Housing Finance "A Key Player in the Kenyan Mortgage Sector"

Accessing the Capital Markets

Who We Are (Housing Finance)

A Mortgage provider with over 48 years of operations within the Kenyan Housing and Banking Sectors

1965

- Incorporation of the Company
- The founding investors were the Commonwealth Development Corporation and the Government of Kenya with respective shareholdings of 60% and 40% in the Company

1970

- GoK increases its stake in the company to 50.0%, becoming an equal shareholder with CDC

1992

- Housing Finance gets listed on the 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%

1999

- GoK reduces its stake in the company to 7.3%, with Kenyan individuals and institutional investors increasing their stake to 62.3%

2008 - 2012

- CDC sells off its stake
- Housing Finance successfully raises KES2.3bn (USD 27m) by way of a Rights issue
- Housing Finance successfully raises KES10bn (USD120m) by way of a MTN (2 tranches)

- **Housing Finance also has three subsidiaries that are instrumental to its operations namely Kenya Building Society Limited (KBSL), Housing Finance Insurance Agency and Housing Finance Foundation.**

Our Core Business Areas

Mortgage Financing Solutions

- Home Owners Mortgage
- CRI Mortgage (Ezesha)
- Pension Backed Mortgage (Home Freedom)
- Cyclical Mortgage
- Employer Sponsored Schemes

Construction Financing

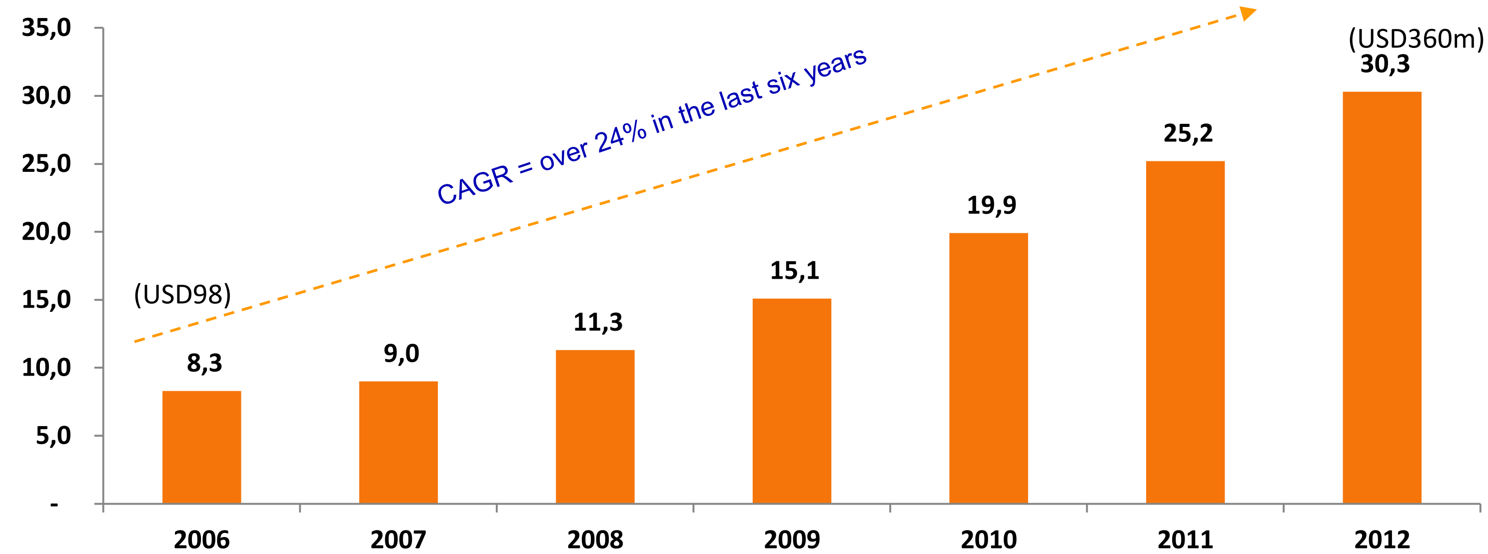
- Makao building solutions
- Vuna Hela (Equity Release)
- Construction mortgage
- Project Finance to Developers

Retail Banking Solutions

- Current accounts
- Savings accounts
- Deposit accounts
- Trade finance
- Forex accounts

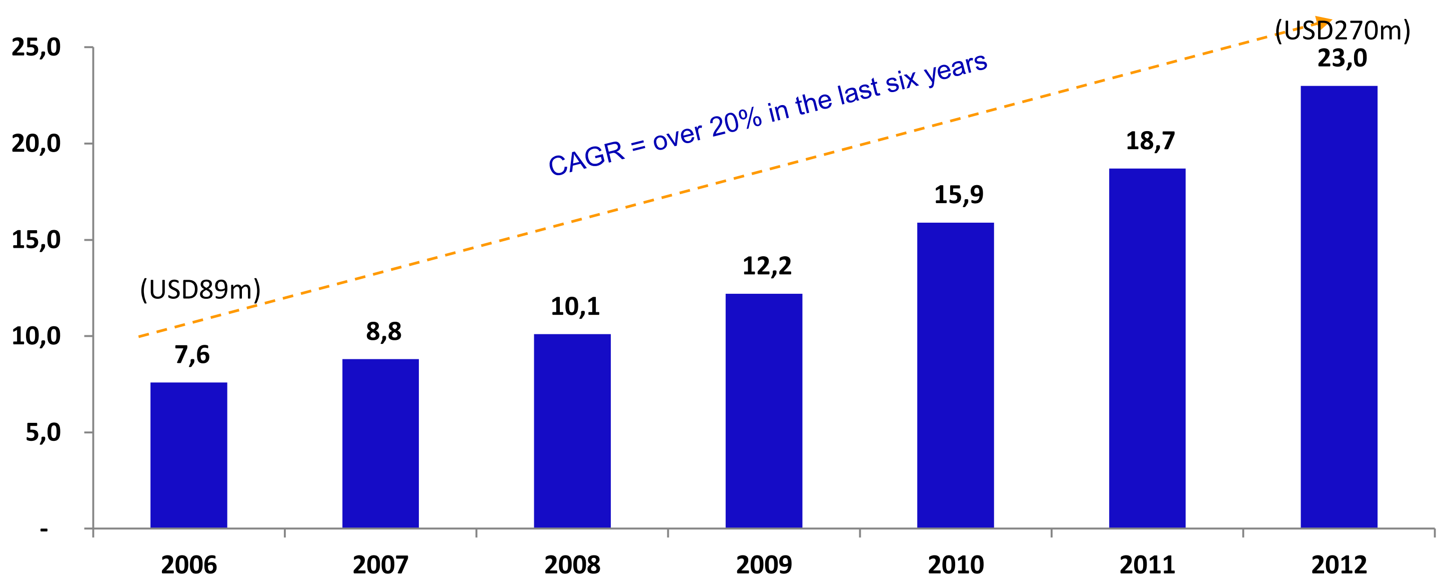
How We Have Grown….

Mortgage Book (KES Bn)



From 2006 our Mortgage Book Growth has been out pacing Customers' Deposits Growth

Customers' Deposit (KES Bn)



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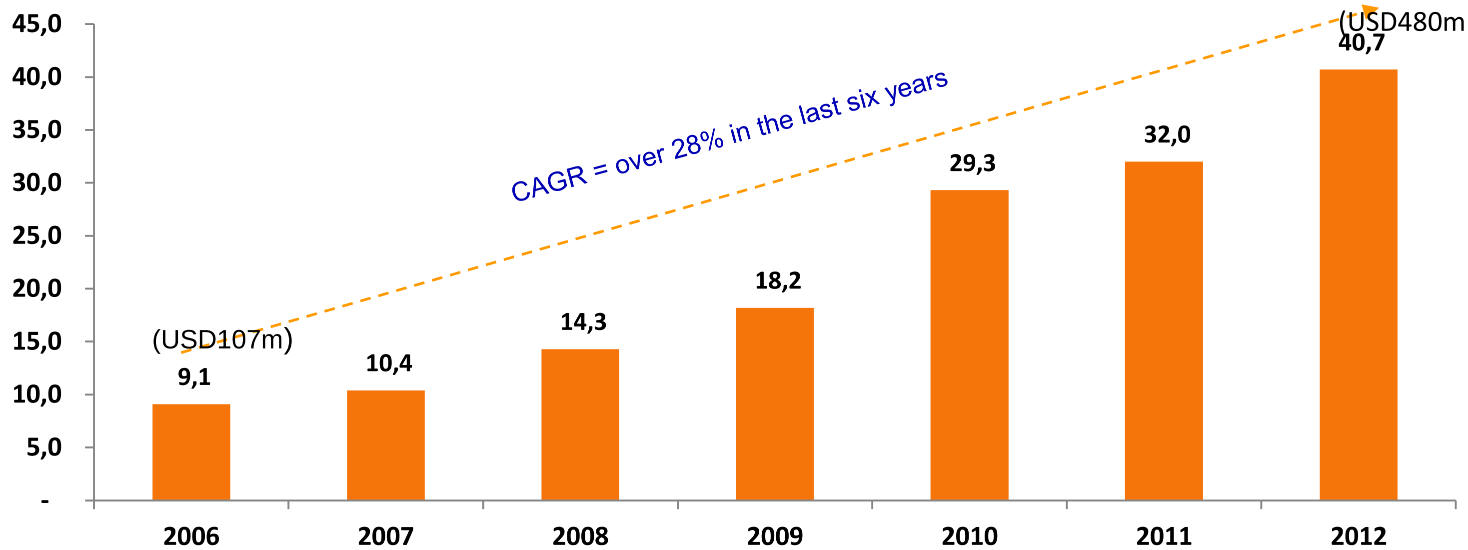
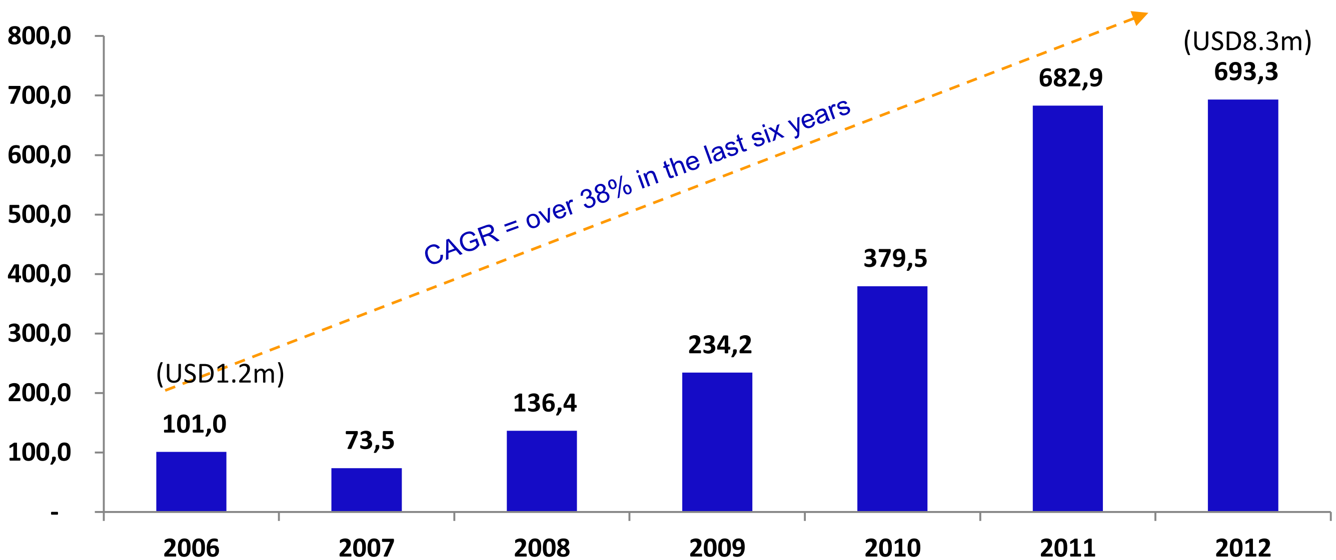
How We Have Grown….(Cont')

Total Assets (KES Bn)



PAT (KES Mn)



Rapid growth in Total Assets and PAT between 2010 and 2012 YTD was supported by the new funding from the bond issuance

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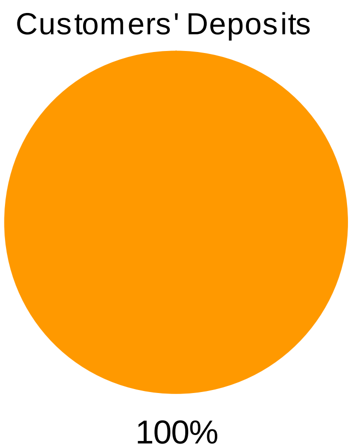
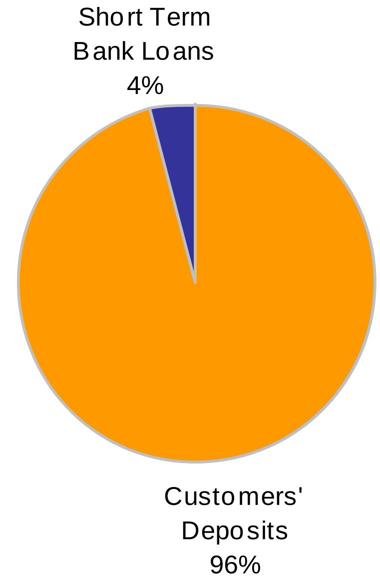
How We have Funded Our Growth in the Past…..(Funding Mix)

Housing Finance for a long time had been mostly using customers' deposit to finance its mortgage book, a situation that resulted in a funding mis-match since mortgage lending is long term with average maturity of 13 years

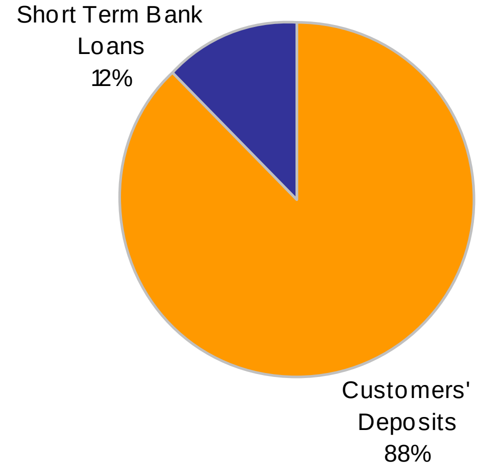
2007 Funding (KES Bn)



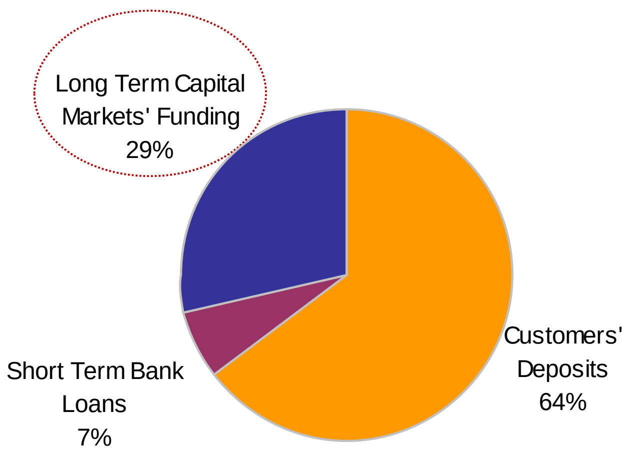
2008 Funding (KES Bn)



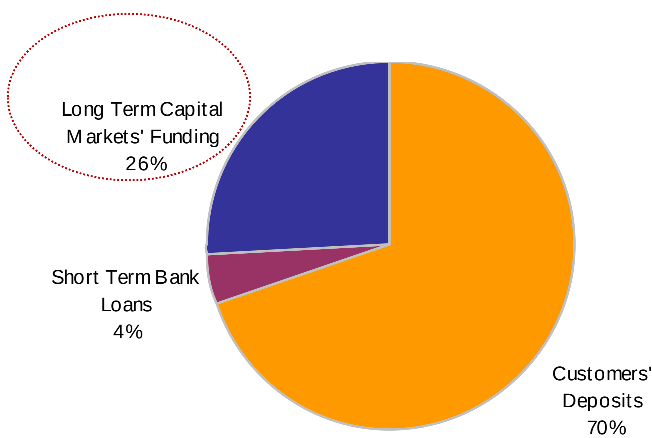
2009 Funding (KES Bn)



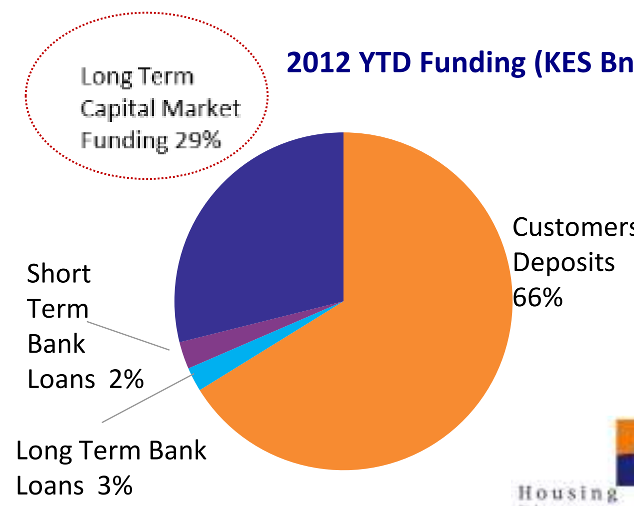
2010 Funding (KES Bn)



2011 YTD Funding (KES Bn)



2012 YTD Funding (KES Bn)



The Various Capital Raising Options that We Considered in 2010

Instrument	Considerations	Comments
Rights Issue	• Would have bolstered our core capital hence giving us additional capacity to lend more • We would have benefited from costs savings since its perpetual capital and no interest payments are made	• We had done a rights issue in 2008 and needed time to demonstrate to our shareholders value creation following that rights issue • We did not want to impact our RoE • Market was still depressed and below the 2007 valuations
Securitization	• Reduces asset liability mismatch • Lower capital requirements • Transfer risks – it is possible to transfer risks from an entity that does not want to bear it.	• Expensive due to management and system costs, legal, underwriting, rating fees and on-going administration. • Legislation and operational procedures not fully developed. • HF loan portfolio not sufficiently large enough but definitely a future option.
Match Funded Bonds	• Can help unlock liquidity by using incremental mortgage book. • Can help match asset and related liability for the desired duration. • Can be structured as a revolving fund	• Market currently not sufficiently deep and efficient enough for match funded bonds.

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Merits of Issuing a Medium Term Note….

HF settled for the MTN Issue due to the following advantages over the other options:

- No collateral required
- No equity dilution…good for existing shareholders
- A market for the issue existed & still exists…rates allowing
- There was and still is sufficient appetite
- Speed and timing of going to market
- Flexibility especially related to the repayment structure
- The related qualifying expenses are tax deductible

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Transaction Highlights

Situation Overview

- Housing Finance had been mostly using customers' deposits to finance its mortgage book
- These deposits were short term hence maturity mis-match with our mortgage book
- The short term deposits curtailed our growth potential amid abundant opportunities
- A need to grow our mortgage book as well as Shareholders' interests
- We needed a long term but flexible funding

The Instrument We Used

- A 7 year Fixed Rate Note and Collared Floating Rate Note
- The structure was based on the prevailing interest rate environment

Marketing and Execution

- The transaction was marketed within a period of two weeks to local fund managers, banks, insurance companies and a section of high net worth clients
- The first tranche of KES 5bn (USD60m) was oversubscribed by 41.0% to KES 7.03 bn (USD85m) with majority of investors preferring fixed rate note
- Capital Markets Authority (CMA) gave us approval to pick the extra KES 2.03bn (USD25m).

Transaction Summary (Tranche I)

Issuer:	Housing Finance Company of Kenya Limited
Use of Proceeds:	For onward mortgage lending and use in the supply of residential middle and lower income housing units
Method of Sale:	Privately placed followed by listing at the Nairobi Stock Exchanage
Documentation:	Domestic Medium Term Note of up to KES 10bn (USD120m)
Offered Securities:	Senior Notes and unsecured
Tranche 1 Amount:	Up to KES 5bn (USD60m)
Issue Price:	Issued on a fully paid basis at par
Tenor (Maturity):	7 years to October 2017
Pricing:	• Fixed Rate Note: Priced at 8.5% • Floating Rate Note: Priced off a 182 day T-bill plus a margin of 3.0% with a floor rate of 5.0% and a cap rate of 9.5%
Interest/ Coupon (dates):	April/October and will be paid semi-annually in arrears
Issue date:	11 October 2010
Redemption:	Bullet
Status:	The Notes are Senior Notes that constitute unsubordinated and unsecured obligations of Issuer and will rank pari passu with themselves and other unsubordinated and unsecured obligations of the Issuer

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Way Forward…

- Need of creating long term instruments to fund housing projects e.g. Housing Bonds

- More legislation on mortgage sector to enhance more funding structures such as Covered Bonds

- Need of Mortgage players to leverage on their balance sheets with instruments like Mortgage Backed Securities and other forms of Securitizations

- Creation of REIT Funds (Gazetted July 2013)

THANK YOU

Q & A

Housing
Finance