



1999 Annual Report & Financial Statements

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Corporate Information

Board of Directors

P K Jani - Chairman

M N Majmudar - Managing (Indian)

J G Kiereini, C Njonjo, A P Hamilton (British), J C Kulei

Company Secretary

R R Vora

Offices

Registered Office

CFC Centre

Chiromo Road

P O Box 72833 Nairobi

Chiromo Road Branch

CFC Centre

Chiromo Road

P O Box 72833 Nairobi

Kimathi Street Branch

Corner House

Kimathi Street

P O Box 75501 Nairobi

Mombasa Branch

Social Security House

Nkrumah Road

P O Box 84418 Mombasa

Auditors

Deloitte & Touche

"Kirungii" Ring Road, Westlands

P O Box 40092 Nairobi

2007/0317

Notice of the Annual General Meeting

Notice is hereby given that the forty fifth Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Tuesday, 23rd May 2000 at 10.30 am for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st December 1999 and the Director's and Auditors' Reports thereon.
2. To approve the payment of a first and final dividend for the year ended 31st December 1999 of 13.4% on the Issued Share Capital.
3. To elect Directors:
 - i) Mr J. G. Kiereini, a director who has attained the age of 70 years, vacates office under section 186(2) of the Companies Act (Cap 486). Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186 (5) of the said Act, to be considered and, if thought fit, passed by the members:
"That Mr J. G. Kiereini, a Director who has attained the age of 70 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
 - ii) Mr P.K. Jani, a Director who has attained the age of 76 years retires by rotation. Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186 (5) of the said Act, to be considered and if thought fit, passed by the members:
"That Mr P.K. Jani, a Director who has attained the age of 76 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
 - iii) Mr Charles Njonjo, a Director who has attained the age of 80 years retires by rotation. Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186 (5) of the said Act, to be considered and if thought fit, passed by the members:
"That Mr Charles Njonjo, a Director who has attained the age of 80 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's articles of Association".
4. To approve the Directors' remuneration for the year ended 31st December 1999 as provided in the financial statements.
5. 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) and to authorise the Directors to agree their remuneration.

6. Special business

To consider and if thought fit to pass the following resolutions as ordinary resolutions:

- i) "That the authorised share capital of the Bank be increased from Kenya shillings five hundred million (Shs. 500,000,000) divided into one hundred million ordinary shares (100,000,000) of Kenya Shillings five (Shs. 5/-) each to Kenya shillings six hundred million (Shs. 600,000,000) by the creation of twenty million (20,000,000) ordinary shares of Kenya shillings five (Shs. 5/-) each to rank pari passu with the existing ordinary shares in the capital of the Bank in all respects".
- ii) "That in pursuance of Article 127 of the Bank's Articles of Association, and subject to the approval of the Capital Markets Authority being obtained pursuant to rule 41A of the Capital Markets Authority Rules 1992 and to the Nairobi Stock Exchange approving the listing of new ordinary shares of the Bank, and upon the recommendation of the Board, it is desirable to capitalise the sum of Kenya Shillings one hundred million (Shs. 100,000,000) being part of the sum standing to the credit of the Bank's revenue reserve account and that accordingly such sum be set free for distribution amongst the holders of ordinary shares in the capital of the Bank on the register of members as at 2nd May 2000, on condition that the same not be paid in cash but be applied in paying up in full at par twenty million (20,000,000) ordinary shares of Kenya shillings five (Shs. 5/-) each in the capital of the Bank and that such 20,000,000 shares credited as fully paid accordingly be allotted to such persons respectively in the proportion of ONE (1) ordinary share for every FIVE (5) ordinary shares in the Bank then held by such persons (fractions of a share to be disregarded) and that the shares so distributed shall rank pari passu with the existing issued ordinary shares and shall be treated for all purposes as an increase in the nominal amount of capital of the Bank held by each such shareholder and not as income and the Directors be and are hereby authorised to attend to all matters required to give effect to this resolution".
- iii) "That should any of the said 20,000,000 bonus shares not to be issued by reason of fractions of a share being disregarded, the Directors may allot and issue the same to such persons and upon such terms and conditions they may think fit".

By Order of the Board
R. R. Vora
Secretary

15th March 2000

Note: A member entitled to attend and vote at the above mentioned meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his or her behalf. Such proxy need not be a member of the Company. A form of proxy, which must be lodged at the registered Office of the Company not later than 48 hours before the time for holding the Meeting, is enclosed.

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Chairman's Statement

As I had hinted in my statement last year, 1999 indeed proved to be an extremely challenging year for the economy and thus for the banking industry. The banking industry in Kenya continues to experience a familiar range of problems as witnessed elsewhere in some other economies. However, some of these problems have had an unfavorable impact on most of the banks primarily on account of the lack luster performance of the Kenyan economy. Some of the measures being taken by Central Bank of Kenya do seem to have a visible impact on the structuring of segments of the banking industry. This augurs well for the future.

The economy's performance for 1999 was disappointing as evident through a growth rate of only 1.4% compared to growth rates of 1.8% and 2.3% in 1998 and 1997 respectively. Agriculture which contributes 24.6% of GDP continues to be faced with severe difficulties on the back of infrastructural problems and unfavorable weather conditions. Other sectors including building and construction, transport, tourism and communications and services also evidenced marginal growth. The cumulative effect of this sluggish growth was felt in exacerbated inflationary pressures which were only partially moderated by the slow-down in money supply. There seems to be a widely shared perception that the successful completion of the ongoing negotiations with the IMF will help spur the growth prospects contributing to the improved economic climate towards the second half of the year.

Turning now to the issue of interest rates, the 91-day treasury bill rates increased from 10.7% p.a. in January 1999 to over 20% p.a. in December last. Since then, this benchmark rate has come down to 10% p.a. Such volatile movements do not seem to reflect the underlying economic fundamentals. While the lower incidence of interest rate is a welcome shift for borrowers in general, what is equally critical and crucial is the fact that volatile fluctuations leaves businesses as also lenders with an extremely short term horizon to the detriment of long term investments. Again, sustainability of lower rates of interest remains debatable adding to the overall uncertainty as to prospects for medium term planning. In brief, sustainable and stable interest and exchange rates remain a pre-requisite for economic growth for the Kenyan economy.

Insofar as the management of interest rate exposure is concerned, asset liability management continues to

receive critical attention and remains an integral part of overall risk management strategy. The liability side of your Bank's balance sheet remains under rigorous control.

As regards the asset side of your Bank's balance sheet, the major movements have been the increase of Shs. 112.3m in property and equipment, up by 32%. Also, while investments in Government stocks have increased by 38%, the deposits and balances due from banking institutions reduced by 8%. This realignment was with a view to optimising investment income return. Loans and advances to customers increased minimally with the resulting credit/deposit ratio reducing to 79% which has once again been soundly managed through the continued full usage of the line of credit from the International Finance Corporation (IFC) Washington.

The issue relating to the non-performing assets is in the forefront in public debate. It is, therefore, necessary to elucidate this. Your Bank continues to be conservative in the matter of risk assessment as a result of which during the year, it declined credit commitments of well over Shs. 2bn. Besides, it is relevant to note that whereas your Bank's loans and advances to customers increased marginally, its non-performing assets evidenced a decrease of Shs. 144.6m year on year representing 8.4% of total loans and advances to customers, a percentage well within comparable industry norms. In line with your Bank's continued stress on prudence and on going risk monitoring during 1999, provisions as a percentage of total loans and advances decreased from 6.9% to 6% while provisions as a percentage of non-performing advances by way of coverage increased from 55% to 72%. Your Bank's credit portfolio remains under an ongoing review with clients under the category of non-performing loans and advances receiving special attention not merely by way of pursuit of litigation alone but also by way of restructuring nursing programmes and payment stretch-outs, where warranted. At the same time, your Bank continues to progressively cultivate medium/large sized enterprises and I am happy to report that your Bank is succeeding as evident through a welcome increase in non-funds business of 267% during the year.

Your Bank's Capital Adequacy Ratio remains strong and stood at 27% with paid-up Capital and Reserves to Total Deposit Liabilities at 35% compared to the

Chairman's Statement

statutory minimum of 8%.

During the year, the opening of the new CFC Centre coupled with the development of new innovative products such as the Floating Rate Savings Account and lately, the US\$ Money Market Account have enabled the Bank to progressively seek-out and reach new depositors. Notwithstanding the planned and managed phasing out of Certificates of Deposit, as required by the Central Bank of Kenya, the amount of Shs. 552,991,410, you will be happy to note that your Bank's deposits registered a growth of 30%. Inevitably, the one-off costs of the development of the CFC Centre and Chiromo Road branch together with the Group's increase in staff numbers have impacted upon your Bank's profitability. A further impact has been the investment in advertising coinciding with the launch of the CFC Centre and the new deposit products earlier alluded to. In keeping with your Bank's continued focus on future planning, these are considered as investments designed to yield growth and profits in the medium term.

In the context of the harsh trading conditions detailed above, coupled with one off developments relating to CFC Centre and Chiromo Road branch, consolidated profit after taxation reduced by 26% to Shs. 206.3m. It is also appropriate to note that The Heritage All Insurance Company (Tanzania) Ltd completed its first eighteen months' operations recording a small amount of loss which was well within the relative projections. For the forthcoming year, we do not foresee any further such impact. Earnings per share showed a reduction of 21% to Shs. 1.89. A final dividend of Shs. 0.67 per share is recommended, payable on or about 24th May 2000.

Personnel management and development continued to be accorded a high degree of priority in the past financial year with 80% of staff having been exposed to training, both internal and external. We remain convinced the continued success of your Bank depends upon on-going strengthening of professional standards at all levels.

As a part of strategic planning, your Bank has recently launched its wholly-owned subsidiary, CFC Financial Services Ltd, as a provider of fully fledged investment and corporate advisory services and products, a few of which represent the felt needs in the corporate sector. This is yet another milestone in your Bank's forty-five year record of proactive policies

towards business promotion and growth. It is considered that this move will improve the range and scope of services available to existing and prospective clients of the Bank providing further avenues for exploiting the synergies within the CFC Group to its fullest potential.

Your Bank's year 2000 programme and the business continuity plans proved successful with no disruption over the millennium.

In conclusion, I thank my fellow directors for their ever-present dedication, support and guidance. I also thank the management team and staff for their performance during a volatile year.

The economic prospects for year 2000 seem to be mixed. Domestic demand seems likely to stagnate. However, your Bank's standing in the Kenyan market, its extremely well capitalised balance sheet, business expertise and professionalism as well as its growing client base, together, constitute the best possible foundation for future growth as and when the economy gathers momentum.

P K JANI

CHAIRMAN

15th March 2000

Taarifa ya Mwenyekiti

Kama nilivyodokeza katika taarifa yangu mwaka jana, mwaka 1999 kwa kweli umedhihirisha kuwa mgumu kwa uchumi, na vivyo hivyo kwa benki za nchini. Benki za humu nchini Kenya zimeendelea kukumbwa na msururu wa matatizo yanayojulikana kama ilivyoshuhudiwa kwengineko kwenye chumi za nchi nyingine. Walakin, baadhi ya matatizo haya yameathiri vibaya benki nyingi za humu nchini hasa sana kutokana na utendaji mbaya wa uchumi wa Kenya. Baadhi ya hatua ambazo zinachukuliwa na Benki kuu ya Kenya zimeonyesha kuwa na kishindo katika muundo wa sehemu za benki za nchini. Hii ni ishara nzuri kwa siku za baadaye.

Utendaji wa uchumi katika mwaka wa 1999 haukuwa mzuri kama inavyodhihirishwa na kiwango cha chini cha ustawi cha asilimia 1.4 ikilinganishwa na viwango vya asilimia 1.8 na 2.3 katika miaka ya 1998 na 1997. Kilimo ambacho huchangia asilimia 24.6 ya mapato yote ya nchi kimeendelea kukumbwa na matatizo mbaya yanayosababishwa na hali mbaya ya barabara pamoja na hali mbaya ya hewa. Sekta nyingine zikiwemo zile za uundaji na ujenzi, uchukuzi, utalii, mawasiliano na utoaji wa huduma, ulishuhudia usitawi wa kiwango cha chini. Matokeo ya jumla ya kukua huku kwa chini kwa uchumi, kulidhihirishwa kupitia kupanda kwa gharama ya maisha, hali iliyo punguzwa kwa kiasi kidogo kutokana na kuzorota kwa hali ya utoaji pesa. Kuna maoni yanayokubalika na wengi kwamba, kufaulu kwa mashauriano yanayoendelea hivi sasa, na shirika la Fedha ulimwenguni (IMF) huenda yakapiga "jeki" matazamia mema ya siku zijazo na kuchangia hali njema ya uchumi kufikia nusu ya pili ya mwaka.

Tukigeukia swala la viwango vya riba, viwango vya riba kwa hundi za serikali za siku 91 (91 day treasury bills rates) viliongezeka kutoka asilimia 10.7 mnamo Januari 1999 hadi asilimia 20 kwa mwaka mnamo Desemba iliyopita. Tangu wakati huo, kiwango hiki kimeshuka hadi asilimia 10 kwa mwaka. Mabadiliko ya mara kwa mara kama haya hayaonyeshi hali asili ya kiuchumi. Ijapokuwa kiwango cha chini cha riba hupokewa kwa furaha na wakopaji wa kawaida, kilicho muhimu na cha maana ni kwamba mabadiliko haya ya viwango vya riba huacha biashara na wakopeshaji kufanya mipango ya masafa mafupi, hali ambayo huathiri uwekaji rasilimali wa muda mrefu. Pia, kuendelea kuhifadhi viwango vya chini vya riba si jambo la uhakika na hii huchangia kutokuwa na uhakika wa uwezekano wa kufanya mipango ya muda wastani. Kwa ufupi, viwango, thabiti na vinavyoweza kuhifadhiwa vya riba na ubadilishaji pesa ndiyo masharti muhimu yanayohitajika kwa ustawi wa

kiuchumi wa uchumi wa Kenya.

Kuhusu usimamizi wa viwango vya riba, usimamizi wa madeni umeendelea kupokea uzito mkubwa na uangalizi wa makini na ni kiungo muhimu kwa ujumla katika mbinu za usimamizi na ukadiriaji wa mali na madeni. Upande wa madeni wa hesabu za Benki yenu uko chini ya uangalizi wa makini.

Kuhusu upande wa mali wa hesabu za Benki yenu, matokeo makubwa yamekuwa ni ongezeko la Shs. 112.3 milioni katika mali na zana ongezeko la asilimia 32. Pia, ijapokuwa uwekaji rasilimali katika hundi za biashara za serikali uliongezeka kwa asilimia 38 akiba na pesa benki inazodai benki zengine zilipungua kwa asilimia 8. Mabadiliko haya yalifanywa kwa minajili ya kuisitiri zaidi faida kwa Benki kutokana na rasilimali ya benki iliyo nje. Mikopo kwa wateja iliogezeka kidogo na kusababisha kiwango cha pesa zinazowekwa kupungua hadi asilimia 79 ambacho kwa mara nyingine tena kimeweza kusimamiwa vyema kupitia kutumiwa kikamilifu kwa "laini" ya madeni kutoka kwa International Finance Corporation (IFC) ya Washington.

Swala linalohusiana na mikopo isiyoshughulikiwa vyema limechukua mstari wa mbele katika mijadala ya wananchi, kwa hivyo ni muhimu kufafanua jambo hili. Benki yenu bado inaendeleza maongozi ya tahadhari kuhusiana na maswala ya kukadiria faida na hasara ya benki hivi kwamba maombi ya mikopo kadha yenye tashuishi ya thamani ya zaidi ya Shs. Bilioni 2 yalikataliwa mwaka uliopita. Mbali na hayo, ni muhimu kuelewa kwamba, ijapokuwa Benki yenu iliongeza mikopo kwa kiwango kidogo, ilishuhudia kupungua kwa mikopo isiyoshughulikiwa vyema kwa Shs. 144.6 milioni katika mwaka, hii ikiwakilisha asilimia 8.4 za jumla ya mikopo kwa wateja, kiwango kilicho ndani ya kile kinachokubalika katika kanuni za biashara ya benki. Kulingana na mfumo wa Benki yenu wa kufuata maongozi ya kuendeleza kutia mkazo kwa maongozi ya tahadhari na uchunguzi unaoendelea mnamo mwaka 1999, makadilio ya madeni ambayo huende yasilipwe kama sehemu ya mikopo yote ilipungua kutoka asilimia 6.9 hadi asilimia 6, ilhali kama sehemu ya mikopo isiyolipwa kwa njia ya kuidhibiti iliongezeka kutoka asilimia 55 hadi 72. Madeni ya Benki yenu ya pesa zilizokopesha nje yako chini ya uangalizi mkali, na wale wateja walio kwenye oradha ya wale wenye mikopo isiyolipwa wakichunguzwa kwa makini sio tu kwa kuandamwa kisheria hali pia kwa kuanzisha masharti mapya ya malipo na kuongeza muda wa malipo panapo haja. Wakati huo huo Benki yenu inazidi kutafuta wateja wanaofanya biashara za kadiri na kubwa na nina furaha kuripoti kwamba Benki yenu imefaulu

Taarifa ya Mwenyekiti

kama inavyoonyesha kupitia kuongezeka kwa biashara ya Benki isiyo husu utoaji wa mikopo kwa asilimia 267 katika mwaka huo.

Kiwango toshelezi cha fedha katika Benki yenu ni imara kikiwa asilimia 27 wa rasilimali iliyolipiwa (paid up capital) na akiba (Reserves) dhidi ya rasilimali yote (Total Deposit Liabilities) ikiwa asilimia 35 ikilinganishwa na kiwango cha chini kinachohitajika kisheria cha asilimia 8.

Katika mwaka huo, kufunguliwa kwa kituo kipya cha CFC Centre pamoja na kustawishwa kwa huduma mpya kama vile "Floating Rate Savings Account" na hivi karibuni "The US dollar Money Market Account" ambazo zimewezesha Benki kutafuta na kuwafikia wateja wapya. Licha ya mpango wa Benki kuu wa kuondoa hati za uwekaji, kiasi cha Shs. 552,991,410 milioni, utafurahi kujua kwamba akiba ya benki yako ilikua kwa asilimia 30. Bila shaka ustawishaji wa kituo kipya cha CFC Centre na tawi la Chiromo Road pamoja na kuongezeka kwa idadi ya wafanyi kazi wa kikundi umeathiri faida ya Benki. Uwekaji rasilimali katika matangazo ikiambatana na ufunguzi wa kituo kipya cha CFC Centre, pamoja na uanzishaji wa huduma mpya tulizozigusia hapo awali ni baadhi ya shughuli zilizozidi kuathiri faida ya Benki. Kulingana na msimamo wa Benki yako wa kutilia mkazo mipango ya baadae, hii huchukuliwa kama uwekaji wa rasilimali unaokusudiwa kuzalisha ustawi na faida katika kipindi kisicho cha mda mrefu.

Kufuatia hali mbaya yakibiashara tuliyoieleza hapo awali, ikijumuishwa na maendeleo yanayohusiana na kituo cha CFC Centre na tawi la Chiromo Road, faida iliyojumlishwa ya kikundi baada ya malipo ya kodi ilipungua kwa asilimia 26 hadi Shs. 206.3 milioni. Inafaa pia kujua kwamba kampuni ya "The Heritage All Insurance Company (Tanzania) Ltd" ilikamilisha miezi 18 tangu ifungue milango yake na kuandikisha hasara ndogo ambayo ilikuwa ndani ya kiwango cha makadirio yetu. Katika mwaka unaokuja, hatutarajii kupata vipigo zaidi kama hivyo. Mapato kwa kila hisa yalionyesha kupungua kwa asilimia 21 hadi Shs. 1.89. Mgawo wa mwisho wa Shs. 0.67 kwa kila hisa unapendekezwa, ulipwe tarehe 24th May 2000 au karibu na wakati huo.

Usimamizi na ustawishaji wa wafanyi kazi umeendelea kupewa umuhimu mkubwa katika mwaka wa fedha uliopita kukiwa na asilimia 80 ya wafanyi kazi waliopewa mafunzo zaidi kazini na nje. Tunaamini kwamba, kuendelea kufaulu kwa Benki yako kunategemea uimarishaji wa viwango vya juu vya utendaji kazi kwa wafanyi kazi wetu wa ngazi zote.

Kama sehemu ya maongozi ya Benki yenu, hivi karibuni ilianzisha kampuni yake ya ziada, ya "CFC Financial Services Ltd", kama kampuni iliyoidhinishwa kufanya biashara zote kama vile kushauri makampuni makubwa uwekaji rasilimali na huduma nyingine ambazo baadhi yake huwakilisha mahitaji ya kifedha ya makampuni aina hii katika sekta ya biashara. Hii ni hatua nyingine kubwa katika kumbukumbu za miaka 45 ya ufanisi wa Benki yenu kuhusu maongozi ya busara katika ustawishaji na uendelezaji wa biashara. Nimatumaini yetu kwamba hatua hii itakuza uwezo na upco wa huduma inayoweza kutoa kwa wateja wa Benki wa sasa na wale ambao inawatarajia na kufungua njia za ziada za kutumia makampuni ya kikundi kufikia uwezo wake kamili.

Mipango ya Benki yenu ya kujilinda na matatizo ya kompyuta yanayohusiana na mwaka wa 2000 na ile ya kujiendeleza kibiashara baada ya kuvuka mwaka huo, ilifaulu sana bila kuweko na matatizo yoyote ya kompyuta, ilipovuka mileniamu mpya.

Kumaliza, nawashukuru wakurugenzi wenzangu kwa kujitolea kwao wakati wote, kwa usaidizi na ushauri wao. Ningependa pia kuipongeza kamati ya wasimamizi na wafanyi kazi wote kwa kazi yao nzuri katika mwaka uliokuwa mgumu.

Matarajio ya kiuchumi ya mwaka 2000 yanaonekana yamechanganyika. Mahitaji ya nchini huenda yakapungua. Walakin, hadhi ya Benki yenu katika soko la mabanki nchini Kenya, rasilimali yake iliyothibiti vilivyo, ustadi wake wa kibiashara na utaalamu pamoja na shina la wateja linalositawi, yote haya pamoja yanachangia msingi imara zaidi wa usitawi wa baadaye na wa wakati uchumi utakapo imarika tena.

P K JANI

MWENYEKITI

15th March 2000

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 1999.

ACTIVITIES

The principal activities of the group are the provision of banking, insurance, financial and related services.

GROUP RESULTS

	Shs.
Profit attributable to shareholders	189,303,967
Proposed dividend	<u>67,000,000</u>
Retained profit carried to revenue reserves	<u>122,303,967</u>

DIVIDEND

The directors recommend a first and final dividend of sixty seven cents per share (13.4%) for the year ended 31 December 1999 which is to be paid on or about 24 May 2000 to shareholders registered at the close of business on 2 May 2000.

AUTHORISED SHARE CAPITAL

The directors recommend that the authorised share capital of the Bank be increased from Shs. 500,000,000 to Shs. 600,000,000 by the creation of an additional 20,000,000 ordinary shares of Shs. 5 each ranking in all respects *pari passu* with the existing ordinary shares in the capital of the Bank.

BONUS ISSUE

The directors also recommend that in pursuance of Article 127 of the Bank's Articles of Association, and subject to the approval of the Capital Markets Authority being obtained pursuant to rule 41A of the Capital Markets Authority Rules 1992 and to the Nairobi Stock Exchange approving the listing of new ordinary shares of the Bank, it is desirable to capitalise the sum of Kenya Shillings one hundred million (Shs. 100,000,000) being part of the sum standing to the credit of the Bank's revenue reserve account and that accordingly such sum be set free for distribution amongst the holders of ordinary shares in the capital of the Bank on the register of members as at 2nd May 2000, on condition that the same not be paid in cash but be applied in paying up in full at par twenty million (20,000,000) ordinary shares of five shillings (Shs.5) each in the capital of the bank, and that such 20,000,000 shares credited as, fully paid accordingly be allotted to such persons respectively in the proportion of ONE (1) such share for every FIVE (5) ordinary shares in the Bank then held by such persons (fractions of a share to be disregarded) and that the shares so distributed shall rank *pari passu* with the existing issued ordinary shares and shall be treated for all purposes as an increase of the nominal amount of capital of the Bank held by each such shareholder and not as income and the Directors be and are hereby authorised to attend to all matters required to give effect to this resolution.

Report of the Directors (Cont.)

DIRECTORS

The present directors are shown on page 2.

Mr J G Kiercini, who has attained the age of 70 years, retires under the provision of Section 186 of the Companies Act. A special notice has been received by the Bank pursuant to Section 142 of the Companies Act, and a resolution will be considered at the Annual General Meeting for his reappointment as a director of the bank.

Messrs P K Jani and C Njonjo, who have attained the age of 76 years and 80 years respectively, retire by rotation. Special notices have been received pursuant to Section 142 of the Companies Act, and resolutions will be considered at the Annual General Meeting to propose their re-election as directors of the Bank.

AUDITORS

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

By order of the Board

R R Vora
Secretary

Nairobi

15th March 2000

Report of the Auditors

To the Members of CFC Bank Limited

We have audited the financial statements on pages 11 to 36 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

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

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Those 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. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion:

- a) proper books of account have been kept by the bank and the bank's balance sheet is in agreement therewith;
- b) the financial statements comply with the Companies Act and give a true and fair view of the state of affairs of the bank and the group at 31 December 1999 and the results of the operations and the cash flows of the group for the year ended on that date.

DELOITTE & TOUCHE

Certified Public Accountants (Kenya)

Nairobi

15th March 2000

Consolidated Income Statement

For the year ended 31 December 1999

	Note	1999 Shs.	1998 Shs.
INCOME	3	1,484,773,100	1,845,795,310
EXPENDITURE	4	<u>1,186,579,505</u>	<u>1,420,114,217</u>
PROFIT BEFORE TAXATION		298,193,595	425,681,093
TAXATION	6	<u>91,932,811</u>	<u>146,330,603</u>
PROFIT AFTER TAXATION	7	206,260,784	279,350,490
MINORITY INTEREST		<u>16,956,817</u>	<u>40,164,471</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	21(a)	<u><u>189,303,967</u></u>	<u><u>239,186,019</u></u>
EARNINGS PER SHARE	9	<u><u>1.89</u></u>	<u><u>2.39</u></u>

Consolidated Balance Sheet

31 December 1999

	Note	1999 Shs.	1998 Shs.
ASSETS			
Cash and balances with Central Bank of Kenya	10	415,032,705	340,363,076
Government securities	11	1,589,725,000	1,118,095,620
Deposits and balances due from banking institutions		860,736,388	1,121,875,793
Loans and advances to customers	12	3,089,149,399	3,064,740,813
Interest receivable and other assets		388,415,072	363,368,909
Taxation recoverable		12,810,227	19,681,353
Investment in subsidiary company	14	-	60,000,000
Investment properties	15	133,312,641	115,600,000
Other investments	16	562,457,391	340,288,515
Property and equipment	17(a)	528,388,744	364,624,435
Deferred tax	23	26,388,185	-
Total assets		7,606,415,752	6,908,638,514
LIABILITIES			
Customer deposits	18	3,125,399,048	2,365,866,060
Certificates of deposit		-	552,991,410
Line of credit	19	729,500,000	618,500,000
Deposits and balances due to banking institutions		229,592	485,088
Interest payable and other liabilities		1,751,849,330	1,576,399,814
Taxation payable		6,117,086	-
Proposed dividend (gross)		67,000,000	67,000,000
Total liabilities		5,680,095,056	5,181,242,372
CAPITAL RESOURCES			
Share capital	20	500,000,000	500,000,000
Reserves	21(a)	1,178,728,140	1,035,316,477
Shareholders' funds		1,678,728,140	1,535,316,477
Minority interest		247,592,556	192,079,665
Total equity		1,926,320,696	1,727,396,142
Total liabilities and equity		7,606,415,752	6,908,638,514

The financial statements on pages 11 to 36 were approved by the board of directors on 15th March 2000 and were signed on its behalf by:

P K Jani	}	Directors
M N Majmudar		
A. P. Hamilton		
R. R. Vora		
		Secretary

Bank Balance Sheet

31 December 1999

	Note	1999 Shs.	1998 Shs.
ASSETS			
Cash and balances with Central Bank of Kenya	10	414,896,125	340,348,832
Government securities	11	705,525,000	512,195,620
Deposits and balances due from banking institutions		668,873,371	729,212,963
Loans and advances to customers	12	3,089,149,399	3,064,740,813
Interest receivable and other assets		98,224,980	95,543,601
Taxation recoverable		-	16,114,267
Due from subsidiary companies		22,428,000	29,224,000
Investment in subsidiary companies	14	223,582,180	223,582,180
Other investments	16	20,000,000	25,000,000
Property and equipment	17(b)	460,572,746	348,267,755
Deferred tax	23	15,400,669	-
Total assets		<u>5,718,652,470</u>	<u>5,384,230,031</u>
LIABILITIES			
Customer deposits	18	3,163,035,817	2,439,527,660
Certificates of deposit		-	552,991,410
Line of credit	19	729,500,000	618,500,000
Interest payable and other liabilities		281,329,835	334,414,285
Taxation payable		6,117,086	-
Amount due to subsidiary company		122,847,530	122,847,530
Proposed dividend (gross)		67,000,000	67,000,000
Total liabilities		<u>4,369,830,268</u>	<u>4,135,280,885</u>
CAPITAL RESOURCES			
Share capital	20	500,000,000	500,000,000
Reserves	21(b)	848,822,202	748,949,146
Total equity		<u>1,348,822,202</u>	<u>1,248,949,146</u>
Total liabilities and equity		<u>5,718,652,470</u>	<u>5,384,230,031</u>

The financial statements on pages 11 to 36 were approved by the board of directors on 15th March 2000 and were signed on its behalf by:

P K Jani	}	Directors
M N Majmudar		
A. P. Hamilton		
R. R. Vora		Secretary

Consolidated Statement of Changes in Equity

For the year ended 31 December 1999

	Share capital Shs.	Capital reserve Shs.	Retained earnings Shs.	Total Shs.
Balance at 1 January 1998	500,000,000	63,978,881	770,145,351	1,334,124,232
Surplus on revaluation of:				
Investment properties	-	11,707,082	-	11,707,082
Quoted investments	-	17,299,144	-	17,299,144
Realised on disposal of quoted investments	-	(1,949,203)	1,949,203	-
Profit attributable to shareholders	-	-	239,186,019	239,186,019
Dividend (Note 8)	-	-	(67,000,000)	(67,000,000)
Balance at 31 December 1998	500,000,000	91,035,904	944,280,573	1,535,316,477
Balance at 1 January 1999	500,000,000	91,035,904	944,280,573	1,535,316,477
Surplus on revaluation of quoted investments	-	21,107,696	-	21,107,696
Realised on disposal of quoted investments	-	(5,729,750)	5,729,750	-
Profit attributable to shareholders	-	-	189,303,967	189,303,967
Dividend (Note 8)	-	-	(67,000,000)	(67,000,000)
Bonus issue in subsidiary	-	59,000,000	(59,000,000)	-
Balance at 31 December 1999	500,000,000	165,413,850	1,013,314,290	1,678,728,140

Consolidated Cash Flow Statement

From the year ended 31 December 1999

	Note	1999 Shs.	1998 Shs.
Net cash from operating activities	22(a)	661,079,976	2,148,567
Cash flows from investing activities			
Additions to property and equipment		(217,804,531)	(193,322,343)
Proceeds from sale of equipment		697,151	3,243,250
Additions to investment properties		(17,712,641)	-
(Purchases of)/proceeds from sale of investments (net)		(187,362,685)	155,631,701
Proceeds from/(investment in) Government securities (net)		210,750,000	(263,700,000)
Dividends received		4,602,531	3,676,823
Investment in subsidiary		-	(60,000,000)
Net cash used in investing activities		(206,830,175)	(354,470,569)
Cash flows from financing activities			
Line of credit draw down		-	493,100,000
Dividends paid		(67,000,000)	(67,000,000)
Dividends paid to minority		(10,776,000)	(10,800,000)
Issued share capital of subsidiary consolidated		60,000,000	-
Issued share capital of subsidiary to minority		40,000,000	-
Net cash from financing activities		22,224,000	415,300,000
Increase in cash and cash equivalents	22(c)	476,473,801	62,977,998

Notes to the Financial Statements

1. Accounting policies

The financial statements are prepared in accordance with and comply with International Accounting Standards which have been adopted with effect from 1 January 1999.

(a) Basis of accounting

The financial statements are prepared under the historical cost basis of accounting modified to include the revaluation of certain 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, The Heritage All Insurance Company Limited and The Heritage All Insurance Company (Tanzania) Limited. The financial statements of the Bank and all its subsidiaries have been made up to 31 December 1999. See also note 14.

(c) Investment in subsidiary companies

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

Investment properties

Investment properties are stated at open market value which is determined periodically and are not depreciated. Changes in the value of properties are taken to the capital reserve unless the reserve is insufficient to cover a deficit in which case the balance is charged to the income statement.

Other investments

Other investments are stated at the following values:

- (i) Quoted ordinary shares at market value. The change in value is taken to the capital reserve unless the reserve is insufficient to cover a deficit in which case the balance is charged to income statement.
- (ii) Unquoted investments at lower of cost and directors' valuation.
- (iii) Government securities and commercial papers at face value, any unearned interest or discount is included in other liabilities and credited to income over the period of issue.

(d) Income recognition

Banking

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 asset backed financing transactions is calculated by the sum of the digits method.

General Insurance Business

The underwriting result of the general insurance business is determined annually and included in the profit before tax after taking into account premiums, outstanding claims and deferred acquisition costs. Premiums are included net of refunds and a provision for the proportion of premiums written in the year which relate to cover provided for future periods. The provision for claims includes the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date, and is after anticipated recoveries from reinsurers and others.

Long term Assurance Business

The value placed on the Group's long term assurance business attributable to shareholders represents a prudent valuation of future earnings of policies in force, together with the net worth of the business, being the net tangible assets and the surplus retained within the long-term assurance funds. This value is determined annually in consultation with independent actuaries and is included in other liabilities in the balance sheet. Changes in the value placed on long-term assurance business attributable to shareholders, which are determined on a post-tax basis, are included in the income statement.

Notes to the Financial Statements (Cont.)

1. ACCOUNTING POLICIES (continued)

(e) Property and equipment

Property and equipment is stated at cost or as professionally valued less accumulated depreciation.

Depreciation is calculated to write off the cost of property and equipment in equal annual installments over their estimated useful lives. The annual rates generally in use are:

Leasehold land	Over remaining period of the lease
Building	Over 50 years
Motor vehicles	25%
Furniture and equipment	12.5% - 25%

(f) Taxation

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

Deferred income tax is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

This is a change in accounting policy to comply with International Accounting Standard 12 (Revised). Previously, deferred income tax was provided for when, in the opinion of Directors, liability or asset was expected to crystallise in the foreseeable future. The change in accounting policy has been applied retrospectively but, as it does not have a material effect, no prior year adjustment has been made in these financial statements.

(g) Provision for bad and doubtful loans and advances

Specific provisions for doubtful debts are held in respect of loans and advances. Provisions, based on appraisal of the advances portfolio, made in relation to identified risk loans and advances, reflect an estimate of loss expected and are charged to the income statement. An assessment is also made of the inherent risk in the loans and advances portfolio and a general provision made which is charged to the income statement.

(h) Loans and advances

Loans are generally shown at the principal amounts adjusted for any provision for bad and doubtful loans and advances, *unearned finance charges and interest in suspense*. The provision for bad and doubtful loans and advances is increased by charges to income and decreased by write offs (net of recoveries). *Management's periodic evaluation of the adequacy of the provision is based on the Bank's past loan experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.*

(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 income statement.

Notes to the Financial Statements (Cont.)

1. ACCOUNTING POLICIES (continued)

(j) Retirement benefit costs

Each operating company in the Group operates a defined contribution retirement benefits scheme, the assets of which are held in separate trustee administered funds. The schemes are funded by contributions from employees and the group companies. The amounts of contributions are determined by the respective scheme rules. Contributions by the companies to the schemes are charged to the income statement as incurred.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund. Contributions are determined by local statute and are shared equally between the employer and employee.

(k) Segment reporting

Segmental information is based on the primary format representing two business segments-banking and related services and insurance.

Segment results include revenue and expenses directly attributable to a segment. Segment results are determined before any adjustment for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one period (property and equipment).

(l) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of International Accounting Standards which the Group has adopted in the year ended 31 December 1999.

Notes to the Financial Statements (Cont.)

2. SEGMENTAL REPORTING

(a) Primary reporting format - Business segments

	BANKING		INSURANCE		GROUP	
	1999	1998	1999	1998	1999	1998
	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
Income	845,459,852	1,237,762,533	639,313,248	608,032,777	1,484,773,100	1,845,795,310
Expenditure	655,505,261	979,595,245	531,074,244	440,518,972	1,186,579,505	1,420,114,217
Profit before taxation					298,193,595	425,681,093
Taxation					91,807,032	146,330,603
Profit after taxation					206,386,563	279,350,490
Assets	5,790,004,426	5,384,230,031	1,816,411,326	1,524,408,483	7,606,415,752	6,908,638,514
Liabilities	4,372,670,705	4,148,345,030	1,307,424,351	1,032,897,342	5,680,095,056	5,181,242,372
Capital expenditure	142,995,016	185,615,203	74,809,515	7,707,140	217,804,531	193,322,343
Depreciation	29,141,463	16,378,460	22,599,010	7,063,401	51,740,473	23,441,891

(b) Secondary reporting format - Geographical segments

Over 95% of the Group's consolidated income and assets are contributed by the Kenyan business.

Notes to the Financial Statements (Cont.)

	1999 Shs.	1998 Shs.
3. INCOME		
Interest on loans and advances	624,514,155	880,977,188
Interest on Government securities	133,037,448	191,952,548
Interest on placements and bank balances	86,960,383	213,732,577
Dividends from quoted investments	4,602,531	3,676,823
Gains from investment securities	35,885,967	60,258,530
Fees and commissions	61,509,528	44,701,644
Gains from foreign exchange dealing	18,783,215	11,600,749
Profit on disposal of property and equipment	-	311,965
Profit on disposal of quoted investments	1,935,671	1,355,874
Insurance premiums earned	505,034,017	426,044,197
Other income	12,510,185	11,183,215
	<u>1,484,773,100</u>	<u>1,845,795,310</u>
4. EXPENDITURE		
Interest on deposits	275,425,165	608,323,551
Interest on borrowed funds	56,625,140	30,482,888
Fees and commissions	18,279,920	21,465,607
Bad and doubtful debts	(879,114)	99,019,968
Insurance claims incurred	257,169,145	279,032,496
Loss on disposal of property and equipment	1,602,598	-
Other expenses (Note 5)	578,356,651	381,789,707
	<u>1,186,579,505</u>	<u>1,420,114,217</u>
5. OTHER EXPENSES		
Staff costs	327,777,535	229,150,371
Directors' emoluments:-		
as directors	6,512,000	6,612,000
as executives	13,592,400	13,592,400
Depreciation	51,740,473	23,441,891
Auditors' remuneration	4,441,903	3,083,484
Contribution to Deposit Protection Fund	4,766,030	3,910,839
Other costs	169,526,310	101,998,722
	<u>578,356,651</u>	<u>381,789,707</u>

The average number of employees for the Group during the year was 316 (1998 : 263).

Notes to the Financial Statements (Cont.)

	1999 Shs.	1998 Shs.
6. TAXATION		
(a) Taxation expense		
Current tax at 32.5%	118,320,996	146,330,603
Deferred tax	(5,824,332)	-
	<u>112,496,664</u>	<u>146,330,603</u>
Effect of change of accounting policy for deferred income tax	(20,563,853)	-
Income tax expense	<u>91,932,811</u>	<u>146,330,603</u>
(b) Reconciliation of taxation expense to expected tax based on accounting profit		
Accounting profit before taxation	<u>298,193,595</u>	<u>425,681,093</u>
Tax at the applicable rate of 32.5%	96,912,918	138,346,355
Deferred tax relating to prior periods	(20,563,853)	-
Tax effect of expenses not deductible for tax	16,812,042	7,984,248
Effect of tax rate differential on deferred tax	(1,228,296)	-
	<u>91,932,811</u>	<u>146,330,603</u>

In June 1999, the income tax was reduced from 32.5% to 30% for accounting periods ending after 1 January 2000. Consequently, the reduced rate of 30% has been applied to calculate the deferred tax asset as at 31 December 1999.

7. CONSOLIDATED PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the Bank is Shs. 166,873,056 (1998 - Shs. 186,791,809).

	1999 Shs.	1998 Shs.
8. DIVIDEND - Gross		
First and final dividend - proposed	<u>67,000,000</u>	<u>67,000,000</u>

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

9. EARNINGS PER SHARE

Basic earnings per share is calculated on the consolidated profit attributable to shareholders of Shs. 189,303,967 (1998 - Shs. 239,186,019) and the number of shares in issue at the balance sheet date. The number of shares used is 100,000,000 (1998 - 100,000,000).

Diluted earnings per share is the same as basic earnings per share.

Notes to the Financial Statements (Cont.)

	GROUP		BANK	
	1999 Shs.	1998 Shs.	1999 Shs.	1998 Shs.
10. CASH AND BALANCES WITH CENTRAL BANK OF KENYA				
Cash on hand	38,742,212	13,644,375	38,605,632	13,630,131
Balances with Central Bank of Kenya: Cash ratio requirement	346,410,000	326,718,701	346,410,000	326,718,701
: Other	29,880,493	-	29,880,493	-
	415,032,705	340,363,076	414,896,125	340,348,832

The cash ratio balance is non interest earning and is based on the value of deposits as adjusted by the Central Bank of Kenya requirements. These funds are not available to finance the Bank's day to day operations.

11. GOVERNMENT SECURITIES

	GROUP		BANK	
	1999 Shs.	1998 Shs.	1999 Shs.	1998 Shs.
(a) Treasury bills and bonds				
Maturing within 90 days of the balance sheet date	1,311,000,000	628,620,620	695,750,000	412,420,620
Maturing after 90 days of the balance sheet date	268,950,000	472,700,000	-	90,000,000
(b) Government stock - unquoted at cost K£ 500,000 (1998 - Group - K£ 850,000; Bank - K£ 500,000) - 10.75% Kenya Government stock (maturing in the year 2000)	9,775,000	16,775,000	9,775,000	9,775,000
	1,589,725,000	1,118,095,620	705,525,000	512,195,620

Notes to the Financial Statements (Cont.)

	1999 Shs.	1998 Shs.		
12. LOANS AND ADVANCES TO CUSTOMERS				
GROUP AND BANK				
Asset backed finance	1,453,150,080	1,591,218,152		
Loans, advances and bills discounted	1,905,063,976	1,815,920,010		
	3,358,214,056	3,407,138,162		
Unearned finance charges	(35,060,517)	(42,237,696)		
Interest in suspense	(31,056,203)	(66,388,052)		
Provision for bad and doubtful debts (Note 13)	(202,947,937)	(233,771,601)		
	3,089,149,399	3,064,740,813		
Analysis of gross loans and advances by maturity:				
Maturing within one year	1773,640,360	1,782,245,088		
Over one year to three years	1,240,078,617	1,471,049,604		
Over three years	344,495,079	153,843,470		
	3,358,214,056	3,407,138,162		
Analysis of gross loans and advances by economic sectors				
	1999 Shs.	1999 %	1998 Shs.	1998 %
Agriculture	318,520,436	9	166,077,002	5
Manufacturing	406,260,084	12	305,241,870	9
Wholesale and retail trade	804,459,867	24	1,033,513,547	30
Transport and communications	967,386,535	29	884,643,946	26
Real estate	166,141,484	5	272,228,827	8
Social, community and personal services	262,157,095	8	360,483,916	11
Other	433,288,555	13	384,949,054	11
	3,358,214,056	100	3,407,138,162	100

The aggregate balance of non-performing advances as at 31 December 1999 was Shs. 282,405,000 (1998 - Shs. 426,969,000).

Notes to the Financial Statements (Cont.)

	1999 Shs.	1998 Shs.
13. 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 year	195,899,292	161,242,920
(Write backs)/provisions made during the year	(879,114)	99,019,968
Write-offs	(29,944,550)	(64,363,596)
Balance at the end of the year	165,075,628	195,899,292
(b) General provisions		
Balance at the beginning and end of the year	37,872,309	37,872,309
Total provisions (Note 12)	202,947,937	233,771,601

14. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Beneficial ownership	G R O U P		B A N K	
		1999 Shs.	1998 Shs.	1999 Shs.	1998 Shs.
CFC Financial Services Limited	100%	-	-	35,030,000	35,030,000
Credit Banking Corporation Limited	100%	-	-	122,847,530*	122,847,530*
The Heritage A.I.I. Insurance Company Limited	64.08%	-	-	65,704,650	65,704,650
The Heritage A.I.I. Insurance Company (Tanzania) Limited		-	60,000,000	-	-
		-	60,000,000	223,582,180	223,582,180

* At directors' valuation.
All others are at cost.

The Heritage A.I.I. Insurance Company (Tanzania) Limited, a 60% subsidiary of The Heritage A.I.I Insurance Company Limited, was incorporated on 18 June 1998. The first set of financial statements of this company cover a period of 18 months to 31 December 1999.

Notes to the Financial Statements (Cont.)

15. INVESTMENT PROPERTIES

	GROUP		BANK	
	1999	1998	1999	1998
	Shs.	Shs.	Shs.	Shs.
Freehold properties				
At 1 January	115,600,000	97,150,520	-	-
Additions	17,712,641	180,000	-	-
Revaluation surplus	-	18,269,480	-	-
At 31 December	133,312,641	115,600,000	-	-

COMPRISING:

Cost	17,712,641	-	-	-
Valuation in 1998	115,600,000	115,600,000	-	-
	133,312,641	115,600,000	-	-

16. OTHER INVESTMENTS

Quoted ordinary shares at mid market value	212,652,515	199,447,055	-	-
Unquoted ordinary shares at cost and at directors' valuation	34,448,500	14,901,460	-	-
Commercial paper, corporate bonds and other investments	315,356,376	125,940,000	20,000,000	25,000,000
	562,457,391	340,288,515	20,000,000	25,000,000

Notes to the Financial Statements (Cont.)

17(a) PROPERTY AND EQUIPMENT - GROUP

	Long leasehold land and building Shs.	Motor vehicles Shs.	Furniture and equipment Shs.	Capital work in progress Shs.	Total Shs.
--	---	---------------------------	---------------------------------------	--	---------------

COST OR VALUATION

At 1 January 1999	35,000,000	34,898,293	120,275,767	285,235,076	475,409,136
Additions	-	8,766,253	176,102,013	32,936,265	217,804,531
Disposals	-	(450,000)	(7,283,982)	-	(7,733,982)
Transfers	318,171,341	-	-	(318,171,341)	-
At 31 December 1999	353,171,341	43,214,546	289,093,798	-	685,479,685

COMPRISING:

Cost	318,171,341	43,214,546	289,093,078	-	650,479,685
Valuation - 1995	35,000,000	-	-	-	35,000,000
	353,171,341	43,214,546	289,093,798	-	685,479,685

DEPRECIATION

At 1 January 1999	1,325,757	25,671,636	83,787,308	-	110,784,701
Charge for the year	3,535,249	6,506,446	41,698,778	-	51,740,473
Eliminated on disposals	-	(378,809)	(5,055,424)	-	(5,434,233)
At 31 December 1999	4,861,006	31,799,273	120,430,662	-	157,090,941

NET BOOK VALUE

At 31 December 1999	348,310,335	11,415,273	168,663,136	-	528,388,744
At 31 December 1998	33,674,243	9,226,657	36,488,459	285,235,076	364,624,435

Motor vehicles, furniture and equipment stated at a cost of Shs. 74,388,486 (1998 - Shs. 46,403,003) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Shs. 14,069,479 (1998 - Shs. 9,383,558).

Notes to the Financial Statements (Cont.)

17(b) PROPERTY AND EQUIPMENT - BANK

	Long leasehold land and building Shs.	Motor vehicles Shs.	Furniture and equipment Shs.	Capital work in progress Shs.	Total Shs.
COST OR VALUATION					
At 1 January 1999	35,000,000	22,578,987	83,644,957	285,235,076	426,459,020
Additions	-	2,668,903	105,325,098	32,936,265	140,930,266
Transfers	318,171,341	-	-	(318,171,341)	-
At 31 December 1999	353,171,341	25,247,890	188,970,055	-	567,389,286
COMPRISING:					
Cost	318,171,341	25,247,890	188,970,055	-	532,389,286
Valuation - 1995	35,000,000	-	-	-	35,000,000
	353,171,341	25,247,890	188,970,055	-	567,389,286
DEPRECIATION					
At 1 January 1999	1,325,757	16,815,688	60,049,820	-	78,191,265
Charge for the year	3,535,249	3,124,157	21,965,869	-	28,625,275
At 31 December 1999	4,861,006	19,939,845	82,015,689	-	106,816,540
NET BOOK VALUE					
At 31 December 1999	348,310,335	5,308,045	106,954,366	-	460,572,746
At 31 December 1998	33,674,243	5,763,299	23,595,137	285,235,076	348,267,755

Motor vehicles, furniture and equipment stated at a cost of Shs. 58,350,028 (1998 - Shs. 34,903,518) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Shs. 11,281,348 (1998 - Shs. 6,836,286).

Notes to the Financial Statements (Cont.)

18. CUSTOMER DEPOSITS

	1999 Shs.	GROUP 1998 Shs.	1999 Shs.	BANK 1998 Shs.
(a) From government and parastatals				
Payable within 90 days	59,300,000	43,300,000	59,300,000	43,300,000
(b) From private sector and individuals				
Payable within 90 days	3,050,603,868	2,314,201,568	3,088,240,637	2,379,951,236
Payable after 90 days but within one year	15,472,673	8,329,649	15,472,673	16,241,581
Payable after one year	22,507	34,843	22,507	34,843
	3,125,399,048	2,365,866,060	3,163,035,817	2,439,527,660

The Bank's customer deposits payable within 90 days include deposits from subsidiary companies amounting to Shs. 37,636,769 (1998 - Shs. 73,661,600).

19. LINE OF CREDIT

	1999 Shs.	1998 Shs.
GROUP AND BANK		
International Finance Corporation (Washington)	729,500,000	618,500,000

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 1999, the draw down was US\$ 10,000,000 (1998 - US\$ 10,000,000).

20. SHARE CAPITAL

	1999 Shs.	1998 Shs.
Authorised, issued and fully paid:		
100,000,000 ordinary shares of Shs. 5 each	500,000,000	500,000,000

Notes to the Financial Statements (Cont.)

21. RESERVES

	Capital Shs.	Revenue Shs.	Total Shs.
(a) GROUP			
At 1 January 1999	91,035,904	944,280,573	1,035,316,477
Profit attributable to shareholders	-	189,303,967	189,303,967
Surplus on revaluation of quoted investments	21,107,696	-	21,107,696
Realised on disposal of quoted investments	(5,729,750)	5,729,750	-
Bonus issue in subsidiary	59,000,000	(59,000,000)	-
Dividend	-	(67,000,000)	(67,000,000)
At 31 December 1999	165,413,850	1,013,314,290	1,178,728,140
(b) BANK			
At 1 January 1999	-	748,949,146	748,949,146
Profit for the year	-	166,873,056	166,873,056
Dividend	-	(67,000,000)	(67,000,000)
At 31 December 1999	-	848,822,202	848,822,202

Notes to the Financial Statements (Cont.)

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	1999 Shs.	1998 Shs.
(a) Reconciliation of consolidated profit before taxation to net cash from operating activities		
Consolidated profit before taxation	298,193,595	425,681,093
Depreciation	51,740,473	23,441,891
Loss/(profit) on sale of equipment	1,602,598	(311,965)
Profit on disposal of quoted investments	(1,935,671)	(1,355,874)
Tax paid	(105,332,784)	(156,571,578)
Dividends received - quoted and unquoted investments	(4,602,531)	(3,676,823)
Exchange loss on line of credit draw down	111,000,000	-
	<u>350,665,680</u>	<u>287,206,744</u>
(Increase)/decrease in operating assets		
Loans and advances to customers	(24,408,586)	(162,332,381)
Interest receivable and other assets	(25,046,163)	100,640,796
Cash ratio requirement	(19,691,299)	130,863,276
	<u>(69,146,048)</u>	<u>69,171,691</u>
Increase/(decrease) in operating liabilities		
Customer deposits	759,532,988	15,031,474
Certificates of deposit	(552,991,410)	(478,769,854)
Interest payable and other liabilities	173,018,766	109,508,512
	<u>379,560,344</u>	<u>(354,229,868)</u>
Net cash from operating activities	<u>661,079,976</u>	<u>2,148,567</u>

Notes to the Financial Statements (Cont.)

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

	1999 Shs.	1998 Shs.
(b) Analysis of balances of cash and cash equivalents as shown in the balance sheet and notes:		
Cash and other balances with Central Bank of Kenya	68,622,705	13,644,375
Treasury bills and bonds	1,311,000,000	628,620,620
Deposits and balances due from banking institutions	860,736,388	1,121,875,793
Deposits and balances due to banking institutions	(229,592)	(485,088)
	<u>2,240,129,501</u>	<u>1,763,655,700</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.

	1999 Shs.	1998 Shs.
(c) Changes in cash and cash equivalents during the year:		
Balance at the end of the year	2,240,129,501	1,763,655,700
Balance at the beginning of the year	<u>1,763,655,700</u>	<u>1,700,677,702</u>
Increase in cash and cash equivalents	<u>476,473,801</u>	<u>62,977,998</u>

Notes to the Financial Statements (Cont.)

23. DEFERRED TAX

	1999	1998
	Shs.	Shs.

GROUP

Movement on the deferred tax account is as follows:

At 1 January, not previously recognised (Asset)	20,563,853	-
Income statement credit	5,824,332	-
At 31 December	26,388,185	-

The net deferred tax asset is attributable to the following items:

General provision for bad and doubtful debts	11,361,693	-
Depreciation in excess of capital allowances	5,985,396	-
Tax losses in subsidiary company	9,041,096	-
	26,388,185	-

BANK

The net deferred tax asset is attributable to the following items:

General provision for bad and doubtful debts	11,361,693	-
Depreciation in excess of capital allowances	4,038,976	-
	15,400,669	-

Notes to the Financial Statements (Cont.)

24. LIQUIDITY RISK

The table below analysis assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 1999 to the contractual maturity date. All figures are in shillings.

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Total
ASSETS								
Cash and balances with								
Central Bank of Kenya	287,641,163	125,556,192	452,578	1,382,179	593	-	-	415,032,705
Government securities	532,050,000	648,450,000	-	182,775,000	226,450,000	-	-	1,589,725,000
Deposits and balances due								
from banking institutions	710,071,296	150,665,092	-	-	-	-	-	860,736,388
Advances to customers	847,699,178	418,876,023	146,654,202	187,107,307	1,165,136,582	290,082,754	33,593,353	3,089,149,399
Interest receivable and								
other assets	382,719,978	90,028	3,304,782	2,300,284	-	-	-	388,415,072
Tax recoverable	-	-	12,810,227	-	-	-	-	12,810,227
Investment properties	-	-	-	-	-	-	133,312,641	133,312,641
Other investments	66,727,068	75,758,844	-	27,500,000	-	95,452,435	297,019,044	562,457,391
Property and equipment	-	-	-	-	-	-	528,388,744	528,388,744
Deferred tax asset	-	-	-	-	26,388,185	-	-	26,388,185
Total assets	2,826,908,683	1,419,396,179	163,221,789	401,064,770	1,417,975,360	385,535,189	992,313,782	7,606,415,752

Notes to the Financial Statements (Cont.)

24. LIQUIDITY RISK

The table below analysis assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 1999 to the contractual maturity date. All figures are in shillings.

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Total
LIABILITIES AND EQUITY								
Customers deposits	1,975,072,621	1,140,831,247	3,816,633	5,656,040	22,507	-	-	3,125,399,048
Line of credit	-	145,900,000	72,950,000	218,850,000	291,800,000	-	-	729,500,000
Deposits and balances due to banking institutions	229,592	-	-	-	-	-	-	229,592
Interest payable and Other liabilities	1,159,887,319	-	-	-	-	-	591,962,011	1,751,849,330
Taxation payable	-	-	6,117,086	-	-	-	-	6,117,086
Dividends proposed	-	-	67,000,000	-	-	-	-	67,000,000
Shareholders' funds	-	-	-	-	-	-	1,678,728,140	1,678,728,140
Minority interest	-	-	-	-	-	-	247,592,556	247,592,556
Total liabilities and equity	3,135,189,532	1,286,731,247	149,883,719	224,506,040	291,822,507	-	2,518,282,707	7,606,415,752
Net liquidity gap	(308,280,849)	132,664,932	13,338,070	176,558,730	1,126,152,853	385,535,189	(1,525,968,925)	-
As at 31 December 1998								
Total assets	2,597,570,276	1,183,016,494	225,009,451	378,745,000	1,486,000,813	128,252,000	910,044,480	6,908,638,514
Total liabilities and equity	2,947,251,841	1,186,903,400	136,198,000	71,407,000	247,420,000	-	2,319,458,273	6,908,638,514
Net liquidity gap	(349,681,565)	(3,886,906)	88,811,451	307,338,000	1,238,580,813	128,252,000	(1,409,413,793)	-

Notes to the Financial Statements (Cont.)

25. OFF BALANCE SHEET FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the principal amounts for which are not reflected in the consolidated balance sheet.

	1999 Shs.	1998 Shs.
CONTINGENT LIABILITIES		
GROUP AND BANK		
Acceptances and letters of credit	592,802,558	163,013,202
Guarantees and performance bonds	156,580,603	63,841,900
Forward contracts	95,638,600	-
Others	36,181,351	13,229,345
	881,203,112	240,084,447

NATURE OF CONTINGENT LIABILITIES

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is normally immediate.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

26. COMMITMENTS FOR CAPITAL EXPENDITURE

	GROUP		BANK	
	1999 Shs.	1998 Shs.	1999 Shs.	1998 Shs.
Contracted but not provided for in the financial statements	45,542,843	140,233,333	24,781,843	100,000,000
Authorised but not contracted	24,742,315	45,976,067	24,653,315	27,500,000

Notes to the Financial Statements (Cont.)

27. OPERATING LEASE COMMITMENTS

	GROUP		BANK	
	1999	1998	1999	1998
	Shs.	Shs.	Shs.	Shs.
Amounts payable in the next year in respect of obligations under operating leases expiring:				
Within one year	3,595,415	1,468,290	333,820	1,468,290
In one to five years	5,300,585	9,005,748	5,300,585	5,101,776
After five years	3,076,290	-	3,076,290	-
	<u>11,972,290</u>	<u>10,474,038</u>	<u>8,710,695</u>	<u>6,570,066</u>

28. RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to defined contribution retirement benefits schemes and to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the retirement benefits schemes are determined by the rules of the schemes while the contributions to the statutory scheme are determined by local statute. Total contributions by the group in respect of retirement benefits during the year were Shs. 17,484,962 (1998 - Shs. 13,906,262).

29. ASSETS PLEDGED AS SECURITY

As at 31 December 1999 there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

30. RELATED PARTY TRANSACTIONS

In the normal course of business, subsidiary companies operate current and deposits accounts with the Bank at interest rates in line with the market. The relevant balances are disclosed in note 18 above.

Loans and advances to customers at 31 December 1999 include loans and advances to companies associated to the directors and loans to employees of Shs. 110,948,000 (1998 - Shs. 164,601,000). There were no outstanding advances to directors.

Contingent liabilities at 31 December 1999 include contingencies on behalf of companies associated to the directors of Shs. 111,581,000 (1998 - Shs. 500,000).

31. INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

32. CURRENCY

These financial statements are presented in Kenya shillings (Shs.).

Proxy Form

I/We of
being a Member/Members of the above-named Bank, 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 23rd May 2000 and at any adjournment thereof.

As witness my/our hand(s) this day of 2000

.....
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.

Fomu ya Uwakilishi

Mimi/Sisi wa

Kama mwanachama/wanachama wa Benki 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 23rd May 2000 ama tarehe yoyote ile iwapo mkutano utaahirishwa.

Kama shahidi natia/tunatia sahihi hii/hizi siku hii ya 2000

.....
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.

FOLD 2
KISHA KUNJA HAPA

STAMP

Company Secretary
CFC Bank Limited
PO Box 72833
Nairobi, Kenya

FOLD 1
KUNJA HAPA KWANZA

FOLD 3
HALAFU KUNJA HAPA

Insert flap inside
Sasa ingiza hii karatasi ndani ya
mkunjo ili ionekane kama bahasa