning the duly completed and signed PAL together with the Application Money. These should be received by Housing Finance or the relevant Authorized Agent not later than 3.00 pm on March 13th, 2015.
- 7.18.2 Additional Shares applied for by Eligible Shareholders will be allocated by the Board of Housing Finance in accordance with the Allocation Policy to the extent only of any Untaken Rights. Please note that payment in respect of any Additional Shares applied for and not allocated will be refunded in accordance with Section 7.23 (*Refund Policy*) and will be free of interest. There will be no changes once the basis of allocation has been announced.
- 7.18.3 Subject to Section 7.18.4 of this section, the Untaken Rights will be allocated on a pro rata basis based on the entitlement to the New Shares; and in the event that, after this allocation of Untaken Rights, there are any additional Untaken Rights, then these will be allocated pro rata based on the number of New Shares applied for in accordance with this Section 7.18 (*Application for Additional Shares and Allocation Policy*).
- 7.18.4 If any person applies for Additional Shares which might trigger the regulatory restrictions and obligations set out in Section 7.27 (*Regulatory Restrictions*) of this Section, the Directors reserve the right, at their sole discretion, not to allocate any Additional Shares to any such person unless all

required regulatory approvals are duly obtained and attached with the PAL before 3.00 pm on March 13th, 2015.

- 7.18.5 Eligible Shareholders wishing to take up Additional Shares are required to duly complete the section entitled "Application for Additional Shares" as well as other relevant sections of the PAL.

7.19 Renunciation of Rights

The Rights are renounceable. Accordingly, Eligible Shareholders may elect to (a) give up their Rights in full or in part or (b) transfer their rights in full or in part or (c) sell their Rights in full or in part, all in accordance with the procedures set out below.

7.19.1 Renunciation by way of Trading in the Rights

- 7.19.1.1 The Rights constitute a security in the form of an option and are tradable on the NSE for a value but only by Eligible Shareholders with CDS Accounts. The Rights shall be listed on the NSE under the MIMS.
- 7.19.1.2 Eligible Shareholders will be notified of their Rights through the PAL.
- 7.19.1.3 In addition, Eligible Shareholders with CDS Accounts will have such accounts credited with their Rights.
- 7.19.1.4 Only Eligible Shareholders with CDS Accounts will be permitted to trade in Rights. In such an event, Eligible Shareholders who wish to renounce some or all of their Rights in this way may instruct any Authorized Agent to dispose of any or all of such Rights by way of sale on the NSE.
- 7.19.1.5 Eligible Shareholders without CDS Accounts who wish to trade in Rights in this way must first open CDS Accounts and immobilise such Rights prior to trading and must duly complete the section entitled "Immobilisation for trading in the Rights" as well as other relevant sections of the PAL. The CDS Account opening forms may be obtained from any Authorized Agent. Eligible Shareholders who wish to immobilise their PAL for purposes of trading in Rights must ensure they do so before Monday, March 02nd, 2015.
- 7.19.1.6 Rights may be traded on the NSE from Thursday, February 19th, 2015 to Monday, March 02nd, 2015.
- 7.19.1.7 Please note that trading of Rights on the NSE will attract a brokerage commission plus other statutory costs payable by the seller and buyer of such Rights.
- 7.19.1.8 The CMA and NSE have approved the trading of Rights.

7.19.2 Renunciation by way of Private Transfer

- 7.19.2.1 Eligible Shareholders wishing to transfer their Rights to a particular Renounee may do so by way of private transfer, subject to (a) Section 31 of the Capital Markets Act (b) Regulations 57 to 61 of the Capital Markets (Licensing Requirements) (General) Regulations 2002 and (c) Rule 43 of the Central Depository(Operational) Rules, 2003. Regulation 57 allows a transfer, inter alia, of Rights by an Eligible Shareholder to a close relation in the form of a gift. In such a case, any Authorised Selling Agent, being a stockbroker, is required to assess, endorse and submit to the NSE a written application for such a transfer with the required information and supporting documents stating the reason for the proposed private transfer. A close relation means a relationship supported by documentary evidence of a spouse, parent, sibling, child, father-in-law, son-in-law, daughter-in-law, mother-in-law, brother-in-law, son-in-law, grandchild or spouse of a grandchild.
- 7.19.2.2 In order to effect a private transfer, an Eligible Shareholder with a CDS account must duly complete and submit a CDS Form 7 while shareholders without a CDS Account holding a PAL-II, will submit a

Form R. Both these forms are available from Authorized Agents. By executing the relevant form, an Eligible Shareholder is deemed to renounce and, subject to Section 7.19.2.1, transfer the relevant Rights.

- 7.19.2.3 The last date and time for renunciation by way of private transfer is 3.00 pm on Monday, March 02nd, 2015.
- 7.19.2.4 Eligible Shareholders are advised to contact any Authorized Agent for the purposes of effecting the renunciation by way of private transfer.
- 7.19.2.5 If an Eligible Shareholder accepts some of his Rights and renounces the remainder by way of private transfer in the manner specified in this Section 7.19.2 (*Renunciation by way of Private Transfer*), such Eligible Shareholder shall be required to submit the Entitlement and Acceptance Form and Form R for splitting of the PAL and regulatory approvals by Monday, March 02nd, 2015. The Split PAL in addition to the resulting Form E for the transferee, both duly completed and signed and accompanied with the Application Money in connection with the Accepted Rights should be submitted to Housing Finance or the relevant Authorized Agent not later than 3.00 pm on Friday, March 13th, 2015. Eligible Shareholders without CDS Accounts who wish to accept a partial number of rights and renounce the remainder by way of private transfer, or who wish to renounce to more than one person are advised to immobilise their Rights as set out in Section 7.19.1.5 above.

7.19.3 Renunciation by declining

Eligible Shareholders who wish to decline their Rights need not do anything. Any Rights not taken up by such Eligible Shareholders will form part of the Untaken Rights.

7.20 Restriction on Renunciation of Rights

- 7.20.1 Section 7.27 (*Regulatory Restrictions*) of this Section sets out certain regulatory restrictions and obligations that may be relevant to any Eligible Shareholder or Renouncee.
- 7.20.2 Please note that any renunciation by way of trading of Rights through NSE or by way of private transfer of Rights in accordance with Section 7.19.1 (*Renunciation by way of Trading in Rights*) and Section 7.19.2 (*Renunciation by way of Private Transfer*) of this Section is only permitted if such renunciation does not trigger the said regulatory restrictions and obligations.

7.21 Application Money

- 7.21.1 Payment for the New Shares shall be made in the form of a banker's cheque for values that are under one million shillings or via RTGS for values that are one million shillings and above. Payment may also be made by Authorized Agents on behalf of Eligible Shareholders (Global Payment System or GPS). Such bankers cheques for each PAL must be in Kenya Shillings and drawn on a licensed commercial bank that is a member of the Central Bank of Kenya Clearing House, and should be made payable to "HFCK Rights Issue-PAL No { Insert No}" and be crossed "A/C Payee Only". Each bankers cheque received by Housing Finance will be deposited immediately for collection. Please note that no interest will be payable by Housing Finance on money received. Any Eligible Shareholders applying for any New Shares may provide an Irrevocable Bank Guarantee in the form stipulated in Section 17.1 of this IM, for the full amount of the Shares, provided that such application is for a value of KES. 1,000,000 and above. Such a bank guarantee must be authenticated by the guaranteeing bank via a SWIFT message sent to Housing Finance before 3.00pm on Monday, March 23rd, 2015. The Eligible Shareholder must attach the original Irrevocable Bank Guarantee to the PAL at the time of submission by 3.00pm on Monday, March 23rd, 2015. Qualified Institutional Investors applying for New Shares who wish to make payment after the allotment of New Shares should note that acceptance of the application will be at the discretion of Housing Finance and must be secured by an Irrevocable

Letter of Undertaking, in the format required by Housing Finance (Section 17.2) for the required amount.

7.21.2 Payments made in accordance with Section 7.21.1 above will, upon receipt by Housing Finance of the relevant amount in cleared funds, constitute acceptance of the Rights Issue upon the terms and condition set out in this Information Memorandum and in the Entitlement and Acceptance Form.

7.21.3 Eligible Shareholders with CDS Accounts are required to pay the Offer Price per New Share in accordance with the Entitlement and Acceptance Form plus a separate fee of KES 30.00 payable directly to their Authorised Agents in accordance with the Central Depositories (Regulation of Central Depositories)(Amendment) Rules, 2008.

7.22 Rejection Policy

Applications will be rejected for the following reasons:

7.22.1 Application Form

- a) The PAL is missing;
- b) The cheque payment is less than the value of the shares applied for;
- c) The number of shares applied for are below the minimum or not in multiples set out in the Information Memorandum;
- d) Missing CDS 5 form number /financing bank details in case of financed application;
- e) Missing or illegible name of primary applicant/joint applicant/corporate applicant in any application;
- f) Missing or illegible identification number, including company registration number;
- g) Missing account number or name for nominee applications;
- h) Insufficient documentation;
- i) Missing or illegible postal address and postal code;
- j) Missing bank details and verification documents where mode of refund is indicated as electronic fund transfer and the bank mandate details are not provided on the Register (the refund will be defaulted to a cheque payment);
- k) Missing or inappropriately signed Application Form including:-
 - Primary signature missing from signatures box;
 - Joint signature missing from signature box;
 - One or both of the two directors/official or a director and company secretary has/have not signed in the case of a corporate application;
 - Missing seal in the case of a corporate application of a company registered under the companies act;
 - Application bears stamps from two different Agents.

7.22.2 Payment

- a) Personal cheques from shareholders to HFCK Rights Issue account will not be accepted;
- b) Cash payments will not be accepted;
- c) Post-dated or stale cheques will not be accepted;
- d) Amount in words does not agree with amount in figures;
- e) Amount on cheque does not agree with amount on Application Form;
- f) Cheque is not signed;
- g) Cheque carries alterations;
- h) Mutilated or cancelled cheques;
- i) Endorsed cheques will not be accepted.

7.23 Refund policy

No interest will be paid on any Application Monies to any Eligible Shareholder or other person taking the Rights. Interest, if any, earned on Application Monies is payable to the CMA Investor Compensation Fund in accordance with CMA regulations.

Refunds in respect of applications for additional shares, where the allotted value is less than that applied for shall be in the form of refund cheques or by way of EFT by Housing Finance (where an Eligible Shareholder has valid EFT details in the Register or has provided accurate EFT details to the CDSC via their broker). In the event an Eligible Shareholder has no valid EFT details on the Register or provided to the CDSC through their broker, the refund will be made by cheque through the Authorised Selling Agent. Housing Finance will begin refunds to Eligible Shareholders from Wednesday, April 15th, 2015. Eligible Shareholders are required to choose their preferred option of refund: (a) by EFT, against confirmation of bank details if such details are not mandated in the register or (b) collected by the Eligible Shareholder from the relevant Authorized Agent (as designated by the Eligible Shareholder on the PAL for that purpose) against proof of identity. Where a lender has advanced money to an investor to subscribe for New Shares, refunds will be made to or for the account of such Lender as the case may be.

Payment of refunds in foreign currency shall be made having regard to the prevailing exchange rates less bank charges for the foreign currency draft and any fluctuations in the exchange rate shall be for the Eligible Shareholder's or Investor's account.

7.24 New Shares

- 7.24.1 Eligible Shareholders and their Renounees with CDS Accounts who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in electronic form by way of credit to their respective CDS Accounts. It is the responsibility of Eligible Shareholders and Renounees to ensure that their CDS Account details set out in the Entitlement and Acceptance Form are correct.
- 7.24.2 Eligible Shareholders without a CDS Account who comply with the procedures for acceptance as set out in this Information Memorandum, will receive their New Shares in credit to their shares account. Kindly note that due to dematerialization no certificates will be printed or issued. Trading of the New Shares may only take place if the Eligible Shareholder has a CDS Account.
- 7.24.3 New Shares will be admitted on the MIMS on Wednesday, April 15th, 2015 with dealings of New Shares commencing on the same date.

7.25 Untaken Rights and Allocation Policy

- 7.25.1 All Eligible Shareholders who apply for their New Shares in full shall receive the full number of New Shares indicated in their PAL. New Shares not taken up shall form the Untaken Rights. The Untaken Rights may be allocated as Additional Shares in accordance with the Allocation Policy set out in Section 7.18 to Eligible Shareholders who duly submit applications for Additional Shares in accordance with Section 7.18 (*Application for Additional Shares and Allocation Policy*)
- 7.25.2 Any residual Rights not taken up of the Untaken Rights even after the allocation in Section 7.18, may be allocated by the Board in their sole discretion subject to Section 7.27 (*Regulatory Restrictions*) and if not so allotted, will lapse.
- 7.25.3 If the results for the subscription makes the above Allocation Policy impractical, then an amendment of the Allocation Policy shall be made with the approval of the Capital Markets Authority and such amendment will be announced within twenty four (24) hours of the grant of the approval.

7.26 Foreign Investors

- 7.26.1 The Capital Markets (Foreign Investors) Regulations, 2002 (as amended) ("the Foreign Investor Regulations") provide that "a foreign investor" ("Foreign Investor") is any person who is not a local investor. A "local investor" is defined to mean (a) an individual being a natural person who is a citizen of an East African Community Partner State or (b) a body corporate being a company incorporated under the Companies Act of Kenya or such other similar statute of an East African Community Partner State in which the citizen or the Government of an East African Community Partner State

have beneficial interest in 100% of its ordinary shares or any other body corporate established or incorporated in an East African Community Partner State under the provisions of any written law. An East African Community Partner State means States that are members of the East African Community.

- 7.26.2 Foreign Investors wishing to apply for New Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to, and pay any issue, transfer or other taxes due in such territory. Before applying for and purchasing New Shares, foreign investors are advised to consult their own professional advisors as to whether they require any governmental or other approvals or need to observe any applicable legal or regulatory requirements.
- 7.26.3 The Foreign Investor Regulations require not less than 25% (as amended by Legal Notice No. 28 of 2008) of the ordinary shares in listed companies which have been listed to be reserved for local investors.
- 7.26.4 This Information Memorandum and accompanying PAL do not, and are not intended to, constitute an offer for the New Shares in any place outside Kenya or in any circumstances where such offer or solicitation is not authorized or is unlawful. In that regard, this Information Memorandum and accompanying PAL may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized or is unlawful. The distribution of this Information Memorandum and the accompanying PAL outside of Kenya may be restricted by law and persons who come into possession of this Information Memorandum and the accompanying PAL should seek advice on and observe those restrictions. Any failure to comply with those restrictions may constitute a violation of applicable securities laws. Any such recipient must not treat this Information Memorandum and accompanying PAL as constituting an offer to him, unless in the relevant jurisdiction, such invitation or offer could be made lawfully to him without contravention of any unfulfilled registration or legal requirements. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or passed or otherwise distributed outside Kenya.
- 7.26.5 In particular, the Rights Issue has not been, and will not be, registered under the United States Securities Act, 1933 or the securities laws of any state in the United States of America and is not being made in the United States of America or to persons resident in the United States of America. Without limitation, neither this Information Memorandum nor the accompanying PAL may be sent or otherwise distributed to investors in the United States of America.
- 7.26.6 Eligible Shareholders with a registered address in Kenya holding Existing Shares on behalf of persons who are resident in a jurisdiction outside Kenya are responsible for ensuring that taking up New Shares under the Rights Issue does not breach securities laws in that other jurisdiction. The return of a duly completed Entitlement and Acceptance Form in accordance with this Information Memorandum will not be deemed as a representation that there has been no breach of such laws.

7.27 Regulatory Restrictions

Eligible Shareholders are requested to note that Housing Finance is subject to the provisions of the Banking Act and the Capital Markets Legislation. Notable, for purposes of the Rights Issue are the provisions summarized below. Eligible Shareholders are required to seek their own advice in connection with these matters. Kindly note that the Directors may take the said provisions into account when determining the allocation of any Untaken Rights to applicants for Additional Shares.

- 7.27.1 Sections 9A (2) and (4)(b) of the Banking Act preclude any person from becoming a “significant shareholder”, being a person, other than the Government of Kenya or a public entity who holds directly or indirectly or otherwise has a beneficial interest in more than 5% of the share capital of a

bank, financial institution or mortgage finance company, unless such person has been certified by the Central Bank of Kenya as a fit and proper person.

7.27.2 Section 13(1) of the Banking Act prohibits particular classes of persons from owning, directly or indirectly, or otherwise having a beneficial interest in more than 25% of the share capital in a bank, financial institution or mortgage finance company.

7.27.3 The Capital Markets (Take-Overs and Mergers) Regulations, 2002, oblige the observance of certain procedures if any person takes up Rights which would result in that person “acquiring effective control” of a listed company.

7.28 Taxation Implications

7.28.1 Eligible Shareholders interested in participating in the Rights Issue should consult their tax advisors of any possible tax implications connected with the Rights Issue. Therefore, Housing Finance and the Directors consider it inappropriate to provide detailed advice in respect of taxation consequences in connection with the Rights Issue save for what is expressly set out in this Information Memorandum.

7.28.2 Neither Housing Finance nor any of the Directors or any Housing Finance’s officers or advisors accepts any liability for any tax implications of Eligible Shareholders in connection with the Rights Issue.

7.28.3 Local investors are subject to withholding tax on dividends at the rate of 5%. Foreign Investors will be subject to a withholding tax rate of 10%.

7.29 Expenses of the Offer

Expense	Total (KES)*
Transaction Advisor Costs	40,600,000
Sponsoring Broker	3,480,000
Legal costs	2,088,000
Registrar fees	7,550,069
Reporting Accountants costs	5,911,360
Placing Agents	60,900,000
CMA approval fees	5,800,000
NSE admission fees	580,000
Advertising	30,000,000
Public Relations, Printing and Postage	15,000,000
Contingency	5,000,000
Total	168,789,429

*These figures are inclusive of VAT (where applicable) and may be subject to change.

**Selling Commission of 1.5% is payable to members of the NSE (subject to a minimum of KES 100) and 1% for non-NSE selling agents.

***Not included are interest costs that will be chargeable on issue proceeds payable to the Capital Markets Investor Compensation Fund on the basis of the average Central Bank of Kenya inter-bank overnight lending rate for the period between the closing date of the Offer and crediting of accounts.

The expenses of the Offer amount to 4.8% of the Offer amount.

7.30 Governing Law

The Rights Issue Documents and any contract resulting from the acceptance of an application to purchase the New Shares shall be governed by and construed in accordance with the Laws of Kenya.

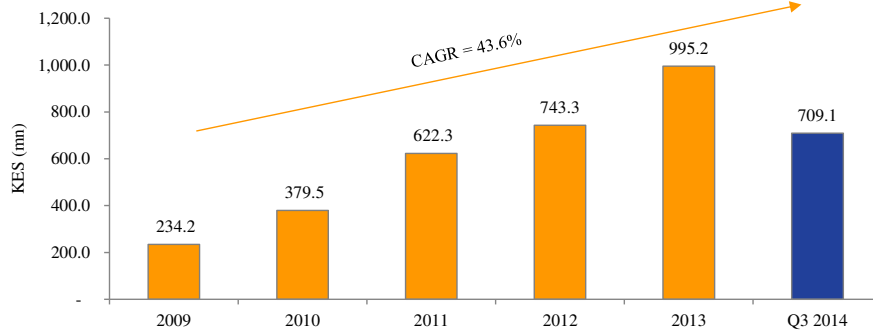
8 KEY INVESTMENT CONSIDERATIONS

The investment considerations set forth below do not give a guarantee, neither are they indicative of future returns. Potential investors are advised to consult with their investment, legal and tax advisors to determine the suitability of an investment in the Notes, and the appropriate amount, if any, of an investment of this nature

8.1 Proven financial track record

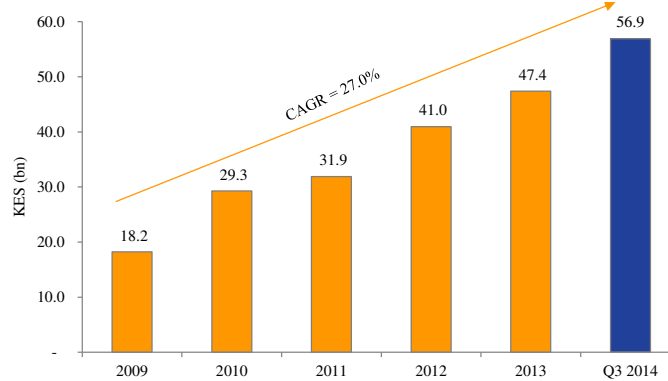
The Company has maintained an impressive track record over the past five years. Profit after tax has grown at a CAGR of 43.6% while gross mortgage advances have grown at a CAGR of 24.8% to stand at KShs 43.3 billion as at 30 September 2014. Total assets have also grown by a CAGR of 27.0% to KShs 56.9 billion as at 30 September 2014.

8.1.1 Profit After Tax



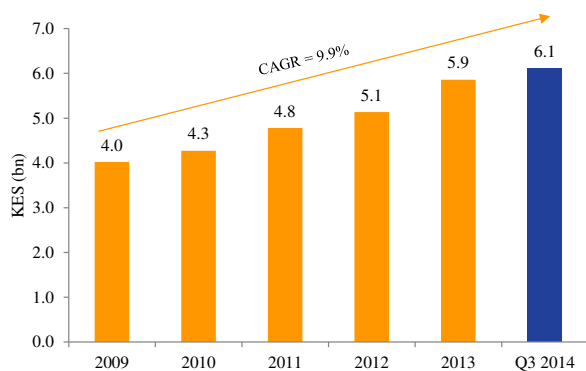
Source: Company Financials

8.1.2 Total Assets



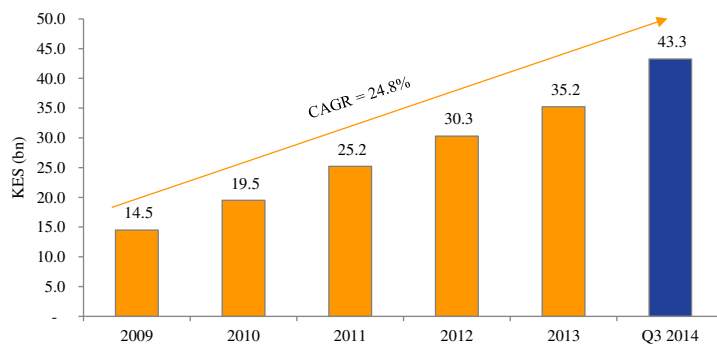
Source: Company Financials

8.1.3 Shareholders' funds



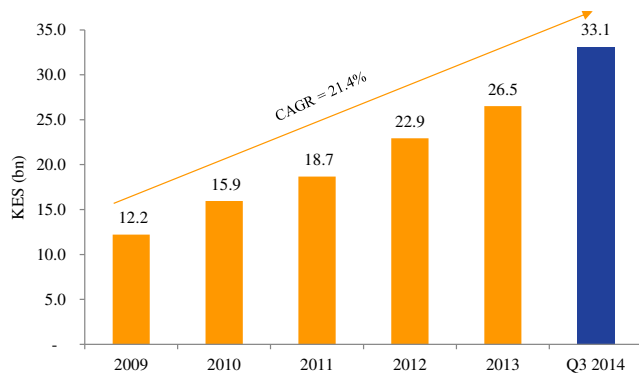
Source: Company Financials

8.1.4 Mortgages and advances



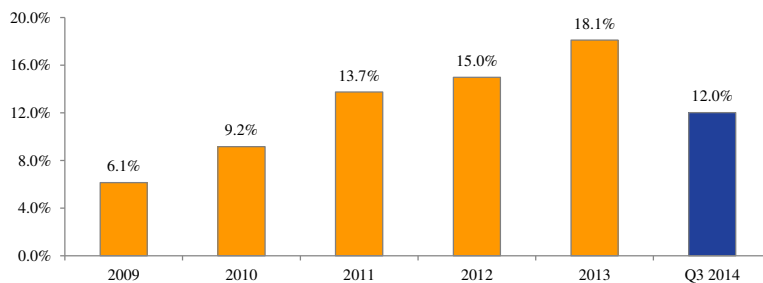
Source: Company Financials

8.1.5 Deposits book



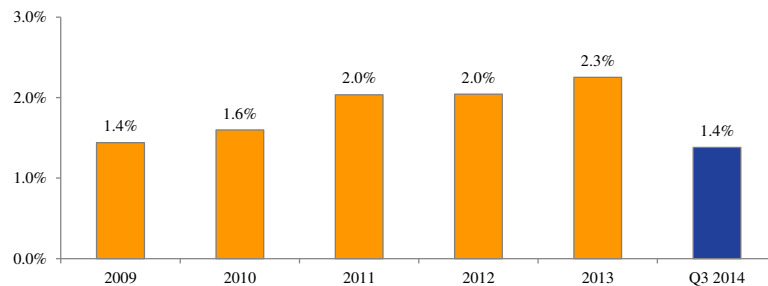
Source: Company Financials

8.1.6 Return on average Equity (ROaE)



Source: Company Financials and NICC Analysis

8.1.7 Return on average Assets (ROaA)



Source: Company Financials and NICC Analysis

The Company has become the leading regional mortgage finance provider fuelled by its constant development of innovative and pioneering products and services that are designed to meet the unique needs of the Kenyan market.

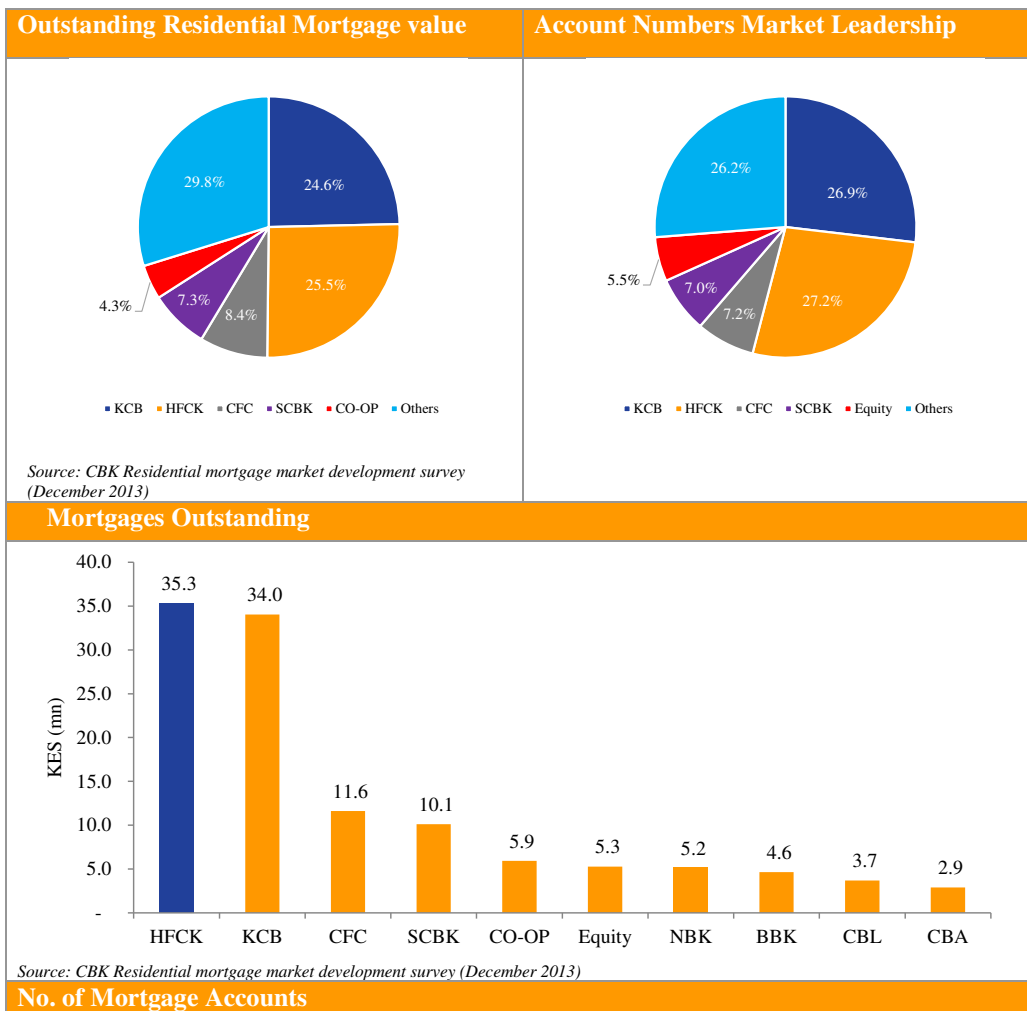
8.2 Increasing demand for housing

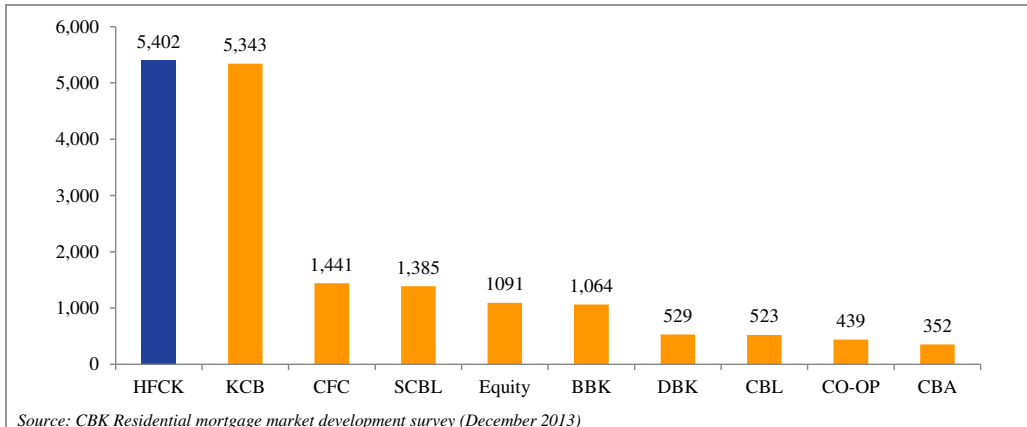
Kenya's rapid urbanization and demographics put the annual housing need at about 200,000 units, while actual delivery is only about 35,000 housing units a year. With such a massive supply gap, the private sector is expected to play a critical role in meeting the shortage. Research published recently by the World Bank estimates the potential size of the mortgage market to be about Ksh800 billion (about US\$9.9 billion) – that is about 13 times its current size. According to 2013 Central Bank of Kenya statistics, Housing Finance Company of Kenya Limited, is the market leader in the mortgage financing industry with market share of 25.5%. Housing Finance is therefore well

positioned to benefit from this growing demand for housing through provision of suitable housing financial solutions.

8.3 Market leader

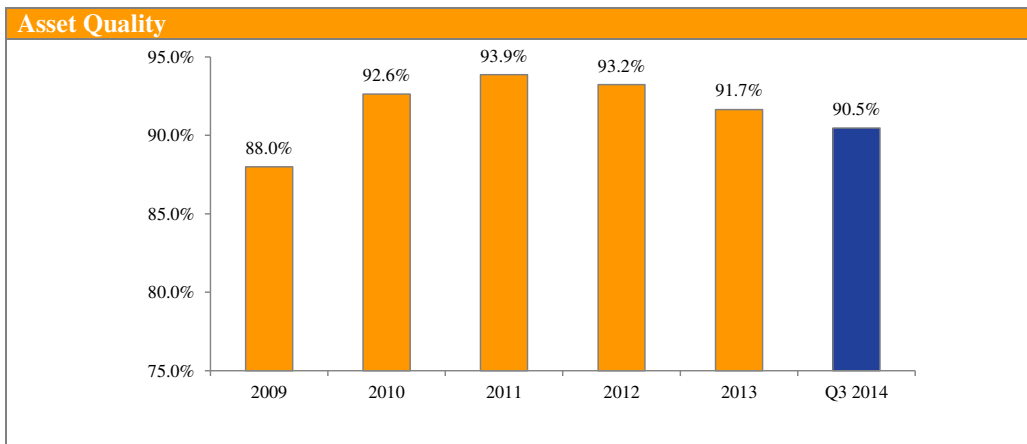
Housing Finance through its provision of diversified and innovative products has become a market leader in the Kenyan housing mortgage segment. Despite increased competition in the provision of mortgage loans as commercial banks seek to diversify revenue streams, Housing Finance commands 27.2% of the total mortgage accounts of 19,879 according to the CBK Residential mortgage market development survey in December 2013. Housing Finance outstanding mortgages was KShs 35.3bn, this accounted for 25.5% of the total industry mortgages of KShs 138.1bn.





8.4 Well Managed Asset Book

The rise in the property and mortgage industry has given substantial opportunities for Housing Finance which continues to own the largest market share. With the aggressive strategy that Housing Finance adopted in previous years, Housing Finance has managed to grow its mortgage book from KShs 10.4 billion as at end of 2008 to KShs 43.3 billion as at end September 2014. Equally, through different measures and recovery processes that the Company initiated, the asset quality has improved significantly from 81.5% in 2008 to 90.5% as at 30 September 2014.



8.5 Government devolution

Following the promulgation of the new Constitution in 2010, Kenya is geared towards implementing the devolved government structures. It is anticipated that this will create employment opportunities as well as opening up the country to investment. Housing Finance is well positioned to provide property development solutions for the newly established counties.

8.6 Real Estate Investment Trusts (REITs)

The REITs regulation were gazetted in 2013 setting the stage for creation of REITs and subsequent listing on the NSE. REITs are expected to provide access to the capital markets thus reducing funding risk due to reliance on debt and enhance liquidity. Housing Finance, through its subsidiary Kenya Building Society has lined up various projects that would be implemented through REIT structures.

8.7 Experienced Board and Management Team

Housing Finance is led by a management team that represents very experienced professionals in the banking and housing industry having worked for different entities both locally and internationally. The Company is therefore well equipped to handle integrated solutions relating to acquisitions, development and improvement of property. The Board of Housing Finance also comprises members who have extensive experience in various industries cutting across financial, insurance, investment and banking sectors and therefore are very vital in formulating Company strategies for superior growth.

9 ECONOMIC OUTLOOK AND OVERVIEW OF THE BANKING SECTOR

9.1 KENYA ECONOMIC OUTLOOK

9.1.1 Kenya Economic Performance

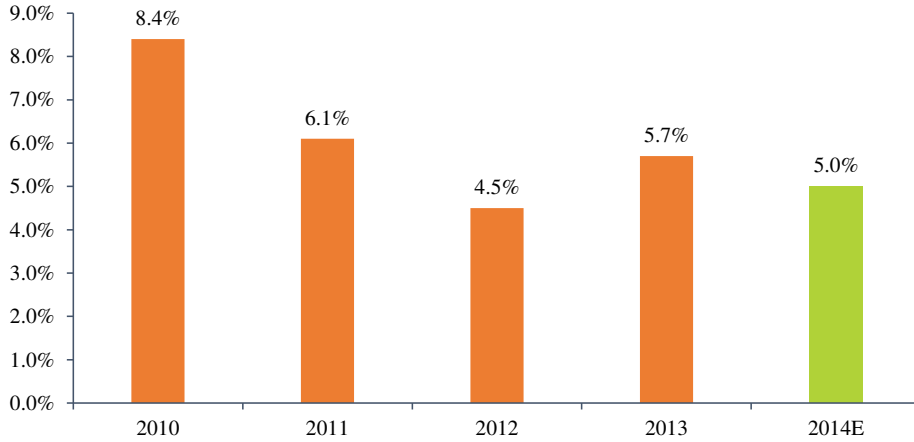


Country Overview		
	Population, 2013 (mn)	44.35
	Area (sq km)	580,367
	GDP, 2013 (US\$ bn)	55.2
	GDP Growth, 2014	5.0%
	Inflation, September 2014	6.6%

According to data¹ from the Kenya National Bureau of Statistics (KNBS), Kenya's economic growth rate of 5.8% in Q2 2014 was lower than the 7.2% growth rate posted in Q2 2013, though higher than the growth posted in Q1 2014. The lower growth rate in Q2 2014 is attributable mainly to a decline in output in the expansive agricultural sector owing to depressed long rains season over most parts of the country. Robust activity in the construction, manufacturing, financial and insurance, information and communication, wholesale and retail trade sectors underpinned overall growth in Q2 2014. Merchandise trade deficit widened in Q2 2014 compared to Q2 2013 driven by an increase in the import bill by 25% against a growth in the export value by 13% over the corresponding quarters. Current transfer receipts increased by 59.6% in Q2 2014 compared to Q2 2013 driven by a growth in personal transfers at 14.3% and growth in net inflows in the capital and financial account by 25.7%. The growth in the capital and financial account was supported by long term capital inflows from the sale of Eurobond.

Following the recent success of Kenya's Eurobond issuance in Q2 2014, a projected restraint in government domestic borrowing should create a conducive environment for improved economic growth. Private consumption is also likely to improve as a result of the stable exchange rate environment. Overall, Kenya's economy is estimated to grow by 5.0% in 2014.

¹ Rebased GDP growth estimates (the GDP base year was changed from 2001 to 2009)



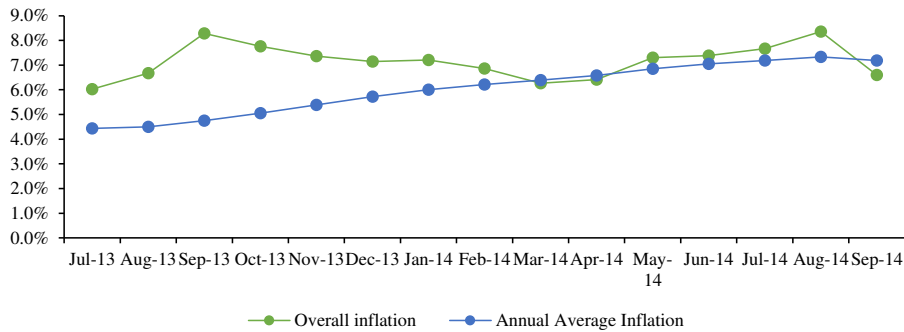
Source: World Bank, Kenya National Bureau of Statistics

9.1.2 Macro-Economic Overview

9.1.2.1 Inflation

The overall inflation has been stable in the first half of 2014 remaining within the CBK target rate of 7.5% on account of the monetary policy measures that have been put in place by the CBK, general stability in exchange rates, and implementation of food security measures. However the inflation deteriorated in Q3 2014 above the CBK target rate buoyed by increases in prices of food commodities and energy items. In the month of January 2014 inflation stood at 7.2% declining to 6.3% in March before surging to 8.4% in August and declining to 6.6% in September.

The increase witnessed between April and August was on the back of increased cost of fuel and food coupled with slight rise in non-food-non-fuel inflation. However, the inflation rate declined in September to 6.6% down from 8.4% in August. Going forward, the inflation rate is expected to continue being within the CBK target as CBK seeks to anchor inflationary expectations through the monetary policy operations as well as easing of food commodity prices in light of the expected good short rains season and lower energy costs. Additionally, this level of target inflation is likely to be supported by the declining global oil prices.

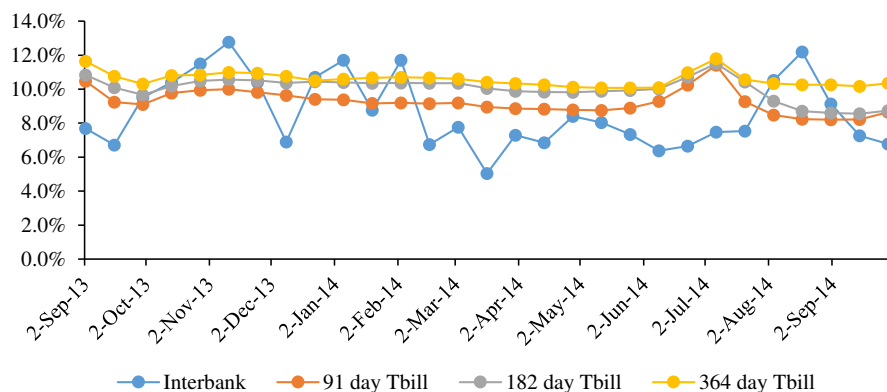


Source: Kenya National Bureau of Statistics

9.1.2.2 Interest Rates

The Short term interest rates have exhibited general stability over the first three quarters of 2014. This has been occasioned by decline in demand pressure since the government borrowing programme is on target. The 91 day T-bill, 182 T-bill and 364 T-bill were at 9.4%, 10.4% and 10.5% respectively in the first week of January 2014. The rates marginally declined at the end of Q1 to 8.9%, 9.9% and 10.3% however, the rates have witnessed an increase in June to a high of 11.4%, 11.5% and 11.8% respectively in the first week of July 2014. This upward trend reversed in subsequent weeks of July to close Q3 at 8.7%, 8.7% and 10.4% respectively. This trend is expected to continue through the Q4 of 2014.

The sustained Open Market Operations by the Central Bank of Kenya has ensured stability with the interbank around the CBR. The interbank rate on the first week of January 2014 was 12.1% declining to 10.0% at the end of Q2 and then further declining to 6.8% at the end of Q3 2014. Generally low and stable rates are expected owing to the improvement of liquidity in the market as well as the successful issuance of the Sovereign Bond which has enabled appropriate benchmarking of Kenya's sovereign risk.

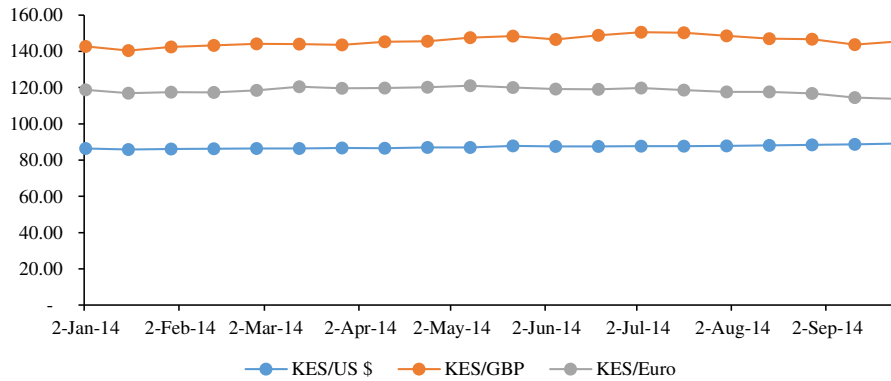


Source: Central Bank of Kenya

9.1.2.3 Exchange Rates

The shilling remained stable during the first half of 2014, trading within the 85-87 range to the USD. During Q3 the shilling weakened against the dollar to close the quarter at KES 89.10/USD. The shilling gradually lost ground in the first half of 2014 against the GBP and the Euro trading at 142.72 and 118.80 at the beginning of Q1 to close Q2 at 149.20 and 119.55 respectively. However the shilling gained ground against the GBP and the Euro in Q3 to close at 145.12 and 113.29 respectively. The shilling is expected to remain resilient against major hard currencies on the back of foreign exchange inflows from diaspora remittances and sustained foreign investor participation at the Nairobi Securities Exchange.

The Central Bank of Kenya increased its level of usable foreign exchange reserves from USD 6.2bn, as at end of December 2013 to USD 6.4bn (4.21 months of import cover) as at beginning of September 2014. This level of import cover is marginally higher than the minimum of 4.0 but adequate to cushion the foreign exchange market against temporary shocks.



Source: Central Bank of Kenya

9.1.2.4 Kenya Debt Analysis

Kenya's public debt as a percentage of rebased GDP increased by 224 basis points from a debt to GDP ratio of 42.1% to 44.4% in December 2012 and December 2013 respectively. This growth has been ascribed to ballooning of domestic debt that has grown by about 22% to KES 1.2 trillion whereas external debt grew by about 12% to KES 0.9 trillion. As at July 2014, the level of domestic debt had increased by 9% and external debt by 18% to stand at KES 1.3 trillion and KES 1.1 trillion respectively. The rise in external debt is largely attributable to the foreign borrowing through Sovereign bond that was issued in June 2014. Fitch Ratings, placed Kenya's default ratings at a stable B+ rating while Moody's gave Kenya a B1 rating with a stable outlook.

Kenya successfully issued a USD 2.0 billion Eurobond in the second quarter of 2014 with an oversubscription of USD 1.0 billion. The funds will be used to pay off a syndicated loan and filling the infrastructure deficit.

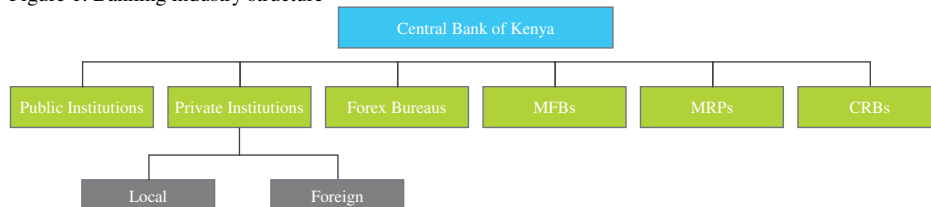
Eurobond Issues Country	USD (millions)	Yield
Tanzania	600	6.28%
Rwanda	400	6.88%
Ghana	750	8.00%
Nigeria	500	6.63%

9.2 KENYA BANKING SECTOR OVERVIEW

9.2.1 Industry Structure

The banking sector in Kenya comprises of banking institutions (commercial banks and a mortgage finance company), representative offices of foreign banks, microfinance banks (MFBs), foreign exchange bureaus, money remittance providers (MRPs) and credit reference bureaus (CRBs). A diagrammatic representation of the banking industry market structure in Kenya is as follows:

Figure 1: Banking industry structure



Source: Central Bank of Kenya

9.2.2 Asset base

The banking sector net assets stood at KES 3.08 trillion as at 30 September 2014 up from KES 2.97 trillion in June 2014 representing a 3.7% growth. As at 31 December 2013, the banking sector total assets stood at KES 2,703.4 billion and the 26 local private commercial banks accounted for 61.4%, the 14 foreign owned commercial banks accounted for 34.0% of the sector's total assets. Details of ownership and asset base among the commercial banks as at 30 December 2013 are as shown by the following table:

Table 1: Ownership and asset base

Ownership	Number	Share (%)	Total Assets (KES BN)	Share (%)
Local public commercial banks	3	7.0%	124,853	4.6%
Foreign commercial banks	14	32.6%	919,524	34.0%
Local private commercial banks	26	60.4%	1,659,017	61.4%
TOTAL	43	100.0%	2,703,394	100.0%

Source: Central Bank of Kenya

9.2.3 Branch network

During the year 2013, banks increased their branch network by 70, which translated to a total of 1,342 branches. The increase is an indication of increased provision of banking services. Nairobi County accounted for the highest number of new branches in 2013 as it recorded a growth of 12 branches followed by Kiambu County with 11 branches and Mombasa County with 10 branches. The increase in banks' branch network is occasioned by increase of economic activity based on the introduction of the county system.

9.2.4 Market share

Kenyan commercial banks are classified by the Central Bank of Kenya into three peer groups using a weighted composite index that comprises assets, deposits, capital size, number of deposit accounts and loan accounts. A bank with a weighted composite index of 5.0% and above is classified as a large bank, a medium bank has a weighted composite index of between 1.0% and 5.0% while a small bank has a weighted composite index of less than 1.0%.

For the period ended 31 December 2013, there were 6 large banks which accounted for 52.4% of the market share, 16 medium banks with a market share of 39.1% and 21 small banks with a market share of 8.5%. Details of market share analysis are as shown by the following table:

Table 2: Market share analysis

Bank	Weighted Share (%)	No of Banks	Total Assets (KES Million)	Deposits (KES Million)	Capital (KES Million)
Small Bank	8.5%	21	231,503	174,481	35,061
Medium Bank	39.1%	16	1,083,250	789,114	157,633
Large Bank	52.4%	6	1,388,641	972,066	239,484
TOTAL	100.0%	43	2,703,394	1,935,661	432,178

Source: Central Bank of Kenya

9.2.5 Industry Performance

The banking sector in Kenya continued its outstanding performance as exhibited by key performance indicators for the period ending September 2014:

- Total customer deposit base increased from KES 1.91 trillion as at end of September 2013 to KES 2.25 trillion as at end of September 2014 representing a YoY growth rate of 17.8%;
- Total assets grew by 17.6% YoY from KES 2.62 trillion as at end of September 2013 to KES 3.08 trillion as at end of September 2014;
- Gross advances to customers increased from KES 1.52 trillion as at end of September 2013 to KES 1.91 trillion as at end of September 2014 representing YoY growth rate of 25.7%;
- Pre-tax profitability for the industry increased from KES 31.0 billion as recorded in September 2013 to KES 33.5 billion as at end September 2014 representing YoY growth rate of 8.1%;
- The banking sector core capital also increased from KES 383.8 billion as at end of September 2013 to KES 458.1 billion as at end of September 2014 representing YoY growth rate of 19.4%; and
- Equally, gross non-performing loans and advances increased by 30.1% from KES 79.7 billion as at end of September 2013 to KES 103.7 billion as at end of September 2014.

The banking sector in Kenya is expected to maintain its growth momentum largely supported by innovations and adoption of cost effective channels of offering financial services. The domestic outlook for the short to medium term indicates low inflationary environment, and stable exchange rate environment.

9.2.6 Challenges

The following factors pose challenges to the banking sector in Kenya:

9.2.6.1 Increased competition

Competition within the banking sector is becoming more aggressive both from conventional and non-conventional banking players. Substitute products and services have emerged to a great extent in the banking industry mostly in the form of money transfer services provided by mobile telephony companies. Consequently, this development is likely to revolutionize how the banking industry players perform their financial intermediation services.

The publication of the Micro Finance Act 2006 which allowed the licensing of micro finance institutions as deposit takers and the SACCO Act, 2008 which empowered Savings and Credit Cooperative Societies (SACCOs) to play a role in the banking industry is likely to add more pressure to competition within the banking industry specifically on the deposit mobilization front.

9.2.6.2 Accessibility of banking services

In order to get services closer to customers, banks have been forced to incur additional costs such as on establishing new branch networks and on acquiring information technology.

9.2.6.3 Fraud

There has been a significant rise in fraud related cases in banks, which has resulted in losses for banks. Banks have continued to invest in sophisticated technology for better security.

9.2.6.4 Money laundering

Persons who are engaged in criminal activities are seeking ways of concealing the origins of illegally generated funds. However the government has come up with The Proceeds of Crime and Anti Money Laundering Act, 2009. The Act seeks to create a comprehensive legislative framework to combat the offence of money laundering in Kenya and to provide for the identification, tracing, freezing, seizure and confiscation of the proceeds of crime among other measures.

9.2.7 Opportunities

Many opportunities remain in the Kenyan banking sector:

9.2.7.1 Regional Expansion

New emerging markets such as Southern Sudan, which is highly unbanked, and regional cooperation arrangements will offer new business opportunities within the region.

9.2.7.2 Mobile phone banking

Mobile phone banking is a growing phenomenon among the key players within the banking industry. This service is likely to create additional products in which banks can tap into to grow their revenue lines.

9.2.7.3 Unbanked population

Although over recent years the number of unbanked people has been reducing. There still exists a large pool of people who have no access to financial services. This mostly comprises of youth and women.

9.2.7.4 A growing SME market

The small and medium enterprises (SME's) in Kenya have developed considerably over the last ten years both in numbers and in economic scale. This growth provides the banks with a perfect opportunity as a number of SMEs continually demand financial services.

9.2.7.5 Agency Banking

Agency Banking is a concept introduced to the banking sector by Central Bank of Kenya in 2010. This concept allows banks to offer limited services through business outlets that are not banks and not necessarily financial services e.g. supermarkets, chemists etc. This will enable banks to extend banking services to a wider population in areas where physical bank branches may not be viable.

9.2.7.6 Other Emerging needs such as Insurance Premium Financing

In January 2008, a change in the law compelled insurance companies to issue insurance certificates and effect policy covers only upon receipt of the full premium payment for the duration that the cover/ policy is in effect. This created an opportunity for banks to offer credit facilities.

9.2.7.7 Technology

General technological advancement and stiff competition in the banking industry has led to major implementation of technology such as internet banking and mobile banking applications. This has impacted positively on the industry i.e. transaction time as well as better customer experience. Banks are increasingly using social media not only in advertising but also receiving customer feedback.

9.2.8 Recent developments

In the recent past, developments within the banking sector have been majorly guided by the medium term objectives of the financial sector reform and development strategy embedded in the economic development blueprint, Vision 2030. Of late, access to financial services continues to be enhanced, spurred by increased innovation in the delivery of financial products and services throughout the country. Specific developments within the banking industry in Kenya that have occurred within the last three years include the following:

- Continued expansion of banks through branches and other places of business across Kenya as well as the larger East African region;
- Increase in capital requirements;
- Growth of the deposit taking microfinance sub sector through the growth in deposits and loans of licensed DTM's;
- Increased permeation of mobile financial services with an increased number of banks entering into partnership with mobile service providers to provide financial services through the mobile phone platform;
- Increased usage of the agency banking model which was rolled out in mid-2010 that allows commercial banks to engage third parties to offer specified banking services on their behalf; and
- Increased number of Representative Offices established in Kenya which signifies growing interest in the Kenyan banking sector from regional and international banking institutions. This is an indication that the existing business opportunities in the banking sector are yet to be fully exploited. Some of the existing Representative Offices plan to upgrade to either fully fledged subsidiaries or branches in the short to medium term.

9.2.9 Future Outlook

The increasing interest in the Kenyan banking sector by regional and global banking brands will enhance competition especially through product diversification. Product innovations by banks and adoption of convenient and cost effective channels of offering banking services is expected to continue as banks position themselves to expand their market niches.

- The banking industry is expected to maintain the growth momentum based on the following factors;
- Branch expansion
- Credit information sharing;
- Regional integration initiatives;
- Advances in communication technology; and
- Devolved governance system in Kenya.

10 OVERVIEW OF THE KENYAN HOUSING SECTOR

Real Estate is considered as one of the principal sectors that not only enhances quality of life but also spurs economic growth in Kenya through the sector's multiplier effect on the country's Gross Domestic Product. At present, the housing sector is characterized by inadequate affordable and decent housing as current demand of 200,000 units per annum continues to outstrip the annual supply of 35,000 units. Furthermore, only about 6,000 of annual housing supply caters for the low income population. This shortage in housing is manifested by overcrowding, proliferation of slums and informal settlements in urban areas and poor quality housing in rural areas. Currently, the levels of home ownership are low at 16% of the population (Source: Ministry of Housing).

10.1 Property Market Segments

10.1.1 Residential market

High levels of inflation and interest rates in 2011 and 2012 had a severe negative impact on house prices, especially for those with variable interest rate mortgages. Borrowers who had taken out loans at the edge of their affordability found they were unable to manage the increased monthly costs with interest rates going up as high as 30.0%. However, the sector is slowly recovering following the reduction of interest rates to between 15.0%-20.0%. The financiers managed the situation by restructuring the loan terms instead of increasing the monthly repayments thereby maintaining a low level of non-performing loans.

Underlying demand for development land is still very high despite the skyrocketing land prices. The sector has also received a boost with the commencement of infrastructure construction of Tatu City, the proposed satellite city in Kenya which is set to continue following a court ruling against a winding up call. Demand for high end residential Town Houses and Stand Alone Houses on large acreages within the preferred suburbs continues to grow with asking rents reaching as high as USD 5,900 for a six bed-roomed house on 3 acres in Karen. Part of this demand is attributed to the expatriate community. The sector is expected to recover with interest rates slowly dropping and a relatively stable economy, together with the successful general election.

10.1.2 Retail market

The fourth quarter of 2012 continued to see a proliferation of decentralized urban shopping malls in major cities and towns. Buoyed by an expanding middle class, improved infrastructure and an enduring property boom, supermarkets have continued to grow their market share and penetration outside the capital city as they become the preferred shopping outlets for many middle and high-income consumers in towns. Several supermarkets opened new branches across the country including Naivas at the Greenhouse on Ngong road, Nairobi and Nakumatt at Oasis Mall in Malindi. Oasis Mall achieved a pre-let rate of over 85.0% with the line shop tenants beginning their fit-outs from 01 December 2012 with a trading date of 01 February 2013. Mtwapa Mall anchored by Tusksys, the first and only contemporary retail centre in this area opened its doors in June 2012 and has transformed the retail atmosphere in the neighbourhood.

Marketing and letting have been intensified for proposed retail centers across the country. Garden City Mall on Thika Road and Two Rivers in Runda, Nairobi, continued to record strong interest from both local and international retailers who are seeking entry into the expanding local retail scene. Pre-letting of Garden City Mall stood at approximately 50.0% as at December 2012.

10.1.3 Office market

The office market continued to witness high take up of new developments especially in Westlands and Waiyaki Way in Nairobi. Delta Corner and Skypark Towers which were completed in the 4th quarter supplying approximately 32,000 square metres achieved 100.0% take up by year end. Skypark achieved about 90.0% letting before completion. Demand for office space along Mombasa Road which is traditionally a quasi-industrial node remained low during the quarter with most projects struggling to achieve 100.0% occupancy long after completion. Upper Hill area recorded limited supply of space in 2012, although most of the projects in this locality are due for delivery in 2013/2014. Parklands area is a new hot spot for commercial developments as it has witnessed numerous changes of user from residential to commercial. High construction and financing costs continued to eat into the rental yields and may have adverse effects on the sector if the present market parameters persist. Office sales were low and far

between in the market in 2012. In the last quarter of 2012 office premises recorded sale prices ranging between USD 1,400 to USD 2,000 per square metre depending mainly on size and location. Average asking rents for new projects ranged between USD 11-13 per square meter per month exclusive of service charge and value added tax during the same period.

10.1.4 Industrial market

The industrial market which has largely been owner occupied in the past is set to witness a major boost following the recent launch of the 5,000 acre Konza Technopolis. According to the Government, phase 1 of the proposed Technopolis dubbed “The African Silicon Savannah” has attracted major local service industry players, boosting its chances of success as foreign firms also line up for space in the project. The flagship project under the Vision 2030 economic blueprint is set to position Kenya as the ICT powerhouse in Eastern Africa. It will house an international financial centre, a convention centre and a light electronic manufacturing plant. The city will be part of the Special Economic Zones that will replace the EPZs and is anticipated to create some 200,000 jobs.

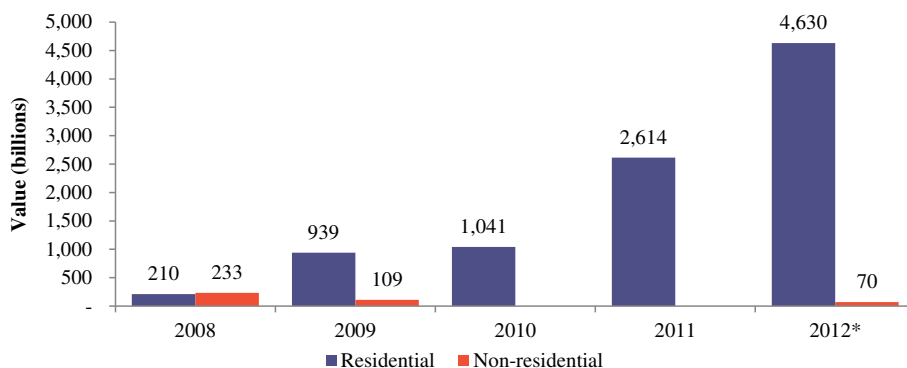
Property segment	Prime rents	Prime yields
Offices	US\$ 15 per sq m per month	9%
Retail	US\$ 31 per sq m per month	10%
Industrial	US\$ 4 per sq m per month	12%
Residential	US\$ 4,400 per month*	6%

*4 bedroom executive house in a prime location

Source: Knight Frank Africa Report 2013.

10.2 Trends in the housing market

The Government of Kenya through its agencies continues to lay focus on the residential market segment as indicated by the growth in value of residential buildings completed by GoK and its agencies. The value of completed residential buildings grew from KES 210mn in 2008 to KES 4.6bn in 2012. On the other hand, GOK’s investment in non-residential buildings declined from KES 232.8mn in 2008 to KES 70mn in 2012. This is attributed to the growing middle income class and economic growth.



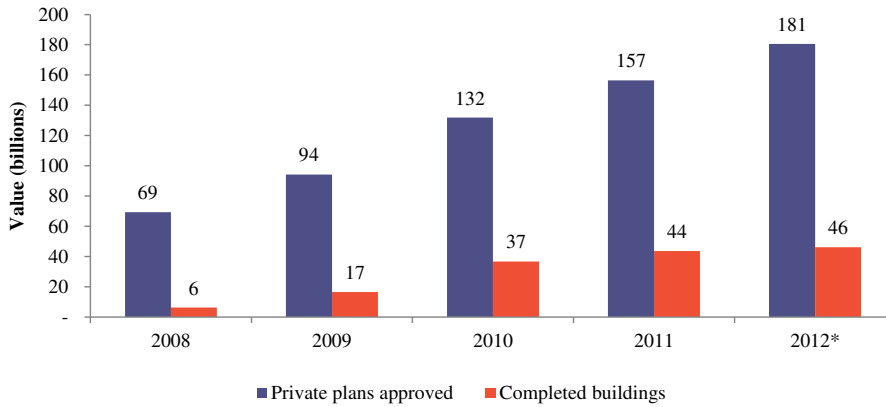
Source: Economic Survey 2013

Note: 2012 statistics are provisional.

Due to the continued improvements in infrastructure by GoK especially on roads, electricity and water, accessibility to the Central Business District (CBD) will be easier and hence reduce congestion in the CBD and its proximity. This will lead to establishment of further property developments in the Nairobi metropolitan areas including Kitengela, Ruiru, Thika and Kiambu.

10.3 Private sector players in the housing sector

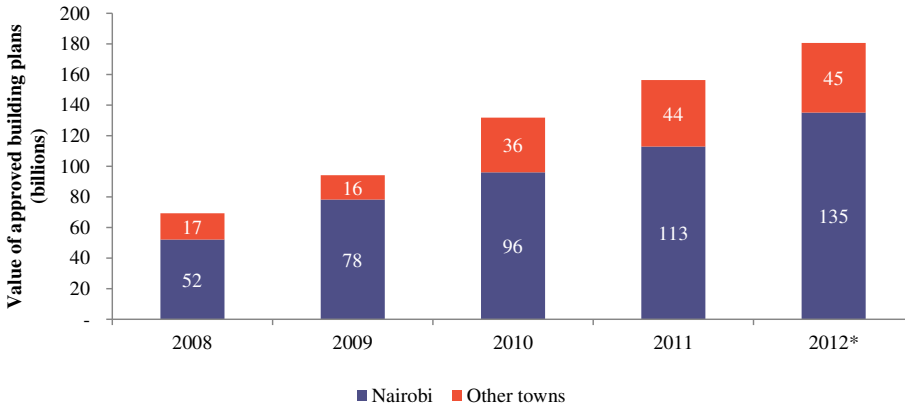
Private sector players have continued to invest in the housing sector attributed to the lucrative returns from investment. The value of completed buildings by the private sector grew by a CAGR of 64.5% from KES 6.3bn in 2008 to 46.1bn in 2012. Furthermore approved private plans increased by a CAGR of 27.1% from KES 69.3bn in 2008 to KES 180.6bn in 2012.



Source: Economic Survey 2013
Note: 2012 statistics are provisional.

10.4 Growth in value of approved building plans

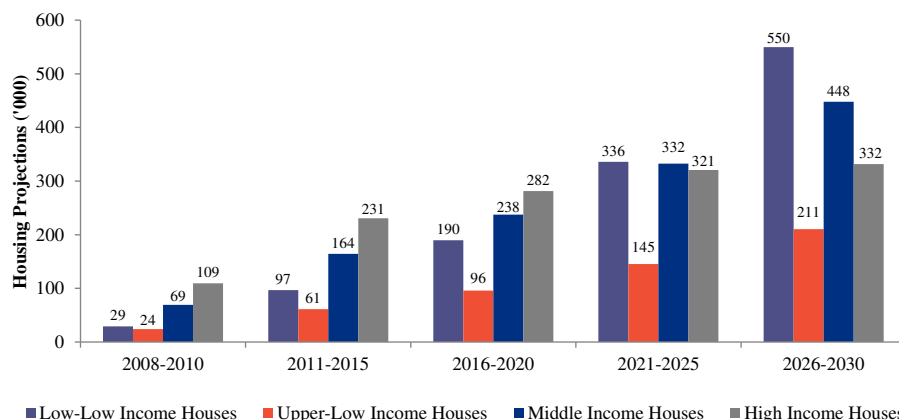
The value of approved building plans has more than doubled from KES 69bn in 2008 to KES 181bn in 2012. Nairobi continues to represent over 75% of the value of approved building plans over the 5 year period. In Nairobi in 2013, 2,438 planning approvals were granted for real estate property development with an estimated value of KES 149.75 billion. In Q1 2014, 530 planning approvals were granted with an estimated value of KES 26.87 billion.



Source: Economic Survey 2013
Note: 2012 statistics are provisional.

10.5 Housing market projections

With increasing investment in housing and a number of incentives provided to the private sector, it is estimated that 4.3m housing units will be produced between 2008 and 2030.



Source: Ministry of Housing

10.6 Mortgage market

Kenya is set to have a vibrant mortgage market backed by the growing demand for property from the growing middle and high income consumers. In 2010 the average mortgage loan size was KES 4 million growing to KES 5 million in 2012. The weighted average mortgage interest rate was 14.07% in 2010 rising to 16.89% in Q4 2013. The average mortgage rate rose slightly in Q1 2014 to 17.00% before a marginal decrease in Q2 2014 to stand at 16.30%.

Recent developments such as the recent introduction of Kenya Bankers Reference Rate (KBR) in Q3 2014 are likely to see a potential reduction in the mortgage rates as banks adopt this new based rate to price their mortgages. The lower mortgage rates combined with increased borrowing costs transparency through the Kenya Bankers Association's Annual Percentage Rate is likely to see an increased mortgage uptake.

10.7 Regulatory framework

The Capital Markets Authority introduced a regulatory framework to promote pooling of investments in income producing real estate assets through Real Estate Investment Trusts (REITs). This is expected to encourage mobilization of savings for investment in the housing sector as well as introduce additional capital markets instruments for retail and institutional investors.

In 2012, three Acts of Parliament were enacted and came into force on 2nd May 2012 –The Land Act 2012; Land Registration Act 2012; National Land Commission Act 2012. The new legislation has brought changes including classification of land; ownership of land by non-Kenya citizens, creation of charges on land among other changes.

10.8 Analysis of demand for housing

10.8.1 Rebounding Economy

Kenya's economic growth in the last 10 years and improving macroeconomic environment owing to prudent monetary and fiscal policies has led to greater economic stability, making the country a prime investment destination in the region. Furthermore, GoK's investment in infrastructure development has opened up previously inaccessible regions. A combination of these factors indicates that the outlook for the property market appears promising.

10.8.2 Growing Middle Income Class Putting Pressure on the Residential Segment

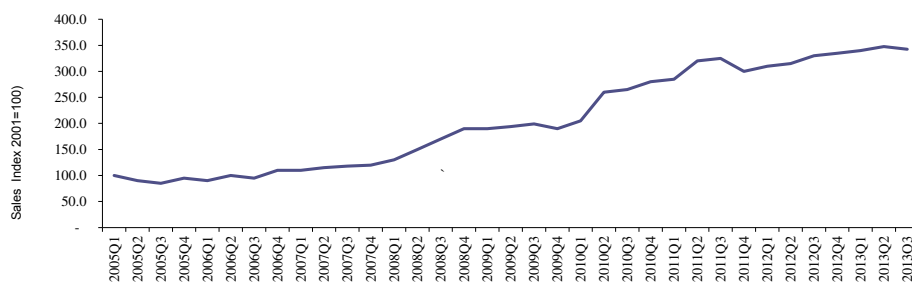
Over the last seven years, a number of Kenyans have joined the middle income class due to improved economic activities that have opened up new job opportunities. The numbers of Kenyans who have joined the middle income class have increased from 2.9 million as at 2006 to 5.2 million as at July 2012. The wage bills have also grown over the period thus leaving the middle income class with reasonable disposal income to invest in capital goods such as housing.

	2006	2007	2008	2009	2010	2011	2012
Kenyan Population (million)	36.1	37.2	38.3	38.6	39.8	41.6	43
% of Middle Income	8.00%	10.00%	10.00%	10.00%	11.00%	12.00%	12.00%
No. of Middle Income Class (million)	2.9	3.7	3.8	3.9	4.4	5.0	5.2

Source: KNBS, CIA World Factbook and NIC Capital Estimates

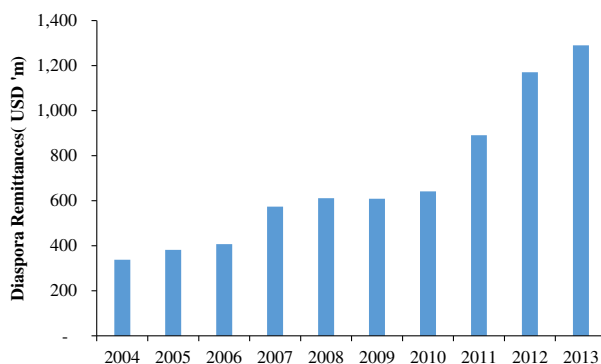
The growth in the middle income class on the back of improved economic conditions has resulted in increased demand of residential housing that so far outstretches the current market supply. Consequently, residential property mostly in the middle and upper income category has seen a price surge. The sales prices have grown by an estimated 50.0% since 2006, a clear indication of inadequate supply within the property market.

Figure 2: Hass Composite Sales Index



10.8.3 Remittances from abroad

Diaspora remittances have more than tripled from USD 338m in 2004 to USD 1,291m in 2013 driven by economic growth in developed economies as well as availability of investment opportunities in Kenya. Part of the remittances has remained invested in the property market. This trend is expected to continue in future creating more demand within the housing sector.



Source: Central Bank of Kenya

10.8.4 East African Community Hub

The advent of the East African Community will also auger well for Kenya with preference of Nairobi as the central hub for the other member countries. This will lead to international corporates with interest in the East African market setting up shops in Kenya. This would at the same time create new opportunities both for Kenyans and for other East Africans, leading to further demand for housing as more people look to settle in Nairobi and its neighboring towns.

11 OVERVIEW OF HOUSING FINANCE

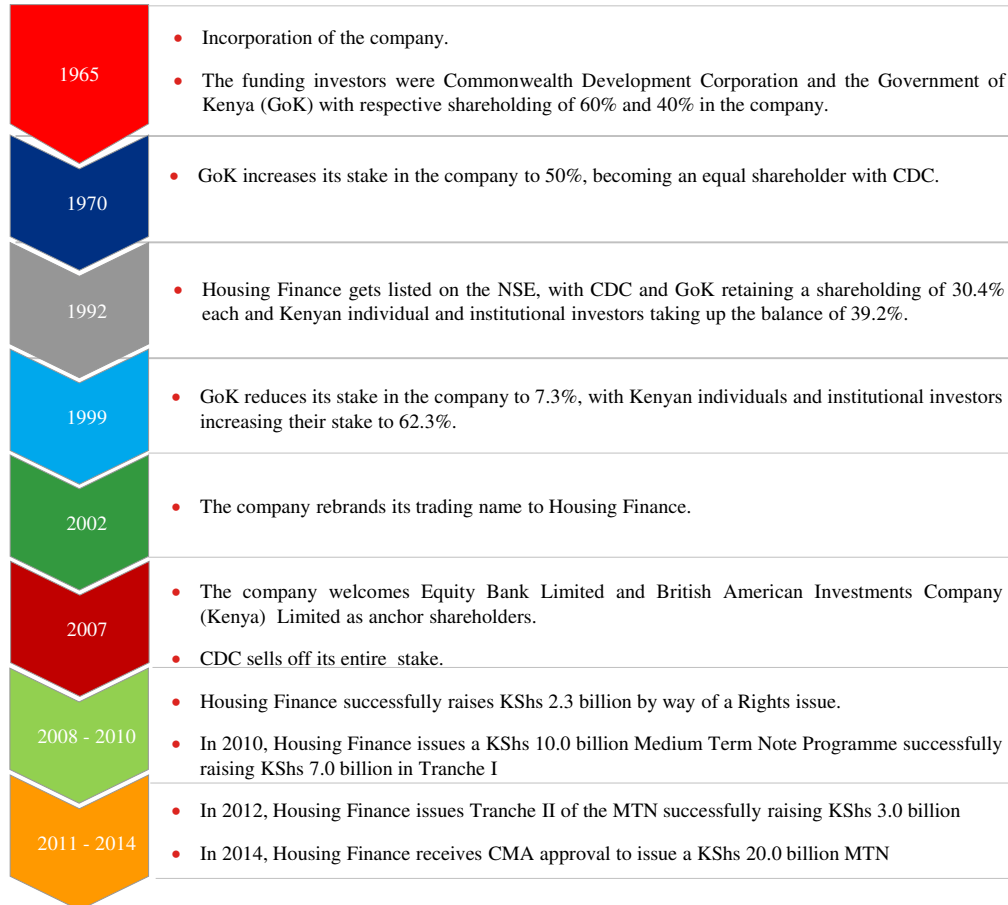
11.1 Background

Housing Finance Company of Kenya Limited was incorporated on 18 November 1965 under the Companies Act as a private company. At the time of incorporation and for a long period thereafter, almost the entire business funding needs were derived from funds injection by the two main shareholders, the Government of Kenya (GoK) and Commonwealth Development Corporation of the United Kingdom (CDC). In 1992, the Company got listed at the Nairobi Securities Exchange (NSE) with CDC and GoK retaining a shareholding of 30.4% each and Kenyan individual and institutional investors taking up the balance of 39.2%. This position has changed over the years to the current shareholding structure in which the GoK only controls 3.6% shareholding with the rest being in private hands.

In 2002, the Company underwent a rebranding that saw a change in its trading name to Housing Finance. For over forty-five years, Housing Finance has been providing access to mortgage finance to Kenyans for the acquisition, development and improvement of property. Housing Finance has therefore played a key role in enabling Kenyans build, buy and own homes and wants to continue along this path with a greater emphasis on low to lower middle income cost housing solutions.

The low and middle income class forms a high proportion of the Kenyan population and the trend is expected to continue increasing. Increase in population especially in the urban and peri-urban areas pushes up the demand for housing units and hence more pressure is currently on the supply of affordable housing units for this populace. However, due to the fact that the supply of houses mainly depends on land, a challenge has always been on the cost of land and its availability. Prices of land in urban areas continued to increase over the years beyond the reach of many Kenyans. This is a major obstacle towards affordable housing developments. Due to the continued improvement on the infrastructure by the GoK especially on roads, electricity, and water, accessibility to the central business district will be easier and hence reduce congestion in CBD and its proximity. This will lead to establishment of further property developments in the Nairobi metropolitan areas e.g. Kitengela and Ruiru.

11.2 Key Milestones



11.3 Accolades

Housing Finance prides itself in having won the following prestigious awards:

2014

- **Best Bank in Product Innovation (Makao)** – 1st Runner-Up
- **Best Bank in Mortgage Finance**- 2nd Runner-Up
- **Bank with the Lowest Charge**-2nd Runner-Up
- **Best Bank in Product Marketing (Ezesh)**- 2nd Runner-Up

2013

- **Think Business Banking Awards** - Best Bank in Mortgage Finance

2012

- **Think Business Banking Awards** - Best Bank in Mortgage Finance
- **Think Business Banking Awards** - 2nd Best Bank in Product Marketing

- **African Real Estate and Housing Finance (AREHF) Awards** - Best Real Estate Lending Institution in Africa Award

2011

- **Business Initiative Directions (B.I.D) Quality Crown Award**
- **Think Business Capital Markets Awards** – Bond of the year

2010

- **Banking Survey Awards** - 1st Runners up in the Best Bank in Mortgage Finance Category
- **3rd Mombasa Homes Expo** - 1st Overall Position
- **3rd Mombasa Homes Expo** - Overall Best Exhibitor
- **Kisumu Homes Expo** - 1st Position in the Financial Category
- **11th Homes Kenya Expo** - 2nd Runners up in the Financial Category

2009

- **Banking Survey Awards** - Best Bank in Product Innovation (For the Makao Product)
- **Mombasa Homes Expo** - 1st Position
- **Kenya Homes Expo** - 2nd Position
- **Kisumu Expo** - 1st Position Financial Category
- **Prime Media Expo** - 1st Position

2008

- **Build Expo** - 1st Position for being the Best Service Provider
- **Banking Survey Awards** - Best Bank in Product Innovation (For the 1st Hop Account)
- **Homes Kenya Expo** - 2nd Position
- **Homes Kenya Expo** - 2nd Runners up
- **Property and Homes Living expo** - 2nd Position

11.4 Shareholding Structure

The number of shareholders as at 31st October 2014 was 26,534 (December 2013 – 27,790 and December 2012 – 25,620). The top 10 major shareholders, based on the Group's share register as at 31st December 2014 are as follows:

Names	Number of Shares	%
British American Insurance Company (Kenya) Ltd	77,986,045	33.68
Equity Nominees Limited A/C 00104	28,602,000	12.35
National Social Security Fund	15,716,448	6.79
SCB A/C Pan African Unit Linked FD	9,098,700	3.93
Permanent Secretary Treasury	8,422,850	3.64
Jubilee Insurance Company of Kenya Limited	2,514,772	1.09
BAI Co (Mtius) Ltd	2,183,900	0.94
CFC Stanbic Nominees Ltd A/C NR1030833	1,984,050	0.86
CFC Stanbic Nominees Ltd A/C NR1030852	1,761,650	0.76
Kibuwa Enterprises Ltd	1,716,858	0.74
Total Top Ten Shareholders	149,987,273	64.78

Note: Equity Nominees Limited A/C 00104 are shares owned by British American Insurance Company (Kenya) Limited.

The shareholders owning 3% or more of the issued ordinary shares during each of the last three financial years to 31st December 2014 are as follows:

Shareholder	% Shareholding 2012	% Shareholding 2013	% Shareholding 2014
Equity Bank Ltd ²	24.84	24.78	0
Equity Nominees Limited A/C 00104	10.13	10.11	12.35
British American Insurance Company (Kenya) Ltd	8.85	8.84	33.68
National Social Security Fund	6.82	6.80	6.79
Permanent Secretary Treasury	3.65	3.65	3.64
SCB A/C Pan African Unit Linked FD	0	0	3.93
Total	54.29	54.18	60.39

Housing Finance's range of shareholding as at 31st December 2014 is as shown in the following table:

Category	No. of Shareholders	No. of Shares	% shareholding
1-500	9,571	2,559,722	1.1056
501-1,000	4,270	3,680,449	1.5896
1,001-10,000	11,694	32,193,531	13.9047
10,001-50,000	829	16,508,715	7.1303
50,001-100,000	91	6,374,040	2.7530
100,001 – 1,000,000	66	19,092,370	8.2462
Over 1,000,000	13	151,121,173	65.2707
Total	26,534	231,530,000	100%

The Bank's shareholder profile as at 31st December 2014 is as shown in the following table.

Category	No. of Shareholders	No. of Shares	% shareholding
Local individual investors	25,256	61,207,267	26.436
Local institutional investors	1,130	161,705,926	69.842
Foreign individual investors	107	744,381	0.322
Foreign institutional investors	15	7,193,200	3.107
East Africa individual investors	21	385,826	0.167
East Africa institutional investors	5	293,400	0.127
Total	26,534	231,530,000	100%

11.5 Branch Network

Housing Finance is in the business of providing mortgages, financial services and a wide range of other related services to homeowners and property developers in Kenya. A key way in which Housing Finance takes these vital services closer to the people is through the wide network of 14 branches spread around six major urban centres in Kenya and 2 Sales and Service Centers.

Town	Location	Branch
Nairobi		
	Rehani House	Kenyatta Avenue/ Koinange Street
	Gill House, Moi Avenue	Gill House
	Maserah House	Kenyatta Market

²Pursuant to a Share Purchase Agreement between Equity Bank Limited and British American Insurance Company (Kenya) Limited the shares of Equity Bank Limited were acquired by British American Insurance Company (Kenya) Limited. This transaction was successfully closed on 31 December 2014.

Town	Location	Branch
Mombasa	Epre Centre, Opp. Buruburu Police Station	Buru Buru
	Thika Road Mall Branch	Thika Road
	Sameer Business Park	Mombasa Road
	Skypark, Waiyaki Way	Westlands
Mombasa	Permanent House, Moi Avenue	Mombasa Branch
	Nyali Centre	Nyali Branch
Nakuru		
	AFC Building, Geoffrey Kamau Way	Nakuru
Nyeri		
	Meghi Rutshi Building/Kimathi Way	Nyeri
Eldoret		
	KVDA Plaza, Oloo/Utalii Street	Eldoret
Kisumu		
	Tivoli Centre, Court Road	Kisumu
Thika		
	Uhuru Street	Thika
Meru		
	Westwind Annex Plaza, Tom Mboya Street	Meru
Kitengela		
	Red Heron Centre (Sales & Service Centre)	Kitengela Sales Centre
Ongata Rongai		
	Maasai Mall (Sales & Service Centre)	Ongata Rongai Sales Centre

In addition to the above branch network, Housing Finance have 14 branded ATM's. With Housing Finance EasyCash Debit Card, customers can transact at any Housing Finance, and Kentswitch branded ATM'S to withdraw money at anyplace, anywhere and anytime. Customers can also use the Housing Finance EasyCash Debit Card to purchase goods at any merchant's outlets with a Senator and Kentswitch logo.

11.6 Subsidiaries and Joint Ventures

Housing Finance has four subsidiaries namely Kenya Building Society Limited, First Permanent (East Africa) Limited, Housing Finance Insurance Agency Limited and Housing Finance Foundation. Housing Finance has two joint ventures, namely: Precious Heights Limited and Kahawa Downs Limited.

11.6.1 Kenya Building Society Limited (KBSL)

KBSL is a wholly owned subsidiary of Housing Finance that engages in the development of houses for sale. Housing Finance has recapitalized and restructured KBSL with an objective of achieving and maintaining market leadership in property development in Kenya. In May 2012, HF made a grand return to property supply and has completed the construction and sale of 162 maisonettes in Komarock. Ongoing projects include additional maisonettes and an elaborate commercial centre in Komarock.

11.6.2 First Permanent (E.A) Limited

This is a wholly owned subsidiary of Housing Finance that currently does not carry out any trading activities.

11.6.3 Housing Finance Insurance Agency Limited

This is a wholly owned subsidiary of Housing Finance incorporated in 2013 as an insurance agency in the property and investments market. It commenced operations in July 2013.

11.6.4 Housing Finance Foundation Limited

This is a wholly owned subsidiary of Housing Finance incorporated in 2012 as the Corporate Social Responsibility Arm of Housing Finance. The flagship project of the Army of 1 Million Artisans, a Vision 2030 flagship project was launched in 2013.

11.6.5 Precious Heights Limited

In 2012, Housing Finance 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.

11.6.6 Kahawa Downs Limited

In 2013, Housing Finance 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.

11.7 Employees

As at 31st October 2014, the Group had a total workforce of 418 employees comprising 337 permanent staff and 81 temporary staff. The breakdown by entity is shown below:

Organization	Permanent	Temporary
Housing Finance Company of Kenya Limited	325	73
Kenya Building Society Limited	4	1
First Permanent (E.A.) Limited	-	-
Housing Finance Insurance Agency Limited	4	1
Housing Finance Foundation Limited	4	6
Total	337	81

11.8 Products and Services

Housing Finance, as a leading mortgage finance institution in Kenya with 25.6% market share, has helped many Kenyans turn their dreams into homes all over the country by constantly developing innovative and pioneering products and services designed to meet the unique needs of the Kenyan Market. The Company was honoured with an award of being the best bank in product innovation in 2008 and 2009. This was as a result of 1st Hop and Makao products launch in the market. Furthermore, the Company has a team dedicated to product innovation which is led by the Product Development Manager. The team is continually involved in research and gathering of market intelligence which is a key component of developing suitable products for the Kenyan public.

Housing Finance launched two key products in 2009, namely Cross-over savings account and Home Freedom mortgage product alongside its other products. The company continually strives to come up with innovative products which are most suitable for its clients and this has resulted in Housing Finance winning the Best Bank in Mortgage Finance at the 2010 banking survey.

Housing Finance products can generally be categorized as follows:

- Retail Products;
- Mortgage Products; and
- Project Finance

The table below outline the features of Housing Finance products:

Retail Banking
Transactional Accounts

Current Account

This is the flagship product for the transactional accounts. It allows customers unlimited access to funds through various channels with the cheque book being a unique feature of the account. The HF Current Account is unique in that it links customers to a one-stop-shop on property matters

Transactional Account

This account targets the young aspiring low to medium income earners who are actively engaged in any economic activity. The account is designed to be affordable to the vast majority of the populace. The transactional account will also serve the purpose of migrating the current *Juhudi* and *Daraja* account holders in a product rationalization exercise which aims at reducing the number of deposit products HF offers.

Lengo Account

The Lengo account is an interest earning transactional account and is intended to be an account with relatively long-term horizons since the account is linked to the servicing of mortgage payments.

Apex Account

The account is designed for institutions that want to put funds away each month but also want access to those funds. The account is only available for registered businesses, institutions and self-help groups.

Flexi Account

The Flexi Account is designed for regular customers who want the ability to access their funds regularly via various channels with payment vouchers (in-house cheque books) being a unique feature of the account. Vouchers enable the account holder(s) to do third party payments. This account is interest earning and ideal for entities (e.g. Chamaas, Schools, CBOs and NGOs) that may find vouchers a convenient way of transacting. It is expected that Flexi-account holders will eventually migrate to the Current account due the availability of the cheque book.

Savings Accounts

Crossover Account

This account will encourage savings due to the great benefits attached to growing your deposits. The account gives you clear benefits on migrating to a mortgage if one is a consistent saver. There are numerous benefits that are designed to help make customers dreams come true.

1st Hop Account

This is a product that is uniquely designed for the Kenya who desires to save for a home. It aims to promote savings for the sole purpose of home ownership. HOSP is a savings plan established under the Cap 470 (Income Tax Act) of the laws of Kenya.

Housing Development Bond

The Housing Development Bond is designed for the individual saver who will not need to access his or her savings for the duration of the plan. HDB account holders declare the amount to be invested as a lump sum, fixed for a period to be agreed. The longer the agreed term, the higher the interest paid based on the interest rate trends.

Treasure Account

The Treasure Account is designed to allow parents and guardians to put money aside for their children. This allows the money to grow into a sum that will cushion them from the growing cost of education and also provide their young children with a good start in adult life.

Fixed Term Deposit

This account is designed for both individuals and institutions that will not need to access their savings for the duration of the saving plan.

Call Deposit Account

It is available for both individuals and corporate customers who want higher return on their investments.

Registrar High Court Account

This is an account established through a court order with a trustee to the account.

Trust Relief Account

This account is designed for people who have come together for a common cause i.e. for medical accounts, education accounts, funerals and other interest groups.

Mortgages

Owner Occupier Mortgage

This is a loan given to a borrower who will occupy the unit property. In addition to the competitive rates we offer, the tax laws of Kenya also offer relief on interest for owner occupied Residential mortgages (to be claimed by you through your own annual tax returns).

Plot Purchase Mortgage

This loan helps satisfy the aspirations of many Kenyans by providing access to funds that will contribute toward the purchase of a plot. Depending on the location, we provide loans for the plots subject to a maximum plot size and loan amount. The loans for plots are available only for a maximum tenure of 5 years.

Construction Mortgages

This is a facility that allows those who already own a plot to borrow and build a residential unit on it. For construction loans, we require that the relevant authorities approve the plans and there will be conditions relating to disbursement in accordance with our guidelines.

Investment Residential Mortgage

This loan facility is for those individuals who want to buy another home to join in the already existing stable of investments. And you don't necessarily have to have finished the first mortgage (conditions will apply) to obtain this next mortgage.

Vuna Hela Mortgage

Through regular repayment, one acquires 'equity' in their mortgage equivalent to the amount already paid up. Acquired equity can be availed for further property development or other purposes. Money is lent on the value of the equity.

Cyclical Mortgage

This is a product that offers customers convenience of repaying their mortgages in pre-agreed cycles (bi-Monthly, quarterly, semi-annually etc.) that correspond to their income receipts. This product is especially suited for those in the informal sector or professionals such as consultants whose income flow may vary from month to month. This is a major diversion from traditional mortgages that suit the salaried employees in the formal sector.

Makao

This is a hassle free building solution that aims to help potential home owners who already own a piece of land to build a home conveniently and cost-effectively. The Makao product provides an end to end solution for the construction of houses involving a consortium of professionals in the construction industry. This team consists of Architects, Project Managers, Quantity Surveyors, Structural engineers, Legal Advisors, Services Engineers and Contractors, who all work together to ensure delivery of your preferred home.

Project Finance

This is a specialized solution designed to cater for both small and large property developers who wish to put up multiple units either as build to rent or build to sell. Financing is normally based on the anticipated cash inflows or income of the property being developed. Lending is up to 70% of the total project cost (inclusive of the value of

land.)

11.9 Group Financial Performance and Statutory Ratios

11.9.1 Group Statement of Profit or Loss and other Comprehensive Income

(KShs. '000)	2009	2010	2011	2012	2013	Q3 2014
Interest Income	1,804,122	2,475,814	3,464,079	5,068,815	5,440,059	4,570,919
Interest Expense	(656,579)	(1,074,826)	(1,562,517)	(3,118,780)	(2,886,682)	(2,386,412)
Net Interest Income	1,147,543	1,400,988	1,901,562	1,950,035	2,553,377	2,184,507
Fees and Commission revenue	169,092	168,479	211,870	210,884	245,940	286,229
Fees and Commission expense	-	-	-	-	-	-
Net fees and commission revenue	169,092	168,479	211,870	210,884	245,940	286,229
Trading revenue	-	-	-	-	-	-
Other operating income / (costs)	57,810	85,717	79,749	73,003	1,122,430	406,051
Non-interest revenue	226,902	254,196	291,619	283,887	1,368,370	692,280
TOTAL OPERATING INCOME	1,374,445	1,655,184	2,193,181	2,233,922	3,921,747	2,876,787
Loans impairment charges	(225,487)	(238,445)	(186,297)	(197,766)	(280,893)	(273,279)
Income after impairment charges	1,148,958	1,416,739	2,006,884	2,036,155	3,640,854	2,603,508
Staff costs	(388,687)	(489,608)	(601,450)	(684,429)	(804,060)	(732,515)
Other operating expenses	(409,153)	(366,103)	(429,639)	(444,095)	(1,356,438)	(826,045)
Operating expenses	(797,840)	(855,711)	(1,031,089)	(1,128,524)	(2,160,498)	(1,558,560)
PROFIT BEFORE TAX	351,118	561,028	975,795	907,631	1,480,356	1,044,947
Income tax expense	(116,942)	(181,497)	(353,517)	(164,297)	(485,160)	(335,868)
PROFIT FOR THE PERIOD/ YEAR	234,176	379,531	622,278	743,334	995,196	709,079

11.9.2 Group Statement of Financial Position

(KShs '000)	2009	2010	2011	2012	2013	Q3 2014
ASSETS						
Cash and bank balances	319,839	420,390	384,034	1,454,359	1,719,004	3,040,470
Placements with other banks	2,106,419	7,866,266	4,724,183	6,395,958	6,878,601	7,093,247
Investment in Government securities	509,507	539,835	379,847	723,616	288,167	276,067
Mortgage advances to customers (Net)	14,495,208	19,503,400	25,222,836	30,293,711	35,215,897	43,273,307
Other assets	808,386	948,505	1,160,016	2,088,933	3,287,708	3,233,783
Total Assets	18,239,359	29,278,396	31,870,916	40,956,577	47,389,377	56,890,874
LIABILITIES						
Customers' deposits	12,219,449	15,943,341	18,671,586	22,937,649	26,507,204	33,146,542
Other liabilities	220,443	447,043	329,927	784,326	587,545	920,156

(KShs '000)	2009	2010	2011	2012	2013	Q3 2014
Tax Payable	26,091	26,337	135,934	-	71,471	18,036
Borrowed Funds	1,700,000	8,604,269	8,016,105	12,097,358	14,363,650	16,701,904
	14,165,983	25,020,989	27,153,552	35,819,333	41,529,870	50,786,638
SHAREHOLDERS' EQUITY						
Share capital	1,150,000	1,150,000	1,152,125	1,153,000	1,155,350	1,157,600
Reserves	2,872,626	3,056,657	3,514,489	3,933,494	4,653,407	4,895,886
Shareholders' income notes and loans	50,750	50,750	50,750	50,750	50,750	50,750
	4,073,376	4,257,407	4,717,364	5,137,244	5,859,507	6,104,236
Total Liabilities and Shareholders' Equity	18,239,359	29,278,396	31,870,916	40,956,577	47,389,377	56,890,874

11.9.3 Regulatory Capital and Other Ratios

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

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.

Housing Finance'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 recognized and the Company appreciates 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 have been no material changes in the Company's management of capital during the year.

Housing Finance's capital adequacy ratios have been well above the minimum prudential requirements. This has been partly attributed to the rights issue exercise conducted in 2008.

11.10 Prudential Ratios

	2009	2010	2011	2012	2013	Q3 2014
Core capital/ Total Deposit Liabilities (%)	23.6	20.0	19.9	18.2	15.0	12.9
Minimum Statutory Ratio (%)	8.0	8.0	8.0	8.0	8.0	8.0
Core Capital/ Total Risk Weighted Assets (%)	31.1	24.4	21.4	19.1	13.8	10.3
Minimum Statutory Ratio (%)	8.0	8.0	8.0	8.0	8.0	8.0
Total Capital/ Total Risk weighted Assets (%)	34.1	48.7	34.0	29.5	21.6	15.3
Minimum Statutory Ratio (%)	12.0	12.0	12.0	12.0	12.0	12.0

	2009	2010	2011	2012	2013	Q3 2014
Liquidity Ratio (%)	23.9	55.7	29.1	36.8	33.1	30.3
Minimum Statutory Ratio (%)	20.0	20.0	20.0	20.0	20.0	20.0

11.11 Capital Adequacy Ratios

	2009	2010	2011	2012	2013	Q3 2014
Deposits/Total Assets	67.0%	54.5%	58.6%	56.0%	55.9%	58.3%
Shareholders' Funds/Total Deposits	33.3%	26.7%	25.3%	22.4%	22.1%	18.5%
Shareholders' Funds/Total Assets	22.3%	14.5%	14.8%	12.5%	12.4%	10.8%

11.12 Asset Quality Ratios

	2009	2010	2011	2012	2013	Q3 2014
Non-Performing Loans/Loans & Advances	12.1%	7.4%	6.2%	7.6%	9.0%	9.8%
Provisions/Non Performing Loans	27.8%	30.0%	24.4%	16.4%	16.3%	17.0%
Non-Performing Loans/Total Assets	10.0%	5.0%	5.0%	5.7%	6.8%	7.6%
Provisions/Loans & Advances	3.4%	2.2%	1.5%	1.2%	1.5%	1.7%

11.13 Earnings Ratios

	2009	2010	2011	2012	2013	Q3 2014
Cost/Income	58.0%	51.7%	47.0%	50.5%	55.1%	54.2%
Profit Margin	17.0%	22.9%	28.4%	33.3%	25.4%	25.0%
Return on Equity	6.1%	9.1%	13.9%	15.1%	36.2%	24.0%
Return on Assets	1.4%	1.6%	2.0%	2.0%	4.5%	2.8%

11.14 Liquidity Ratios

	2009	2010	2011	2012	2013	Q3 2014
Loans & Advances/Deposits	118.6%	122.3%	135.1%	132.1%	132.9%	130.6%
Loans/Total Assets	79.5%	66.6%	79.1%	74.0%	74.3%	76.1%
Liquid Assets/Total Assets	16.1%	30.1%	17.2%	20.9%	19.1%	18.3%

11.15 Strategy and Prospects/ Future Outlook

11.15.1 Market Share and Volume growth

Housing Finance has positioned itself as a one stop shop for property solutions over the years. Housing Finance's strategy is to provide Kenyan society with home acquisition solutions through mortgage financing. Two key pillars to this achievement are funding and supply of houses. The supply side will ensure that there are houses in the market which the Kenyan populace can afford. In addition, the GoK vision 2030 blueprint has under the social pillar identified decent housing as one key initiative that must be achieved for Kenya to become a middle income country by 2030.

Housing Finance seeks to have 300,000 active investment customers and 25,000 property customers by 2016. The Company intends to create and retain new and existing markets through:

- a) Formation of strategic partnerships, collaborations and joint ventures with persons/ institutions with huge tracts of land where Housing Finance can leverage on to develop substantial number of housing units.

b) Increase outreach and access to property and investment solutions, nationally and regionally through:

- Physical Channels
 - 10 New Branches within 3 years
 - 100 sales and service centers within 4 years
 - 1,000 Agents within 5 years
- Virtual channels
 - 30% of customer base both for informational and transactional purposes
- Informal Channels
 - Annual Major Expos
 - Semi-annual property seminars
 - Quarterly Barazas
 - 20 county planning groups
- Regional presence
 - Utilization of partnerships to gain access in Africa.
 - Physical – 2 Branches in Africa by 2016

c) Diversification: Housing Finance as a one stop shop for property solutions shall facilitate wealth creation & management to its customers within the property sector through:

- Setting up of an advisory unit
- Widening the range of customer offering across the property sector
 - Bancassurance;
 - Women friendly solutions;
 - Property Unit Trusts;
 - Tenant Purchase; and
 - Forex.
- Increasing customer product usage ratio to 3 per customer: Housing Finance will initiate dialogue and lobby with both governments and other relevant authorities to ease the property acquisition process for customers as well as:
 - Initiate 20 MOU's with utility companies and counties;
 - Set the stage for policy reform in the property and housing sector; and
 - Lobby with the Government to reduce conveyance period.
- Establish a property transactions exchange centre (clearing house): This service is expected to earn Housing Finance fees of KES 100.0mn per annum from:
 - Partnership for sale of building materials;
 - Property deals transacted through HF; and
 - Property project management for Saccos, Self help groups, Community Based Organization, individuals.

11.15.2 Involvement in the supply side of residential property

Housing Finance intends to raise its involvement on the supply side of residential middle and lower income housing, which will in turn create significant mortgage lending opportunities for the company. The housing supply strategy is projected to accelerate HF's established presence as a major supplier of affordable housing; spearheading appropriate product development for the informal sector and middle to low income earners.

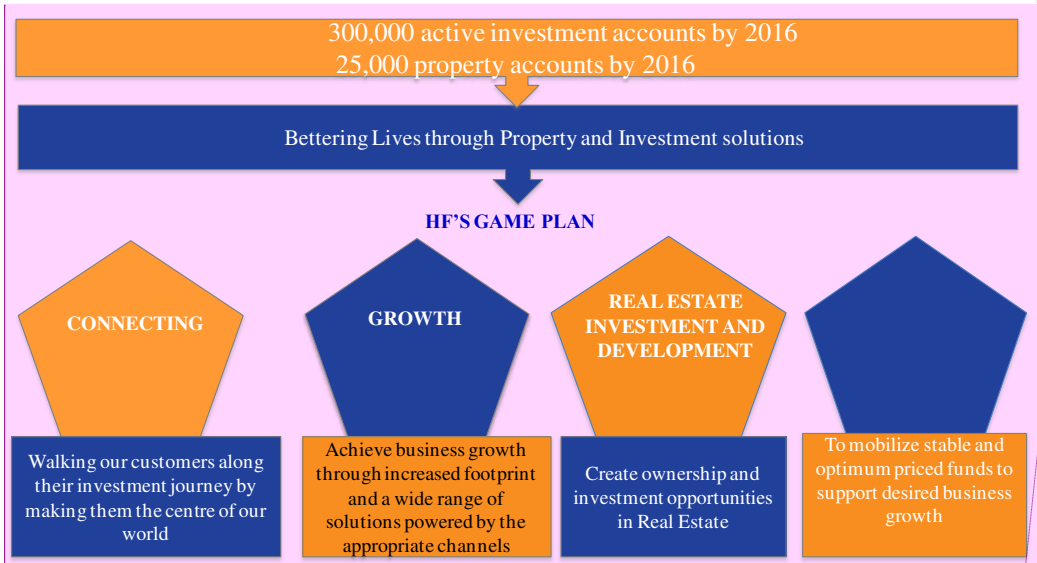
HF aims to be a point of reference and a benchmark in the real estate market by:

- Accessing strategic land banks country wide and developing housing estates through:
 - HF owned developments;
 - Joint ventures;
 - Public Private Partnerships (PPP's);
 - Build Operate Transfer projects; and
 - Site, service and outright sale of accessed land.
- Commence and complete one HF owned housing estate with part emphasis on alternative technology:
 - Complete 1,000 units in 2014 and another 1,000 units in 2016.
- Complete projects through joint ventures. Housing Finance currently has two joint ventures underway and seeks to sign a joint venture every year to complete 1,840 units by 2016:
 - 360 units in 2013;
 - 440 units in 2014;
 - 440 units in 2015; and
 - 600 units in 2016.
- Build Operate Transfer with an emphasis on alternative technology is a long term business opportunity for Housing Finance:
 - There are untapped opportunities from institutions for provision of warehouses, tuition blocks and hostels. HF is already in discussions with several institutions of higher learning.
- Housing Finance seeks to establish 1,000 units through Public Private Partnerships by:
 - Address housing gaps to the public and Government institutions (Prisons, Police, Civil Servants Housing Schemes);
 - Counties outreach; and
 - Influencing operations of the PPP committee.
- Furthermore, the Company will build its capacity for project management and structuring property investments through the engagement in partnerships with institutions providing services in the real estate sector.

11.15.3 Funding

In mid-2013, the Central Bank of Kenya advised the real estate sector to seek alternative sources of funding to prevent a banking crisis that would occur if too much lending went to the sector and housing prices dropped sharply. Housing Finance seeks to mobilize stable and optimum priced funding to support desired business growth

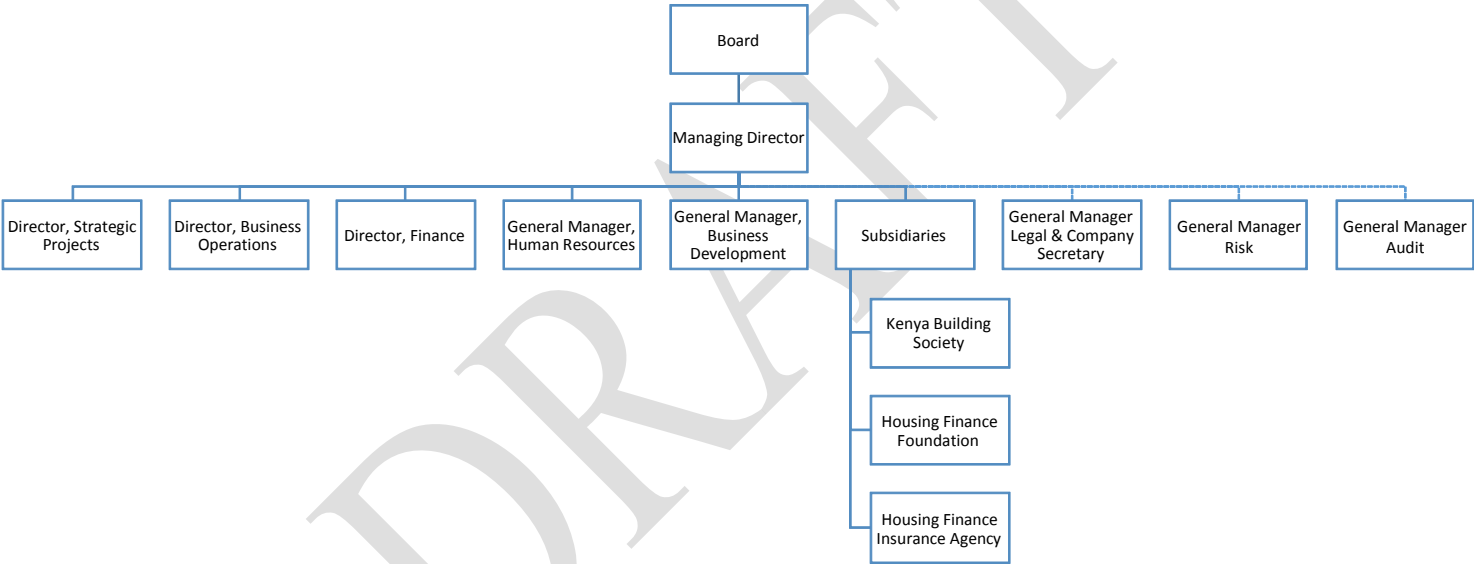
- Housing Finance seeks to diversify its sources of funds for business growth sustainability and will use innovative structures including covered bonds, REIT's etc.
- Monitor the raising of retail deposits to enable provision of affordable customer solutions. HF's target market is composed of players both in the Company's primary and secondary ecosystems as well as the customers' own ecosystems including Medium to high net-worth individuals, SME's registered or doing business in own name and their ecosystem and Corporates and their ecosystems.



Comment [SE1]: Have the word Funding in the last Pentagon

11.16 Organization Structure

The organization structure of Housing Finance as at 31 October 2014 is as follows:



12 CORPORATE GOVERNANCE, BOARD OF DIRECTORS AND SENIOR MANAGEMENT

12.1 Responsibilities of the Board

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 and Housing Finance Company of Kenya Limited confirms full compliance with the same.

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.

12.2 Composition of the Board

The Board is composed of seven non-executive Directors including an independent Chairman and one executive Director. Mr. Frank Ileri 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.

12.3 Board and Management Committees

The Board has constituted 6 sub-committees chaired by Non-Executive Directors, namely Audit, Risk Management, Nomination and Remuneration, Credit, Strategy and Procurement.

12.3.1 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.

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.

12.3.2 Risk Management Committee

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

- Shem Migot-Adholla (Chairman)
- Adan Mohammed
- Constance Gakonyo

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.

12.3.3 Nomination and Remuneration Committee

The members of the Nomination and Remuneration committee are the Managing Director and:

- Peter Munga (Chairman)
- Benson Wairegi
- Constance Gakonyo
- Gladys Ogallo

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

The Committee's responsibilities include:

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

- Reviewing the emoluments of both executive and non executive Directors, and senior management.

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

12.3.4 Credit Committee

This is a Board Committee comprising of three Non-Executive Directors and the Managing Director:

- 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.

12.3.5 Board Strategy Committee

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

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

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.

12.3.6 Board Procurement Committee

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

- Peter K Munga (Chairman)
- Adan Mohammed

The principal roles of the committee are to:

- Ensure that the processes for procurement comply with the procurement policies and procedures manual and are anchored on quality, speed of delivery and price;
- Ensure effective and timely implementation of special projects through effective procurement, and that these are in line with the Group strategy.

12.4 Attendance of Individual Directors

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

Board meetings attendance for the ten month period ended 31 October 2014	Board meetings				Total attendance
Date	18/2	22/4	15/7	24/10	

Board meetings attendance for the ten month period ended 31 October 2014	Board meetings				Total attendance
Steve Mainda	√	√	√	√	4
David R. Ansell	√	√	√	√	4
Benson Wairegi	√	√	√	√	4
Peter Munga	√	√	√	√	4
Shem Migot- Adholla	√	√	√	√	4
Adan D.Mohamed	√	√	√	√	4
Gladys Ogallo	√	√	√	√	4
Constance Gakonyo	N/A	X	√	X	1
Frank Ileri	√	√	√	√	4

✓ Attended
 x Absent with apology
 N/A Meeting occurred prior to the joining date

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.

12.5 Directors' Remuneration

Director emoluments summary:

Kshs '000'	31 st December 2013	31 st October 2014
Fees	2,435	3,296
Expenses	9,039	12,383
As Executives	59,009	60,676

12.6 Directors' Shareholding

None of the Directors indirectly or directly hold in excess of 1% of the share capital of the Issuer.

12.7 Directorship in Other Entities

Directors of the Company that serve on the boards of other publicly listed companies as outlined below:

Director	Public Listed Entity	Role
Steve Mainda	Sasini Limited	Non-executive Director
Frank Ileri	FTG Holdings Limited	Non-executive Director
Benson Wairegi	British-American Investments Company (Kenya) Limited	Group Managing Director
	Equity Bank Limited	Vice Chairman, Non-executive Director
Peter Munga	Equity Bank Limited	Chairman, Non-executive Director
	British-American Investments Company (Kenya) Limited	Non-executive Director

Shem Migot-Adholla	Equity Bank Limited	Non-executive Director
David R. Ansell	Equity Bank Limited	Non-executive Director

The Company hereby confirms that the Chairman does not hold a similar position in more than two public listed companies and that none of the directors holds a similar position in more than five public listed companies.

12.8 Board of Directors

Currently the Company's directors are appointed by the shareholders as provided in the Articles of Association of the Company. A brief profile of the Company's directors at the date of the Information Memorandum is as follows:

<p>Steve Mainda (EBS) (Non-Executive, Independent)</p> <p>Age: 68 years</p>	<p>Mr. Steve Mainda (EBS) was appointed Director in July 2009. He has broad and extensive financial, insurance, investment, educational and management background in the Financial Services industry.</p> <p>Mr. Mainda is a Fellow of the Institute of Directors of London and holds M.A and B.A Degrees from the Universities of Princeton and Cambridge.</p> <p>He is Chairman of Housing Finance Company of Kenya Ltd. and also the Chairman of Insurance Regulatory Authority. He holds directorships in Sasini Ltd., Ryce EA Ltd and KK Group of Companies among others.</p>
<p>Frank Ireri (EBS) (Executive, Non-Independent)</p> <p>Age: 52 years</p>	<p>Frank was appointed Managing Director of Housing Finance in July 2006. He is a seasoned banker with more than 20 years standing having joined from Barclays Bank Africa where he was Head of Barclay Card Africa Operations, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Commercial Bank of Africa and Citibank. During his banking career, he has had international exposure in Poland, Sri Lanka and Zambia.</p> <p>Frank is an Honorary Counsel member of AIESEC, a member of the Sub-Saharan Africa Chamber of Commerce Advisory Board, a member of the Habitat for Humanity Kenya Board and a member of the Madison 'Who's Who'. In 2011, the former Kenyan Head of State, H.E. Mwai Kibaki conferred upon him the Elder of the Burning Spear (EBS) in recognition of his distinguished service rendered to the Nation.</p>
<p>Prof. Shem Migot-Adholla (Non-Executive, Independent)</p> <p>Age: 72 years</p>	<p>Shem E. Migot-Adholla is a development sociologist with long interdisciplinary research experience in many countries. He is a private consultant on agriculture and rural development, land policy reform and environmental issues based in Nairobi, Kenya. He is currently a member of the Board of Directors of Equity Bank Kenya and serves as Chairman of Equity Bank South Sudan and Center for Corporate Governance, Nairobi, as well as the Institute of Policy Analysis and Research (IPAR). He is a member of the Board of Directors, Housing Finance Company of Kenya, and the Kenya Wildlife Trust, a charitable fund based in Nairobi. He has previously served as Vice-Chairman of the Board of Directors, Kenya Wildlife Service between 2004 and 2007 and was Lead Specialist on Land Policy and Administration for Africa Region at the World Bank Headquarters, Washington, between 1986 and 2004. During that period he also served (on secondment from the World Bank) as Permanent Secretary, Ministry of Agriculture and Rural Development, Government of Kenya, where he was responsible for formulation and implementation of agricultural and rural development policy as well as general oversight of 38 state corporations. Earlier he was Associate Research Professor at the Institute for Development Studies (IDS), University of Nairobi and has numerous publications focusing on land</p>

	<p>issues, pastoralism, farmers' institutions and rural development. He was also involved in a number of feasibility studies, project reviews and evaluations in many parts Kenya and East Africa. His working experience spans many African countries as well as Haiti, Kyrgyz Republic and several Asian countries.</p>
<p>Dr. Benson I. Wairegi (EBS) (Non-Executive, Independent) Age: 61 years</p>	<p>Benson is currently Group Managing Director of British-American Investments Company (Kenya) Ltd. He joined British-American Insurance Company Ltd. in 1980 as the Chief Accountant. He had previously worked with Price Waterhouse, the forerunner of PricewaterhouseCoopers for 3 years. Benson's other directorships are in Equity Bank Ltd. and is currently Chancellor of Kenyatta University.</p> <p>Benson holds a Bachelor of Commerce degree in Accounting and an MBA in Strategic Management. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).</p>
<p>David R. Ansell (Non-Executive, Independent) Age: 68 years</p>	<p>David Ansell was appointed Director in October 2001. He retired from Citibank in February 2001, after 30 years of Service, including an assignment as Director of Citibank's African Businesses based in Nairobi.</p> <p>He was also previously Managing Director of Ecobank Transnational Inc. based in Lome, Togo. He also serves on the Board of Directors of Equity Bank Uganda and Advisory Board of the Private Equity New markets fund managed by BankInvest, the largest Asset Manager in Denmark.</p> <p>David Ansell has a B.A (Mathematics) from the University of North Carolina and Masters degree in Finance from Thunderbird Graduate School of International Management.</p>
<p>Peter K. Munga (EBS) (Non-Executive, Independent) Age: 71 years</p>	<p>Mr. Munga is the Chairman of Equity Bank Limited, Chairman of National Oil Corporation (NOCK), Chairman of Micro-Enterprise Support Programme Trust (MESPT) and a director Rockfeller Foundation, Equatorial Nut Processors and British-American Investments Company (Kenya) Ltd. He is an enterprising businessman and runs the Pioneer Group of Schools. He is a Certified Public Secretary with vast experience in both public and private sector management and holds a diploma in Human Resources and Financial Management. Mr. Munga is a retired Deputy Secretary.</p>
<p>Adan D. Mohammed (EBS) (Non-Executive, Independent) Age: 51 years</p>	<p>Adan joined the board on 15th October 2012. He is the Chairman and a Member of the Board of Trustees at the National Social Security Fund (NSSF). Adan has extensive knowledge and expertise in Law having engaged in legal representation in and outside the country. He has also engaged in the training and evaluation of law enforcement officials in matters involving access to justice and eradication of inequalities based on race, gender or national origin.</p>
<p>Gladys Ogallo (Non-Executive, Independent) Age: 48 years</p>	<p>Gladys joined the board on 8th January 2014. She holds a Bachelor of Education degree and a Masters in Business Administration (MBA). She is trained and certified by SHL and PDA International. Both SHL and PDA International are global leaders in talent assessment solutions, supporting organisations in the selection, performance management and development of people at all levels and across all sectors.</p> <p>She has over 13 years experience in the ICT sector working with Africa Online as a Training & Development Manager in charge of 9 countries and later Head of Human Resource at UUNET (now MTN Business). She is the CEO and Founder of Virtual Human Resources Services Ltd.</p> <p>Gladys is the Vice Chair of the Group on Capacity Building Initiatives (GCBI).</p>

	GCBI is constituted by World Telecommunications Development Conference of the International Telecommunications Union. She also consults for the International Telecommunication Union, among other international assignments. Gladys is also a board member of several boards.
Constance Gakonyo (Non-Executive, Independent) Age: 49 years	Constance joined the board on 17th April 2014. She is a strategic management expert with a legal background and extensive entrepreneurial and corporate governance experience. She held the position of Executive Director, Real Insurance Group from 2009 to 2012, where she oversaw the key areas for the group's four business units in Kenya, Malawi, Mozambique and Tanzania. She also worked as Chief Executive Officer – Jalico Limited, Performance Management and E.A. Legal Consultant – SABMiller Africa and Asia (Pty) Ltd, Director Strategic Resources – Nile Breweries Ltd, Director – Human Resource and Legal affairs – Castle Breweries Kenya Ltd, Group Legal and Human Resource Manager – Standard Newspapers Group Limited. She has an MBA (Strategic Management) from the University of Nairobi, Diploma in Law from Kenya School of Law and Bachelor of Laws degree from University of Nairobi. She has been a member of various boards including East Africa Breweries Limited, Parapet Limited, Mozaic Investment Limited, Mureka Investment Limited, Jalico Limited, Home Africa Limited, Mobile Platform Solution Limited and Ahadi Kenya Trust (Co-Founder Trustee).

12.9 Conflicts of Interests

Business transactions with all parties, directors or their related parties are carried out at arms' length. The directors of the Company are under a fiduciary duty to act honestly and in the best interests of the institution.

12.10 Relations 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.

12.11 Senior Management

Housing Finance is led by a management team that represents very experienced professionals in the banking and housing industry having worked for different entities both locally and internationally. A brief profile of the Company's management is as follows:

<p>Frank Ileri Managing Director</p> <p>Age: 52 years</p>	<p>Frank was appointed Managing Director of Housing Finance in July 2006. He is a seasoned banker with more than 20 years standing having joined from Barclays Bank Africa where he was Head of Barclay Card Africa Operations, covering Kenya, Botswana, Zambia, Mauritius, Seychelles and Egypt. Prior to this, he worked with Commercial Bank of Africa and Citibank. During his banking career, he has had international exposure in Poland, Sri Lanka and Zambia.</p> <p>Frank is an Honorary Counsel member of AIESEC, a member of the Sub-Saharan Africa Chamber of Commerce Advisory Board, a member of the Habitat for Humanity Kenya Board and a member of the Madison 'Who's Who'. In 2011, the former Kenyan Head of State, H.E. Mwai Kibaki conferred upon him the Elder of the Burning Spear (EBS) in recognition of his distinguished service rendered to the Nation.</p>
<p>Sam Waweru Finance & Administration Director</p> <p>Age: 45 years</p>	<p>Sam joined Housing Finance in December 2005 as the Head of Internal Audit. He began his career at the international audit and advisory firm of Ernst & Young in 1992 as an Accountant/ Auditor. He has also held the following positions prior to joining Housing Finance: Senior Internal Auditor at Lonrho Africa Management Services; Head of Internal Audit at Uchumi supermarkets; and Head of Internal Audit, Aga Khan Health Services, East Africa.</p> <p>During his career life, Sam has gained working exposure in different countries which include about ten African countries and the United Kingdom.</p> <p>Sam is a Bachelor of Commerce (Accounting Option) graduate of the University of Nairobi and a Certified Public Accountant (CPA K).</p>
<p>Winnie Kathurima-Imanyara Executive Director – Housing Finance Foundation</p> <p>Age: 54 years</p>	<p>Winnie joined Housing Finance as Change and Strategy Director in June 2009, having worked previously with Equity Bank. Winnie is currently the Executive Director – Housing Finance Foundation. She has also held senior Human Resource positions at Safaricom, Kenya Petroleum Refineries, SmithKline Beecham and Reckitt & Colman.</p> <p>Winnie has a Bachelor of Arts (Business Administration) and Bachelor of Science in Industrial Psychology qualifications. She also has Post Graduate Diplomas in Human Resource Management & Strategy and Leadership.</p>
<p>James Karanja Executive Director – Kenya Building Society</p> <p>Age: 41 years</p>	<p>James joined Housing Finance in May 2009 as a Senior Manager-Project Finance. He was later promoted as Head of Project Finance in June 2010. He is currently the Executive Director – Kenya Building Society. James has over 10 years banking experience having previously worked at CFC Bank Limited and Co-operative Bank of Kenya Limited.</p> <p>James holds a Master in Business administration (MBA) qualification from Warbrough University UK and is a qualified member of the Associate Kenya Institute of Bankers (AKIB).</p>
<p>Caroline Armstrong Director – Strategic Projects</p> <p>Age: 40 years</p>	<p>Caroline joined the Company on 2nd May 2008. She is currently the Director – Strategic Projects. Prior to joining the company Caroline worked with ABN AMRO bank and Barclays Bank respectively.</p> <p>Caroline is a seasoned banker with 14 years experience. She has a Bachelor of Arts degree (International Business Administration) from the United States International University.</p>

<p>Constantine Barasa General Manager – Risk</p> <p>Age: 36 years</p>	<p>Constantine joined Housing Finance in July 2006 as an Internal Auditor rising through the ranks to become the Head of Internal Audit before being promoted to Assistant General Manager – Risk and thereafter to his current position of General Manager - Risk.</p> <p>He is a Bachelor of Commerce (Accounting) graduate from the University of Nairobi, a Certified Public Accountant CPA (K) and a Certified Public Secretary CPS (K). He also holds an MBA from the University of Nairobi.</p>
<p>Joseph Ngare General Manager - Audit</p> <p>Age: 45 years</p>	<p>Joseph joined Housing Finance on 19 April 2010 as Head of Internal Audit. Prior to joining the Company, Joseph worked with Gulf African Bank and Cooperative Bank of Kenya Limited.</p> <p>Joseph holds a Bachelor of Commerce degree (Finance Option) and is a qualified Certified Public Accountant (Kenya), Certified Internal Auditor (CIA) and a Certified Quality Assessor (QA).</p>
<p>Kevin Kihara General Manager – Business Development</p> <p>Age: 39 years</p>	<p>Kevin joined Housing Finance on 1st August 2011, as an Assistant General Manager - Business Opportunities, rising to the rank of General Manager – Business Development. He joined us from Family Bank Ltd. where he held the position of Senior Manager, Innovation and Strategic Partnerships.</p> <p>Kevin holds a Master of International Public Policy from John Hopkins University, and a Bachelor of Arts, Government and Economics from University of Texas. He is an Accredited Mortgage Professional by Mortgage Bankers Association of America.</p>
<p>Timothy Gitonga Director Business Operations</p> <p>Age: 43 years</p>	<p>Timothy joined Housing Finance on 11th March 2013 as Business Operations Director. Timothy joined us from NIC Bank where he held the position of Acting Retail Banking Director. Prior to this he was Head of Business Banking. Timothy holds a Master of Business Administration (Strategic Management) and a Bachelor of Science in Agriculture Range Management. He also has a Postgraduate Diploma in Banking and is an Associate of Kenya Institute of Bankers (AKIB).</p>
<p>Ben Lanya General Manager – Human Resources</p> <p>Age: 43 years</p>	<p>Ben joined Housing Finance on 3rd June 2013 as General Manager – Human Resources. Ben Joined us from Standard Chartered Bank where he held the position of Senior Human Resources Relationship Manager.</p> <p>Ben holds a Msc. Human Resource Management from University of Salford Manchester, MA English and Applied Linguistics and B.Ed Arts</p>
<p>Kevin Isika Director – Credit</p> <p>Age: 40 years</p>	<p>Kevin joined the Company on 3rd March 2014. He is currently the Director – Credit. Prior to joining the company Kevin worked with Standard Chartered Bank Ltd for over 14 years.</p> <p>Kevin holds a Master of Business Administration Degree and a Bachelor of Commerce Degree – Accounting option. He holds CPA (K) and CPS (K) certifications. Kevin is also CSA – certified, which is an International Credit Certification.</p>

<p>Regina Anyika General Manager – Legal Services and Company Secretary</p> <p>Age: 46 years</p>	<p>Regina joined the Company on 16th September 2013. She is currently the General Manager – Legal Services and Company Secretary. Prior to joining the company Regina worked with the Co-operative Bank of Kenya Limited and Senator Cards Limited.</p> <p>Regina is a seasoned In House Counsel with over 20 years’ experience. She holds an MBA – Employee Relations from the University of Leicester (U.K), a Bachelor of Laws (LLB) from the University of Nairobi, a Diploma from the Kenya School of Law and is a Certified Public Secretary (CPS (K)).</p>
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13 RISK FACTORS

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, quantification of the Company's risk exposure and defining and describing actions to limit these risks.

The main aim of risk management is to ensure that all risks assumed in the course of the Company's business are recognized early on and mitigated by effective risk management practices. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Company. Risk management and monitoring is implemented via the Company'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 in application:

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Company 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; and
- Appropriate and effective controls exist for all processes entailing risks.

These principals are 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 Company's risk exposures.

13.1 Political Risk

Kenya, like the majority of developing countries, is subject to certain political, economic and social events that may individually or collectively, create risks for investors. These risks are more difficult to predict and measure than in developed countries.

13.2 Economic Risk

Housing Finance is mainly engaged in the housing sub-sector mortgage financing. The growth in this sector is dependent on the continued economic and infrastructure developments with the support of both the public and private sectors. The economic growth is dependent on the formulation of policies and procedures to support the initiatives of the public and private sectors to remain profitable and yield net returns that will maintain current investments and attract other foreign direct investments, bilateral and multilateral aid.

13.3 Regulatory Risk

Regulatory risk relates to the risk of non-compliance or non-conformity with laws, rules, regulations, prescribed practice or ethical standards issued from time to time. Regulatory risk may arise in instances where the laws and rules governing the conduct of business may be ambiguous or change drastically. There is always a risk that changes in government and subsequent regulations and legislation can affect the banking sector in general and more specifically, the operations of the Company.

Banking services in Kenya are regulated by the Banking Act (and its amendments) and the Finance Act. Housing Finance is regulated by the Central Bank of Kenya (CBK) and is therefore subject to comply with the CBK Acts. New policy guidelines issued by the CBK could impact on the operations of the Company.

13.4 Credit Risk

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

13.4.1 Management of credit risk

The Company is subject to credit risk through its lending and investing activities. Credit risk is the Company'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 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 Company and approves the credit risk strategies to be adopted. The Company has adequate Board approved Credit Policies which are reviewed annually and which cover all aspects of credit risk management (mortgage origination, analysis and appraisal, acceptable collateral, approval authorities and non-performing loan management).

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

The Company'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 Company 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 Company only deals with counterparties of good credit standings and obtain collateral. The Company also monitors concentration of credit risk that arises from customers in relation to mortgage advances to customers. The Company has no significant exposure to any individual customer or counterparty.

13.5 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.

Management of Liquidity Risk

The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next 91 days.

The Company'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 Company's reputation.

To this end, there is a policy that has been approved by the Board of Directors to effectively manage liquidity at all times to meet mortgage demands 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.

Worth noting is that Housing Finance has access to a diverse funding base. Funds are raised mainly from deposits, share capital and loans. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Housing Finance strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Company continually assesses liquidity risk by identifying and monitoring changes in funding required to meet

business goals and targets set in terms of the overall Company strategy. In addition, Housing Finance holds a portfolio of liquid assets as part of its liquidity risk management strategy.

13.6 Market Risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Housing Finance income or the value of its holdings of financial instruments.

Interest Rate Risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Foreign Exchange Risk

Housing Finance takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily.

Price Risk

Price risk is the risk that the value of a security or portfolio of securities will decline in the future due to a fall in the market price.

Management of Market Risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing 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.

13.7 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Housing Finance processes, personnel, and technology, infrastructure and from external factors other than the credit, market, concentration and liquidity risks.

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

Management of Operational Risk

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness while at the same time avoiding control procedures that restrict business processes 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 Company standards for the management of operational risks. Compliance with Company 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 Company.

13.8 Strategic Risk

Strategic risks are those risks that arise from formulation of strategic plans, business plans and implementation of plans that are inappropriate and inconsistent with internal factors and the external environment which may in turn affect earnings, capital fund or viability of the business. To avert strategic risks, the Board of directors and senior management carefully formulates strategic and business plans, supportive to corporate governance, in addition to putting in place internal infrastructure appropriate for implementation of the strategic plan.

13.9 Concentration Risk

Housing Finance mostly derives its revenue from the housing sub sector by way of mortgage financing and project financing. It's lending is spread across borrowers with diverse backgrounds thereby minimizing the level of concentration risk.

13.10 Reputational Risk

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or false, will cause a decline in the customer base, costly litigations, or revenue reductions. This risk may result from a financial institutions' failure to effectively manage any or all of the other risk types. The ultimate accountability for reputational risk management rests with the board. The Board of Directors addresses explicitly reputational risk as distinct and controllable risk to Housing Finance's safety and soundness through a versatile risk management framework for reputational risk. Responsibility for corporate reputation is resided with the Managing Director's office and managed by Public Affairs & Communication Department.

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14 STATUTORY AND GENERAL INFORMATION

14.1 Corporate Information

14.1.1 Incorporation Details

Housing Finance Company of Kenya Limited was incorporated in Kenya on 18th November 1965 under the Companies Act as a limited liability company, and is domiciled in Kenya (current registration number C.21/97). The company's shares are listed on the Nairobi Securities Exchange.

14.1.2 Registered office of the Company

The registered office of the Company is situated at Rehani House situate Land Reference Number 209/9054 , Nairobi and its postal address is Post Office Box Number 30088-00100 Nairobi.

14.1.3 Authorised And Issued Share Capital

Pursuant to a resolution of the Company at the Annual General Meeting held on 25th April 2014, the authorized share capital of the Issuer was increased from Kshs.1,178,750,000.00 to KShs 2,500,000,000.00 by creation of additional 264,250,000 new ordinary shares of Kshs.5.00 each. The authorised share capital of the Issuer as at 31st October 2014 was KShs 2,500,000,000.00 divided into 500,000,000 ordinary shares of KShs 5.00 each.

The issued and fully paid up share capital of the Issuer as at 31st October 2014 was KShs 1,157,650,000 divided into 231,530,000 ordinary shares of KShs 5.00 each.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote as set out in Article 81 below.

14.1.4 Additional shareholding information.³

The share capital of the Company is not divided into different classes of shares and all of the Ordinary Shares carry equal rights and the New Shares, when issued, will rank equally in all respects with the existing Shares. 5,750,000 shares are reserved for allotment to the trustees of the Issuer's Employee Share Option Plan.

14.2 Principal objects

The Issuer's principal objects as contained in its Memorandum of Association are:

3A To advance money to any person upon security by way of mortgage of land (including any building or other structure or improvement erected or constructed thereon) situate in Kenya, or upon any other marketable security, and in particular (but without derogation from the generality of the foregoing) to advance money upon the security of or for the purpose of enabling the person borrowing the same to erect or purchase or enlarge or repair any house or building or to enable such person to acquire any estate or interest in any land upon such terms and conditions as the Company may think fit.

3B To receive money on deposit or loan and borrow or raise money in such manner as the Company shall think fit, either with or without security and in particular by the issue of Notes and loan notes, and debentures or debenture stock (perpetual or otherwise) and to secure the repayment of any money borrowed, raised or owing by mortgage, charge or lien upon all or any of the property or assets of the Company (both present and future) including its uncalled capital and also in similar manner to secure and guarantee the performance by the Company or such other person or company as the case may be.

3C To acquire by purchase, lease, exchange, hire or otherwise, lands and property situate in Kenya of any tenure, or any estate or interest in the same or any rights over or connected with such lands and property and to develop the same by preparing building sites and by constructing altering improving decorating furnishing and maintaining cottages houses offices flats shops schools hotels buildings works and conveniences of all kinds.

³ On 1st July 2014 it was announced that British American Investments Company (Kenya) Limited entered into a conditional agreement to acquire the shares currently held by Equity Bank Limited and Equite Nominees Limited A/C 00104

3D To manage land, buildings and other property situate in Kenya whether belonging to the Company or not, and to collect rents and income.

14.3 Provisions of the Articles relating to :

14.3.1 Share capital and variation of rights

Article 8 - At the date of this Issue the share capital of the Company is Shillings Two billion five hundred million divided into Five hundred million (500,000,000) ordinary shares of five shillings (KShs. 5) each

Article 9 - Without prejudice to any such right previously conferred on the holders of any shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company by ordinary resolution determines, or if no such resolution has been passed or so far as the resolution does not make specific provision as the Board may determine.

Article 13- the rights or privileges attached to any shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered, abrogated or varied by the creation or issue of any new shares ranking pari passu in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of capital paid up on such shares.

14.3.2 Application of the Central Depositories Act

Article 20- The provisions of the Central Depositories Act, 2000 (the "CD Act") as amended or modified from time to time shall apply to the Issuer to the extent that any securities (as such term is defined in section 2(1) of the CD Act) of the Company are in part or in whole immobilised or dematerialised or are required by the regulations or rules issued under the CD Act to be immobilised or dematerialised in part or in whole, as the case may be. Any provisions of these Articles that are inconsistent with the CD Act or any rules or regulations issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these Articles, immobilisation and dematerialisation shall be construed in the same way as they are construed in the CD Act.

Article 21- where any securities of the Company are forfeited pursuant to these Articles after being immobilized or dematerialized, the Company shall be entitled to transfer such securities to a securities account designated by the Board for this purpose.

14.3.3 Refusal to register Transfers

Article 34- subject to the Statutes, the registration of transfers may be suspended at such time and for such periods as the Board may determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year

14.3.4 Increase of Capital

Article 56- The Company may from time to time, by ordinary resolution, increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe

14.3.5 General Meetings

Article 59- The Company shall, in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year and shall specify the meeting as such in the notices calling it. Not more than fifteen (15) months shall lapse between the date of one annual general meeting of the Company and that of the next. Annual and other general meetings shall be held at such times and such place as the Board shall appoint. All general meetings, other than annual general meetings shall be called extraordinary general meetings

Article 60- The Board may convene an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings shall also be convened on such requisition or, in default may be convened by such requisitionists as provided by section 132 of the Act. At any meeting convened by such requisitionists, no business shall be transacted except that stated by the requisition or proposed by the Board

Article 65- All business shall be deemed special that is transacted at an extraordinary general meeting and also all business that is transacted at an annual general meeting with the exception of the declaration of dividends, the consideration of the accounts and balance sheets, and any other documents accompanying or annexed thereto, the reports of the Directors and auditors, the election of Directors, the appointment of auditors and the fixing of the remuneration of the Directors and auditors.

Article 66- No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Save as otherwise provided by these Articles, twenty-five (25) members present in person or by proxy or, in the case of a corporation, represented in accordance with Article 93, and entitled to vote at the meeting and holding together not less than (35%) of the issued shares in the capital of the Company carrying the right to vote for the time being shall be a quorum, provided that one or more other members or one person holding proxies of two or more members shall not constitute a quorum.

14.3.6 **Votes of Members**

Article 81- Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every member who is present in person or (being a corporation) is present by a representative appointed in accordance with Article 93 shall have one vote. A proxy shall not be entitled to vote except on a poll. On a poll every member present in person or in proxy, present by a representative appointed in accordance with Article 93 shall have one vote for each share of which he is the holder.

14.3.7 **Directors**

Article 94- The number of Directors shall not be less than five and, unless and until otherwise determined by ordinary resolution of the Company in general meeting shall not exceed nine.

Article 97- A director need not be a shareholder, but shall be entitled to receive notice of and to attend and speak at all general meetings of the Company or at any separate meeting of the holders of any class of shares of the Company.

14.3.8 **Dividends and Reserves**

Article 144- The Company may, in general meeting, declare dividends but without prejudice to the powers of the Company to pay interest on share capital, no dividend shall be payable except out of the profits of the Company, or in excess of the amount recommended by the Board

Article 145- The Board may, from time to time, declare or pay to the members interim dividends as appear to the Board to be justified by the profits of the Company

Article 146- Subject to the rights of any persons entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividends are declared but no amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share. A dividend shall be apportioned and paid proportionately to the amounts paid or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid but, if any share be issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly

Article 147- The Board may deduct from any dividend payable on a share any sums of money presently payable, by the person to whom the dividend is payable, to the Company on account of calls or otherwise

Article 148- The Board may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

Article 149- No dividend or other monies payable respect of a share shall bear interest against the Company.

Article 150- With the sanction of a general meeting, any dividend may be paid wholly or in part by the distribution of specific assets and, in particular, of paid-up shares or debentures of any other company or in anyone or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle the same as it deems expedient and, in particular, may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value fixed in order to adjust the rights of those entitled to participate in the dividend and may vest any such specific assets in trustees upon trust for the members entitled to the dividend as may seem expedient to the Board.

Article 151- Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to such holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first on the Register in respect of the shares. Every such cheque or warrant shall, unless the holder otherwise directs, be made payable to the order of the registered holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares and shall be sent at his or their risk. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable in respect of the shares held by such joint holders.

Article 152- In addition to any reserves provided for in compliance with the requirements of the Statutes, the Board may, before recommending any dividend, set aside out of the profits of the Company such sum as it thinks proper as a reserve which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company or its holding company, if any) as the Board may from time to time think fit. The Board may divide the reserve into such special funds or any parts of any special fund into which the reserve may have been divided. The Board may also, without placing the same to reserve, carry forward any profits which it may think prudent not to divide.

14.4 Details of Subsidiaries

Name of Subsidiary	Date of Registration	Certificate of Incorporation	Shares held by the Issuer
Housing Finance Insurance Agency Limited	29 th November 2011	CPR/2011/62077	999/1000 shares issued
Housing Finance Foundation Limited (a company limited by Guarantee)	21 st March 2012	CPR/2011/60897	N/A
Kenya Building Society Limited	26 th April 1963	C.5/63	4,999,997/5,000,000 shares issued
First Permanent (East Africa) Limited	28 th December 1961	C. 5137	250,994/251,000

The Issuer also owns 50% of the shares in the following companies:-

Name	Date of Registration	Certificate of Incorporation
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Kahawa Downs Limited	5 th July 2012	CPR/2012/77820
Precious Heights Limited	9 th May 2012	CPR/2012/77820

14.5 Material and Related Party Contracts:

Apart from contracts entered into by the Issuer in the ordinary course of its business and the contracts outlined in [] below the Issuer has not entered into:-

- (i) any material contracts with third parties which have onerous or illegal covenants;
- (ii) any contracts that restrict the Issuer's freedom to carry on its business as it deems fit or restrict the ability of the Issuer to transfer the whole or part of its business;
- (iii) any transaction otherwise than at arms length;
- (iv) any contracts of material capital commitments;
- (v) any contracts with subsidiaries of other group companies

14.5.1 Material Contracts (with restrictive covenants or restrictions on equity)

- Term Loan Facility Agreement dated 23rd January, 2014 with Norwegian Investment Fund for Developing Countries- requires notification on any issuance of shares or stock or any instrument convertible to share or stock (whether ordinary or preference and whether or not redeemable)
- Guarantee Agreement No. 615-DCA-13-025 with United States Agency for International Development- requires approval of USAID in event of certain changes to the shareholding in the Issuer

14.5.2 Related Party Contracts

Except for the Contracts listed below, the Issuer has not entered into any agreements with related third parties

Contracts with related third parties:

- Joint venture agreement made with Kahawa Downs Limited in connection with proposed development to be known as Kahawa Gardens.
- Joint venture agreement dated 24th July, 2012 made in connection with Precious Heights Limited

14.6 Licenses and Permits

The Issuer has been issued with a licence to transact banking business dated 30th December 2013 issued by the Central Bank of Kenya pursuant to which it is unconditionally licensed to carry out banking business at its Head Office as well as the branches listed below for the period from 1st January 2014 to 31st December 2014:

1. Rehani – Koinange Street, Nairobi
2. Gill House – Moi Avenue, Nairobi
3. Kenyatta Market Golf Course Shopping Centre, Nairobi
4. Buru Buru – Mumias Road, Nairobi
5. Thika Road Mall- Nairobi
6. Sameer Business Park, Mombasa Road Nairobi
7. Thika- Uhuru Street
8. Nyeri- Kimathi Way
9. Mombasa- Moi Avenue
10. Nakuru- Geoffrey Kamau Way
11. Eldoret- Oloo/Utalii Street
12. Kisumu- Court Road
13. Nyali- Sales and Service Centre- Links Road
14. Meru- Tom Mboya Street, Meru
15. Kitengela Sales & Service Centre-Kajiado/Namanga Road

16. Rongai Sales & Service Centre- Tom Mboya Street, Ongata Rongai

The Issuer has been issued with a licence to transact foreign exchange business dated 13th November 2013 issued by the Central Bank of Kenya pursuant to which it is unconditionally licensed to transact foreign exchange business for the period from 1st January 2014 to 31st December 2014:

14.7 Material Litigation

The Company is involved in the following material litigation or dispute resolution proceedings:

NAME OF PLAINTIFF	NATURE OF MATTER	ESTIMATED VALUE OF LAWSUIT
Housing Finance Company of Kenya Limited vs. Kenya Broadcasting Corporation	Housing Finance sued KBC to restrain KBC from interfering with our plots valued at KES 44million in Mombasa. The matter has now been moved to the Environment and Land Division and has been confirmed ready for hearing. The parties currently await to fix a date at the Court Registry.	K.Shs. 44,000,000
Kenya Breweries Ltd vs. Kenya Bus Services Ltd. Housing Finance and Bus track Ltd.	The Issuer herein is joined in a suit by the Plaintiff for having issued a letter of comfort to the Plaintiff which the latter alleges compelled it to agree to sell a property to the 1 st Defendant. The sale not having proceeded, the Plaintiff is suing the 1 st Defendant and the Issuer for specific performance of the transaction, although the said property having since been sold, the Plaintiff has amended his claim to one for general and special damages in the sum of K.Shs. 228,620,563.40 plus interest thereon at the rate of 32% per annum from 31 st March, 2001 until payment in full. The suit was settled between Kenya Breweries and the First Defendant. The matter is ongoing between the Issuer and Kenya Breweries as to costs of the suit. .The matter was also scheduled for submissions on 14 th October 2014 but was adjourned to 26th November 2014 to enable highlighting of submissions.	K.Shs. 228,620,563.40
ICEA versus Housing Finance, CFC Stanbic and another	ICEA has instituted proceedings against the Issuer and 2 others claiming the loss of Kshs. 120 million which was fraudulently lost through an intricate series of fixed and call deposit accounts opened by the third defendant with the issuer and the 2 nd defendant on behalf of ICEA, funds which were later transferred or diverted to other accounts and withdrawn. The plaintiff blames the HFCK for breach of the terms governing the customer banker relation and the account operation mandates. The 3 rd defendant, ICEA's former Assistant General Manager is also facing a criminal suit regarding the matter in which the firm of Murgor and Murgor is watching our brief. The matter was mentioned on 4th November 2013 for pre-trial directions. Only the Plaintiff and HF had complied with pre-trial directions.	

Comment [SE2]: Check with Walker Kontos on the grammar

<p>Sharok Kher Mohamed Hirji versus Housing Finance</p>	<p>Hence further mention fixed for 6th December 2013 to confirm compliance by the other defendants. The matter was mentioned on 19th March 2014 to confirm compliance with directions to exchange & file documents but the 2nd Defendant (CFC) had not complied. The court held that it shall proceed with the documents on record. The Matter came up for Hearing on 4th June 2014 but was adjourned at the behest of the Plaintiff. The Matter has stood over generally and fresh dates are to be taken at the registry The Plaintiff has instituted proceedings against the Issuer in respect of the Plaintiff's property which was sold by way of public auction. Judgment for the sum of Kshs.20 million was awarded to the Plaintiff, however the Issuer has applied for a stay of execution pending appeal which was granted subject to the deposit of an unconditional Bank Guarantee for the sum of Kshs.30million pending hearing of the appeal. The matter is ongoing and the Plaintiff's application for leave to execute was heard on 23rd September 2014 and fixed for further mention on 13th October 2014 to confirm if the original bank guarantee has been produced. The court set aside the stay orders and application to review these orders was filed by the Defendant's. The Submissions on the application to set aside these orders have been filed at the court and the court has set the Ruling date for 30th January 2015.</p>	<p>K.Shs 20,000,000.00</p>
<p>Esther Njeri Gichuru and 22 others vs. Housing Finance</p>	<p>Customers of the Company have filed a declaratory suit through the Interest Rates Calculation Bureau against us claiming that they have been overcharged and levied with penalty and default charges. This matter was stayed on the 9th November 2007 pending the determination of the suit below which is of a similar nature</p>	<p>This is a class action suit involving many claimants.</p>
<p>Paul Nganga Ndetei & 63 Others vs. Housing Finance</p>	<p>The initial suit was by 63 customers but they dropped off as they redeemed their mortgages and only 4 Customers are left. They had filed a suit against us through the Interest Rates Calculation Bureau claiming that they have been overcharged and levied with penalty and default charges. Currently all the customers have now redeemed their accounts and one is deceased. The suit was set for hearing on 5th March 2014 but was taken out of the days hearing list. Fresh dates for the Hearing have to be taken at the Court registry</p>	<p>This is a class action suit involving many claimants.</p>

14.8 Consents

The Borrower has obtained the requisite regulatory, corporate and all consents required to implement the Rights Issue.

14.9 Material Changes in the financial or trading position:

Save as indicated in this Information Memorandum, there have been no material changes in the financial or trading position of the Issuer from 31st June 2014 to the date of this Information Memorandum

14.10 Documents available for inspection

Copies of the following documents will, when published, be available for inspection at the Registered Offices of the Issuer in Nairobi, Kenya:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the consolidated audited financial statements of the Issuer/ Group in respect of the year financial period ended [], including all notes, reports or information required by the Companies Act;
- (iii) copy of the Board resolution approving the Rights Issue;
- (iv) copy of the Shareholders resolution approving the Rights Issue;
- (v) a copy of the Circular to shareholders dated 11th November 2014
- (vi) the Register used to determine (as of the Record Date) the Entitlements to Eligible Shareholders;
- (vii) a copy of the approval of the Capital Markets Authority in respect of the issuance of the New Shares pursuant to the Rights Issue and listing of New Shares on the NSE;
- (viii) a copy of the approval of the Nairobi Securities Exchange for the listing of the New Shares on the Main Investment Market Segment of the NSE;
- (ix) a copy of the letter of “no objection” from the Central Bank of Kenya with respect to the proposed Issue
- (x) the legal opinion of Walker Kontos Advocates;
- (xi) reporting accountants report as reproduced in the Information Memorandum;

14.11 Proposed Reorganisation

A. Introduction

Subject to all applicable regulatory approvals and subject also to approval by the shareholders, the Company and a wholly owned subsidiary (“the Wholly Owned Subsidiary”) intend to enter into an asset transfer agreement (“the **Asset Transfer Agreement**”) in order to give effect to the transfer of the Company’s mortgage finance business (“MF Business”) to the Wholly Owned Subsidiary (“the **Re-organisation**”). If shareholder and regulatory approvals are received, the Re-organisation will entail the following:

- A.1. The Wholly Owned Subsidiary will be incorporated as a limited liability company with the Company as the sole beneficial owner of its entire issued share capital;

- A.2. the MF Business will be transferred to the Wholly Owned Subsidiary pursuant to section 9 of the Banking Act with effect from the Completion Date (as specified in the Asset Transfer Agreement) which will carry on the MF Business as a going concern;
- A.3. the Memorandum of Association of the Company will, by resolution of the shareholders of the Company, be amended by deleting the objects that relate to a mortgage finance business and replacing them with the objects of a non-operating holding company approved for such purpose by the Central Bank of Kenya (“the **CBK**”); and
- A.4. the name of the Company will be changed from “Housing Finance Company of Kenya Limited” to “**HF Group Limited**” to reflect its new status as a non-operating holding company.

B. Rationale for the Re-organisation

The Banking Act (chapter 488 of the Laws of Kenya) currently prohibits the Company, as a mortgage finance company licensed and supervised by the CBK, from (i) lending to non-regulated subsidiaries (ii) engaging directly in wholesale and retail trade except in satisfaction of debts due to it or (iii) injecting more than 25% of its core capital as equity into its non-mortgage finance subsidiaries.

The Banking Act permits non-operating holding companies approved and regulated by the CBK to own more than 25% of the equity of banks, financial institutions and mortgage finance companies whilst also investing subsidiaries engaged in other businesses. This allows the Company the opportunity to invest the Company’s capital needed to establish and grow subsidiaries engaged in providing complementary services to and to allow the Company to offer integrated property solutions to its customers.

C. Effects of the Re-organisation on the Company’s shareholders and other parties

It is the intention of the Company that the Company’s shareholders, regulators, customers and employees should encounter limited, if any, direct impact from the proposed Re-organisation:

- **Shareholders** will continue to own the same shares that they own before the Re-organisation and these shares will remain listed on NSE.
- **Customers** of the Company will not be required to take any action and will encounter minimal practical effects of the Re-organisation as their account balances, customer contracts and collateral will, automatically and by operation of law pursuant to the said Section 9 of the Banking Act, be transferred to the Wholly Owned Subsidiary.
- **Employees** of the Company will see minimal impact. All of the Company’s employees (with the exception of those engaged in executive management, who will continue in employment at the holding company level) will be employed by the Wholly Owned Subsidiary on exactly the same terms and conditions currently enjoyed. The Wholly Owned Subsidiary will assume all accrued obligations of the Company in relation to such employees. The Company’s existing pension scheme will continue in place and all employees will continue to be members thereof, as well as of the Company’s employee share ownership programme.

After the Re-organisation, the Wholly Owned Subsidiary will report to CBK and be subject to CBK’s supervision as a licensed mortgage finance institution, while the Company will report to CBK and be supervised as a non-operating holding company. The Company will continue to be subject to regulations of the CMA and the listing rules of NSE.

14.12 Proposed Share Acquisition by British American Insurance Company (Kenya) Limited

- I. Pursuant to a Share Purchase Agreement between Equity Bank Limited and British American Insurance Company (Kenya) Limited (“**Britam**”) the shares of Equity Bank Limited in Housing Finance are to be acquired by Britam. This transaction is subject to all applicable regulatory approvals.

- II. Under the terms of the Share Purchase Agreement, Britam agreed to acquire 57,270,000 shares (“**Sale Shares**”) or 24.75% of the issued share capital of Housing Finance from Equity Bank Limited (“**Equity Bank**”).
- III. It is understood that upon the completion of the proposed acquisition, Britam will legally and beneficially directly and indirectly own a total of one hundred and six million, six hundred and eighteen thousand, five hundred and forty five (106,618,545) of the issued ordinary shares in Housing Finance amounting to 46.08% of Housing Finance’s issued share capital.
- IV. Completion of the proposed acquisition will be subject to fulfillment (or waiver at the discretion of either party where appropriate) of the conditions listed below:-
- a. the approval or exemption where required, in terms reasonably satisfactory in substance and form to Britam, of the following:
 - i. the CMA approving the transfer of the Sale Shares as a private transfer pursuant to section 31(1A) of the Capital Markets Act and Regulation 57 of the Capital Markets (Licensing Requirements) (General) Regulations, 2002;
 - ii. the Cabinet Secretary of the National Treasury of Kenya exempting Britam from the provisions of section 13(1) of the Banking Act pursuant to section 53 of the Banking Act;
 - iii. the Central Bank of Kenya (“**CBK**”) approving the transfer of the Sale Shares to Britam pursuant to section 13 (4) of the Banking Act;
 - b. the CBK certifying Britam and if required any shareholder of Britam, to be a ‘fit and proper’ person pursuant to sections 9A(2) and 13(4) of the Banking Act;
 - c. Britam and Equity Bank having received approval, from the Competition Authority of Kenya in accordance with the requirements of Part IV of the Competition Act (Act Number 12 of 2010, Laws of Kenya);
 - d. to the extent required by law for the implementation of the sale of the Sales Shares, any other approval of any relevant regulatory authority;
- V. Britam and Equity Bank have agreed to inform the COMESA Competition Commission of the transaction with a view to obtaining a confirmation from the COMESA Competition Commission that the transaction is not notifiable to it.

15 REPORTING ACCOUNTANTS REPORT

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17 AUTHORISED SELLING AGENTS

Housing Finance Company of Kenya Limited has appointed specific Authorised Selling Agents in connection with the Offer. These Authorised Selling Agents have signed agency agreements with Housing Finance which contain various terms and conditions that each Authorised Selling Agent is required to comply with. The Authorised Selling Agents are Members of the NSE that are issued with annual licenses by the CMA. These Authorised Selling Agents in Kenya are listed below.

Licensed Investment Banks	
<p>African Alliance Kenya Investment Bank Limited 1st Floor, Trans-national Plaza Mama Ngina Street PO Box 27639,00506 Nairobi Tel: 2762000/2762557 securities@africanalliance.co.ke</p>	<p>Genghis Capital Limited Delta Towers P.O. Box 9959-00100, Nairobi Tel: 2774760</p>
<p>Barclays Financial Services Limited Barclays Plaza M6 Loita Street P.O. Box 30120-00100, Nairobi Tel: 310843</p>	<p>KCB Capital Limited Kencom House P.O. Box 48400-00101, Nairobi Tel: 2287000</p>
<p>CBA Capital Limited Mara and Ragati Roads, Upper Hill PO Box 30120, 00100 Nairobi Tel: 2884444</p>	<p>NIC Capital Limited NIC House, Masaba Road PO Box 44599, 00100, Nairobi. Tel: 2888000 info@nic-capital.com</p>
<p>Dyer & Blair Investment Bank Limited 10th Floor, Loita House, Loita Street PO Box 45396, 00100, Nairobi. Tel: 3240000/2227803 shares@dyerandblair.com</p>	<p>Renaissance Capital (Kenya) Limited 6th Floor, Purshottam Place, Chiromo Road PO Box 40560-00100 Nairobi. Tel : 3682000/3754422 info@rencap.com</p>
<p>Equity Investment Bank Limited Equity Center Hospital Road, Upper Hill PO Box 74454, 00200 Nairobi Tel: 2262000</p>	<p>SBG Securities Limited CFC Stanbic House 2nd Floor, CFC Centre, Chiromo Road, PO Box 47198, 00100 Nairobi. Tel:3638900, cfcfs@cfcgroup.co.ke</p>
<p>Faida Investment Bank 1st Floor, Windsor House, University Way PO Box 45236, 00100, Nairobi. Tel: 2243811-13 info@faidastocks.com</p>	<p>Standard Investment Bank Ltd 16th floor, ICEA Building, Kenyatta Avenue PO Box 13714, 00100, Nairobi. Tel: 2228963/2228967 info@standardstocks.com</p>

Licensed Stockbrokers	
<p>ABC Capital Limited 5th Floor, IPS Building, Kimathi Street PO Box 34137, 00100, Nairobi. Tel : 2246036/2245971 headoffice@abccapital.co.ke</p>	<p>Kingdom Securities Limited 5th Floor Co-operative House, Haile Selassie Avenue PO Box 48231- 00100, Nairobi. Tel : 3276000 info@kingdomsecurities.co.ke</p>

Licensed Stockbrokers	
<p>AIB Capital Limited 9th Floor, Finance House, Loita Street PO Box 11019, 00100, Nairobi. Tel: 2210178/2212989 info@afrikainvestmentbank.com</p>	<p>NIC Securities Limited NIC House, Masaba Road PO Box 63046, 00200, Nairobi. Tel: 2888444 info@nic-securities.com</p>
<p>ApexAfrica Capital Limited 4th Floor, Rehani House, Koinange Street P.O. Box 43676, 00100, Nairobi. Tel: 2242170/2220517 invest@apexafrica.com</p>	<p>Old Mutual Securities Limited 6th Floor, IPS Building, Kimathi Street PO Box 50338, 00200, Nairobi. Tel:2241350/4/79 info@reliablesecurities.co.ke</p>
<p>Francis Drummond and Company Limited 2nd Floor, Hughes Building, Kenyatta Avenue, PO Box 45465, 00100, Nairobi. Tel: 318690/318689 info@drummond.com</p>	<p>Sterling Capital Limited 11th Floor, Finance House, Loita Street P.O. Box 45080, 00100, Nairobi. Tel: 2213914/244077 info@sterlingstocks.com</p>
<p>Genghis Capital Limited 5th Floor, Prudential Building, Wabera Street P.O Box 1670-00100, Nairobi. Tel : 2337535/36 info@gencap.co.ke</p>	<p>Suntra Investment Bank Ltd 10th Floor, Nation Centre, Kimathi Street PO Box 74016, 00200, Nairobi. Tel: 2870000 info@suntra.co.ke</p>
<p>Kestrel Capital (E.A) Ltd 5th Floor, ICEA Building, Kenyatta Avenue PO Box 40005, 00100, Nairobi. Tel: 2251758/2251893 info@kestrelcapital.com</p>	

18 HOUSING FINANCE BRANCHES AND SUBSIDIARIES

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19 APPENDICES

19.1 Form of Guarantee

[LETTERHEAD OF COMMERCIAL BANK]

Date:
The Chief Executive
Housing Finance Company of Kenya Limited
P O Box 30088-00100
Nairobi

Dear Sirs

HOUSING FINANCE COMPANY OF KENYA LIMITED – RIGHTS ISSUE GUARANTEE IN RESPECT OF PAYMENT FOR ALLOCATION OF SHARES TO [name of INVESTOR]

WHEREAS [name of Investor/Eligible Shareholder] (“**the Investor**”) has by an application form dated [] applied for XXXXXX New Shares as set out in the Information Memorandum dated [] 2014 (“**the HFCK Information Memorandum**”). Capitalised terms used in this Guarantee shall have the meaning and interpretation given to such terms in the HFCK Information Memorandum.

AND WHEREAS it has been stipulated by you in the HFCK Information Memorandum that the Investor shall furnish you with an irrevocable on demand guarantee for the full value of the price of the New Shares.

AND WHEREAS we [name of Guarantor] have agreed to give this Guarantee:

NOW at the request of the Investor and in consideration of the Issuer agreeing to accept the Investor’s Entitlement and Acceptance Form on the terms set forth in Section 7.21.1 of the Information Memorandum and to permit payment by the Investor of the Offer Price for such number of the New Shares applied for and in consideration of your allocating to the Investor the New Shares or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably guarantee to pay you, forthwith upon your first written demand declaring the Investor to be in default and without delay or argument, such sum as may be demanded by you up to a maximum sum of Kenya Shillings _____ without your needing to prove or to show grounds or reasons for your demand for the sum specified therein either by way of RTGS transfer to such bank account as shall be specified in your demand for payment (where the money payable is in excess of Kenya Shillings one million (KES.1,000,000) or banker’s cheque payable to Housing Finance Company of Kenya Limited.

This Guarantee will remain in force up to and including [] p.m. on [] 2014 and any demand in respect thereof should reach us not later than the above date and time.

This Guarantee shall be governed and construed in accordance with the laws of Kenya.

[due execution by authorised signatories]

19.2 Form of QII Undertaking

Date:
The Chief Executive
Housing Finance Company of Kenya Limited
P O Box 30088-00100
Nairobi

Dear Sirs

UNDERTAKING IN RESPECT OF PAYMENT ON ALLOCATION OF SHARES TO [name of QII]

WHEREAS [name of investor] (“the **Investor**”) have applied for [] ordinary shares (“the New Shares”) in Housing Finance Company of Kenya Limited (the “Company”) being offered by you for subscription as set out in the Information Memorandum dated [] 2014 (“**HFCK Information Memorandum**”). Capitalised terms used in this letter of undertaking shall have the meaning and interpretation given to such terms in the HFCK Information Memorandum.

NOW in consideration of the Issuer having agreed at our request to permit payment by us of the Offer Price for such number of the New Shares which we have applied for and are allotted to us on the terms set forth in Section 7.21.1 of the HFCK Information Memorandum **AND** in consideration of you allotting to us the number of New Shares we have applied for or such lesser number as you shall in your absolute discretion determine, we hereby undertake to pay you without delay or argument, forthwith upon your first written notice specifying how many of the New Shares have been provisionally allotted to us, such sum not exceeding Kenya shillings _____ corresponding to the Offer Price of such number of the New Shares as you shall have provisionally allotted to us inclusive of any CDS expenses and net of all bank charges.

Should such payment not be made within two Business Days following the deemed service of such notice then the Issuer shall be entitled without further notice to either: treat our application as having been repudiated and cancel the provisional allotment to us and re-allocate the provisionally allotted New Shares on such terms and conditions as it shall think fit without prejudice to any rights to damages for such repudiation or; to allow us further time for payment on such terms and conditions as it shall think fit in which event we shall pay default interest on all sums outstanding at the rate of 15 per cent per annum calculated on daily balances and compounded monthly.

Any notice to be served on us shall be in writing and shall be deemed to have been properly served on us if delivered by hand or sent by fax or email to us at address specified in our Entitlement and Acceptance Form.

Any notice shall be deemed to have been received, if delivered by hand, at the time of delivery or, if sent by fax, on the completion of transmission or if by email receipt of a confirmed delivery notice.

This undertaking shall be governed and construed in accordance with the laws of Kenya and we irrevocably submit to the non-exclusive jurisdiction of the Courts of Kenya. If we are not a Kenyan Company and in addition to any other permitted means of service, we hereby irrevocably appoint the Authorised Agent submitting our Entitlement and Acceptance Form for the New Shares as our agent for the receipt of any legal process.

IN WITNESS WHEREOF THIS LETTER OF UNDERTAKING HAS BEEN EXECUTED BY US THIS _____ DAY OF _____ 2014.

Signed By:

1) Name _____ Signature _____
Title _____

2) Name _____ Signature _____
Title _____

Note: Qualified Institutional Investors (QII's) are Fund Managers, Authorized Depositories and Investment Banks licensed under the Capital Markets Act and Insurance Companies who manage life funds and licensed by the Insurance Regulatory Authority.

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