



*established 1955*

**2003 ANNUAL REPORT and  
FINANCIAL STATEMENTS**

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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 *		
M. Soundararajan **		
S. W. Lewis *		
U. P. Jani *		

\* British  
\*\* Indian

### COMPANY SECRETARY

R. R. Vora  
Marakwet House  
Elgeyo Marakwet Road  
P O Box 48405  
00100 Nairobi

### AUDIT COMMITTEE

A. P. Hamilton	-	Chairman
P. K. Jani		
J. G. Kiereini		
C. Njonjo		

### SENIOR MANAGEMENT

R. J. Barry	-	Managing Director
M. Soundararajan	-	Director, Corporate Banking
K. S. Krishnakumar	-	General Manager, Projects
S. Sanger	-	General Manager, Treasury
A. M. Gathigi	-	Assistant General Manager, Finance & Administration
A. K. Seth	-	Assistant General Manager, Mombasa Branch
D. N. Gichuhi	-	Assistant General Manager, Hire Purchase & Marketing
L. N. Thegeya	-	Assistant General Manager, Operations
G. W. Radier	-	Assistant General Manager, Corporate Banking

### 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

#### Upper Hill Medical Centre Branch

Ralph Bunche Road  
P O Box 2492  
00200 Nairobi

#### Kimathi Street Branch

Corner House, Kimathi Street  
P O Box 75501  
00200 Nairobi

#### Intercontinental Hotel Agency

P.O Box 75501  
00200 Nairobi

#### Mombasa Branch

Social Security House, Nkrumah Road  
P O Box 84418  
Mombasa

### AUDITORS

Deloitte & Touche  
"Kirungli", Ring Road,  
Westlands  
P O Box 40092  
00100 Nairobi

2007/0325

## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the forty ninth Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Friday, 28th May 2004 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 2003 and the Directors' and Auditors' Reports thereon.
2. To approve the payment of a first and final dividend for the year ended 31st December 2003 of 16.8% (Sh. 0.84 per share) on the Issued Share Capital.

3. To elect Directors:

- i) 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."

- ii) 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".

- iii) Mr. U.P. Jani having been appointed to the Board on 9 October 2003 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 31st December 2003 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 fix their remuneration.

## SPECIAL BUSINESS

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

- i) "That the authorised share capital of the Bank be increased from Kenya shillings six hundred million (Sh.600,000,000) divided into one hundred and twenty million ordinary shares (120,000,000) of Kenya shillings five (Sh.5) each to Kenya shillings seven hundred and twenty million (Sh.720,000,000) by the creation of twenty four million (24,000,000) ordinary shares of Kenya shillings five (Sh.5) each to rank pari passu with the existing ordinary shares in the capital of the Bank in all respects."
- ii) "That in pursuance of Article 127 of the Bank's Articles of Association, and subject to the approval of the Capital Markets Authority being obtained pursuant to rule 41A of the Capital Markets Authority Amendment Rules 1994, and to the Nairobi Stock Exchange approving the listing of new ordinary shares of the Bank, and upon the recommendation of the Board, it is desirable to capitalise the sum of Kenya shillings one hundred twenty million (Sh.120,000,000) being part of the sum standing to the credit of the Bank's revenue reserve account and that accordingly such sum be set free for distribution amongst the holders of ordinary shares in the capital of the Bank on the register of members as at 7th May 2004, on condition that the same not be paid in cash but be applied in paying up in full at par Twenty Four million (24,000,000) ordinary shares of five shillings (Sh.5) each in the capital of the Bank, and that such 24,000,000 shares be credited as fully paid, and accordingly be allotted to such persons respectively in the proportion of ONE (1) share for every FIVE (5) ordinary shares in the Bank then held by such persons (fractions of a share to be disregarded) and the shares so distributed shall rank pari passu with the existing issued ordinary shares and shall be treated for all purposes as an increase of the nominal amount of capital of the Bank held by each such shareholder and not as income and the Directors be and are hereby authorised to attend to all matters required to give effect to this resolution."
- iii) "That should any of the said 24,000,000 bonus shares not to be issued by reason of fractions of a share being disregarded, the Directors may allot and issue the same to such persons and upon such terms and conditions they may think fit."

**By Order of the Board**

**R. R. Vora**

Secretary

26 February 2004

**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 STATEMENT

### Corporate Governance Statement

The Group broadly complies 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 public listed companies. The Group also complies with Central Bank of Kenya prudential 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.

### Shareholders' responsibilities

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

### Board's responsibilities

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

### Composition of the Board of Directors

The Board of Directors is composed of eight members, six of whom are independent non-executives and meets on a regular basis.

The board retains full responsibility for the direction and control of the Bank and Group.

### Audit committee

The principal board committee is the audit committee which is chaired by a non executive director and comprises three other non executive directors. The committee meets twice every quarter. The mandate of the Audit Committee is to oversee the Group's financial reporting policies and internal controls; review and make recommendations on management programs established to monitor compliance and to oversee the Group's risk management policies and procedures.

### Remuneration committee

Remuneration to all directors is determined by the remuneration committee based on 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.

### Nominations committee

Appointments to the Board are considered by the Nominating Committee, which comprises all Board members. The committee meets at least once a year or more frequently as may be required.

### Executive Management Committee

The committee is chaired by the Managing Director and includes Director (Corporate Banking) and General Managers. The committee meets at monthly intervals or more frequently as required to review business and operational aspects on an ongoing basis.

**Credit committee**

The committee, which is headed by the Managing Director, includes the Director (Corporate Banking), Assistant General Manager ( Hire Purchase & Marketing), Assistant General Manager (Corporate Credit) and Senior Manager (Risk). The committee meets at least monthly, or more frequently as required by 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 assets and ensures adequate provisions are held against identifiable losses.

**Assets and Liability management committee**

The Bank has an Assets and Liability management committee (ALCO), which is chaired by the Bank's Managing Director and comprising senior management in relevant departments. The committee meets every fortnight or more frequently as appropriate to monitor and manage the Bank's balance sheet to ensure that various operational risks are addressed.

**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 Capital Markets Authority.

## CHAIRMAN'S STATEMENT

Dear Shareholder,

It is my pleasure to present the Bank's Annual Report and Financial Statements for the year ended 31<sup>st</sup> December 2003.

The year under review coincides with the first year of our new Government. Against sluggish growth in the economy with real GDP growth estimated at 1.5%, it is easy to forget the euphoria experienced at the beginning of the year. Most certainly a number of new initiatives were introduced to improve upon governance issues and inspire confidence through transparency enhancing procedures in procurement of goods and services. Additionally steps were taken to crack down on corruption and the management of key parastatals with free primary schooling – a key election pledge – introduced. Commendably, our Government has started a crusade to comprehensively address the AIDS scourge and mitigate its impact on the destinies of all Kenyans.

Serious challenges remain however following years of under investment across all sectors of the economy.

The Government has set ambitious targets for revenue collection, investment and economic growth. The outlook for 2004 appears brighter albeit the resumption of donor support is critical. In this context policy constraints must be addressed with structural reforms put in place urgently complemented by enhanced private sector involvement in key infrastructural services and reforms of inefficient and overstaffed parastatals.

Two notable features of the economy during 2003 were the sharp decline in interest rates and the bull phase on the stock market. The yield on 91-day Treasury Bills reduced from 8.4% at the beginning of the year to 1.5% in December 2003. Average Spreads in the banking industry over the same period reduced by some 3.5%. The decline in interest rates followed the reduction in cash reserve ratio of banks coupled with the redemption of funds previously held by the Central Bank as part of its open market operations. In respect of the stock market, 2003 witnessed higher trading volumes and ever increasing multiples for quoted shares. The index at year end at 2,737 reflected an increase of 100% year on year.

The foreign exchange markets witnessed volatility particularly in the second quarter linked to expectations of the resumption of multilateral and donor support. Overall on a trade-weighted basis, the shilling depreciated by 0.8% in nominal terms excluding inflation.

Turning to the banking sector, several reforms were introduced with minimum capital and cash reserve requirements reduced and bank charges under constant review by the Central Bank of Kenya. Against a backdrop of reducing spreads and charges there has been an explosion in personal banking assets. In this respect whilst your Bank is considering a balanced entree into this sector, prudence remains critical.

Notwithstanding the challenging market conditions, the Bank produced extremely encouraging results, with earnings per share increasing by 72% over the prior year. Growth in profit was at record levels with banking and related services contributing Sh.280m and insurance services contributing Sh.201m to the Group profit before tax and minority interest. (Growth year on year was 78% and 21% respectively). Despite the reduction in spreads mentioned earlier, net interest

## CHAIRMAN'S STATEMENT (Continued)

income increased by 19% with fees and commissions evidencing an increase of 85% and growth in other income of 28% (compared to prior year). Performance in foreign exchange trading remained disappointing with Sh.27m earned during the period. Steps have been taken to address and improve foreign exchange income. Operating expenses increased by 24% in line with the growth alluded to earlier with an increase in insurance claims accounting for 51% of the increase.

Strong cash flows continue to be generated by your Bank from its businesses with profit attributable to shareholders in 2003 at Sh.299.4m, an increase of 72% over 2002. With a view to further strengthening your bank, your Board recommends an increase in share capital of Sh.120,000,000 by way of a bonus issue of 24,000,000 shares. Further, in recognition of the excellent results achieved, your Board recommends an increase in the final dividend of 24% per share at Sh.0.84 per share (16.8%) payable on or about 28<sup>th</sup> May 2004.

Turning now to the balance sheet, total assets increased by Sh.4.6b or 38.5% during the year. Loans and advances to customers increased during the same period by Sh.1.7b or 27% to Sh.7.8b. Hire Purchase business continued impressive growth year on year by 65%. I would like to mention that your Bank continues to exercise prudent risk assessment policies with non performing assets totaling Sh.264m constituting 7% of your Bank's total loans and advances which compares favourably with the industry. Your Bank continues to diversify risk concentration and increasing non funds based income evidenced by a growth of 85% in fees and commissions.

Your Bank's deposit base increased by Sh.4b to Sh.11b an increase of 54% year on year. Of particular note is the growth in current and savings accounts of Sh.1.6b being 232% higher than the prior year.

Turning now to the performance of your Bank's subsidiaries, The Heritage All Insurance Company Limited and its Tanzanian subsidiary continued to contribute positively to your Group recording yet again increasing profitability. It is pleasing to report that CFC Financial Services Limited performed commendably with a record contribution to the Group's results.

As I mentioned in my comments last year several new initiatives were to be introduced and I am pleased to report as follows:-

- CFC e-Plus, our new e-banking product was successfully implemented.
- Saturday banking to all clients offering free services to personal clients was received extremely well by the market.
- Automated Teller Machines (ATMs) were launched at all branches. Of particular importance was the recent launch of an off-site ATM at one of our client's premises – a first step in addressing the under-banked nature of Kenya.
- A new agency was opened at the Hotel Intercontinental in Nairobi.
- Several new product launches notably longer-term deposit liabilities were well received by the market.
- CFC community initiative commenced with significant donations having been given in the fields of children's homes, environmental and medical sectors.

## CHAIRMAN'S STATEMENT (Continued)

Looking to the future your Bank has identified specific areas to be focused upon noting the challenging environment in which we operate as follows :

- Your Bank shall be opening a branch in Naivasha later this year.
- Plans are at an advanced stage in respect of substantial investment in a new information technology solution.
- Positioning of the Bank's unique ATM payroll service shall continue.
- New retail and small business departments will start operating.
- Your Bank is to reinforce risk management department in preparedness for compliance with the initiatives of Basle II requirements.

In addition to these identified issues, the challenge for your Group shall be the integration of all the existing financial services now available to take advantage of the Group's unique range of products and services to Kenya.

Against the background of the above with new initiatives to be undertaken whilst developing further the core businesses, staff resources are critical. Training both on and offshore shall continue apace with appropriate resources allocated. Ours is a service industry and our staff are our most important resource.

2004 will be challenging, no doubt, but we can look forward to further growth to be reflected both in the balance sheet and bottom line return.

The Group's results are a testimony to our staffs' commitment and professionalism together with our clients' support. On behalf of the Board I would like to thank all concerned for their efforts. I would also like to put on record my thanks to my fellow directors for their dedication and wise counsel.

Finally I would like to thank you, our shareholders. Our commitment remains to provide the best possible returns on your investment.

**P. K. Jani**

Chairman

26 February 2004

## TAARIFA YA MWENYEKITI

Kwa Wanahisa,

Ni furaha yangu kuwasomea ripoti ya mwisho wa mwaka ya Benki pamoja na taarifa ya hesabu ya mwaka 2003 uliomalizika tarehe 31 mwezi wa Kumi na Mbili.

Mwaka tunaoungazia unaenda sambamba na mwaka wa kwanza wa serikali yetu mpya. Kufuatia hali duni ya ukuaji wa uchumi ambapo kiwango cha ukuzaji (GDP) kilikadiriwa kuwa asilimia moja nukta tano (1.5%), nirahisi mno kusahau ile hali nzuri iliyokuwemo mwanzoni mwa mwaka. Ni dhahiri kwamba ari mpya zilianzishwa kuimarisha maswala ya utawala na kuleta moyo wa matumaini kupitia sera zenye kusesitiza uwazi katika ununuzi wa bidhaa na huduma. Kuongezea, hatua zilichukuliwa dhidi ya ufasidi na usimamizi wa mashirika muhimu ya kiserikali na pia kuanzishwa kwa mfumo wa elimu ya bure ambayo ilikuwa moja wapo ya ahadi muhimu zilizotolewa wakati wa kipindi cha uchaguzi. Tunaipongeza serikali yetu kwa kuanzisha kampeni inayojumuisha mipango ya kulishughulikia janga linaloletwa na ugonjwa wa Ukimwi na uzuiaji wa madhara yake kwa Wakenya.

Kunazo changamoto nyingi ambazo bado hazijatimizwa kufuatia miaka mingi ya uwekezaji duni katika sekta zote za uchumi.

Serikali imetoa ahadi nyingi zakuvutia katika ukusanyaji wa mapato, uwekezaji na ukuaji wa uchumi. Mwaka wa 2004 unaonekana mzuri weza ukang'ara kutokana na uwezekano wa kurudishiwa misaada na wafadhili. Katika hali hiyo, ni lazima pingamizi zilizoko katika sera zetu zitatuliwe na mageuzi ya kimsingi kuwekwa haraka. Pasipo kuchelewa, litakuwa jambo la maana kuihusisha sekta ya kibinafsi katika nyanja muhimu za huduma za kimsingi na katika mageuzi kufanyiwa mashirika legevu na yenye wafanyikazi wengi kupita kiasi.

Mambo haya mawili yalidhihirika katika uchumi wa mwaka wa 2003: kwanza ni kushuka kwa kiwango cha riba na la pili lilikuwa kuadhirika kwa soko la hisa. Mapato yanayotokana na hundi za hisa za Serikali "Treasury Bills" kwa siku 91 yalishuka kutoka asilimia nane nukta nne (8.4%) mwanzoni mwa mwaka hadi asilimia moja nukta tano (1.5%) mnamo mwezi wa Kumi na Mbili mwaka wa 2003. Usambazaji katika sekta ya benki nao ulishuka kwa kiwango cha asilimia tatu nukta tano (3.5%) wakati huohuo. Kushuka kwa kiwango cha riba kulitokana na kushuka kwa hifadhi zinazoshikiliwa na benki pamoja na kutolewa kwa fedha zilizokuwa zimekekwa na Benki Kuu kama sehemu moja ya mipango yake ya kuweka soko huru. Na katika soko la hisa, mwaka wa 2003 ulishuhudia ongezeko la kiwango cha biashara na wingi wa hisa zilizouzwa. Alama ya mwisho wa mwaka ya 2737 inaonyesha ongezeko la asilimia mia moja (100%) mwaka baada ya mwaka.

Soko la ubadilishanaji wa fedha za kigeni lilidhoofika hasa katika kipindi cha miezi mitatu cha pili cha mwaka (second quarter) kutokana na matarajio ya kuregeshewa misaada na wafadhili wa kimataifa. Kwa ujumla, shilingi ya Kenya iliporomoka kwa asilimia nukta nane (0.8%) katika biashara iliyokadiriwa ukipunguza kiwango cha kupanda kwa gharama ya maisha.

Tukigeukia sekta ya benki, mageuzi kadhaa yalitekelezwa pasipo na gharama kubwa, kupunguzwa kwa mahitaji ya pesa zinazohifadhiwa na kuchunguzwa mara kwa mara kwa ada za benki zinazotozwa wateja na Benki Kuu. Kufuatia mabadiliko yaliyopelekea kupunguka kwa usambazaji na pia ada zinazotozwa, kumekuwapo na ongezeko kubwa mno la biashara za watu binafsi. Kwahivyo, wakati benki yenu inapodhania kupata usawa wa mapato na matumizi, ni lazima tuwe na hekima.

Ilapokuwa kulikuwepo mazingira magumu katika soko, Benki ya CFC ilipata matokeo ya kutia moyo, wakati mapato ya kila hisa yakiongezeka kwa asilimia sabini na mbili (72%) zaidi ya mwaka uliopita. Ukuaji wa faida ni kwa kiwango kizuri. Shughuli za benki na huduma zinazoambatana zilichangisha shilingi za Kenya, milioni 280 katika matokeo haya nazo huduma za bima zikachangisha shilingi za Kenya milioni 201 kabla ya ushuru na riba za kiwango cha chini, (mazao ya mwaka kwa mwaka yalikuwa asilimia sabini na nane (78%) na asilimia ishirini na moja (21%) kufuatana). Hata tukizingatia kupungua kwa usambazaji wa shughuli za Benki nilizozitaja hapo mbeleni, mapato baada ya ushuru yaliongezeka kwa asilimia kumi na tisa (19%) ambapo ada zinazozwa pamoja na marupurupu mengine yakiongezeka kwa asilimia themanini na tano (85%) na hali kiwango cha ukuaji kutokana na fedha nyingini kikiongezeka kwa asilimia ishirini na nane (28%) (kikilinganishwa na mwaka uliopita). Utendaji katika ubadilishanaji wa fedha za kigeni haukuridhisha kwani ni shilingi za Kenya milioni ishirini na saba tu ndizo zilizozalishwa wakati huo. Hatua muafaka zimewekwa ili kushughulikia na kuimarisha matokeo ya ubadilishanaji wa fedha za kigeni.

## TAARIFA YA MWENYEKITI (Inaendelea)

Matumizi ya ndani yaliongezeka kwa asilimia ishirini na nne (24%) kufuatia ukuaji nilioutaja hapo awali na pia ongezeko la malipo ya bima yakichangia asilimia hamsini na moja (51%) ya ongezeko hilo.

Benki yenu itaendelea kuleta ongezeko kubwa la pesa kutokana na biashara zake na faida ya shilingi za Kenya milioni 299.4 ikigawiwa wenye hisa mwaka wa 2003 ambayo ni ongezeko la asilimia sabini na mbili (72%) la lile la mwaka wa 2002. Ili kuimarisha Benki yenu zaidi, Wanakamati wenu wanapendekeza ongezeko la mtaji la shilingi za Kenya milioni mia na ishirini, (120,000,000) kwa kuuza hisa milioni ishirini na nne (24,000,000). Katika kuyatambua matokeo haya mazuri yaliyopatikana, Kamati yenu inapendekeza ongezeko katika marupurupu ya mwaka ya asilimia ishirini na nne (24%) kwa kila hisa kwa kiwango cha senti themanini na nne (Sh.0.84) shilingi za Kenya kwa kila hisa itakayolipwa kufikia tarehe 28 Mwezi wa Tano 2004.

Tunapoangazia hesabu zote zilizojumulishwa, tutaona kwamba milki zote zetu ziliongezeka na shilingi za Kenya bilioni 4.6 au asilimia 38.5% maka huu. Mikopo na pesa nyingine zinazotolewa kwa wateja ziliongezeka katika kipindi hicho kwa shilingi za Kenya bilioni 1.7 au asilimia ishirini na saba (27%) hadi shilingi za Kenya bilioni 7.8. Biashara ya malipo ya polepole nayo ilizidi kukua kwa asilimia sitini na tano (65%). Ningependa kutaja kwamba Benki yenu huchukua sera muafaka za kuchunguza athari zozote zinazoweza kutokea kutokana na mikopo isiyo lipwa inayopata shilingi za Kenya milioni 264 na inayochangia asilimia saba (7%) ya mikopo yote ya Benki yenu. Kiwango hiki kinalingana na matarajio katika biashara hii. Kundi lenu linaendelea kuzingatia njia mbalimbali za kupunguza hasara pamoja na kuimarisha mapato yasiyotokana tu na biashara ya pesa kama inavyodhihirishwa na ukuaji wa asilimia themanini na tano (85%) kutokana na ada na marupurupu mengine.

Uwezo wa Benki yenu wa kuweka hifadhi uliimarika kwa shilingi za Kenya bilioni 4 hadi bilioni 11 ambao ni asilimia hamsini na nne (54%) ya mwaka na mwaka. La muhimu ni ukuaji wa "akaunti" za kuweka malimbikizi (Savings) na zile za Kibiashara (Current) zilizofikia shilingi za Kenya bilioni 1.6 ambayo ni asilimia 232 zaidi ya mwaka uliotangulia.

Tukiangazia utendaji wa biashara za pembeni za ya Benki yenu, tutaona kwamba shirika la bima "The Heritage All Insurance Company Limited" pamoja na kampuni yake ndogo iliyoko Tanzania liliendelea kuimarika na kuongezea mapato ya Kundi lenu kwa mara nyingine. Ni jambo la kuridhisha kwamba huduma za maswala ya pesa za "CFC Financial Services Limited" zilifanikiwa hadi kuimarisha matokeo ya Kundi lenu.

Kama nilivyotaja mwaka uliopita, mambo kadhaa mapya yangeanzishwa na nifuraha yangu kuwaletea ripoti hiyo kama ifuatavyo:

- Kwanza, huduma ijulikanayo kama CFC e-Plus ambayo ni huduma yetu mpya ya kufanya biashara kwa njia ya mtandao wa "Internet" ilianzishwa na kwa sasa tunao wateja hamsini kutoka mashirika mbalimbali.
- Pili, huduma za bure kwa wateja wa kibinafsi kila Jumamosi zimepokelewa vyema na wote katika soko hili.
- Tatu, mashine za kutolea pesa (ATM) zilianzishwa katika matawi yetu yote. La muhimu zaidi lilikuwa kuanzishwa kwa huduma za ATM katika jumba la mmoja wa mteja wetu ambayo ni njia moja ya kuwashughulikia wale wasiobahatika kuwa na huduma za Benki hapa Kenya.
- Nne, kituo kidogo mpya cha Benki kilianzishwa katika "Hotel Intercontinental" hapa Nairobi.
- Tano, bidhaa zetu kadhaa ambazo ni mpya sokoni ziliweza kupokelewa vyema katika biashara ya Benki.
- Sita, huduma za kuwasaidia wananchi zilianzishwa huku misaada ikitolewa kwa ajili ya makao ya watoto, mazingira na afya.

Tukiangazia siku za usoni, Benki yenu imedhamiria kufanya mambo kadhaa ikizingatia mazingira magumu katika sekta hii. Mambo haya ni kama yafuatavyo:

- Kwanza, Benki yenu itafungua tawi huko Naivasha mwakani.
- Pili, mipango ya uwekezaji katika nyanja ya kupashana habari na mawasiliano imefikia upeo wa juu.

## TAARIFA YA MWENYEKITI (Inaendelea)

- Tatu, tutaendelea na mipango ya kuimarisha huduma za kulipa mishahara kwa njia ya ATM.
- Nne, tutaanzisha idara za kushughulikia mipango ya biashara ndogondogo.
- Tano, Benki yenu itaanzisha idara ya kushughulikia mambo yanayoweza kuleta athari kama njia ya kujitayarisha kwa mambo yasiyotabirika kama inavyohitajika na "Basle II".

Zaidi ya yote haya, changamoto kwa kundi lenu itakuwa kujumuishwa kwa huduma zote zilizoko za kifedha ili kuweza kunufaika na bidhaa na huduma nyingi za kundi hili hapa nchini Kenya.

Kufuatia hayo yote, pamoja na ari mpya zitakazoanzishwa tunapoendelea kuimarisha biashara yetu, maswala yanayohusu wafanyikazi ni muhimu tuyashughulikie. Tutaendelea kuimarisha vipawa vyao kazini na pia kuwatuma kwa masomo kulingana na fedha tutakazokuwa tumetenga kwa kazi hii. Letu ni kutoa huduma kwa watu na kwa hivyo wafanyikazi wetu ni raslimali muhimu sana.

Ilapokuwa mwaka wa 2004 utakuwa na changamoto nyingi, tunaweza kutazamia ukuaji katika huduma zetu.

Matokeo ya kundi hili ni ushuhuda wa kujitolea kwa wafanyikazi wetu na utaalamu wao pamoja na ushirikiano wa wateja wetu. Kwa njaba ya Kamati yangu, ningependa kuwashukuru wote kwa bidii yao. Ningependa pia kuwashukuru wakurugenzi wengine wote kwa kujitolea kwao na ushauri mzuri.

Mwisho, ningependa kuwashukuru ninyi wenyekiti wetu. Msukumo wetu utakuwa uwezekano wa kupata faida nzuri kutokana na uwekezaji wenu.

**P. K. Jani**

Mwenyekiti

26 February 2004

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

### 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	299,357
Proposed dividend	(100,800)
	<hr/>
Profit retained in revenue reserve	198,557
	<hr/>

### DIVIDEND

The directors recommend a first and final dividend of Sh.0.84 per share (16.8%) for the year ended 31 December 2003 which is to be paid on or about 28 May 2004 to shareholders registered at the close of business on 7 May 2004.

#### *Authorised share capital*

The directors recommend that the authorised share capital of the Bank be increased from Sh.600,000,000 to Sh.720,000,000 by the creation of an additional 24,000,000 ordinary shares for Sh.5 each ranking in all respects pari passu with the existing ordinary shares in the capital of the Bank.

#### *Bonus issue*

The directors also recommend that in pursuance of Article 127 of the Bank's articles of association, and subject to the approval of the Capital Markets Authority being obtained pursuant to Rule 41A of the Capital Markets Authority amendment rules 1994, and the Nairobi Stock Exchange approving the listing of new ordinary shares of the Bank, it is desirable to capitalise the sum of Kenya shillings one hundred twenty million (Sh.120,000,000) being part of the sum standing to the credit of the bank's revenue reserve account and that accordingly such sum be set free for distribution amongst the holders of ordinary shares in the capital of the Bank on the register of members as at 7 May 2004 on condition that the same not be paid in cash but be applied in paying up in full at par twenty four million (24,000,000) ordinary shares of five shillings (Sh.5) each in the capital of the Bank, and that such (24,000,000) shares be credited as one (1) fully paid, accordingly be allotted to such persons respectively in the proportion of such share for every five (5) ordinary shares in the Bank then held by such persons (fractions of a share to be disregarded) and the shares so distributed shall rank pari passu with the existing issued ordinary shares and shall be treated for all purposes as an increase of the nominal amount of capital of the Bank held by each such shareholder and not as income, and the directors be and are hereby authorised to attend to all matters required to give effect to this resolution.

## **REPORT OF THE DIRECTORS** (Continued)

### **DIRECTORS**

The present directors are shown on page 2.

Mr U P Jani was appointed director on 9<sup>th</sup> October 2003.

Mr J C Kulei resigned on 14<sup>th</sup> August 2003.

Mr P K Jani and Mr 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 in accordance with Section 186 (5) of the Companies Act.

Mr U P Jani, having been appointed to the Board on 9 October 2003, retires under provisions of Article 96 of the Articles of Association and, being eligible, offers himself for re-election.

### **AUDITORS**

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

### **BY ORDER OF THE BOARD**

**R. R. Vora**

Secretary

Nairobi

26 February 2004

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act 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 Group and the bank as at the end of the financial year and of the operating results of the Group and the Bank for that year. It also requires the directors to ensure that the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group.

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 in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

**P. K. Jani**

Chairman

**C. Njonjo**

Director

26 February 2004

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CFC BANK LIMITED**

We have audited the financial statements on pages 17 to 58 for the year ended 31 December 2003 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 15, 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 as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

**Deloitte & Touche**

**Certified Public Accountants (Kenya)**

26 February 2004

# **CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 Sh'000	2002 Sh'000
<b>INTEREST INCOME</b>	4	1,011,117	953,860
<b>INTEREST EXPENSE</b>	5	(300,896)	(358,883)
<b>NET INTEREST INCOME</b>		710,221	594,977
Fees and commission income		136,921	176,995
Foreign exchange trading income		27,111	20,226
Other operating income	6	1,812,767	868,427
<b>OPERATING INCOME</b>		2,677,020	1,660,625
Operating expenses	7	(1,572,970)	(1,270,289)
Bad and doubtful debts expense	18	(115,248)	(67,243)
<b>OPERATING PROFIT</b>		488,802	323,093
<b>SHARE OF LOSS IN ASSOCIATE</b>	19	(7,795)	-
<b>PROFIT BEFORE TAXATION</b>		481,007	323,093
<b>TAXATION</b>	9	(98,957)	(98,368)
<b>PROFIT AFTER TAXATION</b>	10	382,050	224,725
<b>MINORITY INTEREST</b>	11	(82,693)	(51,036)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		299,357	173,689
		<b>Sh</b>	<b>Sh</b>
<b>EARNINGS PER SHARE - Basic</b>	12	2.49	1.45
<b>EARNINGS PER SHARE - Diluted</b>	12	2.49	1.45
<b>DIVIDEND PER SHARE</b>	13	0.84	0.67

**CONSOLIDATED BALANCE SHEET 31 DECEMBER 2003**

	Note	2003 Sh'000	2002 Sh'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	14	506,151	506,151
Government securities	15	1,906,475	1,906,475
Deposits and balances due from banking institutions	16	1,098,497	1,098,497
Loans and advances to customers	17	6,174,234	6,174,234
Investment in associate	19		
Other assets	20	589,201	589,201
Taxation recoverable		19,373	19,373
Investment properties	22	132,990	132,990
Other investments	23	857,237	857,237
Property and equipment	24(a)	501,909	501,909
Operating lease prepayment	25	32,300	32,300
Goodwill	26	2,281	2,281
Intangible assets	27	8,568	8,568
Deferred tax asset	28(a)	36,171	36,171
<b>Total assets</b>		<b>11,865,387</b>	
<b>LIABILITIES</b>			
Customer deposits	29	6,702,875	6,702,875
Deposits due to banking institutions	30	476,956	476,956
Other liabilities	31	2,251,650	2,251,650
Taxation payable		33,534	33,534
Deferred tax liability	28(b)	19,262	19,262
Unclaimed dividends		3,812	3,812
<b>Total liabilities</b>		<b>9,488,089</b>	
<b>CAPITAL RESOURCES</b>			
Share capital	32	600,000	600,000
Capital reserve		163,186	163,186
Revaluation reserve		37,737	37,737
Revenue reserve		1,126,073	1,126,073
Proposed dividend		80,400	80,400
<b>Shareholders' funds</b>		<b>2,007,396</b>	
<b>Minority interest</b>	11	<b>369,902</b>	
<b>Total liabilities and shareholders' funds</b>		<b>11,865,387</b>	

The financial statements on pages 7 to 58 were approved by the Board of Directors on 26 February 2004 and were signed on its behalf by:

P. K. Jani            )  
 C. Njonjo            ) Directors  
 R. J. Barry           )  
  
 R. R. Vora            ) Secretary

**BANK BALANCE SHEET 31 DECEMBER 2003**

	Note	2003 Sh'000	2002 Sh'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	14	749,010	479,056
Government securities	15	933,358	933,358
Deposits and balances due from banking institutions	16	767,687	767,687
Loans and advances to customers	17	6,174,234	6,174,234
Other assets	20	276,872	276,872
Due from subsidiary companies		29,766	29,766
Investment in subsidiary companies	21	166,235	166,235
Property and equipment	24(b)	461,417	461,417
Operating lease prepayments	25	32,300	32,300
Intangible assets	27	6,705	6,705
Deferred tax asset	28(a)	28,135	28,135
<b>Total assets</b>		<b>9,355,765</b>	
<b>LIABILITIES</b>			
Customer deposits	29	6,952,918	6,952,918
Deposits due to banking institutions	30	476,956	476,956
Other liabilities	31	325,915	325,915
Taxation payable		2,393	2,393
Amount due to subsidiary companies		6,299	6,299
Unclaimed dividends		3,812	3,812
<b>Total liabilities</b>		<b>7,768,293</b>	
<b>CAPITAL RESOURCES</b>			
Share capital	32	600,000	600,000
Revenue reserve		907,072	907,072
Proposed dividend		80,400	80,400
<b>Shareholders' funds</b>		<b>1,587,472</b>	
<b>Total liabilities and shareholders' funds</b>		<b>9,355,765</b>	

The financial statements on pages 7 to 58 were approved by the Board of Directors on 26 February 2004 and were signed on its behalf by:

P. K. Jani            )  
 C. Njonjo            ) Directors  
 R. J. Barry            )

R. R. Vora            ) Secretary

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital Sh'000	Capital reserve Sh'000	Revaluation reserve Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2002	600,000	135,240	25,719	1,063,085	80,400	1,904,444
Exchange differences arising on translation of a foreign subsidiary	-	(4,094)	(2,513)	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 declared – 2001	-	-	-	-	(80,400)	(80,400)
Proposed dividend – 2002 (Note 13)	-	-	-	(80,400)	80,400	-
Bonus issue in subsidiary company	-	32,040	-	(32,040)	-	-
At 31 December 2002	600,000	163,186	37,737	1,126,073	80,400	2,007,396
At 1 January 2003	600,000	163,186	37,737	1,126,073	80,400	2,007,396
Exchange differences arising on translation of a foreign subsidiary	-	(17,441)	(2,284)	(3,429)	-	(23,154)
Surplus on revaluation of quoted investments	-	-	12,489	-	-	12,489
Profit attributable to shareholders	-	-	-	299,357	-	299,357
Dividend declared – 2002	-	-	-	-	(80,400)	(80,400)
Proposed dividend – 2003 (Note 13)	-	-	-	(100,800)	100,800	-
Bonus issue in subsidiary company	-	32,040	-	(32,040)	-	-
Transfer to capital reserve	-	19,056	-	(19,056)	-	-
At 31 December 2003	600,000	196,841	47,942	1,270,105	100,800	2,215,688

# **BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003**

	Share capital Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2002	600,000	859,047	80,400	1,539,447
Profit attributable to shareholders	-	128,425	-	128,425
Dividend declared – 2001	-	-	(80,400)	(80,400)
Proposed dividend – 2002 (Note 13)	-	(80,400)	80,400	-
At 31 December 2002	600,000	907,072	80,400	1,587,472
At 1 January 2003	600,000	907,072	80,400	1,587,472
Profit attributable to shareholders	-	174,036	-	174,036
Dividend declared – 2002	-	-	(80,400)	(80,400)
Proposed dividend – 2003 (Note 13)	-	(100,800)	100,800	-
At 31 December 2003	600,000	980,308	100,800	1,681,108

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 Sh'000	2002 Sh'000
CASH USED IN OPERATING ACTIVITIES	33(a)	(228,541)	(228,541)
Taxation paid		(71,282)	(71,282)
Net cash used in operating activities		(299,823)	(299,823)
INVESTING ACTIVITIES			
Additions to property and equipment		(55,268)	(55,268)
Additions to intangible assets		(7,160)	(7,160)
Proceeds from sale of equipment		1,877	1,877
Additions to investment properties		(90)	(90)
Dividends received		19,072	19,072
Investment in associate			
Other investments		(180,008)	(180,008)
Net cash used in investing activities		(221,577)	(221,577)
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)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(616,168)	(616,168)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		2,121,679	2,121,679
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33(b)	1,505,511	1,505,511

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

### 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 and are set out below:

#### **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 CFC Bank Limited ("the Bank") and its subsidiaries: CFC Financial Services Limited, Equity Stock Brokers Limited, The Heritage A.I.I. Insurance Company Limited and The Heritage A.I.I. Insurance Company (T) Limited (the group). The financial statements of the Bank and its subsidiaries have been made up to 31 December 2003.

Subsidiary undertakings, which are those entities in which the group has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group. All inter-company transactions are eliminated.

The investment in associate is accounted for by the equity method of accounting. Associates are undertakings over which the Group has significant influence, but which it does not control.

#### **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 in subsidiary companies**

Investments in subsidiary companies (details of which are disclosed in note 21) are stated at cost less provision for impairment loss where applicable.

#### **Investment properties**

Investment properties are stated at open market value and are not depreciated. 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.

#### **Revenue recognition**

##### **Banking**

Interest income includes finance charges earned, interest on loans and advances and premium or discounts on government and other securities are recognised in the period in which it is earned.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

##### General Insurance Business

The underwriting result of the general insurance business is determined annually and is included in 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 the 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	2%
Motor vehicles	25%
Furniture and equipment	12.5% - 30%

#### Operating lease prepayments

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

#### Intangible assets - computer software development 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%.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Taxation**

Income tax expense represents the sum of the current tax payable and deferred 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.

#### **Provision for bad and doubtful loans and advances**

Specific provisions for doubtful debts are held in respect of loans and advances. Provisions, based on appraisals 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 is 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 arising on translation of foreign subsidiary are accounted for as part of changes in equity.

#### **Impairment**

At each balance sheet date, the Bank reviews the carrying amounts of its financial 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.

#### **Financial instruments**

Financial assets and liabilities are initially recognised on the company's balance sheet at cost using settlement date accounting, when the company has become a party to the contractual provisions of the instrument.

*Loans and receivables originated by the company and not held for trading*

Loans and receivables including advances originated by the Bank and held to maturity are subsequently measured at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

##### *Held to maturity investments*

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Bank, are measured at amortised cost.

##### *Financial assets held for trading*

Financial assets acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are measured at fair value.

##### *Available-for-sale financial assets*

Financial assets that are not (a) loans and receivables originated by the company, (b) held-to-maturity investments, or (c) financial assets held for trading are measured at fair value.

##### *Derivative financial instruments*

Derivative financial instruments are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

##### *Impairment and uncollectability of financial assets*

At each balance sheet date, all financial assets are subject to review for impairment.

If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in the income statement for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in the income statement for the period even though the financial asset has not been derecognised.

##### *Financial liabilities*

After initial recognition, the company measures all financial liabilities, including customer deposits other than liabilities held for trading, at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at fair value.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Leasing**

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.

##### *The Bank as lessor*

Amounts due from lessees under finance leases are recorded as receivables at 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 term of the relevant lease.

##### *The Bank as lessee*

Assets held under finance leases are recognised as assets of the Bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Segmental reporting**

Segmental information is based on the primary format representing two business lines - banking and related services and insurance and a secondary format representing geographical location.

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).

#### **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 these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

### 2 CENTRAL BANK OF KENYA (AMENDMENT) ACT 2002

During 2001, the Kenya Bankers' Association (KBA), on behalf of its members, filed an application in the Constitutional Court of Kenya challenging the legality of the Central Bank of Kenya (Amendment) Act 2000 (The Act), which had been passed by the Parliament with an effective date of 1 January 2001.

The court delivered its judgement on 24 January 2002 and 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 directors have taken legal advice in conjunction with KBA which confirms that The Act is not operational for the financial year 2003. Accordingly, the directors have prepared these financial statements on the basis of this advice.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SEGMENTAL REPORTING

The Group is currently organised into two major divisions – Banking and related services and Insurance. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Banking and related services - Taking deposits, lending to customers and provision of financial, advisory and stock broking services.
- Insurance - Insuring risks for major classes of insurance business.

#### (a) Primary reporting format - Business lines

	BANKING AND RELATED SERVICES		INSURANCE		GROUP	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Income	1,348,965	1,092,191	1,128,951	927,317	2,477,916	2,019,508
Expenditure	1,068,957	934,968	927,962	761,447	1,996,909	1,696,415
Segment result	280,008	157,223	200,999	165,870	481,007	323,093
Taxation					98,057	98,368
Profit after taxation					382,950	224,725
Assets	13,374,286	9,245,052	2,986,060	2,620,335	16,360,346	11,865,387
Liabilities	11,505,038	7,518,897	2,265,490	1,969,192	13,770,528	9,488,089
Capital expenditure	66,511	46,891	34,689	15,627	101,200	62,518
Depreciation and amortisation	65,991	56,892	30,439	32,164	96,430	89,056

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****(b) Secondary reporting format – Geographical location**

The Group's operations are located in Kenya and Tanzania. The Tanzanian subsidiary contributes over 10% of the Group's consolidated income.

	KENYA		TANZANIA		GROUP	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Income	1,671,221	1,805,488	310,695	214,020	2,019,508	2,019,508
Expenditure	1,750,586	1,517,528	246,323	178,887	1,996,909	1,696,415
Segment result	416,635	287,960	64,372	35,133	481,007	323,093
Taxation					98,368	98,368
Profit after taxation					579,375	224,725
Assets	15,897,625	11,441,844	632,721	423,543	16,430,346	11,865,387
Liabilities	9,247,018	9,252,644	923,519	235,445	10,170,537	9,488,089
Capital expenditure	101,200	60,017		2,501	101,200	62,518
Depreciation and amortisation	86,472	82,543	9,958	6,513	96,430	89,056

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SEGMENTAL REPORTING (Continued)

The average number of employees for the year for the Group's principal divisions and geographical regions were as follows:

(c) Primary reporting format – Business lines

	2003 Sh'000	2002 Sh'000
Banking and related services	214	198
Insurance business	160	151
	374	349

(d) Secondary reporting format – Geographical location

Kenya	347	322
Tanzania	27	27
	374	349

### 4 INTEREST INCOME

Loans and advances	809,853	752,973
Government securities	171,213	150,422
Placements and bank balances	30,051	49,685
Commercial paper		780
	1,011,117	953,860

### 5 INTEREST EXPENSE

Customer deposits	293,123	342,072
Deposits and placements from other banks	7,773	9,328
Interest on borrowed funds		7,483
	300,896	358,883

### 6 OTHER OPERATING INCOME

Insurance premiums earned	91,622	757,962
Profit on disposal of quoted equity investments	9,937	14,670
Other income	62,336	52,540
Gains from investment securities	24,522	18,211
Dividends from quoted equity investments	4,229	19,072
Rental income	3,410	5,972
Profit on disposal of equipment	6,510	
	173,566	868,427

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7 OPERATING EXPENSES

Insurance claims incurred	587,146	433,436
Staff costs (Note 8)	487,360	397,357
Other costs	291,518	228,750
Depreciation	83,029	83,235
Fees and commissions	35,276	46,828
Directors' emoluments:-		
as directors	7,946	6,757
as executives	31,205	32,034
Operating lease rentals - property	20,559	20,128
Amortisation - intangible assets	10,770	5,595
- goodwill	2,281	-
- operating lease	350	350
Contribution to Deposit Protection Fund	10,305	8,658
Auditors' remuneration	5,225	5,225
Loss on disposal of equipment		1,936

2003  
Sh'000

2002  
Sh'000

1,572,970	1,270,289
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### 8 STAFF COSTS

Salaries and benefits	453,560	362,629
Pension contributions	31,725	30,475
Termination benefits	1,315	3,538
NSSF	760	715

487,360	397,357
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The number of employees for the group has been disclosed in Note 3.

### 9 TAXATION

#### (a) Taxation expense

Current tax at 30%	118,623	102,827
Deferred tax credit (Note 28)	(3,720)	(4,459)

114,903	98,368
---------	--------

#### Prior year adjustments:

Overstatement in tax expense	(15,807)	-
Under provision in deferred tax	(139)	-

(15,946)	-
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98,957	98,368
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#### (b) Reconciliation of taxation expense to expected tax based on accounting profit

Accounting profit before taxation

481,007	323,093
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Tax at the applicable rate of 30%	144,302	96,928
Deferred tax asset (under)/over provided in prior periods	(139)	5,138
Prior year overstatement in tax expense	(15,807)	-
Tax effect of expenses not deductible for tax	19,877	14,740
Tax effect of income exempt from tax	(49,276)	(14,132)
Tax losses utilized		(4,306)

98,957	98,368
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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the Bank is Sh.174,036,000 (2002 – Sh.128,425,000).

### 11 MINORITY INTEREST

At 1 January 2003  
Share of profit after tax  
Dividends paid  
Other reserve movements

	2002 Sh'000
327,724	327,724
51,036	51,036
(14,368)	(14,368)
5,510	5,510
At 31 December 2003	369,902

### 12 EARNINGS PER SHARE

Basic earnings per share of Sh. 2.49 (2002 – Sh. 1.45) is calculated on the consolidated profit attributable to the shareholders of Sh.299,357,000 (2002 – Sh.173,689,000) and the number of ordinary shares in issue during the year. The number of shares issued 120,000,000 (2002 – 120,000,000).

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

### 13 DIVIDEND

At the annual general meeting on 28 May 2004, a first and final dividend in respect of 2003 of Sh. 0.84 per share (2002 – Sh. 0.67 per share) amounting to a total of Sh.100,800,000 (2002 – Sh.80,400,000) is to be proposed. The proposed amount has been provided for in accordance with International Financial Reporting Standard No. 10, 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.

### 14 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Cash on hand  
Balances with Central Bank of Kenya : Cash ratio requirement  
Other

GROUP		BANK	
2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
141,690	102,965	122,634	75,870
622,480	403,186	622,480	403,186
4,697	-	4,697	-
768,867	506,151	749,811	479,056

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 15 GOVERNMENT SECURITIES

Treasury bills maturing within 90 days  
after balance sheet date

Face value	475,000	482,567	475,000	311,050
Less unearned interest	(207)	(5,712)	(207)	(4,243)

	174,793	476,855	174,793	306,807
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Treasury bills and bonds maturing after  
90 days of the balance sheet date

Face value	150,000	226,000	150,000	-
Less unearned interest	(470)		(470)	-
Accrued interest		20,063		-

	149,530	246,063	149,530	-
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Treasury bonds maturities

Within one year	886,784	515,241	596,742	-
In one to five years	2,404,973	705,836	2,113,532	610,250
After five years	908,791	-	516,122	-
Accrued interest	(7,473)	(37,520)	35,591	16,301

	4,198,075	1,183,557	3,261,987	626,551
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Total	4,517,398	1,906,475	3,586,310	933,358
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Classification of government securities

Held for trading	334,701	-	334,701	-
Held to maturity	2,062,623	1,279,924	1,131,535	306,807
Available for sale	2,120,074	626,551	2,120,074	626,551

Total	4,517,398	1,906,475	3,586,310	933,358
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The effective interest rate on Treasury bills as at 31 December 2003 was 3% per annum (2002 - 8%).

The effective interest rate on Treasury bonds as at 31 December 2003 was 5% per annum (2002 - 13%).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		BANK	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS				
Balances due from banking institutions	100,063	371,441	100,063	371,441
Deposits due from banking institutions	680,144	727,056	295,207	396,246
	780,144	1,098,497	395,270	767,687

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2003 was 2% (2002 – 5%) and nil for balances with banking institutions.

## 17 LOANS AND ADVANCES TO CUSTOMERS

## GROUP AND BANK

Finance lease (Note 17 (a))  
Loans, advances and bills discounted (Note 17 (b))

	2003 Sh'000	2002 Sh'000
Finance lease (Note 17 (a))	2,896,045	1,823,042
Loans, advances and bills discounted (Note 17 (b))	5,511,259	4,758,724
	8,407,304	6,581,766
Unearned finance charges (Note 17 (a))	(340,615)	(249,504)
Provision for bad and doubtful debts (Note 18)	(235,195)	(158,028)
	7,831,494	6,174,234

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Analysis of gross loans and advances by maturity:

#### (a) Finance lease receivables

	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Amounts received under finance leases:				
Within one year	1,015,018	1,015,018	875,193	875,193
Over one year to three years	784,035	784,035	677,612	677,612
Over three years	23,989	23,989	20,733	20,733
	1,823,042	1,823,042	1,573,538	1,573,538
Less unearned finance income	(249,504)	(249,504)		
Present value of minimum lease payments receivable	1,573,538	1,573,538	1,573,538	1,573,538

The Bank enters into finance leasing arrangements for certain plant, equipment and motor vehicles. The average term of finance leases entered into is between 2 to 3 years.

Unguaranteed residual values of assets under finance leases are estimated at nil (2002:nil).

The interest rate inherent in the lease is variable at the contract date for all of the lease term. The weighted average interest rate on finance lease receivables at 31 December 2003 was 14% (2002 17%).

Related party transactions and balances are covered under Note 43 and concentrations of advances to customers is covered under Note 39.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (b) Loans, advances and bills discounted:

Maturing within one year  
Over one year to three years  
Over three years

	2003 Sh'000	2002 Sh'000
Maturing within one year	4,726,222	3,782,564
Over one year to three years	648,785	830,725
Over three years	126,758	145,435
	<b>5,499,765</b>	<b>4,758,724</b>

The effective interest rate on loans and advances to customers as at 31 December 2003 was 12% (2002 - 14%).

The interest rate on loans and advances to customers are either pegged to the Bank's base lending rate or the treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in market interest rates.

The aggregate balance of non-performing loans and advances to customers as at 31 December 2003 was Sh.422,460,000 (2002 - Sh.354,363,000). These are included in the balance sheet net of specific provisions at Sh.263,507,000 (2002 - Sh.255,927,000).

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

#### GROUP AND BANK

At 1 January 2003  
Provisions made during the year  
Write offs

	Specific provision 2003 Sh'000	General provision 2003 Sh'000	Total 2003 Sh'000	Total 2002 Sh'000
At 1 January 2003	58,433	59,592	118,025	115,037
Provisions made during the year	38,508	16,650	55,158	67,243
Write offs	(2,008)	-	(2,008)	(24,252)
At 31 December 2003 (Note 17)	<b>94,933</b>	<b>76,242</b>	<b>171,175</b>	<b>158,028</b>

### 19 INVESTMENT IN ASSOCIATE

#### GROUP

Strategis Insurance Company (T) Limited  
Share of post acquisition loss

	2003 Sh'000	2002 Sh'000
Share of post acquisition loss	7,351	-

Strategis Insurance Company (T) Limited is an associate of Heritage Insurance Company (T) Limited in which Heritage Tanzania owns 24% of the shares. The company started trading in February 2003 and its year end is 30<sup>th</sup> September 2003.

Investment in associate has been accounted for by the equity method of accounting.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		BANK	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
20 OTHER ASSETS				
Items in transit	104,283	236,800	104,283	236,800
Insurance premium receivables	372,971	307,493	-	-
Kenya Motor Insurance pool	10,360	7,591	-	-
Deferred insurance commission	21,245	-	-	-
Other	197,281	37,317	38,305	40,072
	<b>716,140</b>	<b>589,201</b>	<b>142,588</b>	<b>276,872</b>

## 21 INVESTMENT IN SUBSIDIARY COMPANIES

## BANK

Company	Beneficial Ownership	Country of incorporation	2003 Sh'000	2002 Sh'000
CFC Financial Services Limited	100%	Kenya	100,530	100,530
Equity Stock Brokers Limited	100%	Kenya	-	-
The Heritage A.I.I. Insurance Company Limited	64.08%	Kenya	65,705	65,705
The Heritage A.I.I. Insurance Company (T) Limited	38.45%	Tanzania	-	-
			<b>166,235</b>	<b>166,235</b>

Investment in subsidiary companies are stated at cost less provision for impairment loss, where applicable.

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

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

## 22 INVESTMENT PROPERTIES

## GROUP

## Freehold properties

At 1 January  
Additions

At 31 December

## COMPRISING:

Cost  
Valuation in 2001

	2003 Sh'000	2002 Sh'000
At 1 January	132,900	132,900
Additions	90	90
At 31 December	<b>132,990</b>	<b>132,990</b>
Cost	132,990	132,990
Valuation in 2001	132,990	132,990

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22 INVESTMENT PROPERTIES (Continued)

Investment properties were revalued as at 31 December 2001 by Lloyd Masika Limited, registered valuers on an open market basis. In the directors opinion, the book value of investment properties as at 31 December 2003 is not materially different from their fair values.

The investment properties are located in Nairobi.

### 23 OTHER INVESTMENTS

#### GROUP

Quoted equity investments  
at mid market value

Unquoted equity investments  
at cost

Commercial paper, corporate  
bonds and other investments

2003 Sh'000	2002 Sh'000
243,715	243,715
73,268	73,268
540,254	540,254
857,237	857,237

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2003 was 5% (2002 - 9 %).

### 24 PROPERTY AND EQUIPMENT

#### (a) GROUP

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
<b>COST</b>				
At 1 January 2003	352,710	60,389	417,784	830,883
Currency translation	-	(520)	(2,292)	(2,812)
Additions	-	18,512	54,313	72,825
Disposals	-	(21,097)	(966)	(22,063)
At 31 December 2003	352,710	57,284	468,839	878,833
<b>DEPRECIATION</b>				
At 1 January 2003	20,808	39,072	269,094	328,974
Currency translation	-	(182)	(1,784)	(1,966)
Charge for the year	7,054	12,560	63,415	83,029
Eliminated on disposals	-	(16,850)	(829)	(17,679)
At 31 December 2003	27,862	34,600	329,896	392,358
<b>NET BOOK VALUE</b>				
At 31 December 2003	324,848	22,684	138,943	486,475
At 31 December 2002	331,902	21,317	148,690	501,909

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 PROPERTY AND EQUIPMENT (Continued)

Motor vehicles, furniture and equipment stated at a cost of Sh.178,436,774 (2002 - Sh.129,748,540) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh.44,857,830 (2002 - Sh.32,875,270).

(b) BANK

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh '000
<b>COST</b>				
At 1 January 2003	352,710	27,708	286,062	666,480
Additions	-	11,820	41,262	53,082
Disposals	-	(15,785)	(247)	(16,032)
At 31 December 2003	352,710	23,743	327,077	703,530
<b>DEPRECIATION</b>				
At 1 January 2003	20,808	17,908	166,346	205,062
Charge for the year	7,054	4,689	43,543	55,286
Eliminated on disposals	-	(12,495)	(247)	(12,742)
At 31 December 2003	27,862	10,102	209,642	247,606
<b>NET BOOK VALUE</b>				
At 31 December 2003	324,848	13,641	117,435	455,924
At 31 December 2002	331,902	9,800	119,715	461,417

Motor vehicles, furniture and equipment stated at a cost of Sh.100,750,180 (2002 - Sh.98,516,832) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh.25,721,054 (2002 - Sh.24,900,482).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 OPERATING LEASE PREPAYMENT

#### GROUP AND BANK

	Amount Sh'000
<b>COST</b>	
At 1 January 2003 and 31 December 2003	35,000
<b>AMORTISATION</b>	
At 1 January 2003	2,700
Amortisation for the year	350
At 31 December 2003	3,050
<b>NET BOOK VALUE</b>	
At 31 December 2003	31,950
At 31 December 2002	32,300

### 26 GOODWILL

#### GROUP

	2003 Sh'000	2002 Sh'000
<b>COST</b>		
At 1 January	3,421	
Amortisation	(1,140)	
At 31 December	2,281	

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 27 INTANGIBLE ASSETS

	GROUP	BANK
	Computer software Sh'000	Computer software Sh'000
<b>COST</b>		
At 1 January 2003	37,488	26,075
Additions	28,375	11,281
	<hr/>	<hr/>
At 31 December 2003	65,863	37,356
	<hr/>	<hr/>
<b>AMORTISATION</b>		
At 1 January 2003	28,920	19,370
Charge for the year	10,770	4,551
	<hr/>	<hr/>
At 31 December 2003	39,690	23,921
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>		
At 31 December 2003	26,173	13,435
	<hr/>	<hr/>
At 31 December 2002	8,568	6,705
	<hr/>	<hr/>

**GROUP**

Intangible assets stated at a cost of Sh.26,153,995 (2002 – Sh.15,333,816) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh.7,201,245 (2002 – Sh.4,389,762).

**BANK**

Intangible assets stated at a cost of Sh.19,704,460 (2002 – Sh.13,229,987) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh.5,911,338 (2002 – Sh.3,968,996).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 28 (a) DEFERRED TAX ASSET

## GROUP

## Asset

General provision for bad and doubtful debts  
Accelerated capital allowances  
Tax losses in subsidiary companies  
Provision for staff bonus

2003	2002
S\$'000	S\$'000
17,877	17,877
11,487	11,487
6,807	6,807
-	-
36,171	36,171

Movement on the deferred tax asset is as follows:

At 1 January  
Prior year adjustment  
Income statement credit – Note 9 (a)

31,633	31,633
79	79
4,459	4,459

At 31 December

36,171	36,171
--------	--------

## BANK

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

General provision for bad and doubtful debts  
Depreciation in excess of capital allowances

17,877	17,877
10,258	10,258
28,135	28,135

## 28 (b) DEFERRED TAX LIABILITY

## Liability

Accelerated capital allowances  
Unrealised exchange differences  
Revaluation surplus

8,424	8,424
(27,686)	(27,686)
(19,262)	(19,262)

Movement on the deferred liability is as follows:

At 1 January  
Income statement credit – Note 9 (a)  
Currency translation

(19,595)	(19,595)
385	385

At 31 December

(19,262)	(19,262)
----------	----------

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 29 CUSTOMER DEPOSITS

	G R O U P		B A N K	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Maturities				
Payable within 90 days	8,358,768	6,616,554	8,524,698	6,866,597
Payable after 90 days but within one year	1,422,366	8,847	1,565,045	8,847
Payable after one year	87,109	77,474	87,109	77,474
	<u>9,868,243</u>	<u>6,702,875</u>	<u>10,176,852</u>	<u>6,952,918</u>

The Bank's customer deposits payable within one year include deposits from subsidiary companies amounting to Sh.308,608,000 (2002 – Sh.250,043,000).

The effective interest rate on customer deposits as at 31 December 2003 was 2% (2002 - 5%).  
The related party transactions and balances are covered under note 43 and concentrations of customer deposits is covered under note 39.

## 30 DEPOSITS DUE TO BANKING INSTITUTIONS

	2003 Sh'000	2002 Sh'000
GROUP AND BANK		
Maturing within 90 days	1,170,840	418,869
Maturing after 90 days	50,688	58,087
	<u>1,221,528</u>	<u>476,956</u>

The weighted average effective interest rate for deposits due to banking institutions at 31 December 2003 was 2% (2002 – 4%).

## 31 OTHER LIABILITIES

	G R O U P		B A N K	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Long term insurance business funds	934,671	776,986	-	-
Provisions for insurance claims	744,575	587,116	-	-
Unearned insurance premiums	366,315	371,439	-	-
Amounts due to insurers	138,026	161,986	-	-
Bankers cheques unrepresented	137,458	126,172	137,458	126,172
Due to stockbrokers	48,631	24,725	-	-
Other liabilities	263,516	203,226	194,406	199,743
	<u>2,633,192</u>	<u>2,251,650</u>	<u>331,864</u>	<u>325,915</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2003 Sh'000	2002 Sh'000
32 SHARE CAPITAL		
Authorised, issued and fully paid:		
120,000,000 (2002 – 120,000,000) ordinary shares of Sh 5 each	600,000	600,000

The top ten shareholders as at 31 December 2003 were:

No.	Name	Number of Shares
1.	Gambit Holdings Limited	54,802,783
2.	African Liaison & Consultants Ltd	33,125,910
3.	Sovereign Trust Limited	15,359,687
4.	Kingsway Nominees Limited	3,998,846
5.	Phoenix of East Africa Assurance Co. Ltd	1,012,535
6.	Aruna Chandrakant Shah	582,194
7.	Sayani Investments Limited	264,369
8.	Beechwood Overseas Limited	250,000
9.	Amin Nanji Juma	202,422
10.	Parminder Singh Bedi	201,913

The distribution of Shareholders as at 31 December 2003 was as follows:

Number of Shares	Number of Shareholders	Number of Shares Held	% Shareholding
1 - 500	428	592,244	0.5
501 - 5,000	567	1,089,022	0.9
5,001 - 10,000	438	2,913,817	2.4
10,001 - 100,000	170	4,253,762	3.6
100,001 - 1,000,000	15	2,851,394	2.4
Over 1,000,000	5	108,299,761	90.2
TOTAL	1,623	120,000,000	100

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 Sh'000
Consolidated profit before taxation	323,093
Depreciation	83,235
Amortisation of intangible asset	5,595
Amortisation of operating lease prepayments	350
Amortisation of goodwill	
(Profit)/loss on sale of equipment	1,936
Dividends receivable - quoted and unquoted equity investments	(19,072)
Exchange differences on translation of a foreign subsidiary	3,540
	<b>398,677</b>
(Increase)/decrease in operating assets	
Loans and advances to customers	(874,866)
Other assets	(24,076)
Cash ratio requirement	(11,959)
Government securities	(612,687)
	<b>(1,523,588)</b>
Increase/(decrease) in operating liabilities	
Customer deposits	1,147,372
Line of credit	(786,000)
Other liabilities	476,911
Deposits due to other banking institutions	58,087
	<b>896,370</b>
Net cash used in operating activities	<b>(228,541)</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

- (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

Treasury bills and bonds

Deposits and balances due from  
banking institutions

Deposits and balances due to  
banking institutions

2003 Sh'000	2002 Sh'000
102,965	102,965
722,918	722,918
1,098,497	1,098,497
(418,869)	(418,869)
1,505,511	1,505,511

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****34 LIQUIDITY RISK**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2003 to the contractual maturity date.

	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
<b>ASSETS</b>								
Cash and balances with								
Central Bank of Kenya	667,803	36,891	58,844	5,329	-	-	-	768,867
Government securities	302,505	310,747	483,892	2,060,949	285,248	690,573	383,484	4,517,398
Deposits and balances due								
from banking institutions	533,543	111,484	56,322	60,244	18,518	-	-	780,111
Loans and advances to customers	2,094,674	1,196,066	1,548,678	990,699	1,814,698	116,050	70,629	7,831,494
Other assets	320,303	140,394	87,579	68,185	7,153	12,986	74,563	711,163
Investment in associate	-	-	-	-	-	-	10,043	10,043
Taxation recoverable	-	21,476	-	-	-	-	-	21,476
Investment properties	-	-	-	-	-	138,264	-	138,264
Other investments	38,743	23,951	126,332	6,157	68,613	1,157	802,947	1,067,900
Property and equipment	-	-	-	-	-	-	486,475	486,475
Operating lease prepayments	-	-	-	-	-	-	31,950	31,950
Intangible assets	-	-	-	-	-	-	26,173	26,173
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	39,032	-	-	-	39,032
<b>Total assets</b>	<b>3,957,571</b>	<b>1,841,009</b>	<b>2,361,647</b>	<b>3,230,595</b>	<b>2,194,230</b>	<b>959,030</b>	<b>1,886,264</b>	<b>16,430,346</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 34 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
<b>EQUITY AND LIABILITIES</b>								
Customers deposits	8,381,749	580,050	819,336	87,108	-	-	-	9,868,243
Deposits and balances due to banking institutions	1,170,840	-	50,688	-	-	-	-	1,221,528
Other liabilities	499,053	312,314	48,306	467,183	250,796	57,285	998,255	2,633,192
Taxation payable	8,240	16,995	-	-	-	-	-	25,235
Deferred tax liability	-	-	-	18,118	-	-	-	18,118
Unclaimed dividends	4,212	-	-	-	-	-	-	4,212
Dividends	-	-	100,800	-	-	-	-	100,800
Minority interest	-	-	-	-	-	-	444,130	444,130
Share capital	-	-	-	-	-	-	600,000	600,000
Capital reserves	-	-	-	-	-	-	244,783	244,783
Revenue reserves	-	-	-	-	-	-	1,270,105	1,270,105
<b>Total equity and liabilities</b>	<b>10,064,094</b>	<b>909,359</b>	<b>1,019,130</b>	<b>572,409</b>	<b>250,796</b>	<b>57,285</b>	<b>3,557,273</b>	<b>16,430,346</b>
<b>Net liquidity gap</b>	<b>(6,106,523)</b>	<b>931,650</b>	<b>1,342,517</b>	<b>2,658,186</b>	<b>1,943,434</b>	<b>901,745</b>	<b>(1,671,009)</b>	<b>-</b>
<b>As at 31 December 2002</b>								
<b>Total assets</b>	<b>3,406,584</b>	<b>2,523,753</b>	<b>979,043</b>	<b>1,236,497</b>	<b>2,054,876</b>	<b>440,631</b>	<b>1,224,003</b>	<b>11,865,387</b>
<b>Total equity and liabilities</b>	<b>5,997,243</b>	<b>2,366,191</b>	<b>177,878</b>	<b>153,455</b>	<b>77,474</b>	<b>-</b>	<b>3,093,146</b>	<b>11,865,387</b>
<b>Net liquidity gap</b>	<b>(2,590,659)</b>	<b>157,562</b>	<b>801,165</b>	<b>1,083,042</b>	<b>1,977,402</b>	<b>440,631</b>	<b>(1,869,143)</b>	<b>-</b>

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)

## 35 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 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	Non interest bearing Sh'000	Total Sh'000
<b>ASSETS</b>								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	768,867	768,867
Government securities	957,750	271,192	480,276	1,551,703	350,405	906,072	-	4,517,398
Deposits and balances due from banking institutions	645,027	56,322	60,244	18,518	-	-	-	780,111
Loans and advances to customers	7,831,494	-	-	-	-	-	-	7,831,494
Other assets	-	-	-	-	-	-	711,163	711,163
Investment in associate	-	-	-	-	-	-	10,043	10,043
Taxation recoverable	-	-	-	-	-	-	21,476	21,476
Investment properties	-	-	-	-	-	-	138,264	138,264
Other investments	39,900	22,794	83,628	9,630	65,140	-	846,808	1,067,900
Property and equipment	-	-	-	-	-	-	486,475	486,475
Operating lease prepayments	-	-	-	-	-	-	31,950	31,950
Intangible assets	-	-	-	-	-	-	26,173	26,173
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	39,032	39,032
<b>Total assets</b>	<b>9,474,171</b>	<b>350,308</b>	<b>624,148</b>	<b>1,579,851</b>	<b>415,545</b>	<b>906,072</b>	<b>3,080,251</b>	<b>16,430,346</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 35 INTEREST RATE RISK (Continued)

	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	Non interest bearing Sh'000	Total Sh'000
<b>EQUITY AND LIABILITIES</b>								
Customers deposits	8,961,799	819,336	87,108	-	-	-	-	9,868,243
Deposits and balances due to banking institutions	1,170,840	50,688	-	-	-	-	-	1,221,528
Line of credit	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	2,633,192	2,633,192
Taxation payable	-	-	-	-	-	-	25,235	25,235
Deferred tax liability	-	-	-	-	-	-	18,118	18,118
Unclaimed dividends	-	-	-	-	-	-	4,212	4,212
Share capital	-	-	-	-	-	-	600,000	600,000
Reserves	-	-	-	-	-	-	1,514,888	1,514,888
Dividends	-	-	-	-	-	-	100,800	100,800
Shareholders' funds and minority interest	-	-	-	-	-	-	444,130	444,130
<b>Total equity and liabilities</b>	<b>10,132,639</b>	<b>870,024</b>	<b>87,108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,340,575</b>	<b>16,430,346</b>
<b>On balance sheet interest rate sensitivity gap</b>	<b>(658,468)</b>	<b>(519,716)</b>	<b>537,040</b>	<b>1,579,851</b>	<b>415,545</b>	<b>906,072</b>	<b>(2,260,324)</b>	<b>-</b>
<b>As at 31 December 2002</b>								
Total assets	7,684,078	1,087,146	146,627	53,170	383,828	249,362	2,261,176	11,865,387
Total equity and liabilities	4,741,231	2,294,192	61,886	5,048	77,474	-	4,685,556	11,865,387
<b>On balance sheet interest rate sensitivity gap</b>	<b>2,942,847</b>	<b>(1,207,046)</b>	<b>84,741</b>	<b>48,122</b>	<b>306,354</b>	<b>249,362</b>	<b>(2,424,380)</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 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 2003.

The Bank 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 the Central Bank of Kenya. The significant currency positions are detailed below:

#### At 31 December 2003

GROUP	Local currency Sh'000	US Dollar Sh'000	GB Pound Sh'000	Euro Sh'000	Others Sh'000	Total Shs'000
<b>ASSETS</b>						
Cash and balances with Central Bank of Kenya	743,331	15,201	4,247	5,848	240	768,867
Government securities	4,517,398	-	-	-	-	4,517,398
Deposits and balances due from banking institutions	384,836	174,840	129,589	86,717	4,129	780,111
Loans and advances to customers	6,123,890	1,456,285	55,234	196,078	7	7,831,494
Other assets	666,222	38,063	5,546	1,276	56	711,163
Investment in associate	10,043	-	-	-	-	10,043
Taxation recoverable	21,476	-	-	-	-	21,476
Investment property	138,264	-	-	-	-	138,264
Other investments	1,067,900	-	-	-	-	1,067,900
Property and equipment	486,475	-	-	-	-	486,475
Operating lease prepayments	31,950	-	-	-	-	31,950
Goodwill	-	-	-	-	-	-
Intangible assets	26,173	-	-	-	-	26,173
Deferred tax asset	39,032	-	-	-	-	39,032
<b>TOTAL ASSETS</b>	<b>14,256,990</b>	<b>1,684,389</b>	<b>194,616</b>	<b>289,919</b>	<b>4,432</b>	<b>16,430,346</b>
<b>LIABILITIES</b>						
Customer deposits	7,967,332	1,403,027	395,395	57,776	44,713	9,868,243
Deposits and balances due to banking institutions	955,528	266,000	-	-	-	1,221,528
Other liabilities	2,588,689	27,848	5,672	9,520	1,463	2,633,192
Taxation payable	25,235	-	-	-	-	25,235
Deferred tax liability	18,118	-	-	-	-	18,118
Unclaimed dividends	4,212	-	-	-	-	4,212
<b>TOTAL LIABILITIES</b>	<b>11,559,114</b>	<b>1,696,875</b>	<b>401,067</b>	<b>67,296</b>	<b>46,176</b>	<b>13,770,528</b>
<b>NET BALANCE SHEET POSITION</b>	<b>2,697,876</b>	<b>(12,486)</b>	<b>(206,451)</b>	<b>222,623</b>	<b>(41,744)</b>	<b>2,659,818</b>
<b>OFF BALANCE SHEET NET NOTIONAL POSITION</b>	<b>2,787,329</b>	<b>(88,822)</b>	<b>204,883</b>	<b>(225,153)</b>	<b>43,302</b>	<b>2,721,539</b>
<b>At 31 December 2002</b>						
<b>TOTAL ASSETS</b>	<b>9,770,498</b>	<b>1,802,186</b>	<b>236,308</b>	<b>54,288</b>	<b>2,107</b>	<b>11,865,387</b>
<b>TOTAL LIABILITIES</b>	<b>7,286,679</b>	<b>1,842,653</b>	<b>306,504</b>	<b>51,243</b>	<b>1,010</b>	<b>9,488,089</b>
<b>NET BALANCE SHEET POSITION</b>	<b>2,483,819</b>	<b>(40,467)</b>	<b>(70,196)</b>	<b>3,045</b>	<b>1,097</b>	<b>2,377,298</b>
<b>OFF BALANCE SHEET NET NOTIONAL POSITION</b>	<b>954,575</b>	<b>1,407,776</b>	<b>149,517</b>	<b>90,724</b>	<b>23,206</b>	<b>2,625,798</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 36 CURRENCY RISK (Continued)

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

	2003 Sh	2002 Sh
US Dollar	77.4500	77.4500
GB Pound	124.8300	124.8300
Euro	81.2300	81.2300
Tanzania shilling	0.0833	0.0833

## 37 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

## (a) Contingent liabilities

	2003 Sh'000	2002 Sh'000
<b>GROUP AND BANK</b>		
Acceptances and letters of credit	1,193,324	1,000,151
Guarantees and performance bonds	733,482	653,754
Spot and forward contracts	780,548	962,935
Others	14,185	8,958
	<b>2,721,539</b>	<b>2,625,798</b>

**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.

Concentrations of contingent liabilities is covered under note 39.

## (b) Capital commitments

	GROUP		BANK	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Contracted but not provided for in the financial statements	52,127	8,238	7,127	5,616
Authorised but not contracted for	161,041	68,653	139,558	55,062

Capital commitments mainly relate to the building of office premises in Naivasha, the purchase of a new banking systems application, automated teller machines and branch refurbishment.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 37 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

#### (c) Commitments to extend credit

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

#### (d) Operating lease arrangements

##### *The Bank as a lessor*

At the balance sheet date, the Group had contracted with tenants for the following future lease receivables:

	GROUP		BANK	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Amounts receivable in the next year in respect of obligations under operating leases expiring:				
Within one year	1,924	1,764	20,799	19,590
In one to five years	962	2,886	7,254	28,052
	<u>2,886</u>	<u>4,650</u>	<u>28,053</u>	<u>47,642</u>

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months notice to vacate the premises.

##### *The Bank as a lessee*

	GROUP		BANK	
	2003 Sh'000	2002 Sh'000	2003 Sh'000	2002 Sh'000
Amounts payable in the next year in respect of obligations under operating leases expiring:				
Within one year	14,869	10,220	9,538	4,738
In one to five years	41,088	46,741	41,088	41,410
After five years	87,295	96,511	87,295	96,511
	<u>143,252</u>	<u>153,472</u>	<u>137,921</u>	<u>142,659</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 38 DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. The Bank transacts in foreign exchange forward contracts principally for the purpose of generating a profit from short term fluctuations in exchange rates. The contracts purchased are primarily denominated in the currencies of the bank's principal markets.

At the balance sheet date, the Bank had contracted to sell Ksh 653,966,000 and buy Ksh 590,358,000 equivalents under forward contracts denominated in US dollars, GBP pounds, Euro, and South African Rands.

### 39 CONCENTRATIONS OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

Details of significant concentrations of the Bank's assets, liabilities and off balance sheet items by industry groups are as detailed below:

#### GROUP AND BANK

##### (a) Advances to customers

	2003 Sh'000	2003 %	2002 Sh'000	2002 %
Agriculture	614,634	7	459,349	7
Manufacturing	1,574,219	19	1,600,252	24
Wholesale and retail trade	1,274,208	15	1,011,845	16
Transport and communications	1,263,056	14	1,003,340	15
Real estate	47,594	1	31,471	0
Social community and personal services	45,789	1	34,954	1
Electricity and water	2,922	0	1,068	0
Business services	1,643,329	20	1,581,349	24
Other	1,941,553	23	858,138	13
	8,407,304	100	6,581,766	100

##### (b) Customer deposits

Non profit institutions	4,566,920	45	3,614,814	52
Private enterprises	4,847,684	47	2,766,721	40
Insurance companies	478,514	5	284,343	4
Non public enterprises	228,734	2	248,536	4
Central Government	523,772	1	35,567	0
Co-operative societies	2,825	0	2,937	0
	10,176,852	100	6,952,918	100

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 39 CONCENTRATIONS OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS (Continued)

(c) Off balance sheet items (letters of credit and guarantees and forward contracts)

		2002 Sh'000	2002 %
Agriculture	194,076	187,191	7
Manufacturing	532,843	514,074	20
Wholesale and retail	358,401	345,503	13
Transport and communications	29,835	28,805	1
Business services	534,493	515,690	20
Other	1,072,256	1,034,535	39
	2,721,539	2,625,798	100

### 40 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 KSh 33,040,006 (2002 – KSh 31,189,803). Retirement benefit costs are included in staff costs (Note 8).

### 41 ASSETS PLEDGED AS SECURITY

As at 31 December 2003, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

### 42 FAIR VALUES

The directors consider that there is no material difference between the fair value and carrying value of the company's financial assets and liabilities where fair value details have not been presented.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 43 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	
	2003 Sh	2002 Sh	2003 Sh	2002 Sh
<i>Loans and advances:</i>				
At 1 January	-	-	73,993	26,363
Advanced during the year	-	-	1,116,641	1,116,641
Repayments during the year	-	-	(1,069,011)	(1,069,011)
At 31 December	-	-	73,993	73,993
<i>Deposits:</i>				
At 1 January	124,940	124,940	257,256	257,256
Received during the year	-	-	5,957,140	5,957,140
Repaid during the year	(106,634)	(106,634)	(5,900,511)	(5,900,511)
At 31 December	18,306	18,306	313,885	313,885

Loans and advances to customers at 31 December 2003 include loans and advances to companies associated to the directors and loans to employees of Sh.354,730,000 (2002– Sh.183,789,000). There were no outstanding advances to directors.

These loans and advances are performing and adequately secured.

Contingent liabilities at 31 December 2003 include contingencies on behalf of companies associated to the directors of Sh.151,721,000 (2002 – Sh.150,622,000).

Directors fees has been disclosed in Note 7. All related party transactions are at arms length and in the normal course of business.

### 44 RISK MANAGEMENT POLICIES

The financial risk management objectives and policies are as outlined below:

#### *Credit risk*

The Bank's credit risk is primarily attributable to its loans and advances.

The amounts presented in the balance sheet are net of allowances for doubtful advances, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The Bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees.

The Bank has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers as set out in note 39.

#### 44 RISK MANAGEMENT POLICIES (Continued)

##### **Interest rate risk**

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on corporate bonds and loans and advances are either pegged to the Bank's base lending rate or treasury bill rate. The Bank also invests in fixed interest rate instruments issued by the Central Bank of Kenya.

Interest rate on customer deposits are negotiated between the Bank and the customer. The Bank has the discretion to change the rates in line with changes in market trends.

These measures minimise the Bank's exposure to interest rate risk. The assets and liabilities committee of the Bank monitors interest rate trends to minimise the potential adverse impact of rate changes.

##### **Liquidity risk**

Liquidity risk arises due to the differing maturity profiles of the Bank's assets and liabilities. It includes the ability to replace maturing liabilities at a reasonable cost and to liquidate assets at a reasonable price and in an appropriate time frame.

The liquidity mismatches are reviewed on a regular basis by the Assets and Liabilities Committee of the Bank. Liquidity risk is addressed through holding a mix of liquid assets in excess of the minimum statutory requirement imposed by the Central Bank of Kenya and by having a diverse funding base.

##### **Currency risk**

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank participates in the foreign currency market as a market maker and a market user. Forex limits are reviewed and approved by the board.

The board through the assets and liability committee ensures that any assets raised in foreign currency are covered by similar liabilities in the same currency hence avoiding mismatches.

#### 45 INCORPORATION

The Bank is incorporated in Kenya under the Companies Act.

#### 46 CURRENCY

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



