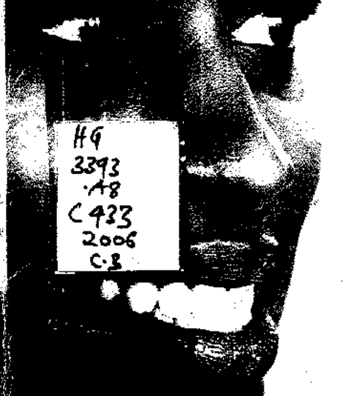
Annual Report
and Financial Statements
2006

CfCBank



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Your success. Our inspiration

BRIEF OVERVIEW ABOUT US:

We are a medium sized bank focused on providing banking and financial services to commercial, corporate, business and retail customers including large corporate institutions, parastatals non-governmental organizations, diplomatic missions and multi-nationals.

We are both an operating company as well as a holding company, providing through our subsidiaries, life assurance, general insurance, fund management, investment banking and stock broking services and we have evolved to become a financial services conglomerate commonly referred to as 'CFC Group'.

We are a publicly listed company on the Nairobi Stock Exchange and duly comply with all guidelines issued by the Capital Markets Authority ("CMA") and the Nairobi Stock Exchange ("NSE").

AWARDS & RATINGS

We received the "Customer Satisfaction" Award in the Banking Survey Awards conducted by the "Marketing Intelligence".

We are rated by FitchRatings as:

- B- for Foreign Currency Long Term IDR,
- B for Foreign Currency Short Term; and
- Stable for Outlook

OUR EMPLOYEES

We have a staff complement of approximately three hundred employees spread across clearly defined operating departments. Our recruitment policy is based on selecting individuals with sound academic qualifications and relevant working experience to ensure high productivity and integrity.

We acknowledge that the key resource in enabling us to deliver our strategic objectives is the human capital employed and our mission is to make CFC Bank, the employer of choice.

OUR VISION:

"Customer Inspired. Dedicated People. Committed to Adding Value"

OUR MISSION:

"We commit to provide integrated financial solutions, innovatively managing customer relationships for wealth creation"

OUR CORE VALUES:

- *Provide uncompromising standards of service to our customers at all times.*
- *Do what is right and always act with integrity.*
- *Lead, inspire and respect each other while valuing personal growth and development.*
- *Deliver shareholder value whilst contributing to the community.*

OUR RALLYING CRY:

"Your success. Our inspiration"

Dear Shareholder,

It is my pleasure to present the Bank's Annual Report and Financial Statements for the year ended 31st December 2006. I am happy to report that CFC Group's Profit before Tax for 2006 surpassed the Ksh 1 billion mark for the first time.

Before I deal with the key highlights of your Bank's performance, an overview of the operating environment may be appropriate.

OPERATING ENVIRONMENT

During the year under review Kenya's economic growth regained its trajectory in the second half of 2006, after a spell of dry weather in the first half of the year. Real GDP growth for the year was just under 6% as key sectors such as tourism, building & construction, transport & telecommunications and manufacturing remained robust. The above average rains received in the second half of the year helped stabilize the agricultural sector.

Thanks to the drought conditions experienced early in the year, inflationary pressures remained elevated for most of the year despite a softening of oil prices in the second half. The 12 month overall inflation registered an increased level of 15.6% at year end while underlying inflation was maintained below the Central Bank of Kenya's target of 5%. The above average rains in the last quarter of the year however helped to decelerate inflationary pressures early in 2007.

The Government budget deficit was Kshs 24.2 billion at year end representing 1.4 percent of GDP on commitment basis. The overall balance of payments improved to a surplus of US $ 691 million in 2006 from US $ 275 million in 2005, the improvement resulting from increased capital and financial inflows. The current account deficit however deteriorated to US $ 986 million for 2006 as compared to US $ 270 million in 2005. Gross foreign exchange reserves improved year on year by US $ 616 million to US $ 2415 million representing 4.5 months of imports cover. During 2006 the Kenya Shilling appreciated by 3.9% against the US $ and 5% against the Japanese Yen but weakened by 9.35% against the Sterling Pound and 7% against the Euro.

Treasury Bill rates were contained within the single digit level providing a conducive environment for borrowers. The benchmark 91 day rate declined to 5.8% at year end from 8.1% at the beginning of the year.

The low interest rate regime supported increased activity on the Nairobi Stock Exchange which registered a second consecutive year of double digit returns. The NSE index gained 42.1% during 2006 closing the year at 5560 with the market capitalization rising to Ksh 791 billion. The market activity was buoyed by strong earnings growth in listed companies, high levels of liquidity in money markets and the successful introduction of the Automated Trading System during the year. NSE saw a record of four new listings in 2006; the listing of Kengen that raised Ksh 28 billion was a landmark transaction for capital markets in Kenya - the euphoria and excitement the IPO generated was quite unprecedented. However the P / E multiple for the market increased to an unsustainable 25 by year end pointing to the possibility of a correction early in 2007.

For the year 2007 GDP growth is expected to be more robust at about 6%. The interest rate and exchange rate environment will most likely be stable with movements within a narrow range. The Stock Market could see an overdue correction leading to more reasonable P/E multiples. Political uncertainty in this election year and capacity constraints in infrastructure could impede the rapid growth witnessed over the last three years , even as agriculture , tourism , building & construction , transport & telecommunications and manufacturing sectors are expected to show strong performance once again.

HIGHLIGHTS OF OUR PERFORMANCE IN 2006

Banking assets increased by 21.53% from KShs 20.893 billion as at year end 2005 to KShs. 25.392 billion as at year end 2006. Loans and advances increased by KShs 3.241 billion to KShs 15.053 billion while Government securities holdings increased by KShs 1.998 billion. Deposits increased by KShs. 3.498 billion.

Group assets increased from KShs 33.095 billion to KShs 40.369 billion representing an increase of 22%.

Group Pre-tax profit rose to KShs 1.367 billion, up from KShs 866 million representing an increase of 57.9%. Profit attributable to shareholders increased by 69.4% from KShs 464 million to KShs 786 million. Earnings per share went up to KShs 5.04 from KShs 3.17. Overall the performance was pleasing as Profit Before Tax surpassed the KShs 1 billion mark for the first time.

The management made a determined attempt to achieve superior returns to shareholders, focusing its effort on cost of deposits and operating costs thus realising improved net interest margins and cost to income ratios.

The subsidiaries continued to make positive contributions to Group profits. Pre-tax profit from insurance operations increased from KShs 472 million for year ended December 2005 to KShs 683 million for year ended December 2006. CFC Financial Services Limited contributed KShs 231 million by way of Pre-tax profit, up from KShs 95 million for the previous year. The sterling performance of CFC Financial Services Limited which played a leading role in all the IPOs during the year under review was a key highlight.

Based on the much improved performance your Board recommends a final dividend of KShs 1.25 per share in addition to the interim dividend of KShs 0.50 per share already paid in December 2006. This makes for a total dividend pay out of KShs 1.75 per share, up from KShs 0.84 per share paid for the year 2005.

OTHER DEVELOPMENTS IN 2006

I will now bring to your attention some of our key achievements during 2006 and initiatives that are bound to have a lasting impact on our performance going forward.

- The Bank successfully launched its Retail & SME initiative and aggressively marketed new accounts in the personal & SME sectors. A loan product called "No Matata Loan" was launched and became an instant hit in the market.

- The Bank launched its credit card under the Master Card franchise, with novel Chip & PIN security features and SMS and e-mail alert functions, for the first time in Kenya.

- The Bank launched a new "Pamoja" account for the NGO, and Church organizations with special features tailored to the specific requirements of these institutional depositors.
- A state of the art IT banking application styled 'T 24' replaced the legacy Microbanker platform. After an initial period of conversion related glitches the new system has fully stabilized and is proving to be efficient and user friendly.
- With the assistance of KPMG a job evaluation exercise covering the entire organization was completed leading to the introduction of a scientific job grading methodology.
- A new Strategic plan for the period 2007 – 2009 was developed by the senior management team with the active involvement of Ideation Groups representing the entire work force. The management team adopted new Vision and Mission statements and an inspiring Rallying Cry for the Bank.
- The Bank adopted enhanced risk management processes during the year. Towards this end a new Anti Money Laundering policy was adopted and an enhanced Credit Policy was prepared for implementation in early 2007.
- During the year three non executive directors (Mr. Titus Naikuni , Mr. Andrew Gregory and Mr. Fred Ojiambo) joined the Board while Mr. A.P. Hamilton who served on the Board with distinction for thirteen years retired from the Board.

DISCUSSIONS WITH STANDARD BANK GROUP OF SOUTH AFRICA

Before I conclude I wish to briefly refer to an approach we received from Standard Bank Group of South Africa late in 2006 suggesting a merger of Stanbic Bank Kenya's operations with CFC Group's operations.

Following an initial assessment of the merger proposal and the potential synergies arising from a possible combination of the two businesses (including our insurance and financial services operations) the parties have completed a parallel due diligence exercise. We will now proceed to discuss due diligence findings and progress with negotiations. Subject to the negotiations being successful and after receipt of due regulatory approvals we will convene an Extra-Ordinary general meeting of shareholders to deliberate on the merger proposals.

In conclusion I would like to formally register my appreciation to my colleagues on the Board, management and staff of the CFC Group companies for their exemplary commitment and dedication. I wish to thank our loyal customers and business partners for their patronage and most importantly you, shareholders for your unstinted support.

Thank you.

C. Njonjo

28th March 2007

management programs established to monitor regulatory compliance and oversee the Group's risk management policies and procedures.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the appointments, induction and remuneration of the Directors. Remuneration of the Directors is based on responsibilities allocated to the Directors, and is subject to annual reviews to ensure that it adequately compensates them for the time spent on the affairs of the Bank. The Committee comprises two independent Non-Executive Directors, including the Chairman of the Board and the Managing Director. The Committee meets at least once every year or more frequently as the Committee's business may require.

Board Credit Committee

The Committee is responsible for the review, sanctioning and monitoring of all significant credit facilities in line with the Bank's credit policies. The committee is composed of three Non-Executive Directors, Managing Director, Director - Corporate Banking and General Manager – Risk. The committee meets on a monthly basis or more frequently as the business requires.

MANAGEMENT COMMITTEES

The following are the Management Committees which comprise of the Managing Director, Executive Directors and Senior Management.

Executive Management Committee

The Committee which is chaired by the Managing Director and comprises of Executive Directors and all Heads of Departments meets at monthly intervals or more frequently as required to review business and operational aspects of the business on an ongoing basis.

Management Credit Committee

The Committee is headed by the Managing Director and includes the Director – Corporate Banking, Assistant General Manager (Corporate Banking) General Manager – Risk and Assistant General 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 of credit facility applications and approval in line with the Delegated Authority Limits. 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 comprises of Senior Management in relevant departments. The Committee meets monthly or more frequently as appropriate to monitor and manage the Bank's Balance Sheet to ensure that various market, liquidity, interest rates and operational risks are addressed.

COMMUNICATION WITH SHAREHOLDERS

The Group is committed to ensuring that Shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the distribution of the Group's annual report and financial statements and the release of quarterly results and notices in the national press.

In this regard, the Group complies with its obligations contained in the Nairobi Stock Exchange's Listing guidelines and the Capital Markets Authority Act, 2002.

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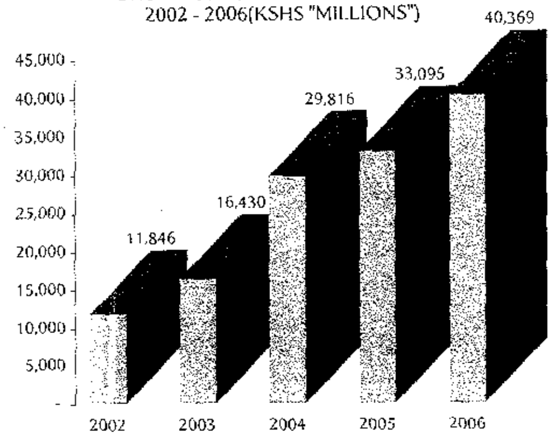
Thank you.

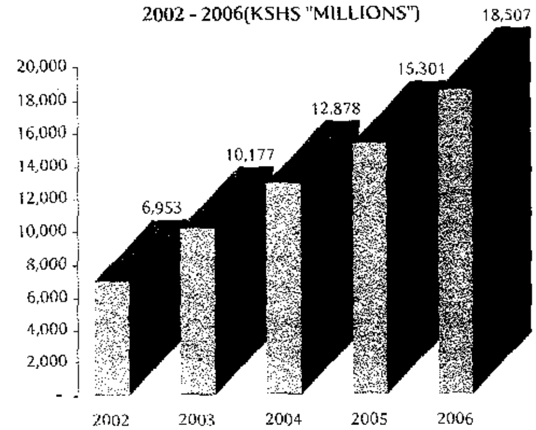
C. Njonjo

28th March 2007

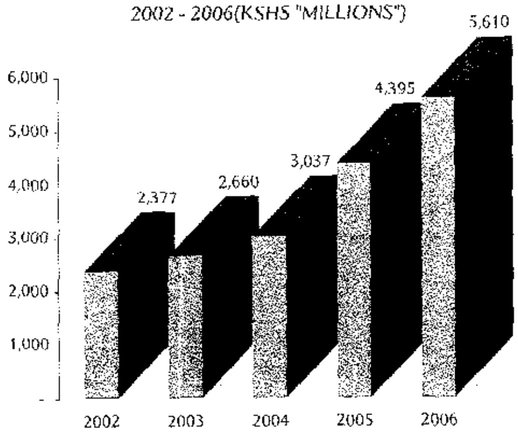
GROWTH IN GROUP TOTAL ASSETS
2002 - 2006(KSHS "MILLIONS")



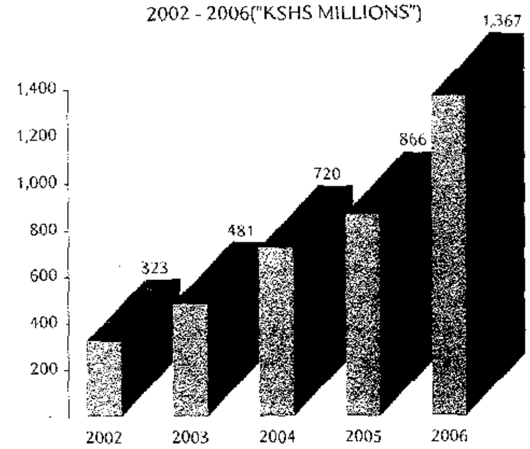
GROWTH IN CUSTOMER DEPOSITS
2002 - 2006(KSHS "MILLIONS")



GROWTH IN GROUP SHAREHOLDERS' EQUITY
2002 - 2006(KSHS "MILLIONS")



GROWTH IN GROUP PROFIT BEFORE TAX
2002 - 2006("KSHS MILLIONS")



Corporate governance is the process and structure used to direct and manage the business affairs of CFC Bank and its subsidiaries to achieve prosperity and long term shareholder value.

The Board is committed to ensuring compliance with all the guidelines on corporate governance best practices issued by the Centre for Corporate Governance and the Capital Markets Authority (CMA). The Group complies with the provisions of the Code of Conduct for 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 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 corporate governance.

BOARD'S RESPONSIBILITIES

Seven out of the ten Members of the Board, including the Chairman, are independent Non-Executive Directors. 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 governance practices, in a manner based on transparency, accountability and responsibility. The Board retains full responsibility for the direction and control of the Bank and Group.

ATTENDANCE OF BOARD MEETINGS

The Board meets at least once every quarter for scheduled meetings and on other occasions as may be necessary to deal with specific matters that may require attention in between the scheduled meetings. The Directors are provided with full and timely information to enable them to discharge their responsibilities effectively. The Directors attendance at Board meetings is satisfactory, with most Directors attending at least 75% of the Board meetings held in 2006 and one Director based overseas attending 50% of the meetings held.

EVALUATION OF THE BOARD'S AND DIRECTORS' PERFORMANCE

In line with good Corporate Governance, a self assessment and peer-review of the Board's and individual Director's performance has been undertaken for the year ended 31st December 2006. Performance review will be undertaken on an annual basis going forward, to ensure the Board remains effective in the discharge of its mandate as well as provide a basis for further strengthening of individual Directors performance.

The Board has delegated authority for the day to day running of the Bank and its Subsidiary Companies to the Managing Directors and the Senior Management of the Bank and Subsidiary Companies.

BOARD COMMITTEES

The Board has three standing committees that operate in accordance with the terms of reference set by the Board of Directors. The committees are as follows:

Audit & Risk Committee

The principal Board Committee is the Audit & Risk Committee which is chaired by an independent Non-Executive Director and comprises of two other independent Non-Executive Directors. The Committee meets at least once every quarter. The mandate of the Audit Committee is to oversee the Group's financial reporting polices and internal controls; review and make recommendations on

management programs established to monitor regulatory compliance and oversee the Group's risk management policies and procedures.

Nomination and Remuneration Committee

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In this regard, the Group complies with its obligations contained in the Nairobi Stock Exchange's Listing guidelines and the Capital Markets Authority Act, 2002.

Our Corporate Social Responsibility ("CSR") mission statement is:

"We commit to assist in initiatives that improve the quality of life for the community"

Our corporate social responsibility is a way of integrating the economic, social and environmental imperatives of our activities. We devote considerable resources to create innovative and proactive solutions to societal and environmental challenges most of which require long term commitment. The scope of our CSR initiatives is focused in the following areas:

- Community-based business enterprise and development initiatives
- Education sponsorship and mentoring
- Health sector
- Environmental activities
- Support existing customers' CSR initiatives

We continue to support the following initiatives:

SOS VILLAGE - NAIROBI

We adopted a house in 2004 and we are committed to providing for all the children's needs in the house, including visiting the children and presenting gifts on special occasions. The long standing relationship with the children in house number 13 helps them feel as special as any other child in a family set-up.

NAIVASHA HORTICULTURAL FAIR

This is an annual event that raises funds for the less fortunate members of the Naivasha community. We have been the main sponsor of the event since its inception.

KIJANI KENYA MUSIC FESTIVAL

The Kijani Kenya Trust, is a non-profit organization, which works for health care, including HIV/AIDS, and conservation in Kenya. The Trust's objectives are to assist people in their fight to safeguard the resources of Kenya; to protect and improve the health and conservation of Kenya through initiatives designed to help Kenyans help themselves. We have been one of the key corporate friends of the Trust including being the Title Sponsor for the Porgy & Bess performance at Hell's Gate, Naivasha.

GLOBAL COMPACT INITIATIVES

We have, together with our subsidiaries, made a decision to support the ten (10) principles of the United Nations Global Compact that are supposed to integrate solutions to societal and environmental challenges into corporate structures, with respect to human rights, labour rights, the environment and anti-corruption. Global Compact is an international voluntary corporate citizenship initiative that brings companies together with the UN agencies, labour and civil society organizations.

Your success. Our inspiration

The directors present their report together with the audited financial statements for the year ended 31st December 2006.

ACTIVITIES

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

GROUP RESULTS

	KSH'000
Profit before taxation	1,366,912
Taxation expense	(426,772)
Profit after taxation	940,140
Minority interest	(154,068)
Net profit for the year transferred to reserves	786,072

DIVIDEND

The directors recommend a final dividend of Sh 1.25 per share amounting to Sh 195,000,000 which, together with the Sh 0.50 per share interim dividend, represents Sh 1.75 per share on the issued share capital for the year ended 31st December 2006.

DIRECTORS

The present directors are shown on page 4.

Mr. A. P. Hamilton resigned on 25th May 2006.

Mr. M. Blasetti retires by rotation under the provisions of Article 90 of the Articles of Association and being eligible offers himself for re-election

Mr. C. Njonjo, who is over 70 years, retires by rotation. Special notice has been received by the Bank pursuant to section 142 of the Companies Act, and resolution will be considered at the Annual General Meeting to propose his re-election as director of the Bank in accordance with section 186(5) of the Companies Act.

Mr. J. G. Kiereini, who is over 70 years, retires by rotation. Special notice has been received by the Bank pursuant to section 142 of the Companies Act, and resolution will be considered at the Annual General Meeting to propose his re-election as director of the Bank in accordance with section 186(5) of the Companies Act.

POST BALANCE SHEET EVENT - MERGER BETWEEN CFC BANK AND STANBIC

The company and some of the major shareholders of CFC Bank have entered into negotiations with Standard Bank Group of South Africa, which, if successfully concluded, will result in a significant expansion of CFC Group's banking operations through a merger with Stanbic Bank Kenya Limited.

The conclusion of the proposed transaction is subject to, among other things, approval by the Minister of Finance, the Central Bank of Kenya, the Monopolies Commissioner (and any other regulators), satisfactory due diligence and board and shareholders' approvals.

AUDITORS

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

BY THE ORDER OF THE BOARD

Secretary

Nairobi

28th March 2007

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

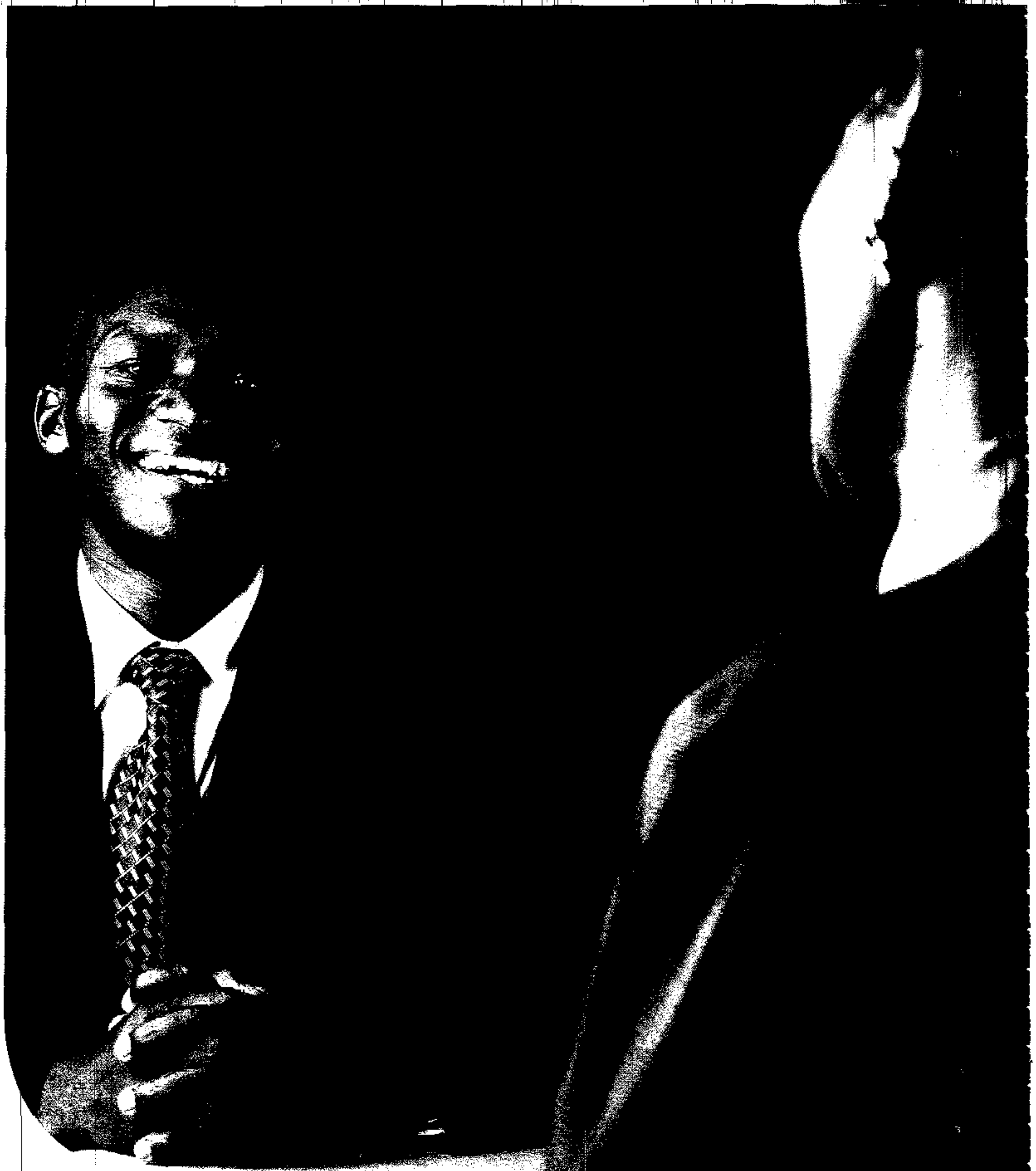
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies 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 the company 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 Bank and its subsidiaries will not remain a going concern for at least the next twelve (12) months from the date of this statement.

Director

Director

28th March 2007



We have audited the financial statements of CFC Bank Limited set out on pages 22 to 76 which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated income statement, consolidated and company statement of changes in equity and consolidated cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion:

(a) proper books of account have been kept by the bank and the bank's balance sheet is in agreement therewith;

(b) the financial statements give a true and fair view of the state of affairs of the bank and the group at 31st December 2006 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 Kenyan Companies Act.

DELOITTE & TOUCHE

30th March 2007

	Note	2006 Sh'000	2005 Sh'000 (restated)
INTEREST INCOME	3	3,025,201	2,401,525
INTEREST EXPENSE	4	(1,009,394)	(881,876)
		2,015,807	1,519,649
NET INTEREST INCOME			
Fees and commission income		1,007,493	516,171
Foreign exchange trading income		157,174	125,127
Other operating income	5	3,496,524	2,702,531
OPERATING INCOME		6,676,998	4,863,478
Operating expenses	6	(5,159,589)	(3,935,838)
Impairment losses on loans and advances	16	(171,966)	(91,264)
OPERATING PROFIT		1,345,443	836,376
SHARE OF PROFIT IN ASSOCIATES	17	21,469	29,503
PROFIT BEFORE TAXATION		1,366,912	865,879
TAXATION	8	(426,772)	(313,388)
PROFIT AFTER TAXATION	9	940,140	552,491
ATTRIBUTABLE TO:			
MINORITY INTEREST		154,068	88,296
EQUITY HOLDERS OF THE PARENT		786,072	464,195
		940,140	552,491
		Sh	Sh
EARNINGS PER SHARE			
Basic	10	5.04	3.17
Diluted	10	5.04	3.17
DIVIDEND PER SHARE	11	1.75	0.84

	Note	2006 Sh'000	2005 Sh'000 (restated)
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,581,064	1,389,193
Government securities	13	11,173,093	9,548,033
Deposits and balances due from banking institutions	14	1,822,289	2,941,904
Loans and advances to customers	15	15,053,024	11,661,714
Investment in associates	17	108,889	109,533
Other assets	18	5,024,551	3,693,342
Taxation recoverable		31,927	48,463
Investment properties	20	380,500	293,981
Other investments	21	2,503,746	1,248,654
Property and equipment	22(a)	1,266,966	958,111
Operating lease prepayment	23	31,579	31,953
Goodwill	24	1,084,647	1,084,647
Intangible assets	25	197,104	16,505
Deferred tax asset	26(a)	109,283	69,247
Total assets		40,368,662	33,095,280
LIABILITIES			
Customer deposits	27	17,928,427	14,794,042
Deposits due to banking institutions	28	1,686,880	1,398,575
Line of credit	29	304,500	443,756
Borrowings	30	926,502	952,412
Other liabilities	31	13,572,557	10,921,036
Taxation payable		119,419	58,589
Deferred tax liability	26(b)	137,010	125,917
Dividends payable		83,050	5,506
Total liabilities		34,758,345	28,699,833
CAPITAL RESOURCES			
Share capital	32(a)	780,000	780,000
Share premium		669,420	669,420
Capital reserve		266,921	254,570
Fair value reserve		394,438	(104,339)
Revaluation reserve		40,962	40,962
Revenue reserve		2,386,612	1,911,922
Statutory reserves		230,349	166,197
Currency translation reserve		(36,611)	(25,162)
Equity attributable to equity holders of the parent		4,732,091	3,693,570
Minority interest		878,226	701,877
Total equity		5,610,317	4,395,447
Total equity and liabilities		40,368,662	33,095,280

The financial statements on pages 22 to 76 were approved by the board of directors on 28th March 2007 and were signed on its behalf by:

C. Njonjo } Directors
M. Soundararajan }

R. R. Vora } Company Secretary

	Note	2006 Sh'000	2005 Sh'000 (restated)
ASSETS			
Cash and balances with Central Bank of Kenya	12	1,577,337	1,383,392
Government securities	13	5,816,590	3,818,703
Deposits and balances due from banking institutions	14	996,503	2,083,724
Loans and advances to customers	15	15,053,024	11,661,714
Other assets	18	280,879	349,216
Due from subsidiary companies		248,336	116,660
Investment in subsidiary companies	19	641,235	641,235
Other investments	21	-	150,000
Property and equipment	22(b)	649,767	589,696
Operating lease prepayments	23	30,887	31,250
Intangible assets	25	6,079	12,025
Deferred tax asset	26(a)	91,478	55,780
Total assets		25,392,115	20,893,395
LIABILITIES			
Customer deposits	27	18,506,647	15,300,876
Deposits due to banking institutions	28	1,686,880	1,394,673
Line of credit	29	304,500	443,756
Borrowings	30	800,000	664,500
Other liabilities	31	943,112	341,527
Taxation payable		73,093	2,139
Amount due to subsidiary companies		5,046	22,658
Dividends payable		83,050	5,506
Total liabilities		22,402,328	18,175,635
CAPITAL RESOURCES			
Share capital	32(a)	780,000	780,000
Share Premium		669,420	669,420
Revenue reserve		1,510,970	1,277,656
Fair value adjustments		(26,627)	(9,316)
Statutory reserves		56,024	-
Shareholders' funds		2,989,787	2,717,760
Total liabilities and shareholders' funds		25,392,115	20,893,395

The financial statements on pages 22 to 76 were approved by the board of directors on 28th March 2007 and were signed on its behalf by:

C. Njonjo)
M. Soundararajan) Directors

R. R. Vora) Company Secretary

	Share capital Sh'000	Share Premium Sh'000	Capital reserve Sh'000	Fair value reserve Sh'000	Revaluation surplus Sh'000	Revenue Reserve Sh'000	Statutory reserves Sh'000	Proposed dividends Sh'000	Translation reserves Sh'000	Equity attributable to shareholders of the parent Sh'000	Minority Interest Sh'000	Total Sh'000
At 1st January 2005– As previously stated	720,000	-	231,172	20,961	-	1,442,786	-	120,800	-	2,535,719	501,415	3,037,134
Prior year adjustment												
- transfer from long term *Insurance Business*	-	-	-	*27,136*	-	*2,441*	*207,541*	-	-	*237,118*	*130,195*	*367,313*
- reclassification of exchange differences	-	-	8,873	-	-	(4,855)	-	-	(8,873)	(4,855)	-	(4,855)
As restated	720,000	-	240,045	48,097	-	1,440,372	207,541	120,800	(8,873)	2,767,982	631,610	3,399,592
Profit for the year	-	-	-	-	-	464,195	-	-	-	464,195	88,296	552,491
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	-	(16,289)	(16,289)	-	(16,289)
Fair value adjustment on quoted investments	-	-	-	(152,436)		-				(152,436)	15,943	(136,493)
Property Revaluation	-	-	-		63,280	-	-	-	-	63,280	-	63,280
Deferred Tax on revaluation	-	-	-	-	(18,983)					(18,983)		(18,983)
Transfer of Excess Depreciation					(4,764)	4,764	-	-	-	-	-	-
Deferred Tax on Transfer					1,429	(1,429)	-	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-	*18,545*	*(18,545)*	-	-	-	-	-
Dividend – 2004 declared	-	-	-	-	-	-	-	(120,800)		(120,800)	(21,192)	(141,992)
Rights issue by parent	60,000	669,420	-	-	-	-	-		-	729,420	-	729,420
Bonus issue of shares by subsidiary companies	-	-	12,016	-	-	(12,016)	-	-	-	-	-	-
Deferred tax on statutory reserves							(22,799)			(22,799)	(12,780)	(35,579)
Transfer from revenue reserve	-	-	2,509	-	-	(2,509)	-	-	-	-	-	-
At 31st December 2005	780,000	669,420	254,570	(104,339)	40,962	1,911,922	166,197	-	(25,162)	3,693,570	701,877	4,395,447

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2006

Consolidated Statement of Changes in Equity (Continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Share capital Sh'000	Share Premium Sh'000	Capital reserve Sh'000	Fair value reserve Sh'000	Revaluation surplus Sh'000	Revenue Reserve Sh'000	Statutory reserves Sh'000	Translation reserves Sh'000	Equity attributable to shareholders of the parent Sh'000	Minority Interest Sh'000	Total Sh'000
At 1st January 2006 – as previously stated	780,000	669,420	233,496	(192,823)	40,962	1,894,027	-	-	3,425,082	551,376	3,976,458
Prior year adjustment											
- transfer from long term business	-	-	-	86,160	-	16,131	166,197	-	268,488	150,501	418,989
- transfer to statutory reserve-											
- reclassification of exchange differences	-	-	21,074	2,324	-	1,764	-	(25,162)	-	-	-
As restated	780,000	669,420	254,570	(104,339)	40,962	1,911,922	166,197	(25,162)	3,693,570	701,877	4,395,447
Profit for the year	-	-	-	-	-	786,072	-	-	786,072	154,068	940,140
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	(11,449)	(11,449)	(18,328)	(29,777)
Fair value adjustment on quoted investments	-	-	-	499,987	-	(25,838)	-	-	474,149	50,393	524,542
Revaluation realised on disposal of investments	-	-	-	(1,210)	-	-	-	-	(1,210)	(1,937)	(3,147)
Dividend											
- final for 2005 declared	-	-	-	-	-	(131,040)	-	-	(131,040)	(27,618)	(158,658)
- interim 2006 declared	-	-	-	-	-	(78,000)	-	-	(78,000)	-	(78,000)
- transfer to/from statutory reserve	-	-	-	-	-	(59,086)	59,086	-	-	-	-
- other transfers	-	-	12,351	-	-	(17,417)	5,066	-	-	19,770	19,770
At 31st December 2006	780,000	669,420	266,921	394,438	40,962	2,386,612	230,349	(36,611)	4,732,091	878,226	5,610,317

Capital reserves result from capitalisation of revenue reserves through bonus issue of shares by subsidiaries.

Revaluation reserve comprises accumulated surplus on revaluation of property and equipment and fair value adjusuments relating to available for sale investments.

The retained earnings represent accumulated profits retained by the group after payment of dividends to the shareholders.

The prior year adjustment relates to long term insurance business statutory reserve adjustment. The statutory reserve is not distributable.

Bank Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Share capital Sh'000	Share Premium Sh'000	Fair value adjustments Sh'000	Revenue reserve Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1st January 2005	720,000	-	-	1,102,743	-	1,822,743
Rights issue	60,000	669,420	-	-		729,420
Transfer to statutory reserves	-	-	-	-		-
Revaluation deficit	-	-	(9,316)	-	-	(9,316)
Profit for the year	-	-	-	295,713	-	295,713
Dividend declared – 2004	-	-	-	(120,800)	-	(120,800)
At 31st December 2005	780,000	669,420	(9,316)	1,277,656	-	2,717,760
At 1st January 2006	780,000	669,420	(9,316)	1,277,656	-	2,717,760
Transfer to statutory reserves	-	-	-	(56,024)	56,024	-
Revaluation deficit	-	-	(17,311)	-	-	(17,311)
Profit for the year	-	-	-	498,378	-	498,378
Dividend declared – 2005	-	-	-	(131,040)	-	(131,040)
Interim dividend paid – 2006	-	-	-	(78,000)	-	(78,000)
At 31st December 2006	780,000	669,420	(26,627)	1,510,970	56,024	2,989,787

	Note	2006 Sh'000	2005 Sh'000
CASH GENERATED FROM OPERATING ACTIVITIES	34(a)	367,285	2,015,253
Taxation paid		(382,909)	(365,057)
Net cash (used in)/generated from operating activities		(15,624)	1,650,196
INVESTING ACTIVITIES			
Additions to property and equipment		(426,704)	(267,386)
Additions to intangible assets		(190,376)	(12,134)
Proceeds from sale of equipment		18,213	3,687
Proceeds from the sale of intangible assets		-	1,010
Additions to investment properties		(35)	(32,213)
Net cash used in investing activities		(598,902)	(307,036)
FINANCING ACTIVITIES			
Dividends paid		(131,496)	(120,132)
Dividends paid to minority		(27,618)	(21,192)
Proceeds from rights issue		-	729,420
Net (repayments)/proceeds from borrowings		(25,910)	329,412
Dividend from associate		9,265	4,655
Net cash (used in)/generated from financing activities		(175,759)	922,163
Exchange rate adjustments		(6,292)	(8,464)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(796,577)	2,256,859
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		2,395,013	138,154
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	34(b)	1,598,436	2,395,013

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted, which remain unchanged except for the change in accounting policy on statutory reserves, are set out below:

Adoption of new and revised international financial reporting standards (IFRS)

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IFRS 7 on Financial Instruments Disclosures
- IFRS 8 on Operating Segments
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 10 - Interim Financial Reporting and Impairment

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries: CFC Financial Services Limited, CFC Holdings Limited, CFC Investments Limited, Equity Stock Brokers Limited, The Heritage A.I.I. Insurance Company Limited, Azali Limited, The Heritage A.I.I. Insurance Company (T) Limited and CFC Life Assurance Limited. The financial statements of the bank and its subsidiaries have been made up to 31st December. A listing of the bank's subsidiaries is set out in note 19.

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.

Investments in associates are 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

Initially goodwill is measured cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the group:

(a) reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognises immediately in profit or loss any excess remaining after that reassessment.

Investments in subsidiary companies

Investments in subsidiary companies in the parent's separate financial statements (details of which are disclosed in note 19) are stated at cost less provision for impairment loss where applicable.

1 ACCOUNTING POLICIES (CONTINUED)

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 Accounting Standard No. 40, Investment Properties.

Revenue recognition

Banking

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.
Fees and commission income are recognised at the time of effecting the transactions.

Insurance

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date, and is computed using the 365ths method.

Originated loans and provision for loan impairments

Loans and advances are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

Provisions for loan impairment are established if there is objective evidence that the bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Identified provisions are recognised for loans and advances that are individually significant. Unidentified provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the provision for impairment losses in the profit and loss account. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for impairment losses in the profit and loss account.

Statutory reserves

IAS 39 requires the group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central Bank of Kenya prudential guidelines require the bank to set aside amounts for provisions on loans and advances in addition to those losses that have been recognised.

Under IAS 30, any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

1 ACCOUNTING POLICIES (CONTINUED)

Statutory reserves (continued)

This is a change in accounting policy from previous years. Previously, excess provisions made by the bank to comply with the prudential guidelines were recognised as an expense in the income statement. This change in accounting policy has been applied retrospectively.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses

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% - 4%
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

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives at an annual rate of 30%.

Taxation

Income tax expense represents the sum of the current tax 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.

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 group 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.

1 ACCOUNTING POLICIES (CONTINUED)

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.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

1 ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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 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.

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.

lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group 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 group 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.

As lessee

Assets held under finance leases are recognised as assets of the group 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.

1 ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

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 when incurred.

Segmental reporting

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

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).

Reserves

Capital reserve results from capitalization of revenue reserves through bonus issues of shares by subsidiaries, transfers from revenue reserve in accordance with legislation in the insurance industry and exchange differences relating to translation of the ordinary share capital and the capital reserve of foreign subsidiaries. Distribution of the amounts arising from compliance legislation is restricted by the relevant legislation while other capitalised amounts are not distributable.

Fair value adjustments result from measurement of available for sale financial instruments at fair value in accordance with IAS 39. Gains recognised in equity are unrealised and are not distributable.

Share premium results from issue or shares recognised in equity at a premium

Revaluation surplus comprises accumulated surplus on revaluation of property and equipment. The reserves are not distributable

The retained earnings represent accumulated profits retained by the group after payment of dividends to the shareholders. The reserve is distributable.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative figures have been restated to recognise the change in accounting policy on statutory reserves.

	2006 SH'000	2005 SH'000

3 INTEREST INCOME

Loans and advances	1,650,897	1,455,835
Government securities	1,104,676	821,104
Placements and bank balances	176,326	100,862
Other	93,302	23,724
	3,025,201	2,401,525

4 INTEREST EXPENSE

Customer deposits	736,544	701,926
Deposits and placements from other banks	180,920	86,437
Interest on borrowed funds	91,930	93,513
	1,009,394	881,876

5 OTHER OPERATING INCOME

Insurance premiums earned	2,808,264	2,467,952
Profit on disposal of quoted equity investments	185,597	93,411
Profit on sale of government securities	93,372	7,495
Dividends from quoted equity investments	53,702	37,612
Rental income	38,979	31,046
Profit on disposal of equipment	3,816	1,379
Profit on disposal of intangible asset	-	482
Fair value gain on investment properties	46,370	24,678
Other income	266,424	38,476
	3,496,524	2,702,531

	2006 SH'000	2005 SH'000

6 OPERATING EXPENSES

	2006 SH'000	2005 SH'000
Insurance claims incurred	2,373,000	1,989,133
Staff costs (Note 7)	1,065,362	805,191
Other costs	876,658	810,011
Depreciation	121,959	110,725
Fees and commissions	509,173	103,413
Directors' emoluments:-		
as directors	14,388	9,980
as executives	95,417	42,441
Rent	59,973	23,047
Amortisation –intangible assets	9,671	13,089
- operating lease-leasehold land	374	360
Contribution to Deposit Protection Fund	22,914	18,865
Auditors' remuneration - parent	2,200	2,000
- subsidiaries	8,500	7,583
	5,159,589	3,935,838

7 STAFF COSTS

	2006 SH'000	2005 SH'000
Salaries and benefits	932,426	761,075
Pension contributions - defined contribution scheme	54,165	41,802
Termination benefits	635	1,033
National Social Security Fund (NSSF)	1,184	1,281
Other staff costs	76,952	-
	1,065,362	805,191

2 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 all classes of insurance business.

(a) Primary reporting format - business segments

	BANKING AND RELATED SERVICES		INSURANCE		GROUP	
	2006 Sh'000	2005 Sh'000	2006 Sh'000	2005 Sh'000	2006 Sh'000	2005 Sh'000
Income	3,150,516	2,162,103	4,557,345	3,612,754	7,707,862	5,774,857
Expenditure	(2,466,202)	(1,768,386)	(3,874,748)	(3,140,592)	(6,340,950)	(4,908,978)
Segment result	684,314	393,717	682,597	472,162	1,366,912	865,879
Taxation					(426,772)	(313,388)
Profit after taxation					940,140	552,491
Assets	26,332,864	21,145,708	14,041,711	11,949,572	40,368,662	33,095,280
Goodwill	1,084,647	-	-	1,084,647	1,084,647	1,084,647
Liabilities	22,908,457	18,230,218	11,828,183	10,503,811	34,758,345	28,699,833
Capital expenditure	168,762	215,046	448,292	52,340	617,080	267,386
Depreciation and amortisation	91,154	79,151	40,851	45,023	132,004	124,174

2 SEGMENTAL REPORTING (CONTINUED)

(b) Secondary reporting format – Geographical segments

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	
	2006 Sh'000	**2005 Sh'000**	**2006 Sh'000**	**2005 Sh'000**	**2006 Sh'000**	**2005 Sh'000**
Income	7,035,475	5,127,818	672,386	647,039	7,707,862	5,774,857
Expenditure	(5,782,105)	(4,345,197)	(558,845)	(563,781)	(6,340,950)	(4,908,978)
Segment result	1,253,370	782,621	113,541	83,258	1,366,912	865,879
Taxation					(426,772)	(313,388)
Profit after taxation					940,140	552,491
Assets	38,238,585	31,242,529	2,135,990	1,869,665	40,368,662	33,095,280
Goodwill	1,084,647	1,084,647	-		1,084,647	1,084,647
Liabilities	32,994,605	27,549,978	1,742,035	1,585,758	34,758,345	28,699,833
Capital expenditure	622,029	256,864	14,933	10,522	617,080	267,386
Depreciation and amortisation	120,600	114,385	11,405	9,789	132,004	124,174

8 TAXATION

	2006 SH'000	2005 SH'000
(a) Taxation expense		
Current tax at 30%	460,275	330,641
Prior year overstatement	-	(762)
	460,275	329,879
Deferred taxation		
(Credit) (Note 26(a))	(37,852)	(16,551)
Debit/ (Credit) (note 26(b))	4,349	60
	(33,503)	(16,491)
	426,772	313,388
(b) Reconciliation of taxation expense to expected tax based on accounting profit		
Accounting profit before taxation	1,366,912	865,879
Tax at the applicable rate of 30%	410,073	259,764
Deferred tax under provided in prior periods	999	8,847
Prior year under provision of current tax	(1,076)	(762)
Tax effect of expenses not deductible for tax	46,646	58,426
Tax effect of changes in tax rates	(1,034)	-
Tax effect of income not taxable	(40,426)	(12,887)
Other items resulting in reduced tax charge	11,590	-
	426,772	313,388

9 PROFIT AFTER TAXATION

Profit after taxation dealt with in the books of the Bank is Sh 498,378,000 (2005-Sh 295,713,000)

10 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2006	2005
Earnings (Sh'000)		
Earnings for purposes of basic earnings per share	786,072	464,195
Number of shares (In thousands)		
Number of ordinary shares for purposes of basic earnings per share (thousands)	156,000	156,000
Earnings per share (Sh)		
Basic and diluted	5.04	3.17

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the parent entity. There were no discontinued operations during the year.

Earnings per share is calculated based on the profit attributable to ordinary equity holders of the parent entity of Sh 786,072,000 (2005 -Sh 464,195,000) and 156,000,000 (2005 -Sh 146,433,000) weighted average number of ordinary shares in issue during the year.

Basic earnings per share is the same as diluted earnings per share.

11 DIVIDEND PER SHARE

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting to be held on 25th May 2007, a final dividend is to be proposed in respect of 2006 of Sh 1.25 per share (2005 – Sh 0.84 per share) amounting to a total of Sh 195,000,000 (2005 – Sh 131,040,000). The financial statements for the year ended 31st December 2006 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31st December 2007.

An interim dividend of Sh 0.50 per share representing an amount of Sh 78,000,000 (2005: Nil) was paid in December 2006.

11 DIVIDEND PER SHARE (CONTINUED)

	2006 Sh'000	2005 Sh'000
The movement in unclaimed dividend is as follows:		
At 1st January	5,506	4,838
Final dividend declared	131,040	120,800
Interim dividend declared	78,000	-
Dividend paid	(131,496)	(120,132)
At 31st December	83,050	5,506

Payment of dividends to members with shareholding below 12.5% is subject to withholding tax at the rate of 5% for residents and 10% for non-residents.

12 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2006 SH'000	2005 SH'000	2006 SH'000	2005 SH'000
Cash in hand	257,673	148,373	253,947	142,572
Balances with Central Bank of Kenya: Cash ratio requirement	1,072,492	931,453	1,072,492	931,453
Other (available to finance group operations)	250,899	309,367	250,898	309,367
	1,581,064	1,389,193	1,577,337	1,383,392

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.

13 GOVERNMENT SECURITIES

	GROUP		BANK	
	2006 SH'000	2005 SH'000	2006 SH'000	2005 SH'000
Treasury Bills & Bonds				
(a) Maturing within 90 days of balance sheet date	954,456	357,719	444,200	338,969
Maturing after 90 days of the balance sheet date	10,218,637	9,190,314	5,372,390	3,479,734
	11,173,093	9,548,033	5,816,590	3,818,703

13 GOVERNMENT SECURITIES (CONTINUED)

	GROUP		BANK	
	2006 SH'000	2005 SH'000	2006 SH'000	2005 SH'000
Classification of government securities				
Held to maturity	6,384,387	8,086,175	2,874,700	2,356,845
Available for sale	4,788,706	1,461,858	2,941,890	1,461,858
Total	11,173,093	9,548,033	5,816,590	3,818,703

The effective interest rate on treasury bills as at 31st December 2006 was 7.95% per annum (2005 - 9%).

The effective interest rate on treasury bonds as at 31st December 2006 was 9.28% per annum (2005 - 9%).

14 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2006 SH'000	2005 SH'000	2006 SH'000	2005 SH'000
Balances due from banking institutions	765,375	535,384	436,989	156,119
Deposits due from banking institutions	1,056,914	2,406,520	559,514	1,927,605
	1,822,289	2,941,904	996,503	2,083,724

The weighted average effective interest rate during the year for deposits due from banking institutions at 31st December 2006 was 6% (2005- 5%) and nil for balances due from banking institutions.

15 LOANS AND ADVANCES TO CUSTOMERS

	2006 Sh'000	2005 Sh'000
GROUP AND BANK		
Finance leases (Note 15 (a))	5,018,949	4,329,351
Loans, advances and bills discounted (Note 15(b))	10,459,839	7,601,320
	15,478,788	11,930,671
Impairment losses on loans and advances (Note 16)	(425,764)	(268,957)
	15,053,024	11,661,714

Analysis of gross loans and advances by maturity:

(a) Finance lease receivables

	Minimum lease payments 2006 Sh'000	2005 Sh'000	Present value of minimum lease payments 2006 Sh'000	2005 Sh'000
Amounts received under Finance leases:				
Within one year	953,002	2,279,548	953,002	2,279,548
Over one year to three years	3,267,746	1,892,721	3,267,746	1,892,721
Over three years	798,201	157,082	798,201	157,082
	5,018,949	4,329,351	5,018,949	4,329,351

The company 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 (2005: 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 31st December 2006 was 14% (2005 15%).

The related party transactions and balances are covered under note 44 and concentrations of advances to customers are covered under note 40.

15 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2006 Sh'000	2005 Sh'000
(b) Loans, advances and bills discounted:		
Maturing within one year	6,846,558	6,125,780
Over one year to three years	1,846,425	1,053,811
Over three years	1,766,856	421,729
	10,459,839	7,601,320

The effective interest rate on loans and advances to customers as at 31st December 2006 was 13% (2005 - 13%).

The aggregate balance of impaired loans and advances to customers as at 31st December 2006 was Sh 1,356,406,000 (2005 – Sh 748,807,000). These are included in the balance sheet (net of impairment losses) at Sh 493,221,000 (2005 – Sh 243,738,000).

16 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2006 Sh'000	2005 Sh'000
At 1st January	268,957	259,893
Provisions made during the year	171,966	102,141
Recoveries and provision no longer required	-	(10,877)
	171,966	91,264
Provision on reinstated loans	-	4,093
Amounts written off during current year	(15,159)	(86,293)
At 31st December	425,764	268,957

17 INVESTMENT IN ASSOCIATES

	2006 Sh'000	2005 Sh'000
GROUP		
At 1st January	109,533	107,095
Share of profit for the year	21,469	29,503
Dividends received	(9,265)	(4,655)
Currency translation	(12,848)	(22,410)
At 31st December	108,889	109,533

Strategis Insurance Company (T) Limited and Alliance Insurance Company (T) limited are associates of Heritage AII Insurance Company (T) Limited in which it owns 24% and 45% of the shares respectively. Strategis Insurance Company started trading in February 2003 and has a year end of 30th September.

Alliance Insurance Company (T) limited became an associate in 2004 and has a year end of 30th September. Investment in associates has been accounted for by the equity method of accounting.

18 OTHER ASSETS

	GROUP		BANK	
	2006 Sh'000	2005 Sh'000	2006 Sh'000	2005 Sh'000
Items in Transit	-	-	-	184,927
Insurance premium receivables	542,320	457,597	-	-
Due from reinsurers	208,213	168,348	-	-
Deferred insurance commission	108,715	62,419	-	-
Reinsurance share of technical provision	1,364,218	1,437,343	-	-
Trade receivables and prepayments	1,314,078	405,771	280,879	
Other	1,487,007	1,161,864	-	164,289
	5,024,551	3,693,342	280,879	349,216

19 INVESTMENT IN SUBSIDIARY COMPANIES

BANK

	Beneficial Ownership Company	Country of incorporation	2006 Sh'000	2005 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
Azali Limited	64.08%	Kenya		
The Heritage A.I.I. Insurance Company (T) Limited	38.45%	Tanzania	-	-
CFC Holdings Limited	90.48%	Kenya	475,000	475,000
CFC Life Assurance Limited	96.58%	Kenya	-	-
CFC Investments Limited	100%	Kenya	-	-
			641,235	641,235

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

The Heritage AII. Insurance Company (T) Limited is a 60% subsidiary of The Heritage AII. Insurance Company Limited. CFC Life Assurance Limited is a 100% subsidiary of CFC Holdings Ltd, while Azali Limited is a 100% subsidiary of Heritage A.I.I. Insurance Company Limited.

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

20 INVESTMENT PROPERTIES

	2006 Sh'000	2005 Sh'000
GROUP		
Freehold properties		
At 1st January	293,981	152,250
Additions resulting from acquisitions	35	32,213
Reclassification from property and equipment	40,114	81,044
Reclassification from operating lease prepayments	-	3,796
Net gain from fair value adjustments	46,370	24,678
At 31st December	380,500	293,981

Investment properties were revalued as at 31st December 2006 by Lloyd Masika Limited, independent registered valuer on an open market basis. The resultant revaluation gain net of deferred tax was credited to the income statement.

21 OTHER INVESTMENTS

	GROUP		BANK	
	2006	2005	2006	2005
	Sh'000	Sh'000	Sh'000	Sh'000
Quoted equity investments				
at mid -market value	2,344,502	1,110,602	-	-
Unquoted equity investments at cost	120,959	138,052	-	-
Commercial paper,corporate bonds				
And other investments	38,285	-	-	150,000
	2,503,746	1,248,654	-	150,000

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2006 was 8.08% (2005 - 10%).

22 PROPERTY AND EQUIPMENT

(a) GROUP

	Building on leasehold land	Motor vehicles	Furniture and equipment	Total
	Sh'000	Sh'000	Sh'000	Sh'000
COST/VALUATION				
At 1st January 2005	673,865	79,421	669,962	1,423,248
Currency adjustment	-	(1,729)	(4,540)	(6,269)
Additions	-	33,138	234,248	267,386
Transfer to investment property	(81,044)	-	-	(81,044)
Transfer to intangible assets	-	-	(300)	(300)
Reclassification	(20,255)	-	20,255	-
Revaluation surplus	63,280	-	-	63,280
Disposals	-	(16,925)	(8,751)	(25,676)
At 31st December 2005	635,846	93,905	910,874	1,640,625
At 1st January 2006	635,846	93,905	910,874	1,640,625
Currency adjustment		-	-	-
Additions		51,525	375,179	426,704
Transfer to investment held for sale	-	-	(2,816)	(2,816)

22 PROPERTY AND EQUIPMENT (CONTINUED)

(a) GROUP (CONTINUED)

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
Transfer to intangible assets				
Reclassification	(40,114)	(46)	(633)	(40,793)
Revaluation surplus	24,314		-	24,314
Disposals	-	(36,226)	(2,305)	(38,531)
At 31st December 2006	620,046	109,158	1,280,299	2,009,503
Comprising				
At cost	442,948	109,158	1,280,299	1,832,405
At valuation - 2006	177,098	-	-	177,098
	620,046	109,158	1,280,299	2,009,503
DEPRECIATION				
At 1st January 2005	64,913	57,787	477,308	600,008
Currency translation	-	(957)	(3,882)	(4,839)
Transfer to intangible assets	-	-	(12)	(12)
Charge for the year	14,074	13,189	83,462	110,725
Eliminated on disposals	-	(14,950)	(8,418)	(23,368)
At 31st December 2005	78,987	55,069	548,458	682,514
At 1st January 2006	78,987	55,069	548,458	682,514
Currency translation	-	-	-	-
Held for sale	-	-	(2,740)	(2,740)
Charge for the year	7,054	23,851	91,054	121,959
Eliminated on disposals	-	(21,926)	(2,208)	(24,134)
Reclassified on revaluation	(35,062)	-	-	(35,062)
At 31st December 2006	50,979	56,994	634,564	742,537

22 PROPERTY AND EQUIPMENT (CONTINUED)

(a) GROUP (CONTINUED)

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
NET BOOK VALUE				
At 31st December 2006	569,067	52,164	645,735	1,266,966
At 31st December 2005	556,859	38,836	362,416	958,111
NET BOOK VALUE (Cost basis)				
At 31st December 2006	306,646	51,914	543,168	901,728
At 31st December 2005	315,956	38,836	362,386	717,178

Motor vehicles, furniture and equipment stated at a cost of Sh 342,865,774 (2005 - Sh 267,258,230) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 70,917,628 (2005 – Sh 63,386,957).

Buildings were revalued as at 31st December 2006, by Tysons Limited, independent valuers, on the basis of the market value for existing use.

(b) BANK

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1st January 2005	352,710	25,855	373,186	751,751
Additions	-	10,211	197,426	207,637
Disposals	-	(4,204)	(5,850)	(10,054)
At 31st December 2005	352,710	31,862	564,762	949,334
At 1st January 2006	352,710	31,862	564,762	949,334
Additions	-	20,764	123,965	144,729
Disposals	-	(6,915)	-	(6,915)
Reclassification	-	-	(46)	(46)
At 31st December 2006	352,710	45,711	688,681	1,087,102

22 PROPERTY AND EQUIPMENT (CONTINUED)

(b) BANK (CONTINUED)

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
DEPRECIATION				
At 1st January 2005	34,916	15,579	249,914	300,409
Charge for the year	7,055	5,737	56,239	69,031
Eliminated on disposals	-	(4,204)	(5,598)	(9,802)
At 31st December 2005	41,971	17,112	300,555	359,638
At 1st January 2006	41,971	17,112	300,555	359,638
Charge for the year	7,054	9,905	61,646	78,605
Eliminated on disposals	-	(908)	-	(908)
At 31st December 2006	49,025	26,109	362,201	437,335
NET BOOK VALUE				
At 31st December 2006	303,685	19,602	326,480	649,767
At 31st December 2005	310,739	14,750	264,207	589,696

Motor vehicles, furniture and equipment stated at a cost of Sh 236,473,363 (2005 – Sh 169,819,231) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 54,914,401 (2005 – Sh 40,058,957).

23 OPERATING LEASE PREPAYMENT

	GROUP Sh'000	BANK Sh'000
COST		
At 1st January 2005	41,609	35,000
Reclassified to investment property	(5,609)	-
At 31st December 2005	36,000	35,000
At 1st January 2006 and 31st December 2006	36,000	35,000
AMORTISATION		
At 1st January 2005	5,500	3,400
Eliminated on reclassification to investment property	(1,813)	-
Amortisation for the year	360	350
At 31st December 2005	4,047	3,750
At 1st January 2006	4,047	3,750
Amortisation for the year	374	363
At 31st December 2006	4,421	4,113
NET BOOK VALUE		
At 31st December 2006	31,579	30,887
At 31st December 2005	31,953	31,250

24 GOODWILL

	2006 Sh'000	2005 Sh'000
COST		
At 1st January and at 31st December	1,084,647	1,084,647

On 15 December 2004, the Group acquired the life insurance business of CFC Life Assurance Limited (formerly Alico Kenya Limited) through the acquisition of the entire issued share capital of Alico Kenya limited. The acquisition was made through CFC Holdings Limited and CFC Investments Limited (formerly Trans-National Group Limited), both wholly owned subsidiaries of CFC Bank Limited. The fair value of the net assets acquired was Sh 819,733,000.

During the year the group assessed the recoverable amount of goodwill and determined that goodwill associated with the Life Assurance business of the acquired subsidiary company was not impaired. The recoverable amount of the life assurance business was assessed by reference to the cash generating unit's value in use. A discount factors of 10% per annum (2005 10% per annum) was applied in the value in use model.

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34 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2006 Sh'000	2005 Sh'000
(b) Analysis of balances of cash and cash equivalents as shown in the balance sheet and notes:		
Cash and other balances with Central Bank of Kenya	508,571	457,740
Treasury bills and bonds	954,456	357,719
Deposits and balances due from banking institutions	1,822,289	2,941,904
Deposits and balances due to banking institutions	(1,686,880)	(1,362,350)
	1,598,436	2,395,013

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.

c) Analysis of changes in borrowings

	2006 Sh'000	2005 Sh'000
Opening balance	952,412	623,000
Received in the year	135,500	469,500
Paid in the year	(161,410)	(140,088)
Closing balance (note 30)	926,502	952,412

35 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31st December 2006 to the contractual maturity dates.

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 – 6 Months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
ASSETS								
Cash and balances with								
Central Bank of Kenya	1,519,729	40,039	15,681	5,496	119	-	-	1,581,064
Government securities	577,697	331,246	1,702,929	803,199	2,960,283	1,938,931	2,858,808	11,173,093
Deposits and balances due								
from banking institutions	861,060	827,599	123,065	10,565	-	-	-	1,822,289
Loans and advances to customers	3,100,568	2,000,925	1,186,193	1,329,487	4,902,690	2,327,923	205,238	15,053,024
Other assets	1,046,763	1,330,287	43,121	1,198,840	296,616	173,500	935,424	5,024,551
Investment in associate	-	-	-	-	108,889	-	-	108,889
Taxation recoverable	-	31,927	-	-	-	-	-	31,927
Investment properties/securities	380,500	-	-	-	-	-	-	380,500
Other investments	1,187,074	922,667	-	-	-	-	394,005	2,503,746
Property and equipment	-	-	-	-	-	-	1,266,966	1,266,966
Operating lease prepayments	-	-	-	-	-	-	31,579	31,579
Intangible assets	-	-	-	-	-	-	197,104	197,104
Goodwill	-	-	-	-	-	-	1,084,647	1,084,647
Deferred tax asset	-	7662	-	-	2,074	91,478	8,069	109,283
Total assets	8,673,391	5,492,352	3,070,989	3,347,587	8,270,671	4,531,832	6,981,840	40,368,662

35 LIQUIDITY RISK (CONTINUED)

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 Months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
EQUITY AND LIABILITIES								
Customers deposits	16,811,523	756,151	265,623	93,122	2,008	-	-	17,928,427
Deposits and balances due to banking institutions	1,467,786	219,094	-	-	-	-	-	1,686,880
Line of credit	-	60,900	-	60,900	182,700	-	-	304,500
Term Loan	-	-	-	-	311,502	-	-	311,502
Floating Interest rate note	-	-	-	-	-	-	615,000	615,000
Other liabilities	1,512,258	957,688	-	485,402	-	-	10,617,209	13,572,557
Taxation Payable	22,256	97,163	-	-	-	-	-	119,419
Deferred tax liability	-	35,580	-	-	26,144	-	75,286	137,010
Unclaimed dividends	83,050	-	-	-	-	-	-	83,050
Share capital	-	-	-	-	-	-	780,000	780,000
Share premium	-	-	-	-	-	-	669,420	669,420
Capital reserves	-	-	-	-	-	-	266,921	266,921
Fair value reserve	-	-	-	-	-	-	394,438	394,438
Revaluation reserves	-	-	-	-	-	-	40,962	40,962
Revenue reserve	-	-	-	-	-	-	2,386,612	2,386,612
Statutory reserve	-	-	-	-	-	-	230,349	230,349
Currency translation reserve	-	-	-	-	-	-	(36,611)	(36,611)
Minority interest	-	-	-	-	-	-	878,226	878,226
Total equity and liabilities	19,896,873	2,126,576	265,623	639,424	522,354	-	16,917,812	40,368,662
Net liquidity gap	(11,223,482)	3,365,776	2,805,366	2,708,163	7,748,317	4,531,832	(9,935,971)	-
As at 31st December 2005								
Total assets	5,450,349	4,471,314	2,043,644	5,340,697	6,350,676	3,355,357	6,083,243	33,095,280
Total equity and liabilities	10,911,742	5,983,654	597,674	3,804,294	2,636,852	374,893	8,786,171	33,095,280
Net liquidity gap	(5,461,393)	(1,512,340)	(1,445,970)	1,536,403	3,713,824	2,980,464	(2,702,928)	-

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.

36 INTEREST RATE RISK

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

	Up to 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
ASSETS								
Cash and balances with								
Central Bank of Kenya	200,000	-	-	-	-	-	1,381,064	1,581,064
Government securities	908,943	1,702,929	803,199	2,960,283	1,938,931	2,858,808	-	11,173,093
Deposits and balances due								
from banking institutions	1,688,659	123,065	10,565	-	-	-	-	1,822,289
Loans and advances to customers	13,685,618	-	-	-	-	-	1,367,406	15,053,024
Other assets	-	-	-	-	-	-	5,024,551	5,024,551
Investment in associate	-	-	-	-	-	-	108,889	108,889
Taxation recoverable	-	-	-	-	-	-	31,927	31,927
Investment properties	-	-	-	-	-	-	380,500	380,500
Other investments	-	-	-	-	-	-	2,503,746	2,503,746
Property and equipment	-	-	-	-	-	-	1,266,966	1,266,966
Operating lease prepayments	-	-	-	-	-	-	31,579	31,579
Intangible assets	-	-	-	-	-	-	197,104	197,104
Goodwill	-	-	-	-	-	-	1,084,647	1,084,647
Deferred tax asset	-	-	-	-	-	-	109,283	109,283
Total assets	16,483,220	1,825,994	813,764	2,960,283	1,938,931	2,858,808	13,487,662	40,368,662

38 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (CONTINUED)

(b) Capital commitments

	GROUP		BANK	
	2006	2005	2006	2005
	Sh'000	Sh'000	Sh'000	Sh'000
Contracted but not provided for in the financial statements	49,580	70,446	-	-
Authorised but not contracted for	273,568	87,619	273,568	87,619

(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 company as a lessor

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

	GROUP		BANK	
	2006	2005	2006	2005
	Sh'000	Sh'000	Sh'000	Sh'000
Amounts receivable in the next year in respect of obligations under operating leases expiring:				
Within one year	-	19,973	13,272	19,973
In one to five years	-	-	-	2,272
	-	19,673	13,272	22,245

38 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (CONTINUED)

(d) Operating lease arrangements (continued)

The company as a lessee

	GROUP		COMPANY	
	2006 Sh'000	**2005 Sh'000**	**2006 Sh'000**	**2005 Sh'000**
Amounts payable in the next year in respect of *obligations under operating leases expiring:*				
Within one year	27,151	33,536	13,461	14,661
In one to five years	115,096	55,569	89,148	54,249
After five years	88,936	84,424	88,936	85,424
	231,183	173,529	191,545	154,334

39 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 Sh 2,459,833,274 and buy Sh 2,881,713,111 equivalents under forward contracts denominated in US Dollars, GB Pounds, Euro, Australian Dollar, Japanese Yen and South African Rands.

40 CONCENTRATIONS OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

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

(a) Advances to customers

	2006 Sh'000	2006 %	2005 Sh'000	2005 %
Agriculture	1,019,080	6	1,020,317	8
Manufacturing	2,921,288	18	2,134,338	17
Wholesale and retail trade	1,614,912	10	1,568,963	12
Transport and communications	2,995,110	19	2,282,301	18
Real estate	204,298	1	120,393	1
Social community and personal services	222,089	1	141,747	1
Electricity and water	38,521	-	64,534	1
Business services	4,213,570	27	2,710,116	22
Other	2,647,957	17	2,526,661	20
	15,876,825	100	12,569,370	100

(b) Customer deposits

	2006 Sh'000	2006 %	2005 Sh'000	2005 %
Non profit institutions	6,622,859	36	5,739,808	38
Private enterprises	10,503,847	57	8,314,745	54
Insurance companies	847,838	5	904,151	6
Non public enterprises	524,433	3	318,109	2
Central Government	1,743	-	21,898	0
Co-operative societies	5,927	-	2,165	0
	18,506,647	100	15,300,876	100

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

	2006 Sh'000	2006 %	2005 Sh'000	2005 %
Agriculture	4,668	-	360,674	7
Manufacturing	319,656	5	527,758	10
Wholesale and retail	840,648	13	459,371	9
Transport and communications	246,573	4	349,582	7
Business services	669,668	10	880,897	16
Other	4,377,914	68	2,792,082	51
	6,459,127	100	5,370,364	100

41 RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to defined contribution retirement benefits schemes and to the statutory defined contribution pension scheme, the National Social Security Fund. Contributions to the retirement benefits schemes are determined by the rules of the schemes while the contributions to the statutory scheme are determined by local statute. Total contributions by the group in respect of retirement benefits during the year were Sh 55,349,000 (2005 – Sh 43,083,000). Retirement benefit costs are included in staff costs (note 7).

42 ASSETS PLEDGED AS SECURITY

As at 31st December 2006, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

43 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.

44 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		Employees/Staff	
	2006	2005	2006	2005
	Sh	Sh	Sh	Sh
Loans and advances:				
At 1st January	253,428	308,744	148,055	138,003
Net movement during the year	166,041	(55,316)	59,384	10,052
At 31st December	419,469	253,428	207,439	148,055
Deposits:				
At 1st January	1,157,083	301,608		
Net movement during the year	3,748	855,475		
At 31st December	1,160,831	1,157,083		

44 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2006 Sh	2005 Sh
Salaries and other benefits	199,750	119,886

Directors' remuneration

Fees for services as directors	14,388	9,980
Other emoluments (included in key management compensation above)	95,417	42,441
	109,805	52,421

Loans and advances to customers at 31st December 2006 include loans and advances to companies associated to the directors and loans to employees of Sh 207,439,000 (2005– Sh 148,055,000). There were no outstanding advances to directors.

These loans and advances are performing and adequately secured.

Contingent liabilities at 31st December 2006 include contingencies on behalf of companies associated to the directors of Sh 866,000,000 (2005– Sh 214,541,000).

Directors fees has been disclosed in note 6.

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

45 RISK MANAGEMENT POLICIES

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

BANKING

Credit risk

The group's credit risk covers the rules on extension of loans and advances to its customers. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The group 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 regular basis and are subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and by taking remedial action where appropriate. Exposure to credit risk is also mitigated in part by obtaining collateral and corporate guarantees, though ability to pay is the primary consideration.

The group has no significant concentration of credit risk in any one sector, as exposure is spread over a diversity of personal and commercial customers as set out in note 40.

Interest rate risk

The group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances to customers and other risk assets are either pegged to the bank's base lending rate or treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The group 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 group's exposure to interest rate risk.

Liquidity risk

The group is exposed to the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is addressed through the following measures:

- The bank enters into lending contracts subject to availability of funds.
- The bank has an aggressive strategy aimed at increasing the customer deposit base.
- The bank borrows from the market through inter bank transactions with other banks, pension funds and insurance companies for short term liquidity requirements.
- The bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- Investments in property and equipment are properly budgeted for and done when the group has sufficient cash flows.

45 RISK MANAGEMENT POLICIES (CONTINUED)

Currency risk

The group is exposed to the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. Forex exposure limits are reviewed and approved by the board. The board, through the assets and liability committee ensures that the foreign exchange risk policy is adhered to and any deviations are reported for appropriate action.

Operational Risk

The group is exposed to operational risk which is associated with human error, system failures and inadequate procedures and controls. . The group ensures that there is an effective, integrated operational risk management framework that incorporates a clearly defined organizational structure, with defined roles and responsibilities for all aspects of operational risk management/monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks. The policy includes-

- The structure of operational risk management function;
- The roles and responsibilities of individuals involved and
- Systems and procedures for effective operational risk management

INSURANCE

The group's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

45 RISK MANAGEMENT POLICIES (CONTINUED)

Financial risk

The group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

Interest rate risk

Exposure to interest sensitive assets is managed by use of a yield curve in order to ensure that the group does not hold low yielding investments in a high interest rate environment.

The group has an investment committee which sets investment guidelines that seek to reduce exposure to interest rate risk.

Credit policy

The Group grants a one month credit period to all classes of policies after which they lapse.

Liquidity risk

The group manages its investments in such a way as to meet its liabilities as they fall due.

Currency risk

The Group's policy is to minimise currency risk by holding assets in the same currency as the underlying liabilities.

46 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Insurance

The estimation of future benefit payments from long-term insurance contracts is the group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the group will ultimately pay for such claims.

46 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the group. Estimates are made as to the expected number of deaths for each of the years in which the group is exposed to risk. The group bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age groups in which the group has significant exposure to mortality risk.

For contracts without fixed terms, it is assumed that the group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the group evaluates its intention and ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be me asured at fair value not amortised cost.

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment.

47 INCORPORATION

The bank is domiciled and incorporated in Kenya under the Companies Act.

48 CURRENCY

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

Notes

Proxy Form

I/We ________________________________ of ________________________________

being a Member/Members of the above-named Bank, hereby appoint

________________________________ of ________________________________

or failing him / her ________________________________ of ________________________________

or failing him / her, the duly appointed Chairman of the meeting as my / our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Bank to be held on 25th May 2007 and at any adjournment thereof.

As witness my/our hand(s) this ____________ day of ____________ 2007

____

Member

Notes:

1. To be valid, this proxy must be deposited at the Registered Office of the Bank not less than 48 hours before the time appointed for the meeting.
2. If the appointer is a corporation, the proxy must be under its common seal or under the hand of an Officer or Attorney duly authorised in writing.

Fomu ya Uwakilishi

Mimi/Sisi ________________________________ wa ________________________________

kama mwanachama / wanachama wa Benki iliyotajwa hapo juu, hapa namchagua / tunamchagua

________________________________ wa ________________________________

ama akikosa ________________________________ wa ________________________________

ama akikosa yeye, basi namchagua / tunamchagua yule aliyechaguliwa Mwenyekiti wa Mkutano huu kuwa Mwakilishi wangu / wetu, kunipigia / kutupigia kura kwa niaba yangu / yetu katika Mkutano Mkuu wa Benki wa Mwaka utakaofanywa tarehe 25 Mei 2007 ama tarehe yo yote ile iwapo mkutano utaahirishwa.

Kama shahidi natia / tunatia sahihi hii / hizi ____________ siku hii ya ____________ 2007

____

Mwanachama

Ukumbusho:

1. Ili ithibitishwe, karatasi hii ya Mwakilishi inapaswa kupelekwa kwa ofisi iliyoandikishwa ya Benki katika muda usiopungua masaa 48 kabla ya muda uliowekwa wa Mkutano.
2. Ikiwa mwenye kuchagua ni Shirika basi karatasi ya mwakilishi lazima ibandikwe ule muhuri wa Kampuni wa kawaida ama kibali cha ofisa ama wakala aliyepewa kibali kwa maandishi.

FOLD 2
KISHA KUNJA HAPA

FOLD 1
KUNJA HAPA KWANZA

Company Secretary
CFC Bank Limited
P O Box 72833, 00200
Nairobi, Kenya

FOLD 3
ALAFU KUNJA HAPA

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