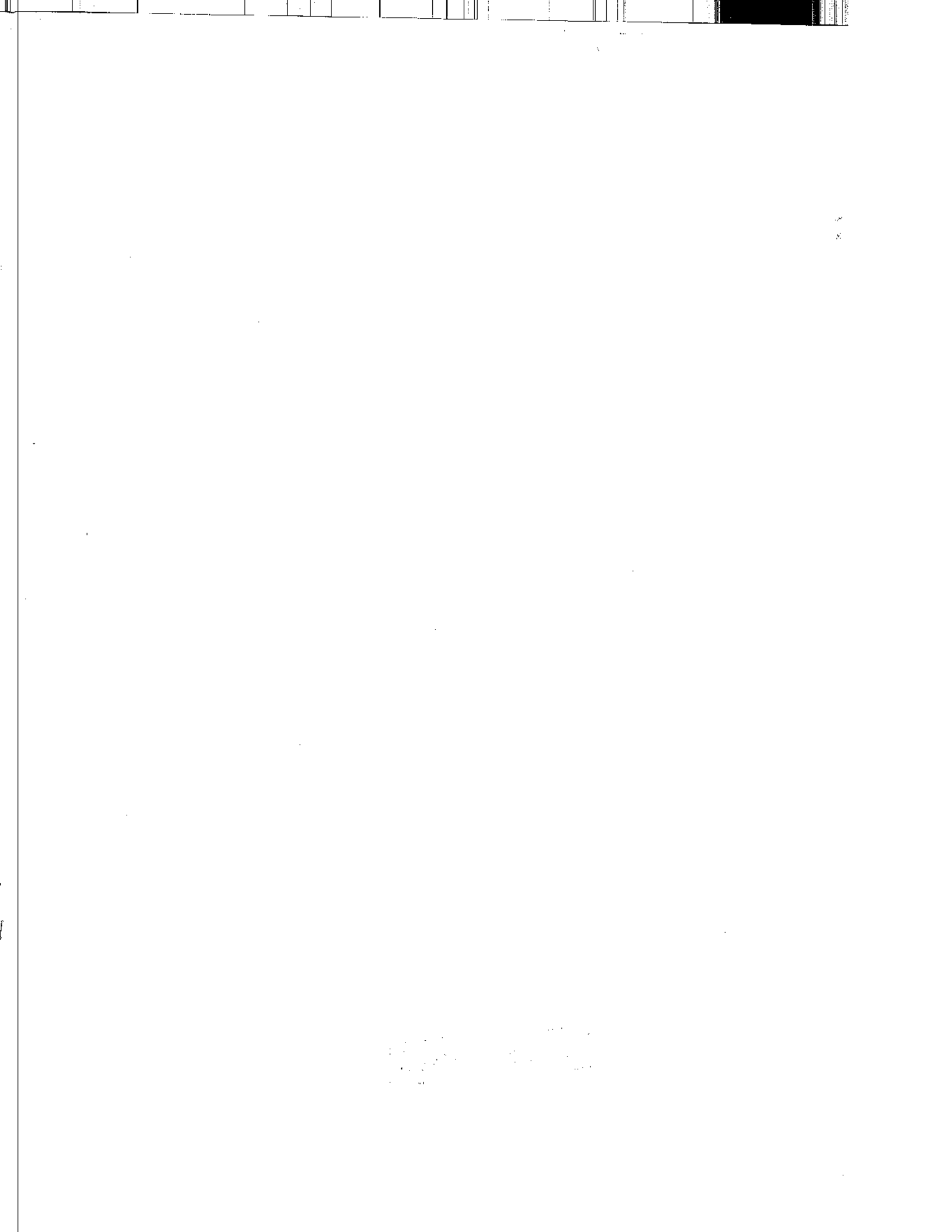


annual *report* and *accounts* 1997

CFC
Carroll
LIMITED
established 1955

#9
3393
.A8
C433
1997



FOLD 2
KISA KUNJA HAPA

STAMP

*Company Secretary
CFC Bank Limited
P O Box 72833
Nairobi, Kenya*

FOLD 1
KUNJA HAPA KWANZA

FOLD 3
HALAFU KUNJA HAPA

Insert flap inside
*Sasa ingiza hii karatasi udani ya
mkunjo ili lonekane kama bahasha*

Proxy

PROXY

I/We _____

of _____
being a member/members of the above Company hereby appoint

of _____
or failing him/her _____

_____ of _____
or failing him/her, the duly appointed Chairman of the meeting as my/our proxy to vote for me/us on my/our
behalf at the Annual General Meeting of the Bank to be held on 29 May 1998 and at any adjournment thereof.

As witness my/our hand(s) this _____ day of _____ 1998

Member

Notes:

1. To be valid this proxy must be deposited at the Registered Office of the Bank not less than 48 hours before the time appointed for the meeting.

2. If the appointer is a Corporation, the proxy must be under its common seal or under the hand of an Officer or Attorney duly authorised in writing.

MWAKILISHI

Mimi/Sisi _____

wa _____
kama mwanachama/wanachama wa Kampuni iliyotajwa hapo juu, hapa namchagua/tunamchagua

wa _____
ama akikosa _____

_____ wa _____
ama akikosa yeye, basi namchagua/tunamchagua yule aliyechaguliwa Mwenyekiti wa Mkutano huu kuwa
Mwakilishi wangu/wetu, kunipigia/kutupigia kura kwa niaba yangu/yetu katika Mkutano Mkuu wa Benki wa
Mwaka utakaofanywa tarehe 29 May 1998 ama tarehe yo yote ile lwapo Mkutano utaahirishwa.

Kama Shahidi natia/tunatia sahihi hii/hizi _____ siku hii ya _____ 1998

Mwanachama

Ukumbusho:

1. Ili ithibitishwe Karatasi hii ya Mwakilishi inapaswa kupelekwa kwa ofisi iliyoandikishwa ya Benki katika muda usiopungua masaa 48 kabla ya muda uliowekwa wa Mkutano.

2. Ikiwa mwenye kuchagua ni Shirika basi karatasi ya Mwakilishi lazima ibandikwe ule muhuri wa Kampuni wa kawaida ama kibali cha Ofisa ama Wakala aliyepewa kibali kwa maandishi.

Notes to the Financial Statements

(Continued)

	1997	1996
	Shs	Shs
22 CONTINGENT LIABILITIES		
GROUP AND BANK		
Letters of guarantee	246,396,064	125,512,162
Letters of credit	215,453,515	130,565,306
	<u>461,849,579</u>	<u>256,077,468</u>

The above irrevocable letters of guarantee and credit are on behalf of customers.

	1997	1996
	Shs	Shs
23 CAPITAL COMMITMENTS		
GROUP		
Contracted but not provided for in the financial statements	203,553,504	285,000,000
Authorised but not contracted for	59,036,625	-
BANK		
Contracted but not provided for in the financial statements	203,553,504	285,000,000
Authorised but not contracted for	32,000,000	-

Notes to the Financial Statements

(Continued)

21 NOTES TO THE CASH FLOW STATEMENT (Continued)

	1997	1996
	Shs	Shs
(b) Analysis of balances of cash and cash equivalents as shown in the balance sheet and notes:		
Cash and balances with Central Bank of Kenya	50,386,196	81,653,811
Treasury bills and bonds	693,358,564	385,054,000
Deposits and balances due from banking institutions	1,215,376,789	942,485,286
Deposits and balances due to banking institutions	(258,443,847)	(280,612,306)
	<u>1,700,677,702</u>	<u>1,128,580,791</u>

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

	1997	1996
	(12 months)	(9 months)
	Shs	Shs
(c) Changes in cash and cash equivalents during the period		
Balance at the end of the period	1,700,677,702	1,128,580,791
Balance at the beginning of the period	1,128,580,791	1,811,691,248
Increase/(decrease) in cash and cash equivalents	<u>572,096,911</u>	<u>(683,110,457)</u>

Notes to the Financial Statements

(Continued)

20 RESERVES

	Capital Shs	Revenue Shs	Total Shs
(a) GROUP			
At 1 January 1997	47,174,277	636,778,041	683,952,318
Adjustment arising from change in group structure	(79,195,396)	38,355,178	(40,840,218)
Bonus issue in subsidiary	96,000,000	(96,000,000)	-
Retained profit for the year	-	191,012,132	191,012,132
At 31 December 1997	63,978,881	770,145,351	834,124,232
(b) BANK			
At 1 January 1997	-	486,294,876	486,294,876
Retained profit for the year	-	142,862,460	142,862,460
At 31 December 1997	-	629,157,336	629,157,336

21 NOTES TO THE CASH FLOW STATEMENT

	1997 (12 months) Shs	1996 (9 months) Shs
(a) Reconciliation of consolidated operating profit to net cash inflow/(outflow) from operating activities		
Consolidated operating profit	483,766,072	266,212,493
Depreciation	24,465,708	14,925,471
Dividend received - quoted and unquoted investments	(15,482,474)	(955,709)
Write down of goodwill	37,152,470	40,000,000
Profit on disposal of fixed assets	(2,324,735)	(1,197,934)
Decrease/(increase) in loans and advances to customers	360,167,170	(903,343,648)
Increase in other debtors and prepayments	(236,229,268)	(47,413,647)
(Decrease)/Increase in customer deposits	(399,578,029)	301,004,477
Increase/(decrease) in other liabilities	865,990,982	(70,907,293)
(Decrease)/Increase in certificates of deposit	(195,167,697)	6,177,230
Decrease/(increase) in cash ratio requirement	224,597,023	(74,679,000)
Due to change in group structure	118,647,834	-
Net cash inflow/(outflow) from operating activities	1,266,005,056	(470,177,560)

Notes to the Financial Statements

(Continued)

		G R O U P		B A N K	
		1997	1996	1997	1996
		Shs	Shs	Shs	Shs
17	CUSTOMER DEPOSITS				
	(a) From government and parastatals				
	Payable within 90 days	38,300,000	39,340,707	38,300,000	39,340,707
	(b) From private sector and individuals				
	Payable within 90 days	2,330,934,999	2,735,059,606	2,341,034,999	2,741,437,314
	Payable after 90 days but within one year	14,673,643	9,661,746	14,673,643	9,661,746
	Payable after one year	604,999	29,611	604,999	29,611
		<u>2,384,513,641</u>	<u>2,784,091,570</u>	<u>2,394,613,641</u>	<u>2,790,469,378</u>

The bank deposits payable within 90 days include deposits from subsidiary companies amounting to Shs 10,100,000 (1996 - Shs 6,377,708).

		1997	1996
		Shs	Shs
18	LINE OF CREDIT		
	GROUP AND BANK		
	International Finance Corporation (Washington)	<u>125,400,000</u>	<u>-</u>

The bank has an unsecured revolving medium term line of credit with the International Finance Corporation (Washington) of US\$ 10,000,000. As at 31 December 1997, the drawdown was US\$ 2,000,000.

		1997	1996
		Shs	Shs
19	SHARE CAPITAL		
	Authorised, issued and fully paid:		
	100,000,000 ordinary shares of Shs 5 each	<u>500,000,000</u>	<u>500,000,000</u>

Notes to the Financial Statements

(Continued)

16(b) FIXED ASSETS - BANK

	Leasehold land Shs	Motor vehicles Shs	Furniture and equipment Shs	Capital work in progress Shs	Total Shs
COST OR VALUATION					
At 1 January 1997	35,000,000	19,174,438	68,518,948	5,019,893	127,713,279
Additions	-	-	8,654,217	108,670,171	117,324,388
Disposal	-	-	(41,067)	-	(41,067)
At 31 December 1997	35,000,000	19,174,438	77,132,098	113,690,064	244,996,600
COMPRISING:					
Cost	-	19,174,438	77,132,098	113,690,064	209,996,600
Valuation - 1995	35,000,000	-	-	-	35,000,000
	35,000,000	19,174,438	77,132,098	113,690,064	244,996,600
DEPRECIATION					
At 1 January 1997	618,687	13,255,398	33,899,837	-	47,773,922
Charge for the year	353,535	3,127,870	13,382,329	-	16,863,734
Eliminated on disposal	-	-	(6,160)	-	(6,160)
At 31 December 1997	972,222	16,383,268	47,276,006	-	64,631,496
NET BOOK VALUE					
At 31 December 1997	34,027,778	2,791,170	29,856,092	113,690,064	180,365,104
At 31 December 1996	34,381,313	5,919,040	34,619,111	5,019,893	79,939,357

Motor vehicles, furniture and equipment stated at a cost of Shs 12,255,639 (1996 - Shs 12,255,639) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Shs 2,712,360 (1996 - Shs 2,712,360).

Notes to the Financial Statements

(Continued)

16(a) FIXED ASSETS - GROUP

	Freehold and leasehold land and buildings Shs	Motor vehicles Shs	Furniture and equipment Shs	Capital work in progress Shs	Total Shs
COST OR VALUATION					
At 1 January 1997	47,500,000	26,033,438	79,136,818	5,019,893	157,690,149
Additions due to change in group structure	84,061,069	4,975,760	22,536,260	-	111,573,089
Additions	589,451	6,119,120	14,916,261	108,670,171	130,295,003
Disposals	-	(5,157,361)	(41,067)	-	(5,198,428)
At 31 December 1997	132,150,520	31,970,957	116,548,272	113,690,064	394,359,813
COMPRISING:					
Cost	589,451	31,970,957	116,548,272	113,690,064	262,798,744
Valuation - 1995	35,000,000	-	-	-	35,000,000
- 1996	96,561,069	-	-	-	96,561,069
	132,150,520	31,970,957	116,548,272	113,690,064	394,359,813
DEPRECIATION					
At 1 January 1997	618,687	19,368,217	41,421,581	-	61,408,485
Additions due to change in group structure	-	3,689,977	14,571,451	-	18,261,428
Charge for the year	353,535	5,583,225	18,528,948	-	24,465,708
Eliminated on disposals	-	(4,775,436)	(6,160)	-	(4,781,596)
At 31 December 1997	972,222	23,865,983	74,515,820	-	99,354,025
NET BOOK VALUE					
At 31 December 1997	131,178,298	8,104,974	42,032,452	113,690,064	295,005,788
At 31 December 1996	46,881,313	6,665,221	37,715,237	5,019,893	96,281,664

Motor vehicles, furniture and equipment stated at a cost of Shs 25,910,103 (1996 - Shs 12,255,639) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Shs 5,458,879 (1996 - Shs 2,712,360).

Notes to the Financial Statements

(Continued)

14 OTHER INVESTMENTS

	G R O U P		B A N K	
	1997	1996	1997	1996
	Shs	Shs	Shs	Shs
Quoted investments, at cost	74,967,285	5,292,166	-	-
Unquoted investments, at cost	14,901,460	-	-	-
Commercial papers, corporate bonds and loans	316,255,000	149,527,331	101,000,000	100,000,000
	406,123,745	154,819,497	101,000,000	100,000,000

The market value of the quoted investments at 31 December 1997 was Shs 166,482,288 (1996 - Shs 20,749,105).

The unquoted investments at 31 December 1997 were valued by the directors at Shs 14,901,460.

15 GOODWILL

Purchased goodwill arising on acquisition of one of the subsidiary companies, net of amount written down

1997	1996
Shs	Shs
-	37,152,470

Notes to the Financial Statements

(Continued)

13 INVESTMENT IN SUBSIDIARY COMPANIES AND IN ASSOCIATED COMPANY

Company	Beneficial Ownership	G R O U P		B A N K	
		1997 Shs	1996 Shs	1997 Shs	1996 Shs
CFC Financial Services Limited	100%	-	-	35,030,000	35,030,000
Credit Banking Corporation Limited	100%	-	-	122,847,530*	160,000,000*
African International Insurances (AII) Limited	100%	-	-	-	51,600,000
The Heritage Insurance Company Limited	49%	-	139,939,773**	-	14,104,650
The Heritage AII Insurance Company Limited	64%	-	-	65,704,650	-
		<hr/>	<hr/>	<hr/>	<hr/>
		-	139,939,773	223,582,180	260,734,650
		<hr/>	<hr/>	<hr/>	<hr/>

* At directors' valuation.

** At the group's share of the associated company's net assets.

All others are at cost.

With effect from 1 January 1997, African International Insurances (A.I.I.) Limited, a subsidiary company of CFC Bank Limited merged with The Heritage Insurance Company Limited, an associate company of the Bank. The Bank owns 64% of the merged company, The Heritage A.I.I. Insurance Company Limited.

Notes to the Financial Statements

(Continued)

	1997	1996
	Shs	Shs
12 PROVISIONS FOR AND WRITE-OFFS OF LOANS AND ADVANCES CONSIDERED BAD AND DOUBTFUL OF RECOVERY		
GROUP AND BANK		
(a) Specific provisions		
Balance at the beginning of the period	137,927,827	124,467,875
Provisions made during the period	29,591,315	14,713,800
Write-offs	(6,276,222)	(1,253,848)
Balance at the end of the period	161,242,920	137,927,827
(b) General provisions		
Balance at the beginning of the period	37,872,309	22,746,328
Provisions made during the period	-	15,125,981
Balance at the end of the period	37,872,309	37,872,309
Total provisions (note 11)	199,115,229	175,800,136

Notes to the Financial Statements

(Continued)

	1997 Shs	1996 Shs
11 LOANS AND ADVANCES TO CUSTOMERS		
GROUP AND BANK		
Hire purchase	2,028,865,446	2,472,365,417
Loans, advances and bills discounted	1,511,207,466	1,556,003,216
	<u>3,540,072,912</u>	<u>4,028,368,633</u>
Unearned finance charges	(438,549,251)	(589,992,895)
Provision for bad and doubtful debts (note 12)	(199,115,229)	(175,800,136)
	<u>2,902,408,432</u>	<u>3,262,575,602</u>
Analysis of gross loans and advances by maturity:		
Maturing within one year	1,615,585,485	1,502,094,880
Over one year to three years	1,798,267,874	2,140,532,592
Over three years	126,219,553	385,741,161
	<u>3,540,072,912</u>	<u>4,028,368,633</u>
Analysis of gross loans and advances by industry:		
Private companies	3,038,275,052	3,421,517,047
Non profit institutions and individuals	501,797,860	606,851,586
	<u>3,540,072,912</u>	<u>4,028,368,633</u>

Notes to the Financial Statements

(Continued)

	G R O U P		B A N K	
	1997 Shs	1996 Shs	1997 Shs	1996 Shs
9 CASH AND BALANCES WITH CENTRAL BANK OF KENYA				
Cash on hand	50,386,196	25,393,743	50,362,585	23,761,785
Balances with Central Bank of Kenya :				
Cash ratio requirement	457,581,977	682,179,000	457,581,977	682,179,000
Other balances	-	56,260,068	-	56,260,068
	507,968,173	763,832,811	507,944,562	762,200,853
10 GOVERNMENT SECURITIES				
(a) Treasury bills and bonds				
Maturing within 90 days of the balance sheet date	693,358,564	385,054,000	350,000,000	290,000,000
Maturing after 90 days of the balance sheet date	209,000,000	-	-	-
(b) Government stock - unquoted at cost K£ 850,000 - 10.75% Kenya Government stock (maturing in the year 2000)	16,775,000	9,775,000	9,775,000	9,775,000
	919,133,564	394,829,000	359,775,000	299,775,000

Notes to the Financial Statements

(Continued)

	1997	1996
	(12 months)	(9 months)
	Shs	Shs
5 TAXATION		
Taxation is based on the chargeable profit for the period and comprises:		
Income tax at 35%	189,735,948	123,282,237
Share of tax of associated company	-	16,828,633
	<u>189,735,948</u>	<u>140,110,870</u>

The effective tax rate is higher than the standard rate mainly due to the different tax treatment of write down of investment in a subsidiary company and other expenditure disallowed under tax legislation.

As at 31 December 1997, the potential deferred tax asset of the bank on timing differences amounted to Shs 18 million (1996 - Shs 16 million).

6 CONSOLIDATED PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the bank is Shs 209,862,460 (31 December 1996 - Shs 131,188,303).

	1997	1996
	(12 months)	(9 months)
	Shs	Shs
7 DIVIDEND - Gross		
First and final dividend - proposed	<u>67,000,000</u>	<u>50,000,000</u>

Payment of dividends is subject to withholding tax at the rate of 5% for Kenya residents and 10% for non-residents.

8 EARNINGS PER SHARE

Earnings per share is arrived at by dividing the consolidated profit after minority interest of Shs 258,012,132 (1996 - Shs 188,141,926) by the number of shares in issue at the balance sheet date.

Notes to the Financial Statements

(Continued)

	1997 (12 months) Shs	1996 (9 months) Shs
2 INCOME		
Interest income	1,212,660,253	898,207,044
Income from government securities	104,291,021	66,255,006
Fees and commissions	86,390,196	65,851,374
Income from government stock	1,075,000	806,250
Other operating income	165,683,863	138,625,661
	<u>1,570,100,333</u>	<u>1,169,745,335</u>
3 EXPENDITURE		
Interest expense	661,912,043	573,836,852
Bad and doubtful debts	35,299,570	28,585,933
Write down of goodwill	37,152,470	40,000,000
Other operating expenses	351,970,178	261,110,057
	<u>1,086,334,261</u>	<u>903,532,842</u>
4 CONSOLIDATED OPERATING PROFIT		
The consolidated operating profit is arrived at after charging:		
Contribution to Deposit Protection Fund	5,641,130	4,181,502
Depreciation	24,465,708	14,925,471
Write down of goodwill	37,152,470	40,000,000
Directors' emoluments		
Directors	4,412,500	3,727,500
Executives	12,521,280	9,086,250
Auditors' remuneration:		
- current year	2,747,000	2,400,000
- prior period	84,148	415,000
and after crediting:		
Profit on disposal of fixed assets	2,324,735	1,197,934
Income from		
- Quoted investments (gross)	15,011,047	955,709
- Unquoted investment (gross)	471,427	-
- Kenya Government stock 2000	1,075,000	806,250

Notes to the Financial Statements

(Continued)

1 ACCOUNTING POLICIES (CONTINUED)

(f) DEPRECIATION

Freehold land is not depreciated.

Freehold properties held for their investment potential are included in the balance sheet at open market values, which is determined periodically, and are not depreciated. Changes in the value of these properties are taken to the capital reserve.

Depreciation is calculated to write off the cost of other fixed assets in equal annual instalments at the following rates:

Leasehold land and buildings	Over remaining life of the lease
Motor vehicles	25%
Furniture and equipment	20% - 25%

(g) TAXATION

Current taxation is provided on the basis of the results for the period as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is accounted for to the extent that it is probable that timing differences will reverse in the foreseeable future.

(h) LOANS AND ADVANCES

Loans and advances are stated after provision for bad and doubtful debts and unearned interest.

Specific provisions are made against loans and advances when, in the opinion of the directors, recovery is doubtful. In addition, general provisions are maintained, in line with the Central Bank of Kenya guidelines, based on management's evaluation of the portfolios of loans and advances and other exposures in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio.

(i) FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies during the year are converted at the rates ruling at the time of the transactions. The resulting profits or losses are dealt with in the profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 1997

1 ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTING

The group prepares its financial statements on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the bank and of its subsidiaries: CFC Financial Services Limited, Credit Banking Corporation Limited and The Heritage A.I.I. Insurance Company Limited. The financial statements of all the subsidiaries have been made up to 31 December 1997.

(c) GOODWILL

Purchased goodwill represents the excess of consideration paid over the net assets acquired. Where, in the opinion of the directors, such goodwill has a useful economic life, it is capitalised and amortised through the profit and loss account.

Where, in the opinion of the directors, such goodwill does not have a long economic life, it is eliminated immediately on acquisition, against reserves.

Negative goodwill is credited directly to capital reserves.

(d) INVESTMENT IN SUBSIDIARY COMPANIES

Investments in subsidiary companies are stated at cost or directors' valuation.

(e) INCOME RECOGNITION

Income is recognised on an accrual basis. When an account becomes non-performing, interest is suspended until it is realised on a cash basis.

Income from instalment credit transactions is calculated by the sum of the digits method.

Consolidated Cash Flow Statement

For the year ended 31 December 1997

		1997 (12 months) Shs	1996 (9 months) Shs
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	Note 21(a)	1,266,005,056	(470,177,560)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(50,000,000)	(50,000,000)
Dividend received - associated company		12,250,000	7,350,000
- quoted investments		15,011,047	955,709
- unquoted investment		471,427	-
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(22,267,526)	(41,694,291)
TAXATION PAID		(202,182,935)	(143,896,933)
INVESTING ACTIVITIES			
Purchase of fixed assets		(130,295,003)	(29,419,977)
Purchase of government securities		(216,000,000)	-
Purchase of other investments		(251,304,248)	-
Proceeds on disposal of fixed assets		2,741,567	2,078,304
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(594,857,684)	(27,341,673)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		446,696,911	(683,110,457)
FINANCING			
Line of credit drawdown		125,400,000	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21(c)	572,096,911	(683,110,457)

Bank Balance Sheet

31 December 1997

	Note	1997 Shs	1996 Shs
ASSETS			
Cash and balances with Central Bank of Kenya	9	507,944,562	762,200,853
Government securities	10	359,775,000	299,775,000
Deposits and balances due from banking institutions		991,268,844	789,350,113
Loans and advances to customers	11	2,902,408,432	3,262,575,602
Other debtors and prepayments		213,334,163	184,637,812
Taxation recoverable		5,366,887	2,297,181
Due from subsidiary companies		29,200,000	10,000,000
Due from associated company		-	12,250,000
Investment in subsidiary companies and in associated company	13	223,582,180	260,734,650
Other investments	14	101,000,000	100,000,000
Fixed assets	16(b)	180,365,104	79,939,357
		5,514,245,172	5,763,760,568
LIABILITIES			
Customer deposits	17	2,394,613,641	2,790,469,378
Certificates of deposit		1,039,053,000	1,234,220,697
Line of credit	18	125,400,000	-
Other liabilities		392,623,907	299,315,781
Deposits and balances due to banking institutions		243,549,758	280,612,306
Amount due to subsidiary company		122,847,530	122,847,530
Proposed dividend (gross)		67,000,000	50,000,000
		4,385,087,836	4,777,465,692
CAPITAL RESOURCES			
Share capital	19	500,000,000	500,000,000
Reserves	20(b)	629,157,336	486,294,876
		1,129,157,336	986,294,876
		5,514,245,172	5,763,760,568

The financial statements on pages 10 to 28 were approved by the board of directors on 23 March 1998 and were signed on its behalf by:

P K Jani)
M N Majmudar) - Directors
J G Kierejini)
R R Vora	- Secretary

Consolidated Balance Sheet

31 December 1997

	Note	1997 Shs	1996 Shs
ASSETS			
Cash and balances with Central Bank of Kenya	9	507,968,173	763,832,811
Government securities	10	919,133,564	394,829,000
Deposits and balances due from banking institutions		1,215,376,789	942,485,286
Loans and advances to customers	11	2,902,408,432	3,262,575,602
Other debtors and prepayments		464,009,705	227,780,437
Taxation recoverable		13,941,685	3,724,822
Due from associated company		-	12,250,000
Investment in associated company	13	-	139,939,773
Other investments	14	406,123,745	154,819,497
Goodwill	15	-	37,152,470
Fixed assets	16(a)	295,005,788	96,281,664
		6,723,967,881	6,035,671,362
LIABILITIES			
Customer deposits	17	2,384,513,641	2,784,091,670
Certificates of deposit		1,039,053,000	1,234,220,697
Line of credit	18	125,400,000	-
Other liabilities		1,362,053,922	496,062,940
Taxation payable		4,501,307	6,731,431
Deposits and balances due to banking institutions		258,443,847	280,612,306
Proposed dividend (gross)		67,000,000	50,000,000
		5,240,965,717	4,851,719,044
CAPITAL RESOURCES			
Share capital	19	500,000,000	500,000,000
Reserves	20(a)	834,124,232	683,952,318
Shareholders funds		1,334,124,232	1,183,952,318
Minority interest		148,877,932	-
		1,483,002,164	1,183,952,318
		6,723,967,881	6,035,671,362

The financial statements on pages 10 to 28 were approved by the board of directors on 23 March 1998 and were signed on its behalf by:

P K Jani)
M N Majmudar) - Directors
J G Kiereini)
R R Vora	- Secretary

Consolidated Profit and Loss Account

For the year ended 31 December 1997

		1997 (12 months)	1996 (9 months)
	Note	Shs	Shs
INCOME	2	1,570,100,333	1,169,745,335
EXPENDITURE	3	1,086,334,261	903,532,842
CONSOLIDATED OPERATING PROFIT	4	483,766,072	266,212,493
SHARE OF PROFIT OF ASSOCIATED COMPANY		-	62,040,303
CONSOLIDATED PROFIT BEFORE TAXATION		483,766,072	328,252,796
TAXATION	5	189,735,948	140,110,870
CONSOLIDATED PROFIT AFTER TAXATION	6	294,030,124	188,141,926
MINORITY INTEREST		36,017,992	-
CONSOLIDATED PROFIT AFTER MINORITY INTEREST		258,012,132	188,141,926
DIVIDEND - gross	7	67,000,000	50,000,000
RETAINED PROFIT FOR THE PERIOD	20(a)	191,012,132	138,141,926
EARNINGS PER SHARE	8	2.58	1.88

Report of the Auditors

TO THE MEMBERS OF CFC BANK LIMITED

We have audited the financial statements on pages 10 to 28 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion:

- 1 Proper books of account have been kept by the bank and the bank's balance sheet is in agreement therewith.
- 2 The financial statements, which comply with the Companies Act, give a true and fair view of the state of affairs of the bank and the group at 31 December 1997 and of the profit and cash flows of the group for the year ended on that date.

Deloitte & Touche
23rd March 1998

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 1997.

GROUP STRUCTURE

With effect from 1 January 1997, African International Insurances (A.I.I.) Limited, a subsidiary company of CFC Bank Limited, merged with The Heritage Insurance Company Limited, an associated company of the bank. Consequently, the bank now owns 64% of the merged company, which is now called The Heritage A.I.I. Insurance Company Limited.

ACTIVITIES

The principal activities of the bank, which is licensed under the Banking Act, are the provision of banking, financial and related services.

GROUP RESULTS

	Shs
Consolidated profit for the year after taxation and minority interest	258,012,132
Proposed dividend	67,000,000
Retained profit carried to reserves	191,012,132

DIVIDEND

The directors recommend a first and final dividend of sixty seven cents per share (13.4%) for the year ended 31 December 1997.

DIRECTORS

The present directors are shown on page 2.

Messrs A P Hamilton and J C Kulei retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

The auditors, Deloitte & Touche, having indicated their willingness, continue in office in accordance with section 159 (2) of the Companies Act (Cap 486) and subject to Section 24(1) of the Banking Act (Cap 488).

By order of the Board

R R Vora

Secretary

Nairobi

23 March 1998

Taarifa ya Mwenyekiti

CMA-LIBRARY

Wakurugenzi wameamua kupendekeza kwenye Mkutano Mkuu ujao mgawo wa mwanzo na mwisho wa Ksh milioni 67 kwa kipindi cha miezi 12 kama ikilinganishwa na kiasi cha Ksh milioni 50 kwa kipindi kilichotangulia cha miezi 9 iliyoishia Desemba 31, 1996.

Utafurahi kufahamu kwamba Benki yako ilifanikiwa kuafikiana na Shirika la Fedha Ulimwenguni (IFC) ya Washington mpango wa mkopo kwa fedha za kigeni, ikiwa ni benki ya kwanza kufanya hivyo humu nchini. Inatarajiwa kwamba mpango huu utarahisisha raslimali inayohitajika kwa mahitaji ya wateja kwa mwaka huu na baadae. Baadhi ya juhudi zilizo anzishwa na Benki kama nilivyogusia mwaka jana imethibitika na hii, kwa kiwango kikubwa, imechangia jitihada za jumla zilizokadiriwa. Raslimali katika mafunzo ya wafanyakazi wa tabaka zote ziliendelea mwaka jana tukitumia vifaa vilivyopo humu nchini na huko ng'ambo.

Raslimali katika mafunzo ya wafanyakazi wa tabaka zote ziliendelea mwaka jana
shughulikiwa kwa dhati kwa

minaajili ya kuzingatia mambo yanayohitajika kwa wakati mzuri.

Wakati huo huo, ujenzi wa Kituo kipya cha CFC unaendelea kwa kasi huku kukamilika kwake kukitarajiwa mwishoni mwa mwaka huu. Kituo hicho kimesanifiwa kuyaweka makampuni yote yaliyoko kwenye kundi na kitatoa mazingira thabiti na ya kuridhisha kwa msingi wa wateja wetu wanaozidi kuongezeka.

Kulingana na mitindo ya 1998, ukuaji bila shaka utakuwa na makabiliano kwenye hali inayoendelea kuwa na viwango vikubwa vya riba, ukuaji wa taratibu wa mahitaji ya mikopo na ugeugeu wa hali ya fedha kwa muda mrefu. Sekta ya huduma za fedha itakabiliwa na majaribu makubwa ya nguvu zake asili kwenye hali za ukweli huu. Hata hivyo, nina kila tumaini kwamba timu hii inayoongozwa na Mkurugenzi Mkuu Bw. Majmudar akisaidiwa na wafanyakazi watifu na wakujitolea, wenye nguvu zinazoendelea za kitaalam wataweza kushamiri kwenye nyakati hizi na hivyo kuendelea kuchangia kwenye matokeo ya jumla ya Kundi kuambatana na kile walichoweza kuwakilisha kwa mwaka ambao zaidi umetambulika kuwa mgumu.

Kwa kumalizia, ningependa pia kutoa shukrani zangu kama kawaida kwa wenzangu kwenye Halmashauri kwa kuendelea kuniunga mkono na kunishauri.

P K Jani

Mwenyekiti

23rd March 1998

Kituo kipya cha CFC kitatoa mazingira thabiti na ya kuridhisha kwa msingi wa wateja wetu wanaozidi kuongezeka.

Taarifu ya Mwenyekiti

Mwaka 1997 ulitokea kuwa mgumu sana baada ya kuahirishwa kuungwa mkono kwa namna ya kifaa cha structural adjustment facility na Shirika la fedha Ulimwenguni (IMF), kuzorota kwa maendeleo, hatua kali za sera ya fedha zilizokuwa na nia ya kudhibiti kupanda kwa hali ya gharama za maisha na kutokuwepo kwa rasilimali zenye kufua dafu kiuchumi. Ingawaje Uchaguzi Mkuu ulikamilika mwezi Desemba mwaka jana, kama ilivyokuwa imepangwa, mvua ya "El Nino" ilizidisha maradufu shida zilizokuwepo awali kama vile katika biashara,

*Kampuni ya
bima ya
Heritage
A.I.I.
Insurance
Company
Limited, sasa
ni tawi
mojawapo ya
kampuni tanzu
ya Benki yenu*

viwanda na kilimo. Kiasi kikubwa cha uagizaji wa chakula kilicho sababishwa na upungufu wa mazao ya nchini kimetilia shinikizo kwenye mizania ya malipo zaidi kwa ajili ya ku kudidimlia kwa pato la fedha kutokana na mazao ya fedha na utalii. Matokeo yake kwa

jumla imekuwa ni kiwango cha chini cha ukuaji wa Pato la Jumla la Nchini ikifananishwa na makadirio ya awali. Kama nilivyoeleza mwaka jana, Kampuni ya bima ya Heritage A.I.I. Insurance Company Limited, sasa ni tawi mojawapo ya kampuni tanzu ya Benki yenu kuanzia tarehe 1 Januari 1997 na kwa

hivyo hali ya muungano uliyopo inajumlisha hali yao ya kifedha pia.

Matokeo jumla ya Benki kwa mwaka yanahitaji kuonekana dhidi ya mandaro hii. Amana na mikopo imeonyesha upungufu kwa kufuatana na mwenendo wa fahamu na mpango wa kuimarisha utekelezaji kwa maadili ya vigezo ambavyo ni vya kawaida kwenye biashara ya huduma za fedha na kwenye misingi ya uchumi wa nchi ulioathiriwa na dhiki zilizokaririwa hapo awali. Huku mizania mchanganyiko inaonyesha ukuaji wa asilimia 11, ni furaha yangu kuarifu uimarikaji wa jumla kwenye utekelezaji wa kundi kama ilivyoonyeshwa kwenye ongezeko la asilimia 10 la faida kabla ya ushuru, faida ya usawa kwa wastani wa kiwango cha asilimia 36 na faida ya rasilimali kwa wastani wa asilimia 7. Isitoshe, kwa kuzingatia sera ya kupunguza gharama, inastahili ifahamike kwamba uwiano wa gharama pato ulikuwa kwenye asilimia 69 ukionyesha kuimarika dhidi ya hali iliyokuwepo mwishoni mwa mwaka uliotangulia.

Ubora wa rasilimali za Benki bado ni thabiti. Hata hivyo, gharama zinazozidi za hazina zinaendelea kubana pato la Benki kwa upande mmoja huku gharama kubwa ya kuhudumia madeni ikifichua idadi kubwa ya wakopaji hali ya kuwadhuru kwa upande mwingine kufuatia kupunguka kasi ya uchumi. Uamuzi uliochukuliwa na Benki mwaka jana kuongezea hitaji lake la kawaida la "Mara Moja" ("One off") limethibitishiwa na matukio yalofuatia na kwa nia ya kuhakikisha mwenendo wa kuendelea na wenye busara si kwamba tu kiwango cha mahitaji ya kawaida kimehifadhiwa licha ya upungufu kwenye kitabu cha mikopo, bali kiasi kingine zaidi cha Ksh milioni 35 za Kenya kimetengewa madeni yaliotambulika kuwa na uwezekano wa tashwishi. Kiasi kilichowekwa na Benki kwa mahitaji hayo kinawakilisha takriban asilimia 7 ya jumla ya mikopo yake yote. Benki inachukulia kwamba kiasi hiki kinawezekana tukifananisha na hali mbaya iliyoko katika uchumi wa nchi kwa jumla.

*Ni furaha
yangu kuarifu
uimarikaji wa
jumla kwenye
utekelezaji wa
kundi*

*Benki yako
ilifanikiwa
kwa fikiano na
Shirika la
Fedha
Ulimwenguni
(IFC) ya
Washington
mpango wa
mikopo kwa
fedha za kigeni*

Chairman's Statement

compared to the figure of KShs. 50m for the previous period of 9 months ended the 31st December 1996.

You will be happy to know that your Bank successfully negotiated a revolving medium term foreign currency line of credit with the International Finance Corporation (Washington) - the first bank to do so in the local market. It is envisaged that this line will facilitate the needed investments

tailored to the customers' needs for the current year and beyond.

Several initiatives introduced in

the Bank, a mention of which was made by me in the last year, have stabilised and these have, in a great measure, contributed to the over-all effectiveness of planned efforts. Investments in training for staff at all levels continued last year covering facilities available both locally and off-shore.

While this remains a priority, the impact of the year 2000 compliance has also been taken-up in earnest with a view to addressing the relevant aspects well in time.

Simultaneously, the construction of the new CFC Centre continues apace with completion expected to be

on time at the end of this year. The Centre has been designed to accommodate the Group companies and will provide a secure and comfortable environment for our expanding client base.

Given the trends in 1998, growth will undoubtedly prove to be challenging in an environment of continued high real interest rates, sluggish growth in credit demand and lingering currency volatility. The financial services sector will face a critical test of its fundamental strengths in the face of these realities. However, I have every hope that the team under the stewardship of the Managing Director, Mr. Majmudar, backed by loyal and dedicated staff with growing professional strengths, will be able to rise to this challenge and thus continue to contribute to the Group's overall results in line with what they have been able to present for a year which has been widely recognised as a difficult one.

In conclusion, I would also like to express my thanks as always to my colleagues on the Board for their continued support and advice.

P K Jani

Chairman

23rd March 1998

The new CFC Centre will provide a secure and comfortable environment for our expanding client base.

Investments in training staff at all levels continued last year

Chairman's Statement

1997 proved to be a difficult year following the suspension of support by way of structural adjustment facility by the I.M.F., declining growth rates, stringent monetary policies aimed at containment of inflation and the absence of significant productive investment in the economy. While the general elections were concluded in December of last year, as scheduled, the "El Nino" effect compounded the existing problems putting considerable strain on the damaged infrastructure which in turn had a pervasive impact on trade, industry and agriculture. Substantial food imports necessitated by the deficit in domestic supplies have exerted pressure on the

balance of payment

front inasmuch as earnings from cash crops and tourism have registered declines. The cumulative impact has been a reduced level of Gross Domestic Product growth as compared to earlier estimates.

As I mentioned last year, The Heritage A.I.I. Insurance Company Limited is now a subsidiary of your Bank with effect from 1st January, 1997 and as such the consolidated position incorporates both your Bank's and the subsidiary's financials.

The Bank's overall results for the year need to be viewed against this back-drop. Both deposits and advances have shown reductions in conformity with a conscious and planned drive to improve the performance related parameters which are common in the financial services industry and more so in the context of the domestic economy beset with constraints as outlined above. While the consolidated balance sheet shows a growth of 11%, I am pleased to report an all round improvement in the performance for the Group as reflected in a 10% increase in profit before tax, a return on average equity at 36% and a return on average assets at 7%. Further, in keeping with the policy of reducing costs, it is worthwhile to note that the cost/income ratio stood at 69% reflecting an improvement over the position prevailing at the end of the previous year.

The quality of the Bank's assets remains strong. However, the increasing cost of funds continues to squeeze margins for the bank on the one hand and the high cost of servicing debt exposes a large number of borrowers to a degree of vulnerability on the other hand in the wake of a slow-down in the economy. The decision the Bank took last year to increase its "one-off" general provisions has been vindicated by the subsequent developments and with a view to ensuring a sustained and yet prudent approach not only has the level of general provisions been retained notwithstanding the decline in the loan book, a further sum of KShs. 35m has been set aside for identified debts which display signs of potential difficulty. The figures in respect of the aggregate provisions held by the Bank represent 7% of its total loans and advances. The Bank considers this level as acceptable given the uncertainties being experienced at macro economic level.

The Directors have resolved to recommend at the forthcoming Annual General Meeting a first and final dividend of KShs. 67m for a period of 12 months as

I am pleased to report an all round improvement in the performance for the group

Your Bank successfully negotiated a foreign currency line of credit with the International Finance Corporation (Washington)

The Heritage A.I.I. Insurance Company Limited is now a subsidiary of your Bank

Notice of Meeting

Notice is hereby given that the forty third Annual General Meeting of CFC Bank Limited will be held in the South Ball Room, Norfolk Hotel, Harry Thuku Road, Nairobi on Friday 29th May 1998 at 11.00 a.m. for the following purposes:

1. To confirm the Minutes of the forty second Annual General Meeting held on 3rd June 1997.

2. To receive and consider the Accounts for the year ended 31st December 1997 and the Directors' and Auditors' Reports thereon.

3. To approve the payment of a first and final dividend for the year ended 31st December 1997 of 13.4% on the Issued Share Capital.

4. To elect Directors in accordance with the Articles of Association.

(i) Mr. J.C. Kulei retires from the Board by rotation and, being eligible, offers himself for re-election.

(ii) Mr. A.P. Hamilton retires from the Board by rotation and, being eligible, offers himself for re-election.

5. To approve the Directors' remuneration for the year ended 31st December 1997 as provided in the accounts.

6. To note that Deloitte & Touche continue as Auditors under the provisions of Section 159(2) of the Companies Act (Cap 486) and subject to Section 24(1) of the Banking Act (Cap 488).

7. To authorise the Directors to agree the Auditors' remuneration.

By order of the Board

R R Vora

Secretary

23rd March 1998

Directorate and Administration

BOARD OF DIRECTORS

P K Jani	-	Chairman
M N Majmudar **	-	Managing
J G Kiereini		
C Njonjo		
A P Hamilton *		
J C Kulei		

** Indian
* British

COMPANY SECRETARY

R R Vora

OFFICES

Registered Office

KCS House
Kaunda Street
P O Box 72833
Nairobi

Nairobi Branch

Corner House
Kimathi Street
P O Box 72833
Nairobi

Mombasa Branch

Social Security House
Nkrumah Road
P O Box 84418
Mombasa

AUDITORS

Deloitte & Touche
P O Box 40092
Nairobi

2007/1555

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