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CFC LIMITED
bank
established 1955

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2000 ANNUAL REPORT & FINANCIAL STATEMENTS

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FOLD 2
KISHA 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 ndani
ya mkunjo ili ionekane kama bahasa*

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 24 May 2001 and at any adjournment thereof.

As witness my/our hand(s) this day of 2001

.....
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 24 May 2001 ama tarehe yo yote ile iwapo mkutano utaahirishwa.

Kama shahidi natia/tunatia sahihi hii/hizi siku hii ya 2001

.....
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.

11-11-11 11:11:11

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

27 CURRENCY RISK

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. Although it maintains trade with other correspondent banks, and has a subsidiary with majority shareholding in a company in Tanzania, it held no significant foreign currency exposure as at 31 December 2000.

28 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.

	2000 Sh'000	1999 Sh'000
CONTINGENT LIABILITIES		
GROUP AND BANK		
Acceptances and letters of credit	897,929	617,323
Guarantees and performance bonds	660,008	156,581
Forward contracts	40,452	95,639
Others	17,072	11,660
	<u>1,615,461</u>	<u>881,203</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

26 INTEREST RATE RISK (Continued)

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
EQUITY AND LIABILITIES								
Customers deposits	2,728,151	1,482,347	132,044	4,965	83	-	656,156	5,003,746
Line of credit	-	780,500	-	-	-	-	-	780,500
Deposits and balances due to banking institutions	15,000	117,075	-	-	-	-	-	132,075
Interest payable and								
Other liabilities	-	-	-	-	-	-	1,852,330	1,852,330
Taxation payable	-	-	-	-	-	-	1,776	1,776
Minority interest	-	-	-	-	-	-	277,714	277,714
Shareholders' funds	-	-	-	-	-	-	1,865,923	1,865,923
Total equity and liabilities	2,743,151	2,379,922	132,044	4,965	83	-	4,653,899	9,914,064
On balance sheet interest sensitivity gap	3,215,561	(1,301,453)	94,406	11,060	(83)	-	(2,019,491)	-
As at 31 December 1999								
Total assets	4,397,997	1,224,276	-	182,775	-	-	1,801,368	7,606,416
Total equity and liabilities	1,975,303	1,870,331	3,817	5,656	22	-	3,751,287	7,606,416
On balance sheet interest sensitivity gap	2,422,694	(646,055)	(3,817)	177,119	(22)	-	(1,949,919)	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

26 INTEREST RATE RISK

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risk. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items.

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	456,433	456,433
Government securities	489,373	610,777	226,450	-	-	-	-	1,326,600
Deposits and balances due from banking institutions	95,682	123,540	-	16,025	-	-	643,284	878,531
Advances to customers	5,260,599	-	-	-	-	-	-	5,260,599
Interest receivable and other assets	-	-	-	-	-	-	535,028	535,028
Amounts due from subsidiary companies	-	-	-	-	-	-	-	-
Tax recoverable	-	-	-	-	-	-	17,308	17,308
Investment properties	-	-	-	-	-	-	133,612	133,612
Other investments	113,058	344,152	-	-	-	-	253,571	710,781
Property and equipment	-	-	-	-	-	-	555,401	555,401
Intangible assets	-	-	-	-	-	-	10,410	10,410
Deferred tax	-	-	-	-	-	-	29,361	29,361
Total assets	5,958,712	1,078,469	226,450	16,025	-	-	2,634,408	9,914,064

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

25 LIQUIDITY RISK (continued)

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
EQUITY AND LIABILITIES								
Customers deposits	3,384,307	1,482,347	132,044	4,965	83	-	-	5,003,746
Line of credit	-	234,150	156,100	390,250	-	-	-	780,500
Deposits and balances due to banking institutions	15,000	117,075	-	-	-	-	-	132,075
Interest payable and other liabilities	414,839	187,420	120,092	325,860	106,990	55,699	641,430	1,852,330
Taxation payable	-	-	1,776	-	-	-	-	1,776
Minority interest	-	-	-	-	-	-	277,714	277,714
Shareholders' funds	-	-	80,400	-	-	-	1,785,523	1,865,923
Total equity and liabilities	3,814,146	2,020,992	490,412	721,075	107,073	55,699	2,704,667	9,914,064
Net liquidity gap	(1,183,473)	(159,304)	733,118	672,812	1,369,764	233,692	(1,666,609)	-
As at 31 December 1999								
Total assets	2,826,909	1,419,396	163,222	401,065	1,417,975	385,535	992,314	7,606,416
Total equity and liabilities	3,135,190	1,286,731	149,884	224,506	291,822	-	2,518,283	7,606,416
Net liquidity gap	(308,281)	132,665	13,338	176,559	1,126,153	385,535	(1,525,969)	-

Customer deposits in first category above represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

25 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2000 to the contractual maturity dates.

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
ASSETS								
Cash and balances with Central Bank of Kenya	456,433	-	-	-	-	-	-	456,433
Government securities	489,373	261,777	425,450	-	150,000	-	-	1,326,600
Deposits and balances due from banking institutions	738,966	123,540	-	16,025	-	-	-	878,531
Advances to customers	614,612	1,264,238	476,077	1,361,630	1,247,408	241,121	55,513	5,260,599
Interest receivable and ther assets	218,231	2,803	295,354	2,418	-	4,770	11,452	535,028
Tax recoverable	-	-	17,308	-	-	-	-	17,308
Investment properties	-	-	-	-	-	-	133,612	133,612
Other investments	113,058	209,330	9,341	13,814	68,167	43,500	253,571	710,781
Property and equipment	-	-	-	-	-	-	555,401	555,401
Intangible assets	-	-	-	-	-	-	10,410	10,410
Deferred tax	-	-	-	-	11,262	-	18,099	29,361
Total assets	2,630,673	1,861,688	1,223,530	1,393,887	1,476,837	289,391	1,038,058	9,914,064

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

	2000 Sh'000	1999 Sh'000
(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	43,940	68,623
Treasury bills and bonds	751,150	1,311,000
Deposits and balances due from banking institutions	878,531	860,737
Deposits and balances due to banking institutions	(132,075)	(230)
	<u>1,541,546</u>	<u>2,240,130</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.

	2000 Sh'000	1999 Sh'000
(c) Changes in cash and cash equivalents during the year		
Balance at the end of the year	1,541,546	2,240,130
Balance at the beginning of the year	2,240,130	1,763,656
(Decrease)/increase in cash and cash equivalents	<u>(698,584)</u>	<u>476,474</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2000 Sh'000	1999 Sh'000
(a) Reconciliation of consolidated profit before taxation to net cash (used in)/from operating activities		
Consolidated profit before taxation	360,622	298,194
Depreciation	66,142	48,415
Amortisation	5,567	3,326
(Profit)/loss on sale of equipment	(1,223)	1,602
Profit on disposal of quoted investments	(3,274)	(1,936)
Dividends receivable - quoted and unquoted investments	(8,895)	(4,603)
	<u>418,939</u>	<u>344,998</u>
(Increase)/decrease in operating assets		
Loans and advances to customers	(2,171,450)	(24,409)
Interest receivable and other assets	(146,613)	(25,046)
Cash ratio requirement	(66,083)	(19,691)
	<u>(2,384,146)</u>	<u>(69,146)</u>
Increase/(decrease) in operating liabilities		
Customer deposits	1,878,347	759,533
Certificates of deposit	-	(552,992)
Line of credit	51,000	111,000
Interest payable and other liabilities	135,051	173,019
	<u>2,064,398</u>	<u>490,560</u>
Net cash generated from operations	99,191	766,412
Tax paid	(137,524)	(105,332)
Net cash (used in)/from operating activities	<u>(38,333)</u>	<u>661,080</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

	2000 Sh'000	1999 Sh'000
21 LINE OF CREDIT		
GROUP AND BANK		
International Finance Corporation (Washington)	780,500	729,500

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 2000, the draw down was US\$ 10,000,000 (1999 - US\$ 10,000,000).

The effective interest rate on the line of credit as at 31 December 2000 was 9 % (1999 - 9 %).

	2000 Sh'000	1999 Sh'000
22 SHARE CAPITAL		
Authorised, issued and fully paid:		
120,000,000 (1999 - 100,000,000) ordinary shares of Sh 5 each	600,000	500,000

23 RESERVES			
BANK	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2000	848,822	67,000	915,822
Bonus issue	(100,000)	-	(100,000)
Profit for the year	170,299	-	170,299
Dividend paid - 1999	-	(67,000)	(67,000)
Proposed dividend - 2000	(80,400)	80,400	-
At 31 December 2000	838,721	80,400	919,121

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

19 DEFERRED TAX (continued)

BANK

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

	2000 Sh'000	1999 Sh'000
General provision for bad and doubtful debts	15,930	11,362
Depreciation in excess of capital allowances	7,100	4,039
	<u>23,030</u>	<u>15,401</u>

20 CUSTOMER DEPOSITS

	GROUP		BANK	
	2000 Sh'000	1999 Sh'000	2000 Sh'000	1999 Sh'000
(a) From government and parastatals				
Payable within 90 days	58,300	59,300	58,300	59,300
(b) From private sector and individuals				
Payable within 90 days	4,808,354	3,050,604	4,925,352	3,088,241
Payable after 90 days but within one year	137,009	15,473	137,009	15,473
Payable after one year	83	22	83	22
	<u>5,003,746</u>	<u>3,125,399</u>	<u>5,120,744</u>	<u>3,163,036</u>

The bank's customer deposits payable within 90 days include deposits from subsidiary companies amounting to Sh 116,998,000 (1999 - Sh 37,637,000).

The effective interest rate on customer deposits as at 31 December 2000 was 8% (1999 - 12%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

18 INTANGIBLE ASSETS

	GROUP Computer Software Sh'000	BANK Computer Software Sh'000
COST		
At 1 January 2000	19,680	13,230
Additions	8,415	6,474
At 31 December 2000	28,095	19,704
AMORTISATION		
At 1 January 2000	12,118	10,269
Charge for the year	5,567	3,050
At 31 December 2000	17,685	13,319
NET BOOK VALUE		
At 31 December 2000	10,410	6,385
At 31 December 1999	7,562	2,961

19 DEFERRED TAX

	2000 Sh'000	1999 Sh'000
GROUP		
Movement on the deferred tax account is as follows:		
At 1 January	26,388	-
Deferred tax not previously recognised (asset)	-	20,564
Income statement credit	2,973	5,824
At 31 December	29,361	26,388

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

General provision for bad and doubtful debts	15,930	11,362
Depreciation in excess of capital allowances	2,169	5,985
Tax losses in subsidiary companies	10,924	9,041
Unrealised exchange differences	338	-
	29,361	26,388

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

17 PROPERTY AND EQUIPMENT (Continued)

(b) BANK

	Long leasehold land and building Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST					
At 1 January 2000	353,171	25,248	175,740	-	554,159
Reclassification	(846)	-	846	-	-
Additions	35,385	1,195	19,673	6,438	62,691
Transfer from subsidiary company	-	2,065	-	-	2,065
Disposals	-	-	(10,294)	-	(10,294)
At 31 December 2000	387,710	28,508	185,965	6,438	608,621
DEPRECIATION					
At 1 January 2000	4,861	19,940	71,747	-	96,548
Charge for the year	3,839	3,182	32,018	-	39,039
Transfer from subsidiary company	-	516	-	-	516
Eliminated on disposals	-	-	(8,579)	-	(8,579)
At 31 December 2000	8,700	23,638	95,186	-	127,524
NET BOOK VALUE					
At 31 December 2000	379,010	4,870	90,779	6,438	481,097
At 31 December 1999	348,310	5,308	103,994	-	457,612

Capital work in progress relates to expenditure incurred on a new branch of the bank at the Upper Hill Medical Centre to be opened in the second half of 2001.

Motor vehicles, furniture and equipment stated at a cost of Sh 73,268,000 (1999 - Sh 58,350,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 18,170,000 (1999 - Sh 11,281,000).

Software development costs have been reclassified as intangible assets (Note 18) in accordance with International Accounting Standard No. 38.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

17 PROPERTY AND EQUIPMENT

(a) GROUP

	Long leasehold land and building Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST					
At 1 January 2000	353,171	43,215	269,416	-	665,802
Reclassification	(846)	-	846	-	-
Additions	35,385	18,355	43,052	6,438	103,230
Disposals	-	(6,427)	(10,684)	-	(17,111)
At 31 December 2000	387,710	55,143	302,630	6,438	751,921
DEPRECIATION					
At 1 January 2000	4,861	31,799	108,315	-	144,975
Charge for the year	3,839	8,410	53,893	-	66,142
Eliminated on disposals	-	(5,628)	(8,969)	-	(14,597)
At 31 December 2000	8,700	34,581	153,239	-	196,520
NET BOOK VALUE					
At 31 December 2000	379,010	20,562	149,391	6,438	555,401
At 31 December 1999	348,310	11,416	161,101	-	520,827

Capital work in progress relates to expenditure incurred on a new branch of the bank at the Upper Hill Medical Centre to be opened in the second half of 2001.

Motor vehicles, furniture and equipment stated at a cost of Sh 87,920,000 (1999 - Sh 70,448,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 21,854,000 (1999 - Sh 13,104,000).

Software development costs have been reclassified as intangible assets (Note 18) in accordance with International Accounting Standard No. 38.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

	2000 Sh'000	1999 Sh'000
15 INVESTMENT PROPERTIES		
GROUP		
Freehold properties		
At 1 January	133,313	115,600
Additions	299	17,713
At 31 December	133,612	133,313
COMPRISING:		
Cost	18,012	17,713
Valuation in 1998	115,600	115,600
	133,612	133,313

Investment properties were last revalued as at 31 December 1998 by Lloyd Masika Limited, Registered Valuers, on an open market basis.

At 31 December 2000, the net book value of investment properties based on original cost was Sh 35,960,000 (1999 - Sh 35,661,000).

	GROUP		BANK	
	2000 Sh'000	1999 Sh'000	2000 Sh'000	1999 Sh'000
16 OTHER INVESTMENTS				
Quoted ordinary shares at mid market value	188,342	175,115	-	-
Unquoted ordinary shares at cost and at directors' valuation	58,201	71,986	-	-
Commercial paper, corporate bonds and other investments	464,238	315,356	10,000	20,000
	710,781	562,457	10,000	20,000

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2000 was 13% (1999 - 19 %).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

13 PROVISIONS FOR AND WRITE-OFFS OF LOANS AND ADVANCES CONSIDERED BAD AND DOUBTFUL OF RECOVERY

2000	1999
Sh'000	Sh'000

GROUP AND BANK

(a) Specific provisions

Balance at 1 January	165,076	195,899
Provisions/(write backs) during the year	48,312	(879)
Write-offs	(116,972)	(29,944)
Balance at 31 December	96,416	165,076

(b) General provisions

Balance at 1 January	37,872	37,872
Provisions during the year	15,230	-
Balance at 31 December	53,102	37,872
Total provisions (note 12)	149,518	202,948

14 INVESTMENT IN SUBSIDIARY COMPANIES

BANK

Company	Beneficial Ownership	2000 Sh'000	1999 Sh'000
CFC Financial Services Limited	100%	100,530	35,030
Credit Banking Corporation Limited*	100%	122,847	122,847
The Heritage A.I.I. Insurance Company Limited	64.08%	65,705	65,705
The Heritage A.I.I. Insurance Company (Tanzania) Limited	38.45%	-	-
		289,082	223,582

* At directors' valuation.

All others are at cost.

The Heritage A.I.I. Insurance Company (Tanzania) Limited is a 60% subsidiary of The Heritage A.I.I Insurance Company Limited.

Credit Banking Corporation Limited was struck off the Register of Companies on 2 March 2001.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

	2000 Sh'000	1999 Sh'000
6 TAXATION		
(a) Taxation expense		
Current tax at 30% (1999 - 32.5%)	128,685	118,321
Deferred tax (note 19)	(2,973)	(5,824)
	<hr/>	<hr/>
	125,712	112,497
Effect of change of accounting policy for deferred tax	-	(20,564)
	<hr/>	<hr/>
	125,712	91,933
	<hr/>	<hr/>
(b) Reconciliation of taxation expense to expected tax based on accounting profit		
Accounting profit before taxation	360,622	298,194
	<hr/>	<hr/>
Tax at the applicable rate of 30% (1999- 32.5%)	108,187	96,913
Deferred tax relating to prior periods	-	(20,564)
Tax effect of expenses not deductible for tax	17,525	16,812
Effect of tax rate differential on deferred tax	-	(1,228)
	<hr/>	<hr/>
	125,712	91,933
	<hr/>	<hr/>

7 CONSOLIDATED PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the bank is Sh 170,299,000 (1999 - Sh 166,873,000).

8 EARNINGS PER SHARE

Basic earnings per share is calculated on the consolidated profit attributable to shareholders of Sh 193,642,000 (1999 - Sh 189,304,000) and the average number of ordinary shares in issue during the year adjusted for the effect of the bonus issue. The number of shares used is 120,000,000 (1999 - 120,000,000).

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

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CORPORATE

INFORMATION

1. CFC Bank -- periodicals

2. Banks and Banking -- Kenya -- periodicals

BOARD OF DIRECTORS

P K Jani -Chairman

M N Majmudar ** - Managing

J G Kiereini

C Njonjo

A P Hamilton *

J C Kulei

M Soundararajan**

** Indian

* British

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

2007/0319

NOTICE

OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the forty sixth Annual General Meeting of CFC bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Thursday 24 May 2001 at 10:30 a.m. for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31 December 2000 and the Directors' and Auditors' Reports thereon.
2. To approve the payment of a first and final dividend for the year ended 31 December 2000 of 13.4% in the Issued Share Capital.
3. To elect Directors:
 - i) Mr. A.P Hamilton, a director who has attained the age of 73 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. A.P Hamilton, a director who has attained the age of 73 years be and is hereby re-elected to serve as director of the Company until he next comes for retirement by rotation under the Company's Articles of Association".
 - ii) Mr. J.C. Kulei, retires from the Board by rotation and, being eligible, offers himself for re-election.
 - iii) Mr. Soundararajan having been appointed to the board on 6 June 2000 retires under the provisions of Article 96 of the Company's Articles of Association and, being eligible, offers himself for re-election.
4. To approve the Directors' remuneration for the year ended 31 December 2000 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.

BY ORDER OF THE BOARD

R R VORA
Secretary
Nairobi
19 March 2001

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.

The year 2000 proved to be extremely difficult for the Kenyan economy. The continued uncertainty about a sustained supportive stance from IMF and World Bank remains the single most critical component of macro level policy formulation. This feature was compounded by the severe drought experienced during the year resulting in pressure on agricultural production and prices besides giving rise to crippling power shortages affecting industry, trade and business in general. The cumulative impact was GDP growth falling to less than 1%, well below the rate of growth in population, leading to falling income levels and purchasing power. The cascading effect on the banking sector is evident by now to the general public.

Notwithstanding the aforementioned problems and resultant pressures, the return of the rains and the ending of power rationing are positive factors. Additionally there has been a noticeable upward trend in the tourism sector. Kenya continues to claim the largest and most broad based manufacturing sector in East Africa. Nonetheless the catalyst required at this critical stage to revive a sustainable rate of economic growth is the resolution of macro level related issues. In the absence of any firm and categorical policy direction, the economy is unlikely to respond in any significantly favourable manner. The implications of such a situation on fiscal policy may be critical with potential adverse effects on monetary policy and interest rates.

As regards interest rates, I had emphasized in my statement last year the need for a sustainable stable interest rate regime conducive to savings, investments and growth. Since the second half of the year 2000, there has been a public debate on the proposed Central Bank of Kenya (amendment) Act. The proposed legislation basically seeks to regulate interest being paid/charged by commercial banks and to introduce a monitoring mechanism for formulation and implementation of monetary policy. While the matter has not yet been concluded, the implications of the proposed Act remain unclear.

The proposed Act in its present form envisages that banks shall be precluded from obtaining guarantees of directors covering their loans and advances granted to companies. To restrict/restrain banks in exercising their prerogative for deciding about the risk and attendant issues, including the nature and extent of security, would have a far reaching implication for lending policy across the banking sector thus impacting on the economy in general.

Against the backdrop of a stagnant growth, uncertainty underlying fiscal policy and potential interest rates regime affecting the scope and nature of competition in the banking sector, your Bank's strategy has remained different from that being pursued by competitors. It is satisfying to note that this strategy has been working well as is evident through performance for the year under report. As indicated in my statement for last year, the role of your Bank's Asset and Liability Committee and Credit Committee will remain a corner stone of the Bank's strategy for sustained and yet qualitative growth in future years.

During the year 2000 your Bank has been able to achieve significant growth. It is relevant to note that a major share of the increase was in the latter half of the year. More importantly, this growth needs to be seen in the context of the Bank's medium term strategy refined annually which is now yielding results. In this respect as I mentioned last year, whereas the one-off costs of the development of the CFC centre and Chiromo Road Branch together with the increase in staff numbers had an impact upon profitability, the investment was planned as an integral component of the Bank's strategic plans to position the Group in the financial services industry in Kenya. It is on the back of these investments together with a focused business approach aimed at providing innovative and value added products/services that your Bank is able to report results as they are. Such innovative products include the US \$ Money Market Account and Floating Rate Savings Account launched last year which have proved to be successful. It is heartening to note that your Bank is servicing an increasing number of personal and corporate clients on the back of the development of such niche commercial banking products. Further, with a view to augmenting and also enlarging the underlying base for generating non interest income, your Bank successfully targeted and achieved good growth in non funds based business. It is planned that during this year too, additional growth will be achieved. Further, following the successful upgrading of the Bank's Treasury Department, increased volumes and revenues are projected for this year.

In achieving this growth level, I must mention that your Bank has not undermined its time tested proven risk assessment. In fact the continued focus on credit monitoring and management with special emphasis on non performing assets as I had mentioned in my statement for the last year, has enabled your Bank to report a figure of Sh. 179,598,000 by way of non performing loans constituting 3% of Bank's total loans and advances. This compared very favourably with the industry average.

Specifically the Group financial highlights on a year to year basis were as under:

- Balance sheet footing increased by 30%.
- Deposits increased by 60% with current accounts growing by Sh. 268,000,000 . Core Capital to Deposits Ratio stood at 40% implying considerable potential vis-a-vis the statutory minimum of 8%.
- Loans and advances (including foreign currency lendings) increased by 70% and the Credit/Deposit Ratio stood at 88%. Once again , both Core Capital and Total Capital to Risk Assets Ratios far exceed the statutory minimums of 8% and 12% respectively implying potential capacity for growth.
- Non performing loans reduced by 43% to stand at Sh. 179,598,000. The portion of non performing loans and advances under the category of asset backed finance continued to reflect a sound position in as much as only six vehicles awaited disposal by the Bank as at 31st December 2000.
- Contingent liabilities i.e. non fund based business grew by 83%.
- Profit before tax increased by 21% with total income growth of 25%.
- Liquidity ratio at 31% reflected the Bank's strategies indicated above.

Turning now to the performance of your Bank's subsidiaries, The Heritage A.I.I. Insurance Company Limited continued its steady and increasing level of profit contribution. Its subsidiary in Tanzania broke even and recorded a positive contribution to the Group's results. CFC Financial Services Limited, as projected, recorded a loss for its first year of operations although its performance reflected a sound start with a number of successfully completed mandates. In the current year and beyond it is well poised to register good results.

Following the capitalisation of Sh. 100 million from your Bank's revenue reserve last year, it is recommended that the final dividend be maintained at the same rate i.e. Sh. 0.67 per share payable on or about 25th May 2001. Earnings per share slightly increased to Sh. 1.61 for the year.

Your Bank's track record and the strength of its financials have been recognized internationally as evidenced by the increasing support afforded by its enlarging offshore banking correspondents network. The first ever medium term facility obtained by your Bank from International Finance Corporation, Washington continues to enable an expanding clientele to derive and draw support of medium term foreign currency funding for their business operations. Additionally your Bank's decision to invite an international rating agency specialised in rating banks for the third year is nearing a stage where your Bank may consider international publication of the rating obtained in keeping with the medium term strategy referred to earlier.

Looking ahead and going forward, the core elements of your Bank's strategy remain reflected in managing on prudent and professional lines, profitable business growth on a stable basis, efficiency enhancing client service delivery and leveraging your Bank's Net Worth with a progressive reduction in unit costs across the Bank's operations. In this context, your Bank is presently engaged in a detailed review of operational costings with a view to identifying and increasing the scope and nature of centralisation of back office functions. Your Bank shall also be opening a new branch at Upper Hill Medical Centre, Nairobi towards the middle of this year and shall be augmenting physical capacity at Mombasa Branch. It is planned that the personnel requirements in connection with these twin developments shall be managed within the existing staffing resources.

Given the increasing complexity and competitive nature of banking business, the focus on quality of our staff together with technology development remains critical for your Bank. During 2000, your Bank has, therefore, continued to invest in both staff training and development as also information technology.

It gives me pleasure to close by thanking your Bank's staff members at all levels who have responded with an exemplary level of dedication and commitment to the challenges faced. I have no hesitation in acknowledging that your Bank's staff continue to be a major asset contributing in an ever increasing measure to the Bank's results. I would also like to place on record my thanks to my fellow directors for their valuable guidance and assistance during the year.

P K JANI

Chairman

19 March 2001

Mwaka wa 2000 kwa hakika umekuwa mgumu mno kwa uchumi wa Kenya. Kutokuwa na udhabiti katika uhusiano wa serikali yetu na Benki ya Ulimwengu (World Bank) na Shirika la Fedha la Ulimwengu (IMF), na hasa kutoangwa mkono waziwazi na serikali yetu na mashirika haya, kumeathiri sana utungaji na utekelezaji wa sera za kijumla. Pamoja na tatizo la uhusiano usioridhisha na mashirika ya kifedha ya kimataifa, kumekuwa na ukame mkali ambao uliathiri kilimo na bei za bidhaa za kilimo. Wa aidha, kiangazi hiki kilisababisha uhaba wa umeme, jambo ambalo liliathiri viwanda, uchumi, na biashara kwa jumla. Athari tulizozitaja, kwa pamoja, zilichangia katika kupunguza mapato ya jumla ya nchi (GDP) ambayo yalibaki chini ya asilimia moja, kiwango ambacho ni chini zaidi ya ongezeko la watu na, kwa hivyo, kusababisha kupunguka kwa mapato ya watu na uwezo wao wa kununua bidhaa. Bila shaka, sekta ya benki imeathirika vilivyo.

Licha ya matatizo tuliyokwisha yataja na athari zake, kurejea kwa mvua za kawaida na kukomeshwa kwa umeme wa mgao ni mambo ya kutia moyo. Isitoshe, sekta ya utalii imeonyesha matumaini mema. Kenya imeendelea kuwa na sekta pana mno ya uzalishaji viwandani Afrika Mashariki. Hata hivyo, kunahitajika kusuluhishwa kwa maswala mapana ya kisera ili kuchoea kiwango kinachoridhisha cha ukuaji wa kiuchumi. Bila sera imara hakuna matumaini yoyote ya uchumi kuweza kupata nguvu. Hali hii isiyokuwa na mwelekeo thabiti wa kiuchumi itaathiri vibaya sera ya kifedha na viwango vya riba.

Kuhusu riba, nilikwishasisitiza mwaka uliopita umuhimu wa kuwa na uthabiti katika viwango vya riba ambavyo vitawezesha uwekaji akiba, vitega uchumi na ukuaji. Tangu katikati ya mwaka wa 2000, kumekuwa na mjadala mkali kuhusu Mswada wa Marekebisho wa Benki Kuu ya Kenya. Sheria hii iliyopendekezwa inakusudia kuongoza viwango vya riba vinavyotozwa na benki za kibiashara pamoja na kuweka mwongozo wa utungaji na utekelezaji wa sera ya kifedha. Japokuwa sheria hili bado haijapitishwa, athari zake bado hazikadiriiki.

Sheria hii iliyopendekezwa inakataza wakurugenzi wa benki kuchukua bila dhamana au benki kutoa mikopo kwa kampuni za wakurugenzi hao bila dhamana yoyote. Kukataza benki kujiamulia kuhusu kutoa mikopo na mambo mengine yanayohusiana na mikopo, pamoja na dhamana inayofaa, ni jambo ambalo bila shaka litaathiri sera ya kutoa mikopo na, hivyo basi, kuathiri uchumi wa nchi kwa jumla.

Kwa mintarafu ya hali ya uchumi duni, na kutokuwepo na uhakikia kuhusu sera ya kifedha kwa jumla, pamoja na uwezekano wa viwango vipya vya riba kuathiri hali ya ushindani kibiashara katika sekta ya benki, mkakati wa benki yenu ni wa kipekee. Ni jambo la kuridhisha mno kuwa mkakati huu umetufaa - jambo ambalo linadhihirika wazi katika mapato yetu ya mwaka huu. Kama nilivyodokeza katika taarifa yangu ya mwaka jana, wajibu wa kamati za rasimali na madeni pamoja na kamati ya mikopo ni wa kimsingi. Kamati hizi zitaendelea kuwa msingi wa mikakati yetu ya kukuza mapato ya benki katika miaka ijayo.

Katika mwaka wa 2000 benki yenu ilipiga hatua muhimu. Ni muhimu kutaja pia kuwa ukuaji huu ulipatikana mwishomwisho wa mwaka. La muhimu zaidi ni kwamba ukuaji huu ulifanyika katika muktadha wa mpango wetu wa maendeleo wa muda mfupi. Kama nilivyosema mwaka jana, gharama za miradi ya Kituo cha CFC (CFC Centre) na Tawi la Barabara ya Chiromo, pamoja na ongezeko la wafanyakazi ziliathiri faida zetu. Hata hivyo, miradi hii ilipangwa kimaksudi ili kulwezesha benki yenu kutambulika kama mojawepo ya benki muhimu katika sekta ya huduma za kifedha nchini Kenya. Ni kwa sababu ya miradi hii pamoja na uzingatifu katika shughuli zetu za kibiashara ndipo tumeweza kupata mafanikio mema. Baadhi ya huduma mpya tulizozindua mwaka jana ni Akaunti ya Dola ya Marekani (US\$ Money Market Account) na Akaunti ya Akiba inayotegemea Viwango vya Riba Sokoni (Floating Rate Savings Account). Huduma hizi zimefanikiwa kiasi cha kuridhisha. Ni jambo la kutia moyo kwamba tumeweza kupata wateja wa kibinafsi na wa kampuni kubwa wanaoendesha akaunti nilizotaja hivi punde. Aidha, benki pia iliweza kupanua huduma zake na bidhaa zake zikiwemo zile zisizohusiana na akaunti za akiba au hundi. Pia, kwa kuimarisha Idara ya Hazina ya Benki tunatarajia mapato zaidi mwaka huu.

Ningependa kusisitiza kuwa katika maendeleo haya yote niliyoyataja benki yenu haijaondoka kwenye mkondo wake wa busara katika kulinda rasimali zenu na uzingatifu katika biashara kwa jumla. Kwa hakika, uzingatifu wetu katika kudhibiti na kusimamia mikopo, hasa mikopo ya matatizomatatizo au isiyoleta mapato yoyote, kama nilivyodokeza katika taarifa yangu ya mwaka jana, imetwezesha kuripoti mikopo isiyoshughulikiwa vyema ya shilingi 179, 598,000. Hii ikiwa ni asilimia 3 ya jumla ya mikopo. Asilimia hii ikilinganishwa na asilimia kwingineko ni nzuri.

Kwa kubainisha zaidi, yafuatayo ndiyo matokeo muhimu katika shughuli zetu:

- Ulinganishaji wa madeni na mapato unaonyesha uzito wa asilimia 30.
- Malipo ya hazina yalikua kwa asilimia 60 zikiwemo akaunti za hundi ambazo zilikuwa kwa shilingi 268,000,000. Uwiano wa rasimali na hazina ulikuwa asilimia 40. Huu ni uwiano mzuri ukilinganishwa na kiwango cha chini cha asilimia 8 kinachohitajika kisheria.
- Mikopo na karadha (zikiwemo mikopo katika fedha za kigeni) iliongezeka kwa asilimia 70 na uwiano wa mikopo/akiba ulisimama katika asilimia 88. Kwa hivyo, uwiano wa rasimali kwa mikopo ni mzuri na umo katika mipaka ya kisheria ya asilimia 8 na 12, jambo ambalo ni msingi mwema wa ukuaji.
- Mikopo isiyolipwa vyema au isiyoleta faida ilipungua kwa asilimia 43 na kuwa shilingi 179,598,000.
- Biashara nyinginezo zisizohusiana na uwekaji wa akaunti za akiba au hundi ilikua kwa asilimia 83.
- Faida kabla ya ushuru ilikua kwa asilimia 21 na mapato kwa jumla yalikua kwa asilimia 25.
- Asilimia ya pesa taslimu ilikuwa 31.

Kwa hivi sasa naomba kuzungumzia utendaji wa kampuni nyingine ndogo za Benki ya CFC, hasa kampuni ya The Heritage AII Insurance Company Limited. Kampuni hii ya bima iliendelea kupiga hatua nzuri ya kimaendeleo na kuweza kupata faida nzuri. Tawi lake huko Tanzania liliweza kujigharamia na kuleta faida kwa Kundi la CFC kwa jumla. Kama tulivyotarajia, kampuni yetu ndogo ya CFC Financial Services Limited ilipata hasara katika mwaka wake wa kwanza wa shughuli japo harakati zake kwa jumla zinaonyesha matumaini mema. Bila shaka, kampuni hii itaimarika na kupata faida.

Kufuatia kutolewa kwa shilingi milioni 100 kwa hazina ya Benki yenu mwaka jana, inapendekezwa kuwa mgao wa mwisho wa hisa ubakie shilingi 0.67 kwa kila hisa ambazo zitalipwa tarehe 25 Mei 2001 au karibu na tarehe hiyo. Mapato kwa kila hisa yaliongezeka kufikia kiwango cha shilingi 1.61 kwa mwaka huu.

Rekodi ya benki yenu ni nzuri hasa usimamizi mzuri wa huduma zake za kifedha. Jambo hili limeipelekea Benki hii kutambulikana kimataifa jambo ambalo linadhihirika wazi katika kuungwa kwetu mkono na mtandao imara wa huduma za offshore. Kifaa tulichopata kutoka International Finance Corporation ya Washington, kimetuwezesha kutoa fedha za kigeni kwa wafanyabiashara kugharimia mahitaji yao ya fedha za kigeni. Wa aidha, uamuzi wetu wa kualika ajenti wa kigeni mwenye utaalamu wa kukadiria uwezo wa benki kwa mwaka wa tatu mfululizo umefikia kiwango ambacho benki yenu inafikiria kuchapisha matokeo ya ukadiriaji huo.

Tukitazama mbele, Benki yenu itaendelea kufuata misingi imara ya usimamizi kwa kuzingatia maadili ya kitaalam katika shughuli zote za kibiashara. Nia yetu ni kuhakikisha kuwa Benki yenu inazidi kupanuka na kupata faida ili kutoa huduma mwafaka zaidi kwa wateja wote. Wa aidha, tunakusudia kupanua matawi ya Benki na wakati huohuo kupunguza gharama za uendeshaji. Benki inachunguza kwa makini shughuli zake zote ili kurudisha baadhi ya huduma zake katika makao makuu. Nia hasa ni kupunguza gharama. Benki yenu pia itafungua tawi jipya Upper Hill Centre, jijini Nairobi katikati ya mwaka huu pamoja na kupanua tawi la Mombasa. Hata hivyo, hatutarajii kuajiri wafanyakazi zaidi na tunakadiria kuendesha shughuli zote kwa kuwategemea wafanyakazi waliopo sasa.

Kwa vile shughuli za benki zimekuwa changamano mno na kwa kuwa kuna ushindani mkali mno katika biashara ya benki kwa jumla, mafunzo kwa wafanyakazi ni muhimu sana. Pia kuna umuhimu wa kwenda sambasamba na maendeleo ya kiteknolojia. Kwa hivyo, katika mwaka huu wa 2000, Benki yenu imeweka uzito mkubwa katika mafundisho mwafaka kwa wafanyakazi pamoja na kugharamia maendeleo ya teknolojia ya mawasiliano ya kisasa.

Ningependa, kwa kumalizia, kuwashukuru sana wafanyakazi wa Benki yenu kwa moyo wao wa kujitolea katika hali mbalimbali za shughuli zetu. Kwa hakika, wafanyakazi wa Benki yenu wamechangia kwa kiwango kikubwa maendeleo na faida tunazopata katika biashara zetu. Pia, nawashukuru kwa dhati ya moyo wangu wakurugenzi wenzangu kwa ushauri mzuri na usaidizi katika uendeshaji wa shughuli zetu mwakani.

P K JANI

Mwenyekiti

19 Machi 2001

REPORT

OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

ACTIVITIES

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

GROUP RESULTS

	Sh'000
Profit attributable to shareholders	193,642
Proposed dividend	80,400
Retained profit carried to revenue reserve	<u>113,242</u>

DIVIDEND

The directors recommend a first and final dividend of sixty seven cents per share (13.4%) for the year ended 31 December 2000 which is to be paid on or about 25 May 2001 to shareholders registered at the close of business on 3 May 2001.

DIRECTORS

The present directors are shown on page 2.

Mr M Soundararajan, who was appointed a director on 6 June 2000, retires and, being eligible, offers himself for re-election.

Mr J C Kulei retires by rotation and, being eligible, offers himself for re-election.

Mr A P Hamilton, who has attained the age of 73 years, retires by rotation. 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 to propose his re-election as a director.

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

19 March 2001

STATEMENT

OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank and the group as at the end of the financial year and of the profit of the group for that period. In preparing those financial statements, the directors are required to:

- * Select suitable accounting policies and then apply them consistently;
- * Make judgements and estimates that are reasonable and prudent;
- * State whether applicable accounting standards have been followed;
- * Prepare the financial statements on the going concern basis unless it is inappropriate to presume that each company in the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each company in the group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

TO THE MEMBERS OF CFC BANK LIMITED

We have audited the financial statements on pages 11 to 39 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

As described on page 9, 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 give a true and fair view of the state of affairs of the bank and the group at 31 December 2000 and of the profit and the cash flows of the group for the year ended on that date in accordance with International Accounting Standards and comply with the Companies Act.

DELOITTE & TOUCHE

Certified Public Accountants (Kenya)

Nairobi

19 March 2001

CONSOLIDATED INCOME STATEMENT**FOR THE YEAR ENDED 31 DECEMBER 2000**

	Note	2000 Sh'000	1999 Sh'000
INCOME	3	1,853,145	1,484,773
EXPENDITURE	4	1,492,523	1,186,579
PROFIT BEFORE TAXATION		360,622	298,194
TAXATION	6	125,712	91,933
PROFIT AFTER TAXATION	7	234,910	206,261
MINORITY INTEREST		41,268	16,957
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		193,642	189,304
		Sh	Sh
EARNINGS PER SHARE	8	1.61	1.58
DIVIDEND PER SHARE	9	0.67	0.67

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2000

	Note	2000 Sh'000	1999 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	10	456,433	415,033
Government securities	11	1,326,600	1,589,725
Deposits and balances due from banking institutions		878,531	860,737
Loans and advances to customers	12	5,260,599	3,089,149
Interest receivable and other assets		535,028	388,415
Taxation recoverable		17,308	12,810
Investment properties	15	133,612	133,313
Other investments	16	710,781	562,457
Property and equipment	17(a)	555,401	520,827
Intangible assets	18	10,410	7,562
Deferred tax	19	29,361	26,388
Total assets		9,914,064	7,606,416
LIABILITIES			
Customer deposits	20	5,003,746	3,125,399
Line of credit	21	780,500	729,500
Deposits and balances due to banking institutions		132,075	230
Interest payable and other liabilities		1,852,330	1,751,849
Taxation payable		1,776	6,117
Total liabilities		7,770,427	5,613,095
CAPITAL RESOURCES			
Share capital	22	600,000	500,000
Capital reserve		185,229	165,414
Revenue reserve		1,000,294	1,013,314
Proposed dividend		80,400	67,000
Shareholders' funds		1,865,923	1,745,728
Minority interest		277,714	247,593
Total liabilities and equity		9,914,064	7,606,416

The financial statements on pages 11 to 39 were approved by the board of directors on 19 March 2001 and were signed on its behalf by:

P K JANI)
M N MAJMUDAR) Directors
A P HAMILTON)

R R VORA) Secretary

BANK BALANCE SHEET**31 DECEMBER 2000**

	Note	2000 Sh'000	1999 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	10	456,344	414,896
Government securities	11	500,000	705,525
Deposits and balances due from banking institutions		732,921	668,873
Loans and advances to customers	12	5,260,599	3,089,149
Interest receivable and other assets		181,236	98,225
Due from subsidiary companies		31,740	22,428
Investment in subsidiary companies	14	289,082	223,582
Other investments	16	10,000	20,000
Property and equipment	17(b)	481,097	457,612
Intangible assets	18	6,385	2,961
Deferred tax	19	23,030	15,401
Total assets		7,972,434	5,718,652
LIABILITIES			
Customer deposits	20	5,120,744	3,163,036
Line of credit	21	780,500	729,500
Deposits and balances due to banking institutions		132,075	-
Interest payable and other liabilities		287,230	281,330
Taxation payable		542	6,117
Amount due to subsidiary companies		132,222	122,847
Total liabilities		6,453,313	4,302,830
CAPITAL RESOURCES			
Share capital	22	600,000	500,000
Revenue reserve	23	838,721	848,822
Proposed dividend	23	80,400	67,000
Total equity		1,519,121	1,415,822
Total liabilities and equity		7,972,434	5,718,652

The financial statements on pages 11 to 39 were approved by the board of directors on 19 March 2001 and were signed on its behalf by:

P K JANI)
M N MAJMUDAR) Directors
A P HAMILTON)

R R VORA) Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2000

	Share capital Sh'000	Capital reserve Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 1999	500,000	91,036	944,280	67,000	1,602,316
Surplus on revaluation of quoted investments	-	21,108	-	-	21,108
Realised on disposal of quoted investments	-	(5,730)	5,730	-	-
Profit attributable to shareholders	-	-	189,304	-	189,304
Dividend paid - 1998	-	-	-	(67,000)	(67,000)
Proposed dividend - 1999 (Note 9)	-	-	(67,000)	67,000	-
Bonus issue in subsidiary company	-	59,000	(59,000)	-	-
At 31 December 1999	500,000	165,414	1,013,314	67,000	1,745,728
At 1 January 2000	500,000	165,414	1,013,314	67,000	1,745,728
Deficit on revaluation of quoted investments	-	(6,447)	-	-	(6,447)
Realised on disposal of quoted investments	-	(5,778)	5,778	-	-
Profit attributable to shareholders	-	-	193,642	-	193,642
Dividend paid - 1999	-	-	-	(67,000)	(67,000)
Proposed dividend - 2000 (Note 9)	-	-	(80,400)	80,400	-
Bonus issue in parent company	100,000	-	(100,000)	-	-
Bonus issue in subsidiary company	-	32,040	(32,040)	-	-
At 31 December 2000	600,000	185,229	1,000,294	80,400	1,865,923

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2000

	Note	2000 Sh'000	1999 Sh'000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	24(a)	(38,333)	661,080
INVESTING ACTIVITIES			
Additions to property and equipment		(103,230)	(213,238)
Additions to intangible assets		(8,415)	(4,566)
Proceeds from sale of equipment		3,737	697
Additions to investment properties		(299)	(17,713)
Purchases of investments (net)		(184,642)	(187,363)
(Investment in)/proceeds from Government securities (net)		(296,725)	210,750
Dividends received		8,895	4,603
Net cash used in investing activities		(580,679)	(206,830)
FINANCING ACTIVITIES			
Dividends paid		(67,000)	(67,000)
Dividends paid to minority		(12,572)	(10,776)
Issued share capital of subsidiary consolidated		-	60,000
Issued share capital of subsidiary to minority		-	40,000
Net cash (used in)/from financing activities		(79,572)	22,224
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	24(c)	(698,584)	476,474

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with and comply with International Accounting Standards.

(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 its subsidiaries: CFC Financial Services Limited, Credit Banking Corporation Limited, The Heritage AII Insurance Company Limited and The Heritage AII Insurance Company (Tanzania) Limited. The financial statements of the bank and all its subsidiaries have been made up to 31 December 2000. See also note 14.

(c) INVESTMENTS

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 stock at cost
- (iv) Other 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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.

(e) PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of property and equipment in equal annual instalments 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) COMPUTER SOFTWARE COSTS

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the bank and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives at the annual rate of 30%.

(g) 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.

(h) LOANS AND ADVANCES

Loans and advances are stated net of provision for bad and doubtful loans and advances, unearned finance charges and interest in suspense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

1 ACCOUNTING POLICIES (continued)

(i) 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.

The provision for bad and doubtful loans and advances is increased by charges to income and decreased by write offs (net of recoveries).

(j) 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.

(k) 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. The group's contributions in respect of National Social Security Fund are charged to the income statement as incurred.

(l) 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

2 SEGMENTAL REPORTING

(a) Primary reporting format - Business segments

	BANKING		INSURANCE		GROUP	
	2000	1999	2000	1999	2000	1999
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Income	1,070,796	845,460	782,349	639,313	1,853,145	1,484,773
Expenditure	886,435	655,505	606,088	531,074	1,492,523	1,186,579
Segment result	184,361	189,955	176,261	108,239	360,622	298,194
Unallocated expenses					-	-
Profit before taxation					360,622	298,194
Taxation					125,712	91,933
Profit after taxation					234,910	206,261
Assets	7,750,634	5,790,005	2,163,430	1,816,411	9,914,064	7,606,416
Liabilities	6,767,521	4,305,671	1,002,906	1,307,424	7,770,427	5,613,095
Capital expenditure	86,275	142,995	25,370	74,809	111,645	217,804
Depreciation and amortisation	44,349	29,142	27,360	22,599	71,709	51,741

(b) Secondary reporting format - Geographical segments

Over 90% of the group's consolidated income and assets are contributed by the Kenyan business.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

	2000 Sh'000	1999 Sh'000
3 INCOME		
Interest on loans and advances	813,409	624,514
Interest on Government securities	161,807	133,037
Interest on placements and bank balances	64,728	86,960
Dividends from quoted investments	8,895	4,603
Gains from investment securities	28,736	35,886
Fees and commissions	108,428	61,510
Gains from foreign exchange dealing	11,746	18,783
Profit on disposal of equipment	1,223	-
Profit on disposal of quoted investments	3,274	1,936
Insurance premiums earned	628,344	505,034
Other income	22,555	12,510
	<u>1,853,145</u>	<u>1,484,773</u>
4 EXPENDITURE		
Interest on deposits	331,916	275,425
Interest on borrowed funds	70,637	56,625
Fees and commissions	23,248	18,280
Bad and doubtful debts	63,542	(879)
Insurance claims incurred	328,310	257,169
Loss on disposal of property and equipment	-	1,602
Other expenses (note 5)	674,870	578,357
	<u>1,492,523</u>	<u>1,186,579</u>
5 OTHER EXPENSES		
Staff costs	379,354	327,778
Directors' emoluments:-		
as directors	6,512	6,512
as executives	24,632	13,592
Depreciation	66,142	48,415
Amortisation	5,567	3,326
Operating lease rentals - property	17,322	31,332
Auditors' remuneration	4,382	4,442
Contribution to Deposit Protection Fund	4,746	4,766
Other costs	166,213	138,194
	<u>674,870</u>	<u>578,357</u>

The average number of employees for the group during the year was 321 (1999 : 316).