



2001 ANNUAL REPORT & FINANCIAL STATEMENTS

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| CONTENTS | PAGES |
|---|---------|
| Corporate information | 2 |
| Notice of annual general meeting | 3 |
| Chairman's statement | 4-9 |
| Report of the directors | 10 |
| Statement of directors' responsibilities | 11 |
| Report of the auditors | 12 |
| Consolidated income statement | 13 |
| Consolidated balance sheet | 14 |
| Bank balance sheet | 15 |
| Consolidated statement of changes in equity | 16 |
| Consolidated cash flow statement | 17 |
| Notes to the financial statements | 18 - 44 |

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CORPORATE INFORMATION

BOARD OF DIRECTORS

P K Jani - Chairman
R J Barry* - Managing
J G Kiereini
C Njonjo
A P Hamilton *
J C Kulei
M Soundararajan **
S W Lewis *

*British

**Indian

COMPANY SECRETARY

R R Vora

OFFICES

Registered Office

CFC Centre
Chiromo Road
P O Box 72833
00200 Nairobi

Chiromo Road Branch

CFC Centre
Chiromo Road
P O Box 72833
00200 Nairobi

Kimathi Street Branch

Corner House
Kimathi Street
P O Box 75501
00200 Nairobi

Upper Hill Medical Centre Branch

Ralph Bunche Road
P O Box 2492
00200 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

2007/0322



NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the forty seventh Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Thursday, 30 May 2002 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 2001 and the Directors' and Auditors' Reports thereon.
- 2 To approve the payment of a first and final dividend for the year ended 31 December 2001 of 13.4% on the Issued Share Capital.
- 3 To elect Directors:
 - (i) Mr. J.G. Kiereini, a director who is over 70 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. J.G. Kiereini, a director who is over 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 is over 70 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 is over 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".
 - (iii) Mr. S.W. Lewis having been appointed to the board on 1 June 2001 retires under the provisions of Article 96 of the Articles of Association and, being eligible, offers himself for re-election.
4. To approve the Directors' remuneration for the year ended 31 December 2001 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

27 February 2002

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 2001 was extremely challenging for the Kenyan economy. Whilst the world wide severe economic slowdown is slowly abating, uncertainty remains following the terrorist attacks on the United States of America on 11th September 2001. Against this backdrop, it is encouraging to note the growth, albeit modest, in Gross Domestic Product by 0.8% for the year due mainly to the recovery of both the agricultural and manufacturing sectors. Nonetheless, it must be recognised that such modest growth remains insufficient to register any material impact upon the difficult issues of unemployment and poverty here in Kenya.

There are however some positive signs for the country's economic performance for 2002: interest rates are stabilising, revenue collection is improving albeit below target; fuel prices have reduced sharply with exchange rates firm and inflation continuing to fall, averaging an estimated 1% for 2001. It is envisaged that private sector investment shall continue to be weak with growth driven by government constrained due to budgetary constraints. The resumption of external support remains critical to Kenya's economic prospects which in turn revolves around the resolution of various macro level related issues.

Domestic interest rates continued on a downward trend during the year and in this respect it is pleasing to note that against a background of a reduced fiscal deficit, longer term maturities on government domestic debt is now found to be more acceptable. As I mentioned in my statement last year, the need for a sustainable stable interest rate regime remains crucial so as to provide a conducive environment for savings, investment and growth. In this context, the apparent confusion revolving around the Central Bank of Kenya (Amendment) Act 2000 requires speedy resolution.

Turning now to the results for 2001, the year, in line with economy's performance, proved to be challenging for your Bank. Whereas net interest income and total operating income registered growth, operating expenses increased substantially. This increase was mainly attributable to an increase in provisions for bad and doubtful debts of Ksh 107 million year on year. The up-shot of this one-off charge was a reduction in Group Profit Before Tax of Ksh 100 million to Ksh 260 million, a decline of 27%. The decision to provide against doubtful debts during the year is in line with your Bank's prudent and rigorous provisioning policy. Whilst your Bank cannot isolate itself from the current economic environment facing the country, steps have been taken to strengthen your Bank's risk management function so as to strengthen early identification of problematic loans and advances with a view to affording solutions and correction thereof.

Despite the significant increase in provisions, your Bank's level of non performing assets remains comparatively low at 4.6% of Total Loans and Advances. This ratio compares most favourably with the industry average.

Turning now to the performance of your Bank's subsidiaries, The Heritage All Insurance Co Limited continued its steady level of profit contribution with its subsidiary in Tanzania recording an increasing positive contribution to the Group's results. In line with projections, CFC Financial Services Limited recorded a much reduced loss for the year. It is however envisaged that for this year, in its second full year of operation, there shall be a positive contribution by CFC Financial Services Limited to the Group's results.

Out of the profit attributable to shareholders of Ksh 141,392,000, it is recommended that the final dividend be maintained at the same level as year 2000 i.e. Ksh 0.67 per share payable on or about 30 May 2002.

In respect of the Group financial highlights on a year to year basis, I comment as follows:

- Total assets grew marginally by 5.4% to Ksh 10,446 million. Loans and advances to our customers registered a small growth. Both Core capital and Total capital to Risk Assets ratios at 26% far exceed the statutory minimums of 8% and 12% respectively.
- Total customer deposits increased to Ksh 5,509 million, an increase of 10%. Once again Core Capital to Deposits Ratio at 39% far exceeds the statutory minimum of 8%.
- Liquidity was maintained at 37%.
- Off balance sheet contingent liabilities continued to grow standing at Ksh 1,955 million, an increase of 21%.
- Our Capital base remains strong at Ksh 1,851 million, an increase of Ksh 66 million.

2001 proved to be an exceptional year in other areas for your Bank and the Group. In this respect, I highlight the following:

- Your Bank was voted the Best Bank in Kenya, an award from the prestigious Banker magazine.
- Your Bank obtained a published rating of BB from the international rating agency, Fitch IBCA.
- Your Bank was granted a custodian license by the Retirement Benefits Authority.
- Your Bank opened a new branch at the Upper Hill Medical Centre, Nairobi and expanded its Mombasa Branch.
- Your Bank's subsidiary, The Heritage All Insurance Company Limited, obtained an international rating of AA.
- Your Bank's subsidiary, CFC Financial Services Limited, was licensed as a funds manager by the Retirement Benefits Authority. Additionally, CFC Financial Services Limited acquired Equity Stockbrokers Limited.

All in all, I am sure you will agree that it was a year of significant change and expansion. I would like to share with you the Banker magazine's comments when awarding the Best Bank in Kenya award to CFC Bank Limited:

"CFC Bank has taken significant steps towards creating a one-stop shop for all financial services."

With the addition of a brokerage arm to the Group and plans to formalise investment banking operations soon, I believe that your Bank will have created the only one stop shop for financial services in Kenya.

Looking ahead, there shall continue to be increasing competition in the industry with margins under further pressure. As I had indicated in my comments last year, your Bank has expanded and enhanced its existing branch network without increasing overall staff resources, now offering its clients on-line any-branch banking. This has been achieved following a detailed review of operational structures and centralisation of back office functions. This process is expected to be completed in full by the end of this year freeing front-end staff to further improve service delivery to our expanding client base. I am pleased to report that in addition to the expansion of your branch network reviewed against my earlier comments as to staff resources, the number of our customers increased by 20% during the year under report.

As alluded to above, margins will inevitably come under further pressure. Steps have been taken and resources allocated to drive up other operating income. To compliment the Group's diversification into the financial services sector, your Bank is now looking to further broaden its client base into the mid level retail and medium size business sectors which will spread both risk and the liability base. Enhanced information technology support shall be critical here.

Your Bank's strategy remains reflected in prudent and professional management, profitable growth, ongoing development of new value addition products coupled with efficient service delivery. There remains great potential for growth by way of leveraging your Bank's existing Network.

CHAIRMAN'S STATEMENT

In a service industry such as banking, staff resources remain one of the most critical components of success. Accordingly specific attention has been given to training and support through in-house, in country and offshore training. In view of the increasingly complex and competitive nature of banking, appropriate resources shall be allocated for further staff development this year.

The recent guidelines from the Capital Markets Authority on corporate governance practices for listed public limited companies have been noted.

The year 2001 was a challenging year for your Bank. The overall performance demonstrated our resilience derived from the benefits of diversification and our fundamental strength. Core profitability was sufficient to absorb the significant one-off costs last year without impacting upon our dividend or capital.

It is with great pleasure that I welcome to our Board Mr S W Lewis who was appointed as a Director of your Bank on 1 June 2001. My colleagues and I on the Board are confident that with his background and wealth of experience, Mr Lewis will make a positive contribution to your Bank.

As you may be aware, Mr M N Majmudar, the Bank's Managing Director retired on 30 June 2001. My colleagues and I on the Board would like to take this opportunity of thanking Mr Majmudar for his successful stewardship of your Bank laying the foundation as he did for the future growth in both banking and your diversified Group. Our best wishes go to Mr Majmudar upon his retirement. It is with pleasure that I welcome Mr R J Barry as our new Managing Director. Mr Barry who has been with your Bank since 1993 is a career banker and my colleagues and I are confident that with his background and local knowledge, he will prove to be an asset as your Bank continues to grow.

In closing I would like to place on record my thanks to our dedicated and professional staff at all levels for their professional approach and attitude. I would also like to thank my fellow directors for their unstinted assistance and counsel during the year.

P K JANI
CHAIRMAN

27 February 2002

Mwaka wa 2001 ulikuwa wa makabilio mengi katika uchumi wa Kenya. Huku ulimwenguni kote upungufu wa hali mbaya ya uchumi ukionyesha ishara ya ukuwaji wa taratibu, kutofahamika kumbaki kutokana na uvamizi wa kigaidi huko Marekani tarehe 11 September 2001. Kutokana na upungufu huu, ni jambo la kufurahisha kuona maendeleo ya uchumi wa nchi, hata ijapokuwa ulikuwa wa kiasi cha asili mia 0.8 mwakani kwa sababu hasa za maendeleo katika sekta zote mbili za kilimo na viwanda. Hata hivyo, ni lazima itambulike kwamba maendeleo haya ya kiasi ni machache mno kuleta tofauti kulingana na matatizo ya ukosefu wa kazi na umasikini nchini Kenya.

Kuna ishara nzuri zinazoonyesha kwamba uchumi wa nchi utafufuka mwaka 2002: riba zinastawi, uokotaji wa mapato na serikali unaendelea vizuri, ijapokuwa ni chini ya viwango vilivyowekwa; bei za mafuta zimepunguwa sana, huku riba za ubadilishanaji fedha zikiwa thabiti, na hali mbaya ya uchumi ikipunguwa kwa wastani wa asilimia 1 mwaka wa 2001. Inatarajiwa kwamba sekta faragha za uchumi zitaendelea kuzorota huku serikali ikikabiliwa na janga la bajeti. Kurudishwa kwa usaidizi kutoka nchi za nje bado ni uti wa matumaini ya kuendelea kwa uchumi nchini Kenya ambayo pia inahusisha mambo mengi.

Riba zetu ziliendelea kuteremka mwaka huu na kwahivyo inaridhisha kuona kwamba kutokana na upungufu wa bajeti, hati za serikali za muda mrefu inaonekana ndio hatua bora. Kama nilivyo taja, katika taarifa yangu mwaka jana, umuhimu wa riba thabiti ndio suluhisho ili iwezeshe hali njema ya uwekaji akiba, uchumi na maendeleo. Katika jambo hilo hilo, kutofahamika kwa sheria ya mwaka 2000 ya Benki Kuu ya Kenya, kunahitajika suluhisho la haraka.

Tukiangalia sasa matokeo ya mwaka wa 2001, tukilinganisha na hali ya uchumi, kulikuwa na makabilio kwa Benki yenu. Huku mapato ya riba na mapato yote kwa jumla yaliongezeka, matumizi yakiongezeka zaidi. Ongezeko hili lilisababishwa hasa kwa kuongezwa kwa uwekaji kando madeni hafifu ya shilingi milioni 107 mwakani. Ongezeko hilo lilipunguza jumla ya mapato kabla ya kodi kwa shilingi milioni 100 hadi shilingi milioni 260, upungufu wa asilimia 27. Uamuzi wa uwekaji kando madeni mabaya mwakani unaambatana na muongozo bora wa Benki. Hata hivyo, Benki yenu haiwezi kujitenga kutokana na hali ngumu ya uchumi inayokabili nchi, na hatua zimechukuliwa kusitawisha usimamizi bora wa hadhara kuwezesha utambulikaji haraka wa mikopo iliyo na matatizo ili kuwezesha suluhisho na marekebisho ya mapema.

Ijapokuwa kulikuwa na ongezeko kubwa la uwekaji kando madeni hafifu, idadi ya madeni hayo katika Benki yenu ni ndogo sana, yapata asilimia 4.6 ya mikopo yote kwa jumla. Kipimo hicho kinalingana vema na vilivyolipotiwa na benki zingine kwa jumla.

Tukiangalia sasa vile kampuni ndogo za Benki yenu zilivyochangia faida, "The Heritage All Insurance Company Limited" iliendelea na mwenendo wake wa kupata faida pamoja na kampuni yake ndogo huko Tanzania ikionyesha faida zaidi kwa matokeo ya jumla. Katika mwenendo huo huo, "CFC Financial Services Limited" iliwahi kupunguza zaidi hasara yake mwakani. Inatarajiwa kuwa mwaka huu, katika kipindi chake cha pili cha utendaji, kutakuwa na matokeo mazuri kutoka kwa "CFC Financial Services Limited" kwamatokeo ya jumla.

Kutokana na faida ipasayo kupewa wanahisa ya shilingi 141,392,000, inapendekezwa kwamba mgao ya mwisho uwe sambamba na mwaka wa 2000, hivyo ni kusema senti 0.67 kwa kila hisa ilipwe tarehe 30 Mei 2002. Katika vidokezo vya matokeo ya jumua, mwaka baada ya mwaka, na eleza ya fuatayo:

- Jumla ya rasilimali iliongezeka kwa wastani kwa asilimia 5.4 hadi shilingi milioni 10,446. Mikopo kwa wateja wetu ilionyesha ongezeko dogo. Rasilimali yenyewe na Jumla ya rasilimali zote ukilinganisha na hadhara ya rasilimali ilikuwa asilimia 26 ambayo imezidi viwango vilivyowekwa kisheria vya kati ya asilimia 8 na asilimia 12.
- Jumla ya mali ya wateja iliongezeka hadi shilingi milioni 5,509, ongezeko la asilimia 10.
- Pesa taslimu zikiwa asilimia 37.
- Madeni yanayotarajiwa yalikuwa hadi shilingi milioni 1,955, ongezeko la asilimia 21.
- Shina la rasilimali yetu iko thabiti la shilingi milioni 1,851, ongezeko la shilingi milioni 66.

Mwaka wa 2001 ulikuwa wa pekee katika shughuli nyengine za Benki na jumua. Kwahivyo, na dokeza ya fuatayo:

- Benki yenu ilichaguliwa kama Benki bora zaidi nchini Kenya, tuzo kutoka kwa "Banker magazine".
- Benki yenu ilipata kiwango cha BB kutoka kwa majenti wa Kimataifa "Fitch IBCA".
- Benki yenu ilipewa leseni ya utunzaji rasilimali na "Retirement Benefits Authority".
- Benki yenu ilifunguwa tawi jipya huko "Upper Hill Medical Centre", Nairobi na ikalipana tawi lake huko Mombasa.
- Kampuni ndogo ya Benki yenu, "The Heritage All Insurance Company Limited" ilipata kiwango cha AA kutoka kwa majenti wa kimataifa.
- Kampuni ndogo ya Benki yenu, "CFC Financial Services Limited", ilipewa leseni kama wasimamizi wa rasilimali, na "Retirement Benefits Authority", pia "CFC Financial Services Limited" ilinunua kampuni ya "Equity Stockbrokers Limited".

Vyote hivyo, ninahakika mtakubaliyana nami ni mwaka wa mabadiliko na upanuzi mkubwa. Ningependa kujumuika na wewe kuhusu matamshi ya "Banker magazine" wakati wa utoaji was tuzo la Benki bora zaidi nchini Kenya.

"CFC Bank, imechukuwa hatua isiokifani kwa kufanya pahali pakupata huduma zote za fedha".

Kwa uongezaji wa huduma za hisa katika jumua na mipango ya utoaji huduma bora za Benki hivi karibuni, naamini kwamba Benki yenu itakuwa imejiandaa kutoa huduma zote za fedha nchini Kenya.

Tukiangalia mbele, kutaendelea kuwa na mashindano mengi katika sekta ya benki huku tukitarajia kufinyiliwa zaidi kwa mapato. Kama nilivyosema mwaka jana, Benki yenu imepanuka na imeongeza matawi yake bila kuongeza wafanya kazi hivi sasa wakiwa hudumia wateja wao moja kwa moja. I laya yalipatikana kutokana na uchunguzi wa utendaji kazi. Hatuwa hii inatarajiwa kumalizika baadaye mwaka huu, ikiwezesha wafanya kazi kutoa huduma bora zaidi kwa wateja wetu wanao ongezeko.

Nina furaha kuwaarifu kwamba dhidi ya upanuzi wa matawi yenu ukilinganisha na nilivyosema awali juu ya uwezo wa wafanya kazi, wateja wetu waliongezeka kwa asilimia 2 mwaka huu.

Kama nilivyo sema hapo awali, viwango vya mapato vitateremka zaidi, hatua zimechukuliwa na mipango imepangwa ili kuendeleza mapato. Hatua ya jumua ya kupanua huduma zake katika sekta ya fedha, Benki yenu sasa inaangalia njia za kupanua zaidi biashara za reja reja na sekta ya biashara wastani ambazo zita sambaza hadhara na madeni pamoja. Umuhimu wa teknolojia utasaidia zaidi hapa. Mpangilio wa Benki yenu ni ule ule wa kutoa huduma na usimamizi bora; ongezeko la faida, udumishaji wa huduma mpya pamoja na utoaji wa huduma bora. Kumbaki nafasi nyingi za ukuaji kwa thamani ya Benki yenu.

Katika kiwanda cha utoaji huduma kama cha Benki, wafanya kazi ni baadhi ya mambo muhimu yakuleta matokeo mema. Kwa hivyo juhudi imefanywa ili kuwapatia mafunzo na usaidizi kwa njia ya masomo humu nchini na nje. Kwa ajili ya mashindano mengi katika sekta ya Benki, hatua kabambe zitachukuliwa kuendeleza ujuzi wa wafanya kazi.

Benki imepokea na kufahamu miongozo ya hivi karibuni kutoka kwa "Capital Markets Authority" kuhusu sheria za uongozaji wa kampuni za uma ambazo hisa zake huuzwa katika soko la hisa.

Mwaka wa 2001 ulikuwa wa makabiliano kwa benki yenu. Utendaji kwa jumla ulionekana kutokana kwa faida za upanuzi na juhudi zetu. Faida yenyewe iliweza kusimamia matuzi mwaka jana bila kudhuru migao ama rasilimali zetu.

Nifuraha kubwa kumkaribisha Bw S W Lewis katika Halmashauri ambaye aliteuliwa kama Mkurugenzi wa benki yenu tarehe 1 June 2001. Wenzangu na mimi katika halmashauri tuna hakika kwamba kutokana na matendo yake na ujuzi mwingi Bw Lewis ata toa hoja njema kwa benki yetu.

Kama pengine munavyojua, Bw M.N. Majmudar, Mkurugenzi Mkuu wa Benki alistaafu tarehe 30 Juni 2001. Wenzangu na mimi katika halmashauri tungependa kuchukua nafasi hii kwa kumushukuru Bw Majmudar kwa uendeshaji bora Benki yenu kwa kuweka msingi kama alivyo fanya kwa maendeleo ya Benki na upanuzi wa jumua. Tuna muomba mema Bw Majmudar kwa kustaafu kwake. Nifuraha kwa kumkaribisha Bw R.J. Barry kama Mkurugenzi Mkuu mpya. Bw Barry ambaye amekuwa na Benki yenu tangu mwaka wa 1993 ni mwana benki shupavu na wenzangu na mimi tuna hakika kwamba kutokana na matendo yake na ujuzi ataweza kuonyesha kwamba yeye ni rasilmali huku Benki ikizidi kuendelea.

Niki funga ningependa kutoa shukurani zangu kwa wafanya kazi kwa kujitolea na ujuzi wao kwa kila viwango, kwa ujuzi na tabia zao. Ningependa pia kuwashukuru wakurugenzi wenzangu kwa usaidizi na ushauri wao mwakani.

P K JANI
MWENYEKITI

27 Februari 2002

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

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 | 141,392 |
| Proposed dividend | 80,400 |
| Retained profit carried to revenue reserve | <u>60,992</u> |

DIVIDEND

The directors recommend a first and final dividend of sixty seven cents per share (13.42%) for the year ended 31 December 2001 which is to be paid on or about 30 May 2002 to shareholders registered at the close of business on 9 May 2002.

DIRECTORS

The present directors are shown on page 2.

Mr S W Lewis who was appointed a director on 1 June 2001, retires and, being eligible, offers himself for re-election.

Messrs P K Jani and J G Kiereini, who are over 70 years, retire by rotation. Special notices have been received by the bank 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

27 February 2002

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 13 to 44 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 11, 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:

- i) proper books of account have been kept by the bank and the bank's balance sheet is in agreement therewith;
- ii) the financial statements give a true and fair view of the state of affairs of the bank and the group at 31 December 2001 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

27 February 2002

CONSOLIDATED INCOME STATEMENT**FOR THE YEAR ENDED 31 DECEMBER 2001**

| | Note | 2001 Sh'000 | 2000 Sh'000 |
|--|------|----------------|----------------|
| INCOME | 4 | 2,094,650 | 1,853,145 |
| EXPENDITURE | 5 | 1,834,183 | 1,492,523 |
| PROFIT BEFORE TAXATION | | 260,467 | 360,622 |
| TAXATION | 7 | 68,643 | 125,712 |
| PROFIT AFTER TAXATION | 8 | 191,824 | 234,910 |
| MINORITY INTEREST | | 50,432 | 41,268 |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | | 141,392 | 193,642 |
| | | Sh | Sh |
| EARNINGS PER SHARE | 9 | 1.18 | 1.61 |
| DIVIDEND PER SHARE | 10 | 0.67 | 0.67 |

CONSOLIDATED BALANCE SHEET**31 DECEMBER 2001**

| | Note | 2001 Sh'000 | 2000 Sh'000 |
|---|-------|-------------------|------------------|
| ASSETS | | | |
| Cash and balances with Central Bank of Kenya | 11 | 454,404 | 456,433 |
| Government securities | 12 | 1,318,919 | 1,326,600 |
| Deposits and balances due from banking institutions | | 1,400,400 | 878,531 |
| Loans and advances to customers | 13 | 5,280,434 | 5,260,599 |
| Interest receivable and other assets | | 602,102 | 535,028 |
| Taxation recoverable | | 17,422 | 17,308 |
| Investment properties | 16 | 132,900 | 133,612 |
| Other investments | 17 | 622,491 | 710,781 |
| •Property and equipment | 18(a) | 567,248 | 555,401 |
| Goodwill | 19 | 3,421 | - |
| Intangible assets | 20 | 7,003 | 10,410 |
| Deferred tax | 21 | 39,799 | 29,361 |
| Total assets | | 10,446,543 | 9,914,064 |
| LIABILITIES | | | |
| Customer deposits | 22 | 5,509,952 | 5,003,746 |
| Line of credit | 23 | 786,000 | 780,500 |
| Deposits and balances due to banking institutions | | - | 132,075 |
| Interest payable and other liabilities | | 1,890,699 | 1,852,330 |
| Taxation payable | | 38 | 1,776 |
| Total liabilities | | 8,186,689 | 7,770,427 |
| CAPITAL RESOURCES | | | |
| Share capital | 24 | 600,000 | 600,000 |
| Capital reserve | | 160,959 | 185,229 |
| Revenue reserve | | 1,090,771 | 1,000,294 |
| Proposed dividend | | 80,400 | 80,400 |
| Shareholders' funds | | 1,932,130 | 1,865,923 |
| Minority interest | | 327,724 | 277,714 |
| Total liabilities and equity | | 10,446,543 | 9,914,064 |

The financial statements on pages 13 to 44 were approved by the board of directors on 27 February 2002 and were signed on its behalf by:

P K Jani)
R J Barry) Directors
A P Hamilton)
R R Vora) Secretary

BANK BALANCE SHEET**31 DECEMBER 2001**

| | Note | 2001 Sh'000 | 2000 Sh'000 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Cash and balances with Central Bank of Kenya | 11 | 454,395 | 456,344 |
| Government securities | 12 | 725,100 | 500,000 |
| Deposits and balances due from banking institutions | | 919,833 | 732,921 |
| Loans and advances to customers | 13 | 5,280,434 | 5,260,599 |
| Interest receivable and other assets | | 185,093 | 181,236 |
| Taxation Recoverable | | 3,326 | - |
| Due from subsidiary companies | | 28,473 | 31,740 |
| Investment in subsidiary companies | 15 | 166,235 | 289,082 |
| Other investments | 17 | - | 10,000 |
| Property and equipment | 18(b) | 506,141 | 481,097 |
| Intangible assets | 20 | 4,969 | 6,385 |
| Deferred tax | 21 | 23,409 | 23,030 |
| Total assets | | 8,297,408 | 7,972,434 |
| LIABILITIES | | | |
| Customer deposits | 22 | 5,699,900 | 5,120,744 |
| Line of credit | 23 | 786,000 | 780,500 |
| Deposits and balances due to banking institutions | | - | 132,075 |
| Interest payable and other liabilities | | 266,481 | 287,230 |
| Taxation payable | | - | 542 |
| Amount due to subsidiary companies | | 5,580 | 132,222 |
| Total liabilities | | 6,757,961 | 6,453,313 |
| CAPITAL RESOURCES | | | |
| Share capital | 24 | 600,000 | 600,000 |
| Revenue reserve | 25 | 859,047 | 838,721 |
| Proposed dividend | 25 | 80,400 | 80,400 |
| Total equity | | 1,539,447 | 1,519,121 |
| Total liabilities and equity | | 8,297,408 | 7,972,434 |

The financial statements on pages 13 to 44 were approved by the board of directors on 27 February 2002 and were signed on its behalf by:

P K Jani)
R J Barry) Directors
A P Hamilton)

R R Vora) Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2001

| | Share capital Sh'000 | Capital reserve Sh'000 | Revenue reserve Sh'000 | Proposed dividend Sh'000 | Total Sh'000 |
|--|----------------------------|------------------------------|------------------------------|--------------------------------|------------------|
| 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 10) | - | - | (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 |
| At 1 January 2001 | 600,000 | 185,229 | 1,000,294 | 80,400 | 1,865,923 |
| Reclassification of revaluation reserve on investment property - IAS 40 | - | (60,830) | 60,830 | - | - |
| Exchange difference arising on translation of a foreign subsidiary | - | (3,852) | 695 | - | (3,157) |
| Surplus on revaluation of quoted investments | - | 8,372 | - | - | 8,372 |
| Profit attributable to shareholders | - | - | 141,392 | - | 141,392 |
| Dividend paid - 2000 | - | - | - | (80,400) | (80,400) |
| Proposed dividend - 2001 (Note 10) | - | - | (80,400) | 80,400 | - |
| Bonus issue in subsidiary company | - | 32,040 | (32,040) | - | - |
| At 31, December 2001 | 600,000 | 160,959 | 1,090,771 | 80,400 | 1,932,130 |

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

| | Note | 2001 Sh'000 | 2000 Sh'000 |
|--|-------|----------------|----------------|
| NET CASH FROM/(USED IN) OPERATING ACTIVITIES | 26(a) | 745,600 | (519,700) |
| INVESTING ACTIVITIES | | | |
| Additions to property and equipment | | (84,421) | (103,230) |
| Additions to intangible assets | | (2,233) | (8,415) |
| Proceeds from sale of equipment | | 3,419 | 3,737 |
| Additions to investment properties | | (3,304) | (299) |
| Dividends received | | 19,275 | 8,895 |
| Acquisition of subsidiary company | 27 | (9,519) | - |
| Net cash used in investing activities | | (76,783) | (99,312) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (80,400) | (67,000) |
| Dividends paid to minority | | (14,368) | (12,572) |
| Net cash used in financing activities | | (94,768) | (79,572) |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 26(c) | 574,049 | (698,584) |

FOR THE YEAR ENDED 31 DECEMBER 2001

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards. The principal accounting policies remain unchanged from the previous year, except for the adoption of International Accounting Standard No. 40, Investment Property.

(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, Equity Stockbrokers 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 2001. See also note 15.

(c) GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's share of the fair value of the identifiable assets and liabilities of a subsidiary at the date of the acquisition. Goodwill is recognised as an asset and amortised on a systematic basis over its useful economic life, subject to maximum of 20 years.

(d) 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. Valuation are carried out every three years by independent valuers and updated every year by the directors. Changes in their carrying amounts are accounted for in the income statement in accordance with International Accounting Standard No. 40. Investment properties are not depreciated.

Other investments

Other investments are stated at the following values:

- (i) Quoted equity investments which are classified as available for sale are stated 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) Quoted equity investments which are classified as held for trading are stated at market value. The change in value is dealt with in the income statement;
- (iii) Unquoted equity investments at the lower of cost or directors' valuation;
- (iv) Government stock at cost;
- (v) 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.

1 ACCOUNTING POLICIES (continued)

(e) 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 hire purchase 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 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.

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.

(f) 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% - 30% |

(g) COMPUTER SOFTWARE COSTS

Generally, costs associated with developing computer software programmes are recognised as an expense. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the group 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 an annual rate of 30%.

1 ACCOUNTING POLICIES (continued)**(h) 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.

(i) 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.

(j) 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).

(k) 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.

(l) RETIREMENT BENEFIT OBLIGATIONS

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.

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 contribution in respect of retirement benefits obligations are charged to the income statement as incurred.

1 ACCOUNTING POLICIES (continued)**(m) 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).

(n) COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

During 2001, the Central Bank of Kenya (Amendment) Act 2000, which had been previously passed by Parliament, received Presidential assent with an effective date of 1 January 2001. On 24 January 2002, the Constitutional Court of Kenya ruled that the Act is retrospective and therefore inconsistent with the Constitution of Kenya. Following the ruling, various conflicting legal interpretations have been published.

The Bank has sought and received legal advice, which has confirmed that the Central Bank of Kenya (Amendment) Act 2000 is defective and therefore ineffective. The directors have prepared these financial statements on the basis of this legal advice.

3 SEGMENTAL REPORTING

(a) Primary reporting format - Business segments

| | BANKING | | INSURANCE | | GROUP | |
|-------------------------------|-----------|-----------|-----------|-----------|------------|-----------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| Income | 1,249,600 | 1,070,796 | 845,050 | 782,349 | 2,094,650 | 1,853,145 |
| Expenditure | 1,138,304 | 886,435 | 695,879 | 606,088 | 1,834,183 | 1,492,523 |
| Segment result | 111,296 | 184,361 | 149,171 | 176,261 | 260,467 | 360,622 |
| Taxation | | | | | 68,643 | 125,712 |
| Profit after taxation | | | | | 191,824 | 234,910 |
| Assets | 8,306,567 | 7,750,634 | 2,139,976 | 2,163,430 | 10,446,543 | 9,914,064 |
| Liabilities | 6,752,687 | 6,767,521 | 1,434,002 | 1,002,906 | 8,186,689 | 7,770,427 |
| Capital expenditure | 67,825 | 86,275 | 22,133 | 25,370 | 89,958 | 111,645 |
| Depreciation and amortisation | 47,901 | 44,349 | 29,552 | 27,360 | 77,453 | 71,709 |

(b) Secondary reporting format - Geographical segments

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

| | 2001 Sh'000 | 2000 Sh'000 |
|---|-----------------------|-----------------------|
| 4 INCOME | | |
| Interest on loans and advances | 946,938 | 813,409 |
| Interest on Government securities | 130,143 | 161,807 |
| Interest on placements and bank balances | 76,086 | 64,728 |
| Dividends from quoted equity investments | 19,275 | 8,895 |
| Gains from investment securities | 32,977 | 28,736 |
| Fees and commissions | 150,814 | 108,428 |
| Gains from foreign exchange dealing | 19,114 | 11,746 |
| Profit on disposal of equipment | 3,111 | 1,223 |
| Profit on disposal of quoted equity investments | - | 3,274 |
| Insurance premiums earned | 682,235 | 628,344 |
| Other income | 33,957 | 22,555 |
| | <hr/> 2,094,650 <hr/> | <hr/> 1,853,145 <hr/> |
| 5 EXPENDITURE | | |
| Interest on deposits | 456,489 | 331,916 |
| Interest on borrowed funds | 54,844 | 70,637 |
| Fees and commissions | 47,236 | 23,248 |
| Bad and doubtful debts | 170,097 | 63,542 |
| Insurance claims incurred | 392,142 | 328,310 |
| Other expenses (note 6) | 713,375 | 674,870 |
| | <hr/> 1,834,183 <hr/> | <hr/> 1,492,523 <hr/> |
| 6 OTHER EXPENSES | | |
| Staff costs | 396,304 | 379,354 |
| Directors' emoluments:- | | |
| as directors | 6,297 | 6,512 |
| as executives | 28,330 | 24,632 |
| Depreciation | 71,813 | 66,142 |
| Amortisation | 5,640 | 5,567 |
| Operating lease rentals - property | 21,088 | 17,322 |
| Deficit on revaluation of investment property | 2,640 | - |
| Auditors' remuneration - current year | 4,811 | 4,382 |
| - prior year underprovision | 234 | - |
| Contribution to Deposit Protection Fund | 6,439 | 4,746 |
| Other costs | 169,779 | 166,213 |
| | <hr/> 713,375 <hr/> | <hr/> 674,870 <hr/> |

The average number of employees for the group during the year was 336 (2000 : 321).

| | 2001 Sh'000 | 2000 Sh'000 |
|---|----------------|----------------|
| 7 TAXATION | | |
| (a) Taxation expense | | |
| Current tax at 30% | 77,007 | 128,685 |
| Deferred tax (note 21) | (8,364) | (2,973) |
| | <u>68,643</u> | <u>125,712</u> |
| (b) Reconciliation of taxation expense to expected tax based on accounting profit | | |
| Accounting profit before taxation | <u>260,467</u> | <u>360,622</u> |
| Tax at the applicable rate of 30% | 78,140 | 108,187 |
| Deferred tax asset under provided in prior periods | (10,831) | - |
| Tax effect of expenses not deductible for tax | 7,011 | 17,525 |
| Tax effect of income exempt from tax | (5,677) | - |
| | <u>68,643</u> | <u>125,712</u> |

8 CONSOLIDATED PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the bank is Sh 100,726,000 (2000 - Sh 170,299,000).

9 EARNINGS PER SHARE

Basic earnings per share is calculated on the consolidated profit attributable to the shareholders of Sh 141,392,000 (2000 - Sh 193,642,000) and the number of ordinary shares in issue during the year. The number of shares used is 120,000,000 (2000 - 120,000,000).

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

10 DIVIDEND

At the annual general meeting on 30 May 2002, a first and final dividend in respect of 2001 of Sh 0.67 per share (2000 - Sh 0.67 per share) amounting to a total of Sh 80,400,000 (2000 - Sh 80,400,000) is to be proposed. The proposed amount has been provided for in accordance with International Accounting Standard No. 10.

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

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| 11 CASH AND BALANCES WITH CENTRAL BANK OF KENYA | | | | |
| Cash on hand | 63,177 | 43,940 | 63,168 | 43,851 |
| Balances with Central Bank of Kenya | | | | |
| - Cash ratio requirement | 391,227 | 412,493 | 391,227 | 412,493 |
| | <hr/> 454,404 | <hr/> 456,433 | <hr/> 454,395 | <hr/> 456,344 |

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.

| | GROUP | | BANK | |
|--|-----------------|-----------------|----------------|----------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| 12 GOVERNMENT SECURITIES | | | | |
| Treasury bills and bonds | | | | |
| Maturing within 90 days of the balance sheet date | 764,569 | 751,150 | 650,000 | 500,000 |
| Maturing after 90 days of the balance sheet date | 554,350 | 575,450 | 75,100 | - |
| | <hr/> 1,318,919 | <hr/> 1,326,600 | <hr/> 725,100 | <hr/> 500,000 |

The effective interest rate on Government securities as at 31 December 2001 was 12% (2000 - 12%).

13 LOANS AND ADVANCES TO CUSTOMERS

| GROUP AND BANK | 2001 Sh'000 | 2000 Sh'000 |
|--|----------------|----------------|
| Hire purchase | 1,127,689 | 1,192,291 |
| Loans, advances and bills discounted | 4,291,737 | 4,253,144 |
| | <hr/> | <hr/> |
| | 5,419,426 | 5,445,435 |
| Interest in suspense | (23,955) | (35,318) |
| Provision for bad and doubtful debts (note 14) | (115,037) | (149,518) |
| | <hr/> | <hr/> |
| | 5,280,434 | 5,260,599 |

Analysis of gross loans and advances by maturity:

| | | |
|------------------------------|-----------|-----------|
| Maturing within one year | 3,744,091 | 3,830,594 |
| Over one year to three years | 1,130,245 | 1,313,121 |
| Over three years | 545,090 | 301,720 |
| | <hr/> | <hr/> |
| | 5,419,426 | 5,445,435 |

Analysis of gross loans and advances by economic sectors :

| | 2001 Sh'000 | 2000 % | 2001 Sh'000 | 2000 % |
|--|----------------|-----------|----------------|-----------|
| Agriculture | 387,335 | 7 | 444,715 | 8 |
| Manufacturing | 1,815,544 | 34 | 1,633,940 | 30 |
| Wholesale and retail trade | 841,517 | 16 | 1,021,919 | 19 |
| Transport and communications | 867,222 | 16 | 951,642 | 18 |
| Real estate | 23,517 | - | 25,684 | - |
| Social community and personal services | 43,984 | 1 | 233,643 | 4 |
| Electricity and water | 108,920 | 2 | 114,269 | 2 |
| Business services | 817,531 | 15 | 702,574 | 13 |
| Other | 513,856 | 9 | 317,049 | 6 |
| | <hr/> | | <hr/> | |
| | 5,419,426 | 100 | 5,445,435 | 100 |

The effective interest rate on loans and advances to customers as at 31 December 2001 was 16% (2000 - 18 %).

The aggregate balance of non-performing advances as at 31 December 2001 was Sh 248,878,000 (2000 - Sh 179,598,000). These are included in the balance sheet net of specific provisions and interest in suspense at Sh 162,988,000 (2000 - Sh 47,864,000).

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

| GROUP AND BANK | 2001 Sh'000 | 2000 Sh'000 |
|----------------------------|----------------|----------------|
| (a) Specific provisions | | |
| At 1 January | 96,416 | 165,076 |
| Provisions during the year | 170,097 | 48,312 |
| Write-offs | (204,578) | (116,972) |
| At 31 December | 61,935 | 96,416 |
| (b) General provisions | | |
| At 1 January | 53,102 | 37,872 |
| Provisions during the year | - | 15,230 |
| At 31 December | 53,102 | 53,102 |
| Total provisions (note 13) | 115,037 | 149,518 |

15 INVESTMENT IN SUBSIDIARY COMPANIES

| Company | Beneficial Ownership | 2001 Sh'000 | BANK 2000 Sh'000 |
|---|-------------------------|----------------|------------------------|
| CFC Financial Services Limited | 100% | 100,530 | 100,530 |
| Equity Stockbrokers Limited | 100% | - | - |
| Credit Banking Corporation Limited* | 100% | - | 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% | - | - |
| | | 166,235 | 289,082 |

*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 from the Register of Companies on 2 March 2001.

Equity Stockbrokers Limited is a 100% subsidiary of CFC Financial Services Limited.

| | 2001 Sh'000 | 2000 Sh'000 |
|---------------------------------|----------------|----------------|
| 16 INVESTMENT PROPERTIES | | |
| GROUP | | |
| Freehold properties | | |
| At 1 January | 133,612 | 133,313 |
| Additions | 3,304 | 299 |
| Revaluation deficit | (4,016) | - |
| At 31 December | <u>132,900</u> | <u>133,612</u> |
| COMPRISING: | | |
| Cost | - | 18,012 |
| Valuation in 2001 | 132,900 | - |
| Valuation in 1998 | - | 115,600 |
| | <u>132,900</u> | <u>133,612</u> |

Investment properties were revalued as at 31 December 2001 by Lloyd Masika Limited, Registered Valuers, on an open market basis.

The group has adopted International Accounting Standards No. 40, Investment property (IAS 40), for the first time in 2001. In line with the transitional provisions of IAS 40, the revaluation surplus relating to investment properties has been transferred from capital reserve to revenue reserve.

At 31 December 2001, the book value of investment properties based on original cost was Sh 39,264,000 (2000 - Sh 35,960,000).

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| 17 OTHER INVESTMENTS | | | | |
| Quoted equity investments at mid market value | 213,406 | 188,342 | - | - |
| Unquoted equity investments at cost and directors' valuation | 59,346 | 58,201 | - | - |
| Commercial paper, corporate bonds and other investments | 349,739 | 464,238 | - | 10,000 |
| | <u>622,491</u> | <u>710,781</u> | <u>-</u> | <u>10,000</u> |

The effective interest rate on commercial paper, corporate bonds and other investments as at 31st December 2001 was 11% (2000 - 13 %).

18 PROPERTY AND EQUIPMENT

(a) GROUP

| | Long leasehold land and building Sh'00 | Motor vehicles Sh'000 | Furniture and equipment Sh'000 | Capital work in progress Sh'000 | Total Sh'000 |
|------------------------------|--|-----------------------------|---|--|-----------------|
| COST | | | | | |
| At 1 January 2001 | 387,710 | 55,143 | 302,630 | 6,438 | 751,921 |
| Exchange differences | - | (465) | (2,142) | - | (2,607) |
| Reclassification | - | - | 6,438 | (6,438) | - |
| Additions | - | 16,673 | 67,748 | - | 84,421 |
| On acquisition of subsidiary | - | - | 6,178 | - | 6,178 |
| On disposals | - | (11,804) | (980) | - | (12,784) |
| At 31 December 2001 | 387,710 | 59,547 | 379,872 | - | 827,129 |
| DEPRECIATION | | | | | |
| At 1 January 2001 | 8,700 | 34,581 | 153,239 | - | 196,520 |
| Exchange differences | - | (205) | (870) | - | (1,075) |
| Charge for the year | 7,404 | 10,559 | 53,850 | - | 71,813 |
| On acquisition of subsidiary | - | - | 5,099 | - | 5,099 |
| On disposals | - | (11,803) | (673) | - | (12,476) |
| At 31 December 2001 | 16,104 | 33,132 | 210,645 | - | 259,881 |
| NET BOOK VALUE | | | | | |
| At 31 December 2001 | 371,606 | 26,415 | 169,227 | - | 567,248 |
| At 31 December 2000 | 379,010 | 20,562 | 149,391 | 6,438 | 555,401 |

Motor vehicles, furniture and equipment stated at a cost of Sh 105,746,000 (2000-Sh 87,920,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 26,236,000 (2000 - Sh 21,854,000).

18 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 2001 | 387,710 | 28,508 | 185,965 | 6,438 | 608,621 |
| Reclassification | - | - | 6,438 | (6,438) | - |
| Additions | - | 10,012 | 56,388 | - | 66,400 |
| Disposals | - | (9,221) | (890) | - | (10,111) |
| At 31 December 2001 | 387,710 | 29,299 | 247,901 | - | 664,910 |
| DEPRECIATION | | | | | |
| At 1 January 2001 | 8,700 | 23,638 | 95,186 | - | 127,524 |
| Charge for the year | 7,404 | 3,832 | 29,874 | - | 41,110 |
| Eliminated on disposals | - | (9,220) | (645) | - | (9,865) |
| At 31 December 2001 | 16,104 | 18,250 | 124,415 | - | 158,769 |
| NET BOOK VALUE | | | | | |
| At 31 December 2001 | 371,606 | 11,049 | 123,486 | - | 506,141 |
| At 31 December 2000 | 379,010 | 4,870 | 90,779 | 6,438 | 481,097 |

Motor vehicles, furniture and equipment stated at a cost of Sh 85,510,000 (2000 - Sh 73,268,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 21,023,000 (2000 - Sh 18,170,000).

19 GOODWILL

| | 2001 Sh'000 |
|--|----------------|
| COST | |
| At 1 January | - |
| Arising on acquisition of a subsidiary (note 27) | 3,421 |
| | <hr/> |
| At 31 December | 3,421 |
| | <hr/> |

The goodwill will be amortised on a straight line basis over its estimated useful life of one year with effect from 1 January 2002.

20 INTANGIBLE ASSETS

| | GROUP Computer software Sh'000 | BANK Computer software Sh'000 |
|---------------------|---|--|
| COST | | |
| At 1 January 2001 | 28,095 | 19,704 |
| Additions | 2,233 | 1,368 |
| | <hr/> | <hr/> |
| At 31 December 2001 | 30,328 | 21,072 |
| | <hr/> | <hr/> |
| AMORTISATION | | |
| At 1 January 2001 | 17,685 | 13,319 |
| Charge for the year | 5,640 | 2,784 |
| | <hr/> | <hr/> |
| At 31 December 2001 | 23,325 | 16,103 |
| | <hr/> | <hr/> |
| NET BOOK VALUE | | |
| At 31 December 2001 | 7,003 | 4,969 |
| | <hr/> | <hr/> |
| At 31 December 2000 | 10,410 | 6,385 |
| | <hr/> | <hr/> |

21 DEFERRED TAX

| | 2001 Sh'000 | 2000 Sh'000 |
|---|----------------|----------------|
| (a) GROUP | | |
| Movement on the deferred tax account is as follows: | | |
| At 1 January | 29,361 | 26,388 |
| Acquired on acquisition of a subsidiary | 2,074 | - |
| Income statement credit | 8,364 | 2,973 |
| At 31 December | <u>39,799</u> | <u>29,361</u> |

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

| | | |
|--|---------------|---------------|
| General provision for bad and doubtful debts | 15,930 | 15,930 |
| Depreciation in excess of capital allowances | 15,782 | 2,169 |
| Tax losses in subsidiary companies | 8,087 | 10,924 |
| Unrealised exchange differences | - | 338 |
| | <u>39,799</u> | <u>29,361</u> |

(b) BANK

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

| | | |
|--|---------------|---------------|
| General provision for bad and doubtful debts | 15,930 | 15,930 |
| Depreciation in excess of capital allowances | 7,479 | 7,100 |
| | <u>23,409</u> | <u>23,030</u> |

22 CUSTOMER DEPOSITS

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| (a) From government and parastatals | | | | |
| Payable within 90 days | 177,689 | 58,300 | 177,689 | 58,300 |
| (b) From private sector and individuals | | | | |
| Payable within 90 days | 5,217,535 | 4,808,354 | 5,407,483 | 4,925,352 |
| Payable after 90 days but within one year | 111,408 | 137,009 | 111,408 | 137,009 |
| Payable after one year | 3,320 | 83 | 3,320 | 83 |
| | <u>5,509,952</u> | <u>5,003,746</u> | <u>5,699,900</u> | <u>5,120,744</u> |

The bank's customer deposits payable within 90 days include deposits from subsidiary companies amounting to Sh 189,948,000 (2000 - Sh 116,998,000).

The effective interest rate on customer deposits as at 31 December 2001 was 7% (2000 - 8%).

23 LINE OF CREDIT

GROUP AND BANK

| | 2001 Sh'000 | 2000 Sh'000 |
|--|----------------|----------------|
| International Finance Corporation (Washington) | <u>786,000</u> | <u>780,500</u> |

The bank has an unsecured revolving medium term line of credit with the International Finance Corporation (Washington) of US\$ 10,000,000. As at 31 December 2001, the draw down was US\$ 10,000,000 (2000 - US\$ 10,000,000).

The effective interest rate on the line of credit as at 31 December 2001 was 5% (2000 - 9%).

24 SHARE CAPITAL

Authorised, issued and fully paid:

120,000,000 (2000 - 120,000,000) ordinary shares of Sh 5 each

| | 2001 Sh'000 | 2000 Sh'000 |
|--|----------------|----------------|
| | <u>600,000</u> | <u>600,000</u> |

25 RESERVES

| BANK | Revenue reserve Sh'000 | Proposed dividend Sh'000 | Total Sh'000 |
|--------------------------|------------------------------|--------------------------------|-----------------|
| At 1 January 2001 | 838,721 | 80,400 | 919,121 |
| Profit for the year | 100,726 | - | 100,726 |
| Dividend paid - 2000 | - | (80,400) | (80,400) |
| Proposed dividend - 2001 | (80,400) | 80,400 | - |
| At 31 December 2001 | 859,047 | 80,400 | 939,447 |

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

| | 2001 Sh'000 | 2000 Sh'000 |
|---|----------------|----------------|
| (a) Reconciliation of consolidated profit before taxation to net cash (used in)/from operating activities | | |
| Consolidated profit before taxation | 260,467 | 360,622 |
| Depreciation | 71,813 | 66,142 |
| Amortisation | 5,640 | 5,567 |
| Profit on sale of equipment | (3,111) | (1,223) |
| Profit on disposal of quoted equity investments | - | (3,274) |
| Deficit on revaluation of investment property | 2,640 | - |
| Dividends receivable - quoted and unquoted equity investments | (19,275) | (8,895) |
| Exchange differences on translation of a foreign subsidiary | 6,630 | - |
| | 324,804 | 418,939 |
| (Increase)/decrease in operating assets | | |
| Loans and advances to customers | (19,835) | (2,171,450) |
| Interest receivable and other assets | (65,242) | (146,613) |
| Cash ratio requirement | 21,266 | (66,083) |
| Government securities | 21,100 | (296,725) |
| Other investments | 86,763 | (184,642) |
| Deposits and balances due from banking institutions | (101,500) | - |
| | (57,448) | (2,865,513) |
| Increase in operating liabilities | | |
| Customer deposits | 506,206 | 1,878,347 |
| Line of credit | 5,500 | 51,000 |
| Interest payable and other liabilities | 45,435 | 135,051 |
| | 557,141 | 2,064,398 |
| Net cash generated from/(used in) operations | 824,497 | (382,176) |
| Tax paid | (78,897) | (137,524) |
| Net cash from/(used in) operating activities | 745,600 | (519,700) |

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

| | 2001 Sh'000 | 2000 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 | 63,177 | 43,940 |
| Treasury bills and bonds | 764,569 | 751,150 |
| Deposits and balances due from banking institutions | 1,298,900 | 878,531 |
| Deposits and balances due to banking institutions | - | (132,075) |
| | <u>2,126,646</u> | <u>1,541,546</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.

| | 2001 Sh'000 | 2000 Sh'000 |
|--|----------------|------------------|
| (c) Changes in cash and cash equivalents during the year | | |
| Balance at the end of the year | 2,126,646 | 1,541,546 |
| On acquisition of a subsidiary | (11,051) | - |
| Balance at the beginning of the year | (1,541,546) | (2,240,130) |
| | <u>574,049</u> | <u>(698,584)</u> |
| Increase/(decrease) in cash and cash equivalents | | |

27 ACQUISITION OF A SUBSIDIARY

On 1 November 2001, the group acquired 100% of the issued share capital of Equity Stockbrokers Limited for a cash consideration of Sh 9,519,000. The transaction has been accounted for as at 31 December 2001 under the purchase method of accounting.

The effect of not consolidating the post acquisition results of Equity Stockbrokers Limited into the group results is not material.

| | 2001 Sh'000 |
|-------------------------------|----------------|
| Net assets acquired: | |
| Deposits and bank balances | 11,051 |
| Other debtors and prepayments | 1,832 |
| Other investments | 1,145 |
| Equipment | 1,079 |
| Other liabilities | (11,045) |
| Taxation payable | (38) |
| Deferred tax asset | 2,074 |
| | <hr/> |
| | 6,098 |
| Goodwill (note 19) | 3,421 |
| | <hr/> |
| Total cash consideration | 9,519 |
| | <hr/> |

28 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2001 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 | 320,143 | 124,609 | 8,848 | 526 | 278 | - | - | 454,404 |
| Government securities | 686,286 | 78,283 | - | 191,000 | 357,650 | 5,700 | - | 1,318,919 |
| Deposits and balances due from banking institutions | 1,248,550 | 50,350 | 101,500 | - | - | - | - | 1,400,400 |
| Loans and advances to customers | 1,319,024 | 1,078,849 | 670,553 | 589,292 | 1,084,179 | 453,317 | 85,220 | 5,280,434 |
| Interest receivable and other assets | 262,900 | 158,403 | 137,866 | 28,571 | 2,629 | 10,417 | 1,316 | 602,102 |
| Tax recoverable | - | - | 13,644 | - | 3,778 | - | - | 17,422 |
| Investment properties | - | - | - | - | - | - | 132,900 | 132,900 |
| Other investments | 75,783 | 49,476 | - | 66,281 | 58,530 | 108,855 | 263,566 | 622,491 |
| Property and equipment | - | - | - | - | 11,614 | - | 555,634 | 567,248 |
| Goodwill | - | - | - | 3,421 | - | - | - | 3,421 |
| Intangible assets | - | - | - | - | - | - | 7,003 | 7,003 |
| Deferred tax asset | - | - | - | - | - | - | 39,799 | 39,799 |
| Total assets | 3,912,686 | 1,539,970 | 932,411 | 879,091 | 1,518,658 | 578,289 | 1,085,438 | 10,446,543 |

29 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 | 3,530,079 | 1,865,145 | 105,157 | 6,251 | 3,320 | - | - | 5,509,952 |
| Line of credit | - | 786,000 | - | - | - | - | - | 786,000 |
| Interest payable and Other liabilities | 1,043,550 | 187,029 | 71,237 | 273,523 | 226,724 | 43,125 | 45,511 | 1,890,699 |
| Taxation payable | - | - | 38 | - | - | - | - | 38 |
| Shareholders' funds and minority interest | - | - | - | - | - | - | 2,259,854 | 2,259,854 |
| Total equity and liabilities | 4,573,629 | 2,838,174 | 176,432 | 279,774 | 230,044 | 43,125 | 2,305,365 | 10,446,543 |
| Net Liquidity Gap | (660,943) | (1,298,204) | 755,979 | 599,317 | 1,288,614 | 535,164 | (1,219,927) | - |
| As at 31 December 2000 | | | | | | | | |
| 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 |
| 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) | - |

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.

29 INTEREST RATE RISK

The group 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 assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The group 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 | 3 - 5 years Sh'000 | Non interest bearing Sh'000 | Total Sh'000 |
|---|----------------------------|---------------------------|---------------------------|----------------------------|--------------------------|--------------------------|--------------------------------------|-------------------|
| ASSETS | | | | | | | | |
| Cash and balances with Central Bank of Kenya | - | - | - | - | - | - | 454,404 | 454,404 |
| Government securities | 1,032,986 | 146,633 | 139,300 | - | - | - | - | 1,318,919 |
| Deposits and balances due from banking institutions | 1,246,659 | 50,350 | 101,500 | - | - | - | 1,891 | 1,400,400 |
| Loans and advances to customers | 5,280,434 | - | - | - | - | - | - | 5,280,434 |
| Interest receivable and other assets | 4,184 | 79,110 | 88 | 184 | 983 | 1,296 | 516,257 | 602,102 |
| Taxation recoverable | - | - | - | - | - | - | 17,422 | 17,422 |
| Investment properties | - | - | - | - | - | - | 132,900 | 132,900 |
| Other investments | 144,177 | 46,707 | - | 64,148 | 50,000 | 44,707 | 272,752 | 622,491 |
| Property and equipment | - | - | - | - | - | - | 567,248 | 567,248 |
| Goodwill | - | - | - | - | - | - | 3,421 | 3,421 |
| Intangible assets | - | - | - | - | - | - | 7,003 | 7,003 |
| Deferred tax asset | - | - | - | - | - | - | 39,799 | 39,799 |
| Total assets | 7,708,440 | 322,800 | 240,888 | 64,332 | 50,983 | 46,003 | 2,013,097 | 10,446,543 |



29 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 | 3 - 5 years Sh'000 | Non interest bearing Sh'000 | Total Sh'000 |
|---|----------------------------|---------------------------|---------------------------|----------------------------|--------------------------|--------------------------|--------------------------------------|-------------------|
| EQUITY AND LIABILITIES | | | | | | | | |
| Customers deposits | 3,530,079 | 1,865,145 | 105,157 | 6,251 | 3,320 | - | - | 5,509,952 |
| Line of credit | - | 786,000 | - | - | - | - | - | 786,000 |
| Interest payable and Other liabilities | 442 | 255 | - | - | - | - | 1,890,002 | 1,890,699 |
| Taxation payable | - | - | - | - | - | - | 38 | 38 |
| Shareholders' funds and minority interest | - | - | - | - | - | - | 2,259,854 | 2,259,854 |
| Total equity and liabilities | 3,530,521 | 2,651,400 | 105,157 | 6,251 | 3,320 | - | 4,149,894 | 10,446,543 |
| On balance sheet interest rate sensitivity gap | 4,177,919 | (2,328,600) | 135,731 | 58,081 | 47,663 | 46,003 | (2,136,797) | - |
| As at 31 December 2000 | | | | | | | | |
| Total assets | 5,958,712 | 1,078,469 | 226,450 | 16,025 | - | - | 2,634,408 | 9,914,064 |
| 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 rate sensitivity gap | 3,215,561 | (1,301,453) | 94,406 | 11,060 | (83) | - | (2,019,491) | - |

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 CURRENCY RISK

The bank operates wholly within Kenya and its assets 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 2001.

The group takes deposits and lends in currencies others than Kenyan shillings. The bank currency position and exposure are managed within the exposure guideline of 20% of core capital as stipulated by Central Bank of Kenya.

The significant currency positions are detailed below:

At 31 December 2001

| GROUP | Local currency Sh'000 | US dollar Sh'000 | GB Pound Sh'000 | Euro Sh'000 | Others Sh'000 | Total Shs'000 |
|---|-----------------------------|---------------------|--------------------|----------------|------------------|-------------------|
| ASSETS | | | | | | |
| Cash and balances with Central Bank of Kenya | 440,037 | 14,129 | 238 | - | - | 454,404 |
| Government securities | 1,318,919 | - | - | - | - | 1,318,919 |
| Deposits and balances due from banking institutions | 740,568 | 514,231 | 115,288 | 29,141 | 1,172 | 1,400,400 |
| Loans and advances to customers | 4,203,329 | 1,071,745 | 5,360 | - | - | 5,280,434 |
| Interest receivable and other assets | 574,254 | 24,364 | 451 | 7 | 3,026 | 602,102 |
| Taxation recoverable | 17,422 | - | - | - | - | 17,422 |
| Investment property | 132,900 | - | - | - | - | 132,900 |
| Other investments | 622,491 | - | - | - | - | 622,491 |
| Property and equipment | 567,248 | - | - | - | - | 567,248 |
| Goodwill | 3,421 | - | - | - | - | 3,421 |
| Intangible assets | 7,003 | - | - | - | - | 7,003 |
| Deferred tax | 39,799 | - | - | - | - | 39,799 |
| TOTAL ASSETS | 8,667,391 | 1,624,469 | 121,337 | 29,148 | 4,198 | 10,446,543 |
| LIABILITIES | | | | | | |
| Customer deposits | 4,459,875 | 899,209 | 128,517 | 19,301 | 3,050 | 5,509,952 |
| Line of credit | - | 786,000 | - | - | - | 786,000 |
| Interest payable and other liabilities | 1,880,879 | 7,755 | 699 | 1,366 | - | 1,890,699 |
| Taxation payable | 38 | - | - | - | - | 38 |
| TOTAL LIABILITIES | 6,340,792 | 1,692,964 | 129,216 | 20,667 | 3,050 | 8,186,689 |
| NET BALANCE SHEET POSITION | 2,326,599 | (68,495) | (7,879) | 8,481 | 1,148 | 2,259,854 |
| OFF BALANCE SHEET NET NOTIONAL POSITION | 591,574 | 1,031,570 | 245,284 | 74,143 | 12,909 | 1,955,480 |
| At 31 December 2000 | | | | | | |
| TOTAL ASSETS | 8,003,513 | 1,702,543 | 191,672 | 11,244 | 5,092 | 9,914,064 |
| TOTAL LIABILITIES | 5,889,737 | 1,700,659 | 169,477 | 10,397 | 157 | 7,770,427 |
| NET BALANCE SHEET POSITION | 2,113,776 | 1,884 | 22,195 | 847 | 4,935 | 2,143,637 |
| OFF BALANCE SHEET NET NOTIONAL POSITION | 398,278 | 1,028,852 | 149,708 | 6,792 | 31,831 | 1,615,461 |

30 CURRENCY RISK (Continued)

The exchange rates used for translating the major foreign currency balances at the year end were as follows:

| | 2001 Sh | 2000 Sh |
|-------------------|------------|------------|
| US Dollar | 78.6000 | 78.0500 |
| GB Pound | 114.0172 | 116.4116 |
| Euro | 69.6278 | 72.5904 |
| Tanzania shilling | 0.0904 | 0.1000 |

31 OFF BALANCE SHEET FINANCIAL INSTRUMENTS AND CONTINGENT LIABILITIES

In common with other banks, the bank conducts business involving acceptances and letters of credit, 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.

| | 2001 Sh'000 | 2000 Sh'000 |
|-----------------------------------|------------------|------------------|
| CONTINGENT LIABILITIES | | |
| GROUP AND BANK | | |
| Acceptances and letters of credit | 1,035,535 | 897,929 |
| Guarantees and performance bonds | 655,963 | 660,008 |
| Spot and forward contracts | 253,512 | 40,452 |
| Others | 10,470 | 17,072 |
| | <u>1,955,480</u> | <u>1,615,461</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 spot and forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

32 COMMITMENTS FOR CAPITAL EXPENDITURE

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| Contracted but not provided for in the financial statements | 9,134 | 23,974 | - | 6,000 |
| Authorised but not contracted for | 9,700 | 25,860 | 5,700 | 23,560 |

33 OPERATING LEASE COMMITMENTS

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|----------------|
| | 2001 Sh'000 | 2000 Sh'000 | 2001 Sh'000 | 2000 Sh'000 |
| Amounts payable in the next year in respect of obligations under operating leases expiring: | | | | |
| Within one year | 7,073 | - | - | - |
| In one to five years | 8,410 | 14,175 | 4,735 | 7,488 |
| After five years | 1,800 | - | 1,800 | - |
| | 17,283 | 14,175 | 6,535 | 7,488 |

34 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 Sh 28,377,000 (2000 - Sh 23,434,000). Retirement benefit costs are included in staff costs (note 6).

35 ASSETS PLEDGED AS SECURITY

As at 31 December 2001, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

36 FAIR VALUES

The carrying values of financial assets and liabilities are not significantly different from their fair values.

37 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 22.

Loans and advances to customers at 31 December 2001 include loans and advances to companies associated to the directors and loans to employees of Sh 128,607,000 (2000 - Sh 158,829,000). There were no outstanding advances to directors.

Contingent liabilities at 31 December 2001 include contingencies on behalf of companies associated to the directors of Sh 154,070,000 (2000 - Sh 170,409,000).

38 INCORPORATION

The bank is incorporated in Kenya under the Companies Act.

39 CURRENCY

These financial statements are presented in Kenya shillings thousands (Sh'000).