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2002 ANNUAL REPORT & FINANCIAL STATEMENTS

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C o n t e n t s

	Page No
Corporate information	2
Notice of the annual general meeting	3-4
Corporate governance report	5-6
Chairman's statement	7-11
Report of the directors	12
Statement of directors' responsibilities	13
Report of the auditors	14
Consolidated income statement	15
Consolidated balance sheet	16
Bank balance sheet	17
Consolidated statement of changes in equity	18
Consolidated cash flow statement	19
Notes to the financial statements	20-47

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16
393
28
433
2002
C3

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

1. CFC bank - periodicals
2. Banks and banking - Kenya - periodicals

2007/1557

Notice of the Annual General Meeting

Notice is hereby given that the forty eighth Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road Westlands, Nairobi on Thursday, 29th May 2003 at 10:30 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st December 2002 and the Directors' and Auditors' reports thereon.
2. To approve the payment of a first and final dividend for the year ended 31st December 2002 of 13.4% on the Issued Share Capital.
3. To elect Directors:
 - i) Mr. C. Njonjo, 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. C. Njonjo, 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. A.P. Hamilton, 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. A.P. Hamilton, 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. Lewis, a Director who has attained the age of 70 years, vacates office under section 186(2) of the Companies Act (Cap 486). Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186(5) of the said Act to be considered and, if thought fit, passed by the members:

"That Mr. S. Lewis, a Director who has attained the age of 70 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
4. To approve the Directors' remuneration for the year ended 31st December 2002 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.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution as a Special resolution:

Amendment of Articles of Association:

"That the existing Article 8 be renumbered 8(i) and the following new Article 8(ii) be and is hereby added to the Articles of Association:

- 8(ii) The provisions of the Central Depositories Act 2000 as amended or modified from time to time shall apply to the company to the extent that any securities of the Company are in part or in whole immobilised or dematerialised or are required by the regulation or rules issued under the Central Depositories Act to be immobilised and dematerialised in part or in whole, as the case may be. Any provisions of these articles that are inconsistent with the Central Depositories Act or any regulations or rules issued or made pursuant thereto shall be deemed to be modified to the extent of such inconsistencies in their application to such securities. For the purposes of these articles of association, immobilisation and dematerialisation shall be construed in the same way as they are construed in the Central Depositories Act.

Where any securities of the Company are forfeited pursuant to these articles of association after being immobilised or dematerialised, the Company shall be entitled to transfer such securities such securities account designated by the directors for this purpose."

By Order of the Board

RR Vora
Secretary

Date 25 February 2003

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.

CORPORATE GOVERNANCE REPORT

The Group complies broadly with the provisions of the Code of Conduct of directors, officers and employees in line with the Capital Markets Authority Act of 2002 in respect of guidelines on Corporate Governance Practices by publicly listed companies. The Group also complies with Central Bank of Kenya Guidelines of June 1990 together with the Insurance Act and Nairobi Stock Exchange Guidelines. The Group pursues professional standards and norms in handling its business relationships and in leading/developing team members working at various levels.

SHAREHOLDERS' RESPONSIBILITIES

The shareholders' role is to appoint the board of directors and the external auditors. This shareholders' role is extended to holding the board accountable and responsible for efficient and effective governance.

BOARD RESPONSIBILITIES

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The Board of directors is responsible for the governance of the bank and for conducting the business and operations of the bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of directors has eight members, six of whom are independent non-executives, and meets regularly. The Board retains full responsibility for the direction and control of the Bank. Appointments to the board are considered by the Nominating Committee, which comprises all board members. The list of the current directors is on page 2.

AUDIT COMMITTEE

The principal Board committee is the Audit Committee chaired by a non-executive director, comprising of three non-executive directors. The Senior Manager - Internal Audit acts as Secretary to the committee. The Committee meets at least quarterly.

EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee, chaired by the Managing Director, comprising of the Director, Corporate Banking and the General Managers, meets at monthly intervals to review business and operational aspects on an ongoing basis. The opportunity is also taken to structure senior management discussions separately so as to coincide with these meetings.

CREDIT COMMITTEE

The Committee is headed by the Managing Director and includes the Director, Corporate Banking, General Managers and Senior Managers in charge of credit and advances. The committee meets at least monthly, or more frequently as required and reports to the Board through the Board Credit Committee.

The functions of the committee include appraisal and approval of credit applications. The committee also monitors and reviews non-performing advances and ensures adequate provisions are held against identifiable losses.

ASSETS AND LIABILITY COMMITTEE

The committee, which is chaired by a General Manager and comprising senior management in the relevant departments, meets at least bi-monthly or more frequently as appropriate to review the money market movements and the Bank's strategies in a proactive manner. In a similar manner the investment committees of both The Heritage A.I.I. Insurance Company Ltd. and CFC Financial Services Ltd. oversee their portfolio of investments.

REMUNERATION COMMITTEE

Remuneration to all directors is determined by the remuneration committee based on the responsibilities allocated to the directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the bank.

FUTURE DEVELOPMENTS

The board will continue to focus attention on the implementation of corporate governance principles set out in the guidelines as applicable to the Group issued by the Private Sector Corporate Governance Trust and the Capital Markets Authority.

P. K. JANI
Chairman

R. J. BARRY
Managing Director

25 February 2003

CHAIRMAN'S STATEMENT

The year 2002 proved to be one of great challenges for the economy as a whole including the banking industry. The smooth transition of power to the new government was welcomed across the world and admirably reflects the political maturity of the Kenyan people. Nonetheless economic performance was disappointing, once again, with Gross Domestic Product growth at some 0.8% even lower than 2001 and substantially lower than the Government's hoped for growth of 1.8%. This sluggish performance may be attributed to several factors viz lower investor confidence against a back drop of election uncertainties; the continuing deterioration in infrastructure and the continued suspension of donor aid.

Revival of the under performing economy remains critical for the new government particularly in the context of election pledges made earlier. It is relevant to note that the economy has been in a period of stagnation for several years whilst the population continues to increase. There are however optimistic signs that support from international financial institutions and bilateral donors will be forthcoming. The challenge ahead however remains daunting and we cannot ignore the magnitude of the tasks faced especially in the context of the short-term outlook for the world economy compounded by the ongoing events in the Middle East. It is however encouraging that the private sector continues to display remarkable resilience and is poised to react positively to economic reforms.

Despite earlier concerns that domestic interest rates would be under pressure due, in part, to Government's reliance on sourcing funding from the local market, this has not proved to be the case to date. Understandably attention has been centred on the banking industry with lending rates perceived to be unrealistically high. Whilst bank lending rates have reduced recently, it must be recognized that benchmarking against the short term 91 day Treasury Bill rate is problematic due, in no small part, to the success of the Government's drive to lengthen the maturity profile of domestic debt where longer term Treasury Bonds yield substantially higher returns than Treasury Bills.

Although the shilling was under pressure in the latter half of 2002, this proved to be very temporary. Following the smooth transition of power to the new government, confidence was quickly re-established. It is envisaged that existing levels will remain relatively stable subject to external factors.

Notwithstanding the slow down in the market and pressures experienced across all sectors in 2002, your Bank continued to perform satisfactorily with good growth in customer lending and deposits against robust risk management and ongoing strict control of costs which remained relatively stable. It is particularly pleasing to report that during such a difficult period, your Bank achieved significant growth in profits. This growth was achieved against a back drop of increasing competition and stretched margins in the industry. On a consolidated basis, whereas net interest income reduced by 7%, other operating income recorded a commendable growth of 13%. Overall expenses remained relatively flat recording an increase of 1%. It is pleasing to note that staff costs increased by a modest 1% over 2001 level.

The Group continues to generate strong cashflows from its businesses with the profit attributable to shareholders in 2002 at Kshs174 million, an increase of 23% over 2001. During the period earnings per share also increased by 23%. Your Board continues to pursue an optimum balance between short-term profit growth and sustainable investment in the future so as to create long-term value. Hence your Board recommends the maintenance of a final dividend of Kshs.0.67 per share payable on or about 29th May 2003.

Turning now to the consolidated balance sheet, total assets increased from Ksh.10.412 billion to Ksh.11.846 billion during 2002 an increase of 14%. Loans and advances to customers increased during the same period by Ksh875 million or 16% to Ksh6.174 billion. I am pleased to note that Hire Purchase business recorded an

increase of 40% in line with the bank's strategy of re-launching this product. In achieving this growth level, I must mention that your Bank has not relented on its time tested stringent prudent risk assessment policies. In this respect non-performing assets totalled Ksh408 million, constituting 4% of the Bank's total loans and advances portfolio which compares favourably with the industry. Your Bank also continues to progressively cultivate medium to large sized clients with a view to diversifying risk concentration and increasing fee based income. This is evident through the increase in such income by 34% over 2001.

The deposit base increased by Ksh1.684 billion to Ksh7.429 billion, an increase of 29% year on year. During the same period the Line of Credit afforded by IFC Washington of Ksh786 million was repaid.

Your Bank's capital adequacy ratios remained strong. Core Capital to deposit liabilities and total risk weight assets ratios, stood at 32% and 23% respectively at year end. These ratios far exceed the statutory minimum of 8%. Total Capital to total risk weight assets ratio at 23% similarly exceeded the statutory minimum of 12%.

Turning now to the performance of the Bank's subsidiaries, The Heritage All Insurance Company Limited and its Tanzanian subsidiary continued to positively contribute to the Group results recording increasing profitability during the year. I am also happy to report that CFC Financial Services Limited in its second full year of operation has contributed positively to the Group results performing better than earlier projected.

Looking to the future, I believe that your Bank's strategies must move beyond creating value through cost control only. Whereas cost control remains critical, our focus must also be on new sources of organic revenue growth. Accordingly your Bank shall continue to focus on process re-engineering, the development of group synergies and improving customer service delivery. Additionally, several new initiatives will be introduced this year as follows: -

- Rolling out new information technology solutions to the market including a new E-Banking product.
- Installation of Automated Teller Machines at all branches supplemented by off-site installations with specific clients.
- Saturday banking across all branches with free banking for personal transactions across the bank's counters on Saturdays.
- The opening of a new branch up-country.
- The launch of a CFC Bank web-site.
- Roll out of personal banking products and services.

These initiatives will prove to be challenging for staff particularly viewed against demanding targets for growth this year. We can all however derive comfort from the professional and motivated standards exhibited by staff within the Group who will rise to the challenge as they have consistently done in the past.

As I alluded to earlier, 2002 was a difficult year across the entire spectrum of the economy. Nonetheless we look forward with confidence to the challenges ahead. We believe that the new government is committed to change and look forward to an improvement in economic growth in the medium term.

In conclusion I would like to take this opportunity to record my thanks to my fellow Board members for their dedicated assistance and support during the year. I would also like to put on record my thanks to our customers for their continued support and confidence.

Finally I wish to thank our staff for their commitment and dedication throughout what was a challenging year.

P.K. Jani
Chairman
25 February, 2003

TAARIFA YA MWENYEKITI

Katika Mwaka wa 2002 hali ya uchumi ilikuwa ngumu kote na hata katika biashara za benki. Mabadiliko ya uongozi yaliyofanyika kwa hali shwari yalipokewa vyema kote ulimwenguni na yalidhihirisha kuwa wakenya wamekomaa kisiasa. Hata hivyo hali ya uchumi haikuridhisha kamwe, kwa mara nyingine pato la taifa (GDP) lilikuwa kwa kiwango cha chini sana 0.8%, kinyume na kiwango cha 1.8% kama ilivyotarajia serikali. Kuna sababu nyingi zilizochangia matokeo haya duni kama vile: wawekaji rasilimali kutokuwa na imani na matukio wakati wa upigaji kura; hali mbaya isiyoridhisha ya huduma za serikali na kuendelea kusimamishwa kwa misaada ya kifedha kutoka nje.

Kwa serikali hii mpya ufufuzi wa uchumi ni jambo muhimu sana hasa ukitazama ahadi walizotoa wakati wa kampeni iliyopita. Ni sawa kabisa tunaposema hali ya uchumi wetu imekwama kwa muda sasa na huku ongezeko la watu linaendelea kila kukicha. Hata hivyo kuna mategemeo mazuri kuwa misaada kutoka mashirika ya kifedha na wafadhili itakuja hivi karibuni. Pamoja na hivyo, hali ya siku zijazo bado yaonekana ngumu na majukumu ni mazito hasa tukiitazama hali ya uchumi ilivyo kote ulimwenguni na mambo yanavyoendelea kule Mashariki ya Kati. Jambo linalotia moyo ni kuwa sekta ya mashirika ya watu binafsi ni thabiti na yaonyesha itapokea vizuri mageuzi ya kiuchumi.

Licha ya kuweco, hapo mbeleni, na tisho la kuongezeka kwa viwango vya riba vya humu nchini kutokana na serikali kutegemea kupata hazina hapa hapa nyumbani, kufikia sasa tisho hili halijadhihirika. Inaeleweka kuwa sekta ya benki inatazamwa kwa makini kukiwa na fikira kuwa viwango vya riba viko juu sana bila sababu. Ijapokuwa viwango vya riba ya kukopesha vimepungua hivi sasa, lazima tutambue kuwa kuweka alama teule dhidi ya hawala za serikali za muda mfupi wa siku 91 huwa ni shida kwa sababu ya harakati za serikali za kuongeza muda wa kupevuka kwa malipo ya madeni ya humu nchini na vile vile hati ya dhamana ya serikali ina faida kubwa kuliko hawala hizo.

Ijapokuwa pale mbeleni thamani ya shilingi ilikuwa na shinikizo kubwa la kopungua hasa kipindi cha kumalizikia mwaka 2002, hali hiyo haikudumu. Kutokana na mabadiliko shwari ya uongozi serikalini matumaini yalirudi kwa haraka. Inataamaliwa kuwa viwango hivi vitabaki imara kulingana na hali ya mambo ya nje.

Ijapokuwa biashara ilikuwa chini na uchumi mgumu katika sekta zote mwaka wa 2002, benki hii yako iliendelea kutekeleza kazi yake vyema na kulikuwa na ongezeko la kuridhisha la wateja kukopa na kuweka akiba licha ya vizuizi vilivyoko vya matumizi.

Nina furaha ya dhati kuwaripotia kuwa katika wakati huo mgumu benki yenu iliweza kupata faida ya kuridhisha. Ongezeko hilo la faida lilipatikana licha ya kuongezeka kwa mashindano na upungufu wa mapato katika biashara za mabanki. Kwa ujumla wakati ambapo mapato ya riba yalipungua kwa asilimia 7% faida kutokana na shughuli zingine iliongezeka kwa kiwango cha asilimia 13%. Ni jambo la kufurahisha kuwa gharama ya wafanyakazi ilizidi kidogo tu asilimia 1% juu ya kiwango cha mwaka 2001.

Kundi liliendelea kuzalisha mapato halisi ya kufaa kutokana na biashara zake faida ikitokana na wenyehisa katika mwaka wa 2002 ya Kshs. Milioni 174, ikiwa ni ongezeko la 23% ikilinganishwa na mwaka wa 2001. Vile vile katika wakati huo faida kwa kila hisa iliongezeka kwa 23%. Halmashauri ya wakurugenzi inaendelea kufanya juhudi kupatikane mapato ya juu kabisa baina ya faida ya muda mfupi na rasilimali kwa siku zijazo. Hivyo basi halmashauri inapendekeza mgao wa mwisho wa Kshs.0.67 kwa kila hisa ulipwe ifikapo au karibu na tarehe 29 Mei 2003.

Tukigeukia upande wa hesabu ya fedha kwa ujumla sasa, hesabu ya fedha imeongezeka kutoka Kshs. bilioni 10.412 hadi Kshs. bilioni 11.846 katika mwaka wa 2002, ikiwa ni ongezeko la 14%. Mikopo kwa wateja iliongezeka vile vile katika muda huo kwa Kshs. milioni 875 au 16% hadi Kshs. bilioni 6.174. Nina furaha kuwajulisha kuwa bishara ya kukopesha mali kwa malipo ya pole pole iliongezeka kwa kiwango cha 40%, ni

kuambatana na mipango ya benki ilipoanzisha upya huduma hii. Ni bora niwatajia hapa kuwa tuliweza kufikia viwango hivi bila ya kulegeza sheria zetu maridhawa za kukadiria dhima. Kutokana na hivyo, mali ya kudumu isiyo ya kutenda kazi ilifikia Kshs. Milioni 408 hii ikiwa ni 4% ya jumla ya mikopo yote katika benki, hili ni jambo la kupendeza ukilinganisha na hali ilivyo katika sekta hii. Vile vile benki yako inaendelea kujizatiti kukuza wateja wa mapato ya kati hadi wa mapato makubwa kwa madhumuni ya kupanua ulimbikaji dhima na kuongeza mapato kutokana na ulipaji ada. Hii inadhihirika wazi kutokana na kuongezeka kwa faida ya ada kwa asilimia 34% ukilinganisha na ile ya mwaka wa 2001.

Msingi wa rubuni uliongezeka kwa Kshs bilioni 1.684 hadi Kshs bilioni 7.429, ongezeko la 29% mwaka kwa mwaka. Katika kipindi hicho hicho, mkopo tuliokuwa nao wa IFC Washington wa Kshs milioni 786 ulilipwa.

Utoshelevu wa uwiano wa mtaji katika benki yako bado ni imara. Mtaji kiini dhidi ya rubuni kwa dhima na uwiano wa rasilimali, ulikuwa wa kiwango cha 32% na 23% kwa kadiri kufikia mwisho wa mwaka. Uwiano huu unapita kina cha chini kilichowekwa kisheria cha 8%. Vile vile uwiano wa rasilimali yote ikilinganishwa na uzito wa dhima ulikuwa wa kiwango cha 23% na hivyo basi kupita kina cha cha kisheria cha 12%.

Tunapogeukia shughuli za kampuni nyingine zinazomilikiwa na benki yako, Heritage All Insurance Company Limited na ile ya Tanzania ziliendelea kuchangia faida ya kundi katika muda huo. Vile vile ni furaha yangu kuripoti kuwa CFC Financial Services Limited ilileta faida nzuri katika kundi zaidi ya ilivyotarajiwa na ikiwa ni mwaka wake wa pili tangu ianzishwe.

Ninapoangalia, ninaamini kuwa mipango ya benki yako katika siku zijazo isiwe ni ya kubuni faida kupitia usimamizi wa gharama pekee. Ijapokuwa usimamizi wa gharama ni wa kipeo, juhudi zetu vile vile lazima ziendele katika kutafuta mfumo mpya wa kukuza mapato. Kwa sababu hii benki yako itaendelea kushinikiza juu ya mifumo mpya ya utenda kazi, kukuza ushirikiano wa vikundi vya kazi na kuimarisha huduma bora kwa wateja. Pamoja na hayo, mwaka huu tutaanzisha yafuatayo:

- Kutandaza utumiaji wa teknolojia ya tarakilishi katika biashara yetu pamoja na huduma ya E-Banking.
- Uwekaji wa mitambo ya kujitolea pesa ya ATM katika matawi yote pamoja na sehemu nyingine mahsusi kwa wateja maalum.
- Kufunguliwa kwa matawi yote ya benki siku za Jumamosi na kutoa huduma katika kaunta za benki bila malipo kwa wateja binafsi siku hizo za Jumamosi.
- Kufunguliwa kwa tawi moja katika sehemu za nje ya jiji.
- Kuzinduliwa kwa mtandao wa benki ya CFC.
- Benki kutoa huduma za binafsi kwa wateja.

Kuanzishwa kwa mipango hii kutakuwa ni changamoto kwa wafanyikazi hasa tunapotazama malengo magumu yanayohitaji kufikiwa mwaka huu. Lakini licha ya hayo, sote tunaweza kupata liwazo kwa vile wafanyakazi wetu, mara kwa mara, wameonyesha uhodari na hamasa ya kazi na bila shaka watafikia malengo yanayotakikana.

Kama nilivyodokeza hapo mbeleni, mwaka wa 2002 ulikuwa mgumu katika nyanja zote za uchumi. Hata hivyo siku za baadaye zinaonyesha matumaini makubwa. Tunaamini serikali mpya imejitolelea kuleta

mabadiliko na tunatarajia uchumi kuimarika na kukua katika muda usiyo mrefu.

Kwa kumalizia ningependa kuchukua fursa hii kuwatolea shukrani za dhati wakurugenzi wenzangu kwa kujitolea na kuniunga mkono katika mwaka huu. Vile vile ningependa kuwatolea shukrani wateja wetu kwa wanavyoendelea kutuunga mkono na kutuamini.

Mwisho ninatoa shukrani zangu kwa wafanyakazi wetu kwa kujitolea kwao katika mwaka huu uliokuwa mgumu.

P.K. Jani
Mwenyekiti

25 Februari, 2003

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

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

GROUP RESULTS

Profit attributable to shareholders

Sh 000

173,639

Proposed dividend

80,400

Profit retained in revenue reserve

93,289

DIVIDEND

The directors recommend a first and final dividend of sixty seven cents per share (13.42%) for the year ended 31 December 2002 which is to be paid on or about 29 May 2003 to shareholders registered at the close of business on 9 May 2003.

DIRECTORS

The present directors are shown on page 2.

C Njonjo and A P Hamilton, 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.

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

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

25 February 2003

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 or loss 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.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the company's financial affairs and of its profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

A P Hamilton
Director

R J Barry
Director

25 February 2003

REPORT OF THE AUDITORS

TO THE MEMBERS OF CFC BANK LIMITED

We have audited the financial statements on pages 15 to 47 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 13, 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 2002 and of the profit and cash flows of the group for the year ended on that date in accordance with International Financial Reporting Standards and comply with the Companies Act.

Deloitte & Touche
Certified Public Accountants (Kenya)

Nairobi

25 February, 2003

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 Sh'000	2001 (restated) Sh'000
INTEREST INCOME	4	953,860	1,153,167
INTEREST EXPENSE	5	(358,883)	(511,333)
NET INTEREST INCOME		594,977	641,834
Fees and commission income		176,995	150,814
Foreign exchange trading income		20,226	19,114
Other operating income	6	868,427	771,555
OPERATING INCOME		1,660,625	1,583,317
Operating expenses	7	(1,270,289)	(1,152,753)
Bad and doubtful debts expense	16	(67,243)	(170,097)
PROFIT BEFORE TAXATION		323,093	260,467
TAXATION	9	(98,368)	(68,643)
PROFIT AFTER TAXATION	10	224,725	191,824
MINORITY INTEREST		(51,036)	(50,432)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		173,689	141,392
		Sh	Sh
EARNINGS PER SHARE	11	1.45	1.18
DIVIDEND PER SHARE	12	0.67	0.67

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2002

	Note	2002 Sh'000	2001 (restated) Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	506,151	454,404
Government securities	14	1,906,475	1,330,472
Deposits and balances due from banking institutions		1,098,497	1,400,400
Loans and advances to customers	15	6,174,234	5,299,368
Other assets		589,201	565,125
Taxation recoverable		19,373	17,422
Investment properties	18	132,996	132,900
Other investments	19	857,237	622,491
Property and equipment	20(a)	501,989	534,598
Operating lease prepayments	21	32,300	32,650
Goodwill	22	2,281	3,421
Intangible assets	23	8,568	7,003
Deferred tax asset	24	16,909	12,113
Total assets		11,846,125	10,412,367
LIABILITIES			
Customer deposits	25	6,702,875	5,555,503
Line of credit	26		786,000
Deposits and balances due to banking institutions		476,956	-
Other liabilities	27	2,255,462	1,838,658
Taxation payable		33,534	38
Total liabilities		9,468,827	8,180,199
CAPITAL RESOURCES			
Share capital	28	600,000	600,000
Capital reserve		200,923	160,959
Revenue reserve		1,126,073	1,063,085
Proposed dividend		80,400	80,400
Shareholders' funds		2,007,396	1,904,444
Minority interest		369,902	327,724
Total liabilities and shareholders' funds		11,846,125	10,412,367

The financial statements on pages 15 to 47 were approved by the board of directors on 25 February 2003 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 2002

	Note	2002 (restated) Sh'000	2001 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	479,056	454,395
Government securities	14	933,358	722,589
Deposits and balances due from banking institutions		767,687	919,833
Loans and advances to customers	15	6,174,234	5,299,368
Other assets		276,872	168,670
Taxation Recoverable		-	3,326
Due from subsidiary companies		29,766	28,473
Investment in subsidiary companies	17	166,235	166,235
Property and equipment	20(b)	461,417	473,491
Operating lease prepayments	21	32,300	32,650
Intangible assets	6,705	4,969	-
Deferred tax asset	24	28,135	23,409
Total assets		9,355,765	8,297,408
LIABILITIES			
Customer deposits	25	6,952,918	5,745,451
Line of credit	26	-	786,000
Deposits and balances due to banking institutions		476,956	-
Other liabilities		329,727	220,930
Taxation payable		2,393	-
Amount due to subsidiary companies		6,299	5,580
Total liabilities		7,768,293	6,757,961
CAPITAL RESOURCES			
Share capital	28	600,000	600,000
Revenue reserve	29	907,072	859,047
Proposed dividend	29	80,400	80,400
Shareholders' funds		1,587,472	1,539,447
Total liabilities and shareholders' funds		9,355,765	8,297,408

The financial statements on pages 15 to 47 were approved by the board of directors on 25 February 2003 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 2002

	Share capital Sh'000	Capital reserve Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
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	-	-
Deferred tax on investment property revaluation surplus	-	-	(27,686)	-	(27,686)
Exchange differences 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 12)	-	-	(80,400)	80,400	-
Bonus issue in subsidiary company	-	32,040	(32,040)	-	-
At 31 December 2001-restated	600,000	160,959	1,063,085	80,400	1,904,444
At 1 January 2002 as previously stated	600,000	160,959	1,090,771	80,400	1,932,130
Prior year adjustment (deferred tax on investment property revaluation surplus)	-	-	(27,686)	-	(27,686)
At 31 December 2001 as restated	600,000	160,959	1,063,085	80,400	1,904,444
At 1 January 2002 (Restated)	600,000	160,959	1,063,085	80,400	1,904,444
Exchange differences arising on translation of a foreign subsidiary	-	(6,607)	1,739	-	(4,868)
Surplus on revaluation of quoted investments	-	17,823	-	-	17,823
Surplus on sale of investments	-	(3,292)	-	-	(3,292)
Profit attributable to shareholders	-	-	173,689	-	173,689
Dividend paid – 2001	-	-	-	(80,400)	(80,400)
Proposed dividend – 2002 (Note 12)	-	-	(80,400)	80,400	-
Bonus issue in subsidiary company	-	32,040	(32,040)	-	-
At 31 December 2002	600,000	200,923	1,126,073	80,400	2,007,396

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 Sh'000	2001 (Restated) Sh'000
NET CASH (USED IN)/ GENERATED FROM OPERATING ACTIVITIES	30(a)	(479,831)	745,600
INVESTING ACTIVITIES			
Additions to property and equipment		(55,268)	(84,421)
Additions to intangible assets		(7,160)	(2,233)
Proceeds from sale of equipment		1,877	3,419
Additions to investment properties		(90)	(3,304)
Dividends received		19,072	19,275
Acquisition of subsidiary company			(9,519)
Net cash used in investing activities		(41,569)	(76,783)
FINANCING ACTIVITIES			
Dividends paid		(80,400)	(80,400)
Dividends paid to minority		(14,368)	(14,368)
Net cash used in financing activities		(94,768)	(94,768)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	30(c)	(616,168)	574,049

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies remain unchanged from the previous year, except for the adoption of International Financial Reporting Standard No. 17, Operating Leases.

Basis of accounting

The financial statements are prepared under the historical cost basis of accounting modified to include the revaluation of certain assets.

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 A.I.I. Insurance Company Limited and The Heritage A.I.I. Insurance Company (Tanzania) Limited. The financial statements of the bank and all its subsidiaries have been made up to 31 December 2002.

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 a maximum of 20 years.

Investments

Subsidiary companies

Investments in subsidiary companies are stated at cost.

Investment properties

Investment properties are stated at open market value. Valuations 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 Financial Reporting Standard No. 40, Investment Properties. 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) Treasury bills and commercial papers are stated at face value less unearned interest. Treasury bonds are stated at cost plus accrued interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Revenue recognition

Banking

Interest income includes finance charges earned, interest on loans and advances and premium or discounts on government and other securities and is recognised in the period in which it is earned. Interest income on non-performing loans and advances is suspended and excluded from income until received.

Fees and commission income is recognised at the time of effecting the transaction.

Income from hire purchase transactions is calculated by the sum of the digits method.

Professional fees are recognised when services are rendered in accordance with contractually agreed terms.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

General Insurance Business

The underwriting result of the general insurance business is determined annually and is 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.

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:

Building	Over 50 years
Motor vehicles	25%
Furniture and equipment	12.5% - 30%

Operating lease prepayments

Leasehold land payments are recognised as an expense in the income statement on straight line basis over the period of lease. This represents a change in accounting policy to comply with International Financial Reporting Standard (IAS) No. 17, Operating Leases. The change in policy has been applied retrospectively and comparative figures restated accordingly.

1 ACCOUNTING POLICIES (Continued)

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%.

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.

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.

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).

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.

Foreign subsidiary

Exchange differences are translated of foreign subsidiary are accounted for as part of changes in equity.

1 ACCOUNTING POLICIES (Continued)

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.

Segmental 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).

Financial instruments

Financial assets

Financial assets are recognised initially at cost using settlement date accounting. Loans and receivables originated by the bank and held to maturity are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value. Gains or losses on changes in fair value of each category of asset is reported net in the income statement in the year in which it arises. All financial assets are subject to review for impairment at the year end.

Financial liabilities

Financial liabilities are recognised initially at cost, and subsequently measured at amortised cost.

Impairment

At each balance sheet date, the bank reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

1 ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from leases under finance leases are recorded as receivables as the amount of the bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are chargeable to the income statement on a straight line basis over the term of the relevant lease.

Unearned finance charges

The provision for unearned finance charges is calculated on a basis such as to allocate charges earned to the appropriate accounting period using the sum of digits method.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet this obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular comparative figures have been amended to comply with IAS 17 on operating leases and to recognise the deferred taxation on the investment property revaluation surplus.

2 CENTRAL BANK OF KENYA (AMENDMENT) ACT 2001

During 2001, the Kenya Bankers' Association (KBA), on behalf of its members, filed an application in the constitutional court challenging the legality of the Central Bank of Kenya (Amendment) Act 2000 (The Act). The court delivered its judgement on 24 January 2002.

Following the ruling, various conflicting legal interpretations were published. On the basis of advice from its lawyers, KBA issued guidance to its members to the effect that the Act was not operational. Accordingly, the directors have continued, since 2001, to prepare these financial statements on the basis of this advice.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SEGMENTAL REPORTING

(a) Primary reporting format – Business segments

	BANKING AND RELATED SERVICES		INSURANCE	GROUP		
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
Income	1,092,191	1,249,600	927,317	845,050	2,019,508	2,094,650
Expenditure	934,968	1,138,304	761,447	695,879	1,696,415	1,834,183
Segment result	157,223	111,296	165,870	149,171	323,093	260,467
Taxation					98,368	68,643
Profit after taxation					224,725	191,824
Assets	9,245,052	8,300,077	2,601,073	2,112,290	11,846,125	10,412,367
Liabilities	7,518,897	6,746,197	1,949,930	1,434,001	9,468,827	8,180,199
Capital expenditure	46,891	67,825	15,627	22,133	62,518	89,958
Depreciation and amortisation	56,892	47,901	32,164	29,552	89,056	77,453

(b) Secondary reporting format – Geographical segments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2002 Sh'000	2001 Sh'000
4 INTEREST INCOME		
Loans and advances	752,973	946,938
Government securities	150,422	130,143
Placements and bank balances	49,685	76,086
Commercial paper	780	-
	953,860	1,153,167
5 INTEREST EXPENSE		
Customer deposits	342,072	455,151
Deposits and placements from other banks	9,328	1,338
Interest on borrowed funds	7,483	54,844
	358,883	511,333
6 OTHER OPERATING INCOME		
Dividends from quoted equity investments	19,072	19,275
Gains from investment securities	18,211	32,977
Profit on disposal of equipment	-	3,111
Profit on disposal of quoted equity investments	14,670	-
Insurance premiums earned	757,962	682,235
Other income	58,512	33,957
	868,427	771,555
7 OPERATING EXPENSES		
Fees and commissions	46,828	47,236
Insurance claims incurred	433,436	392,142
Loss on disposal of equipment	1,936	-
Staff costs (Note 8)	397,357	392,495
Directors' emoluments:-		
as directors	6,757	6,297
as executives	32,034	31,702
Depreciation	83,235	71,813
Amortisation	5,945	5,640
Operating lease rentals - property	20,128	21,088
Deficit on revaluation of investment property	-	2,640
Auditors' remuneration	5,225	5,045
Contribution to Deposit Protection Fund	8,658	6,439
Other costs	228,750	170,216
	1,270,289	1,152,753

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 STAFF COSTS

	2002 Sh'000	2001 Sh'000
Salaries and benefits	363,515	360,560
Pension contributions	29,870	25,715
Terminal contributions	3,538	5,810
NSSF	434	410
	397,357	392,495

The average number of employees for the group during the year was 349 (2001: 336).

9 TAXATION

(a) Taxation expense

Current tax at 30%	102,827	77,007
Deferred tax credit (note 24)	(4,459)	(8,364)
	98,368	68,643

(b) Reconciliation of taxation expense to expected tax based on accounting profit

Accounting profit before taxation	323,093	260,467
Tax at the applicable rate of 30%	96,928	78,140
Deferred tax asset over/(under) provided in prior periods	5,138	(10,831)
Tax effect of expenses not deductible for tax	14,740	7,011
Tax effect of income exempt from tax	(14,132)	(5,677)
Tax losses utilized	(4,306)	-
	98,368	68,643

10 PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the bank is Sh 128,425,000 (2001 - Sh 100,726,000).

11 EARNINGS PER SHARE

Basic earnings per share is calculated on the consolidated profit attributable to the shareholders of Sh 173,689,000 (2001- Sh 141,392,000) and the number of ordinary shares in issue during the year. The number of shares used is 120,000,000 (2001 - 120,000,000).

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

12 DIVIDEND

At the annual general meeting on 30 May 2003, a first and final dividend in respect of 2002 of Sh 0.67 per share (2001 - Sh 0.67 per share) amounting to a total of Sh 80,400,000 (2001 - Sh 80,400,000) is to be proposed. The proposed amount has been provided for in accordance with International Financial Reporting Standard No. 10, on events after the balance sheet date.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		BANK	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA				
Cash on hand	102,965	63,177	75,870	63,168
Balances with Central Bank of Kenya: Cash ratio requirement	403,186	391,227	403,186	391,227
	506,151	454,404	479,056	454,395

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	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
14 GOVERNMENT SECURITIES				
Treasury Bills				
Maturing within 90 days after balance sheet date				
Face Value	482,567	764,986	311,050	650,000
Less Unearned Interest	(5,712)	(5,384)	(4,243)	(3,957)
	476,855	759,602	306,807	646,043
Treasury Bonds				
Maturing within 90 days after balance sheet date				
Face value	226,000	-	-	-
Accrued interest	20,063	-	-	-
	246,063	-	-	-
Maturing after 90 days of Balance sheet date				
Face Value	1,166,100	554,350	610,250	75,100
Accrued Interest	17,457	16,520	16,301	1,446
	1,183,557	570,870	626,551	76,546
Total	1,906,475	1,330,472	933,358	722,589

The effective interest rate on Treasury bills as at 31 December 2002 was 8% per annum (2001 - 12%).

The effective interest rate on Treasury bonds as at 31 December 2002 was 13% per annum (2001 - 12%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 LOANS AND ADVANCES TO CUSTOMERS

GROUP AND BANK

	2002 Sh'000	2001 Sh'000
Hire purchase	1,838,144	1,301,557
Loans, advances and bills discounted	4,797,174	4,310,671
	6,635,318	5,612,228
Interest in suspense	(53,552)	(23,955)
Unearned finance charges	(249,504)	(173,868)
Provision for bad and doubtful debts (note 16)	(158,028)	(115,037)
	6,174,234	5,299,368
Analysis of gross loans and advances by maturity:		
Hire purchase		
Maturing within one year	1,030,120	834,095
Over one year to three years	784,035	464,862
Over three years	23,989	2,600
	1,838,144	1,301,557
Loans, advances and bills discounted:		
Maturing within one year	3,821,014	3,438,352
Over one year to three years	830,725	671,353
Over three years	145,435	200,966
	4,797,174	4,310,671
	6,635,318	5,612,228

Analysis of gross loans and advances
by economic sectors:

	2002 Sh'000	2002 %	2001 Sh'000	2001 %
Agriculture	459,349	7	398,377	7
Manufacturing	1,609,356	24	1,834,667	34
Wholesale and retail trade	1,029,517	16	875,638	16
Transport and communications	1,005,482	15	931,668	16
Real estate	31,471	-	23,894	-
Social community and personal services	34,954	1	46,691	1
Electricity and water	1,068	-	109,090	2
Business services	1,602,770	24	828,779	15
Other	861,351	13	563,424	9
	6,635,318	100	5,612,228	100

The effective interest rate on loans and advances to customers as at 31 December 2002 was 14% (2001 - 16%).

The aggregate balance of non-performing advances as at 31 December 2002 was Sh 407,915,000 (2001 - Sh 248,878,000). These are included in the balance sheet net of specific provisions and interest in suspense at Sh 255,927,000 (2001 - Sh 162,988,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

GROUP AND BANK

(a) Specific provisions

	2002 Sh'000	2001 Sh'000
At 1 January	61,935	96,416
Provisions during the year	60,753	170,097
Write-offs	(24,252)	(204,578)

At 31 December	98,436	61,935
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(b) General provisions

At 1 January	53,102	53,102
Provisions during the year	6,490	-

At 31 December	59,592	53,102
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Total provisions (note 15)	158,028	115,037
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17 INVESTMENT IN SUBSIDIARY COMPANIES

BANK

Company	Beneficial Ownership	2002 Sh'000	2001 Sh'000
CFC Financial Services Limited	100%	100,530	100,530
Equity Stock Brokers Limited	100%	-	-
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	166,235

Investment in subsidiary companies are stated at cost to the bank.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 INVESTMENT PROPERTIES

GROUP

Freehold properties

At 1 January	132,900	133,612
Additions	90	3,304
Revaluation deficit		(4,016)

At 31 December	132,990	132,900
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COMPRISING:

Cost		-
Valuation in 2001	132,990	132,900
	132,990	132,900

At 31 December 2002, the book value of investment based on original cost was Sh 39,354,000 (2001 - Sh 39,264,000).

Investment properties were revalued as at 31 December 2001 by Lloyd Masika Limited, registered valuers on an open market basis. The directors valuation as at 31 December 2002 is the same as the valuation at 31 December 2001.

	GROUP		BANK	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
19 OTHER INVESTMENTS				
Quoted equity investments at mid market value	243,715	213,406	-	-
Unquoted equity investments at cost and directors' valuation	73,268	59,346	-	-
Commercial paper, corporate bonds and other investments	540,254	349,739	-	-
	857,237	622,491	-	-

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2002 was 9% (2001 - 11 %).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PROPERTY AND EQUIPMENT

(a) GROUP

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1 January 2002	387,710	59,547	379,872	827,129
Currency translation	-	(507)	(1,718)	(2,225)
Reclassification	(35,000)	-	-	(35,000)
Additions	-	6,773	48,495	55,268
On disposals	-	(5,424)	(8,865)	(14,289)
At 31 December 2002	352,710	60,389	417,784	830,883
DEPRECIATION				
At 1 January 2002	16,104	33,132	210,645	259,881
Currency translation	-	(279)	(1,037)	(1,316)
Reclassification	(2,350)	-	-	(2,350)
Charge for the year	7,054	11,440	64,741	83,235
Eliminated on disposals	-	(5,221)	(5,255)	(10,476)
At 31 December 2002	20,808	39,072	269,094	328,974
NET BOOK VALUE				
At 31 December 2002	331,902	21,317	148,690	501,909
At 31 December 2001 (Restated)	338,956	26,415	169,227	534,598

Motor vehicles, furniture and equipment stated at a cost of Sh 142,978,708 (2001- Sh 105,746,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 28,869,000 (2001 - Sh 26,236,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PROPERTY AND EQUIPMENT (Continued)

(b) BANK

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1 January 2002	387,710	29,299	247,901	664,910
Reclassification	(35,000)	-	-	(35,000)
Additions	-	2,855	39,034	41,889
Disposals	-	(4,446)	(873)	(5,319)
At 31 December 2002	352,710	27,708	286,062	666,480
DEPRECIATION				
At 1 January 2002	16,104	18,250	124,415	158,769
Reclassification	(2,350)	-	-	(2,350)
Charge for the year	7,054	4,104	42,118	53,276
Eliminated on disposals	-	(4,446)	(186)	(4,632)
At 31 December 2002	20,808	17,908	166,347	205,063
NET BOOK VALUE				
At 31 December 2002	331,902	9,800	119,715	461,417
At 31 December 2001 (Restated)	338,956	11,049	123,486	473,491

Motor vehicles, furniture and equipment stated at a cost of Sh 111,147,000 (2001 – Sh 85,510,000) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 15,916,348 (2001 – Sh 21,023,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)**21 OPERATING LEASE PREPAYMENTS****GROUP AND BANK****Amount
Sh'000****COST**Reclassification from property and equipment
(Note 20 a and b)

35,000

AMORTISATION

Reclassification from property & equipment

2,350

Charge for the year

350

At 31 December 2002

2,700

NET BOOK VALUE

At 31 December 2002

32,300

At 31 December 2001

32,650

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 GOODWILL

GROUP

	2002 Sh'000	2001 Sh'000
COST		
At 1 January	3,421	-
Arising on acquisition	-	3,421
Amortisation	(1,140)	-
	<hr/>	<hr/>
At 31 December	2,281	3,421
	<hr/>	<hr/>

Goodwill is amortised on a straight line basis over its estimated useful life of three years.

23 INTANGIBLE ASSETS

	GROUP	BANK
	Computer software Sh'000	Computer software Sh'000
COST		
At 1 January 2002	30,328	21,072
Additions	7,160	5,002
	<hr/>	<hr/>
At 31 December 2002	37,488	26,074
	<hr/>	<hr/>
AMORTISATION		
At 1 January 2002	23,325	16,103
Charge for the year	5,595	3,266
	<hr/>	<hr/>
At 31 December 2002	28,920	19,369
	<hr/>	<hr/>
NET BOOK VALUE		
At 31 December 2002	8,568	6,705
	<hr/>	<hr/>
At 31 December 2001	7,003	4,969
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 DEFERRED TAX ASSET

GROUP

Movement on the deferred tax account is as follows:

	2002 Sh'000	2001 (Restated) Sh'000
At 1 January	12,113	29,361
Acquired on acquisition of a subsidiary	-	2,074
Prior year adjustment	337	-
Income statement credit – note 9 (a)	4,459	8,364
Revaluation reserve debit	-	(27,686)

At 31 December

16,909 12,113

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

General provision for bad and doubtful debts	17,877	15,930
Depreciation in excess of capital allowances	(4,978)	15,782
Tax losses in subsidiary companies	5,969	8,087
Unrealised exchange differences	(1,959)	-
Revaluation surplus	-	(27,686)

16,909 12,113

BANK

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

General provision for bad and doubtful debts	17,877	15,930
Depreciation in excess of capital allowances	10,258	7,479

28,135 23,409

25 CUSTOMER DEPOSITS

GROUP

BANK

	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
(a) From government and parastatals Payable within 90 days	210,077	177,689	210,077	177,689
(b) From private sector and individuals Payable within 90 days	6,406,477	5,263,086	6,656,520	5,453,034
Payable after 90 days but within one year	8,847	111,408	8,847	111,408
Payable after one year	77,474	3,320	77,474	3,320
	6,702,875	5,555,503	6,952,918	5,745,451

The bank's customer deposits payable within 90 days include deposits from subsidiary companies amounting to Sh 250,043,000 (2001 – Sh 189,948,000).

The effective interest rate on customer deposits as at 31 December 2002 was 5% (2001 - 7%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 LINE OF CREDIT

GROUP AND BANK

International Finance Corporation
(Washington)

2002 Sh'000	2001 Sh'000
	786,000

Upto 2001, the bank had an unsecured revolving medium term line of credit with International Finance Corporation (Washington) of US \$ 10,000,000. The line of credit was repaid in March 2002.

27 OTHER LIABILITIES

Insurance liabilities
Other liabilities

2002 Sh'000	2001 Sh'000
1,096,020	914,653
1,159,442	924,005
2,255,462	1,838,658

28 SHARE CAPITAL

Authorised, issued and fully paid:
120,000,000 (2001 – 120,000,000) ordinary
shares of Sh 5 each

2002 Sh'000	2001 Sh'000
600,000	600,000

29 RESERVES

BANK

	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2002	859,047	80,400	939,447
Profit for the year	128,425	-	128,425
Dividend paid - 2001	-	(80,400)	(80,400)
Proposed dividend - 2002	(80,400)	80,400	-
At 31 December 2002	907,072	80,400	987,472

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of consolidated profit before taxation to net cash from operating activities

	2002 Sh'000	2001 Sh'000
Consolidated profit before taxation	323,093	260,467
Depreciation	83,235	71,813
Amortisation	5,945	5,640
Loss/(profit) on sale of equipment	1,936	(3,111)
Deficit on revaluation of investment property	-	2,640
Dividends receivable - quoted and unquoted equity investments	(19,072)	(19,275)
Exchange differences on translation of a foreign subsidiary	3,540	6,630
	<hr/> 398,677	<hr/> 324,804
(Increase)/decrease in operating assets		
Loans and advances to customers	(874,866)	(19,835)
Other assets	(24,076)	(65,242)
Cash ratio requirement	(11,959)	21,266
Government securities	(612,687)	21,100
Other investments	(180,008)	86,763
Deposits and balances due from banking institutions	-	(101,500)
	<hr/> (1,703,596)	<hr/> (57,448)
Increase/(decrease) in operating liabilities		
Customer deposits	1,147,372	506,206
Line of credit	(786,000)	5,500
Other liabilities	476,911	45,435
Deposits due to other banking institutions	58,087	-
	<hr/> 896,370	<hr/> 557,141
Net cash (used in)/generated from operations	(408,549)	824,497
Tax paid	(71,282)	(78,897)
	<hr/> (479,831)	<hr/> 745,600

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2002 Sh'000	2001 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	102,965	63,177
Treasury bills and bonds	722,918	759,602
Deposits and balances due from banking institutions	1,098,497	1,298,900
Deposits and balances due to banking institutions	(418,869)	-
	1,505,511	2,121,679

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.

	2002 Sh'000	2001 Sh'000
(c) Changes in cash and cash equivalents during the year		
Balance at the end of the year	1,505,511	2,121,679
On acquisition of a subsidiary	-	(11,051)
Balance at the beginning of the year	(2,121,679)	(1,536,579)
(Decrease)/increase in cash and cash equivalents	(616,168)	574,049

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2002 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	387,058	114,630	196	261	4,006	-	-	506,151
Government securities	348,510	374,408	-	256,751	673,157	253,649	-	1,906,475
Deposits and balances due from banking institutions	859,744	133,963	104,790	-	-	-	-	1,098,497
Loans and advances to customers	1,196,560	1,826,219	815,119	825,970	1,345,738	92,606	72,022	6,174,234
Other assets	335,211	44,764	53,465	136,682	587	12,882	5,610	589,201
Taxation recoverable	-	-	5,188	-	-	-	14,185	19,373
Investment properties	-	-	-	-	-	-	132,990	132,990
Other investments	279,406	29,579	-	16,263	30,247	81,494	420,248	857,237
Property and equipment	-	-	-	-	-	-	501,909	501,909
Operating lease prepayments	-	-	-	-	-	-	32,300	32,300
Intangible assets	-	-	-	-	-	-	8,568	8,568
Goodwill	95	190	285	570	1,141	-	-	2,281
Deferred tax asset	-	-	-	-	-	-	16,909	16,909
Total assets	3,406,584	2,523,753	979,043	1,236,497	2,054,876	440,631	1,204,741	11,846,125

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 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	4,399,812	2,216,742	3,799	5,048	77,474	-	-	6,702,875
Deposits and balances due to banking institutions	341,419	77,450	58,087	-	-	-	-	476,956
Other liabilities	1,256,012	71,999	2,058	148,407	-	-	776,986	2,255,462
Taxation payable	-	-	33,534	-	-	-	-	33,534
Dividends	-	-	80,400	-	-	-	-	80,400
Minority interest	-	-	-	-	-	-	369,902	369,902
Shareholders' funds and reserves	-	-	-	-	-	-	1,926,996	1,926,996
Total equity and liabilities	5,997,243	2,366,191	177,878	153,455	77,474	-	3,073,884	11,846,125
Net liquidity gap	(2,590,659)	157,562	801,165	1,083,042	1,977,402	440,631	(1,869,143)	-
As at 31 December 2001 (Restated)								
Total assets	3,878,510	1,539,970	932,411	879,091	1,518,658	578,289	1,085,438	10,412,367
Total equity and liabilities	4,539,453	2,838,174	176,432	279,774	230,044	43,125	2,305,365	10,412,367
Net liquidity gap	(660,943)	(1,298,204)	755,979	599,317	1,288,614	535,164	(1,219,927)	-

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 (Continued)

32 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.

	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 Years	3 - 5 years	Over 5 years	Non interest bearing	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	506,151	506,151
Government securities	370,663	923,540	41,739	50,967	352,900	166,666	-	1,906,475
Deposits and balances due from banking institutions	859,744	133,963	104,790	-	-	-	-	1,098,497
Loans and advances to customers	6,174,234	-	-	-	-	-	-	6,174,234
Other assets	31	64	98	203	681	1,202	586,922	589,201
Taxation recoverable	-	-	-	-	-	-	19,373	19,373
Investment properties	-	-	-	-	-	-	132,990	132,990
Other investments	279,406	29,579	-	2,000	30,247	81,494	434,511	857,237
Property and equipment	-	-	-	-	-	-	501,909	501,909
Operating lease prepayments	-	-	-	-	-	-	32,300	32,300
Intangible assets	-	-	-	-	-	-	8,568	8,568
Goodwill	-	-	-	-	-	-	2,281	2,281
Deferred tax asset	-	-	-	-	-	-	16,909	16,909
Total assets	7,684,078	1,087,146	146,627	53,170	383,828	249,362	2,241,914	11,846,125

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 INTEREST RATE RISK (Continued)

	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 Years	3 - 5 years	Over 5 years	Non interest bearing	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
EQUITY AND LIABILITIES								
Customers deposits	4,399,812	2,216,742	3,799	5,048	77,474	-	-	6,702,875
Deposits and balances due to banking institutions	341,419	77,450	58,087	-	-	-	-	476,956
Line of credit	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	2,255,462	2,255,462
Taxation payable	-	-	-	-	-	-	33,534	33,534
Share capital	-	-	-	-	-	-	600,000	600,000
Reserves	-	-	-	-	-	-	1,326,996	1,326,996
Dividends	-	-	-	-	-	-	80,400	80,400
Shareholders' funds and minority interest	-	-	-	-	-	-	369,902	369,902
Total equity and liabilities	4,741,231	2,294,192	61,886	5,048	77,474	-	4,666,294	11,846,125
On balance sheet interest rate sensitivity gap	2,942,847	(1,207,046)	84,741	48,122	806,354	249,362	(2,424,380)	-
As at 31 December 2001 (Restated)								
Total assets	7,674,264	322,800	240,888	64,352	50,983	46,003	2,013,097	10,412,367
Total equity and liabilities	3,496,345	2,651,400	105,157	6,253	3,320	-	4,149,894	10,412,367
On balance sheet interest rate sensitivity gap	4,177,919	(2,328,600)	135,731	58,081	47,663	46,003	(2,136,797)	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 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 2002.

The group takes deposits and lends in currencies other than Kenyan shillings. The bank's 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 2002

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	481,004	24,088	650	409	-	506,151
Government securities	1,906,475	-	-	-	-	1,906,475
Deposits and balances due from banking institutions	514,424	363,169	190,366	28,431	2,107	1,098,497
Loans and advances to customers	4,747,206	1,384,234	42,794	-	-	6,174,234
Other assets	530,560	30,695	2,498	25,448	-	589,201
Taxation recoverable	19,373	-	-	-	-	19,373
Investment property	132,990	-	-	-	-	132,990
Other investments	857,237	-	-	-	-	857,237
Property and equipment	501,909	-	-	-	-	501,909
Operating lease prepayments	32,300	-	-	-	-	32,300
Goodwill	2,281	-	-	-	-	2,281
Intangible assets	8,568	-	-	-	-	8,568
Deferred tax	16,909	-	-	-	-	16,909
TOTAL ASSETS	9,751,236	1,802,186	236,308	54,288	2,107	11,846,125
LIABILITIES						
Customer deposits	4,812,923	1,562,221	303,996	22,725	1,010	6,702,875
Deposits and balances due to banking institutions	177,448	271,077	-	28,431	-	476,956
Other liabilities	2,243,512	9,355	2,508	87	-	2,255,462
Taxation payable	33,534	-	-	-	-	33,534
TOTAL LIABILITIES	7,267,417	1,842,653	306,504	51,243	1,010	9,468,827
NET BALANCE SHEET POSITION	2,483,819	(40,467)	(70,196)	3,045	1,097	2,377,298
OFF BALANCE SHEET NET NOTIONAL POSITION	954,575	1,407,776	149,517	90,724	23,206	2,625,298
At 31 December 2001 (Restated)						
TOTAL ASSETS	8,633,215	1,624,469	121,337	29,148	4,198	10,412,367
TOTAL LIABILITIES	6,306,616	1,692,964	129,216	20,667	3,050	8,152,513
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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 CURRENCY RISK (Continued)

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

	2002 Sh	2001 Sh
US Dollar	77.4500	78.6000
GB Pound	124.8300	114.0172
Euro	81.2300	69.6278
Tanzania shilling	0.0833	0.0904

34 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.

	2002 Sh'000	2001 Sh'000
CONTINGENT LIABILITIES		
GROUP AND BANK		
Acceptances and letters of credit	1,000,151	1,035,535
Guarantees and performance bonds	653,754	655,963
Spot and forward contracts	962,935	253,512
Others	8,958	10,470
	2,625,798	1,955,480

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.

35 COMMITMENTS FOR CAPITAL EXPENDITURE

	GROUP		BANK	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 Sh'000
Contracted but not provided for in the financial statements	8,238	9,134	5,616	-
Authorised but not contracted for	68,653	9,700	55,062	5,700

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 OPERATING LEASE COMMITMENTS

	GROUP		BANK	
	2002 Sh'000	2001 Sh'000	2002 Sh'000	2001 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	152	8,410	-	4,735
After five years	12,069	1,800	9,602	1,800
	12,221	17,283	9,602	6,535

37 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 31,189,803 (2001 – Sh 28,377,000). Retirement benefit costs are included in staff costs (note 7).

38 ASSETS PLEDGED AS SECURITY

As at 31 December 2002, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

39 FAIR VALUES

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RELATED PARTY TRANSACTIONS

Included in loans and advances are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (associated companies). In addition, contingent liabilities include guarantees and letters of credit, which have been issued to associated companies.

	Directors		Associated companies	
	2002 Sh	2001 Sh	2002 Sh	2001 Sh
Loans and advances:				
At 1 January	-	-	26,363	94,277
Advanced during the year	-	-	1,116,641	728,393
Repayments during the year	-	-	(1,069,011)	(796,307)
At 31 December	-	-	73,993	26,363
Deposits:				
At 1 January	124,940	90,399	257,256	210,293
Received during the year	-	34,541	5,957,140	5,999,484
Repaid during the year	(106,634)	-	(5,900,511)	(5,952,521)
At 31 December	18,306	124,940	313,885	257,256

Loans and advances to customers at 31 December 2002 include loans and advances to companies associated to the directors and loans to employees of Sh 183,789,000 (2001- Sh 128,607,000). There were no outstanding advances to directors.

Contingent liabilities at 31 December 2002 include contingencies on behalf of companies associated to the directors of Sh 150,622,000 (2001 - Sh 154,070,000).

All related party transactions are at arms length and in the normal course of business.

41 INCORPORATION

The bank is incorporated in Kenya under the Companies Act.

42 CURRENCY

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

