

EfCBank

Annual Report
and Accounts 2007

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Working together in harmony.

The CFC Group works in harmony, creating a symphony of dynamic products and services to suit the needs of our customers.

CfCBank

CfCLife


THE HERITAGE INSURANCE

CfC Financial
Services



Corporate

Information

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Board of Directors

C Njonjo	-	Chairman
M Soundararajan**	-	Managing
J G Kiereini		
S W Lewis *		
U P Jani *		
A D Gregory		
T T Naikuni		
F N Ojiambo		
A A Munda	-	Director, Finance

* British ** Indian

COMPANY SECRETARY

R R Vora

SENIOR MANAGEMENT

Madabhushi Soundararajan	-	Managing Director
Abel A Munda	-	Director, Finance & Administration
Geoffrey W Radier	-	Head of Risk & Compliance
Sam Mbori	-	Head of Operations
Villupuram Abiraman	-	Head of Treasury
Chandima Hemachandra	-	Head of Information Technology
Daniel N Gichuhi	-	Head of Hire Purchase
Lucy Thegeya	-	Head of Internal Audit
Evans Vitisia	-	Head of Retail & SME Banking
Priscilla Ndonga	-	Head of Human Resources
Anil K Seth	-	Head of Coast Operations
Joseph Kimburi	-	Head of Corporate Banking
Wambui Kuria	-	Head of Legal
Alice Kirenge	-	Head of Group PR and Corporate Communications

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2. Banks and banking--Kenya--Periodicals

CfCBank

Corporate Information

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OFFICES

Registered Office

Head Office

CFC Centre

Chiromo Road

P O Box 72833 - 00200 Nairobi

Branches and Agencies

Chiromo Road Branch

CFC Centre

Chiromo Road

P O Box 72833 - 00200

Nairobi

Upper Hill Medical Centre Branch

Ralph Bunche Road

P O Box 2492 - 00200 Nairobi

Intercontinental Hotel Agency

City Hall Way

P O Box 75501 - 00200 Nairobi

Naivasha Branch

CFC Heritage House, Moi Road

P O Box 1053 - 20117 Naivasha

International House Branch

City Hall Way

P O Box 75501 - 00200 Nairobi

CFC House Branch

CFC House

Mamlaka Road, Nairobi

Mombasa Branch

Social Security House, Nkrumah Road

P O Box 84418, Mombasa

AUDITORS

Deloitte & Touche

"Kirungii", Ring Road, Westlands

P O Box 40092 - 00100 Nairobi

Notice of Annual General Meeting

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Notice is hereby given that the fifty third Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Friday 30 May 2008 at 10.30 a.m. for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31 December 2007 and the Directors' and Auditors' Reports thereon.
2. An interim dividend of Sh 1.40 per share having been paid, to approve the payment of a final dividend for the year ended 31 December 2007 of Sh 0.50 cents per share on the Issued Share Capital.
3. To elect Directors:
 - i) F N Ojiambo retires by rotation under the provisions of Article 90 of the Articles of Association and being eligible offers himself for re-election.
 - ii) A D Gregory retires by rotation under the provisions of Article 90 of the Articles of Association and does not offer himself for re-election.
4. To approve the Directors' remuneration for the year ended 31 December 2007 as provided in the financial statements.
5. To note that Deloitte & Touche do not offer themselves for reappointment as Auditors and, on the recommendation of the Board of Directors, to appoint PricewaterhouseCoopers as auditors of the Company under the provisions of Section 159 of the Companies Act (Cap 486) and subject to Section 24 (1) of the Banking Act (Cap. 488) and to authorize the Directors to agree their remuneration for the ensuing financial year.

By Order of the Board

R R Vora

Secretary

Date: 25 April 2008

Note: A member entitled to attend and vote at the above mentioned meeting and any adjournment thereof is entitled to appoint a proxy to attend and vote on his or her behalf. Such proxy need not be a member of the Company. A form of proxy, which must be lodged at the Registered Office of the Company not later than 48 hours before the time for holding the Meeting, is enclosed.

Chairman's statement

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Dear Shareholder

It is my pleasure, once again, to present to you the Bank's Annual Report and Financial Statements for the year ended 31 December 2007.

Before I deal with the key highlights of your company's performance, an overview of the operating environment during 2007 may be appropriate.

OPERATING ENVIRONMENT

During the year under review the economy remained robust thanks to the growth momentum that continued from early 2006. As per CBK estimates Real Gross Domestic Product (GDP) grew by 7% during 2007 compared to 6.1% in 2006. This growth was mainly supported by improved performance in agriculture, tourism, building and construction, financial services sectors, transport and communications, and household consumption. The enabling environment was characterised by a regime of relatively stable interest rates and exchange rates and improved access to credit.

Inflationary pressures largely remained under control for most of 2007. The 12 month overall inflation registered a welcome reduction from 15.6% in December 2006 to 12.03% in December 2007, while the underlying inflation ranged between a low of 4.90% in February 2007 and a high of 5.46% in July 2007. However, the recent increase in energy costs and food prices has resulted in a steep increase in inflation to 19.1% in February 2008.

The Government budgetary operations resulted in a deficit of Sh 27.7 billion for the first half of the fiscal year 2007/08 representing 1.4% of GDP on commitment basis compared with a deficit of Sh 7.8 billion or 0.5% of GDP for the same period last fiscal year. However as a percentage of GDP the budget deficit on cash basis reduced from 1.6% to 1.1% for the same period. The fiscal outturn of the Government during the period reflected a much improved performance in tax revenue and lower than budgeted expenditure.

The overall balance of payments improved to a surplus of US\$ 882 million at year end 2007 from US\$ 675 million at year end 2006 due to increased private financial inflows into the capital and financial account. The current account deficit however deteriorated to US\$ 1.155 billion for 2007 as compared to US\$ 529 million in 2006. Gross foreign exchange reserves improved from US\$ 3.331 billion at year end 2006 to US\$ 4.557 billion at year end 2007 representing 4.1 months of imports cover. During 2007 the Kenya Shilling appreciated by 9.4% against the US Dollar and 6.1% against the Pound Sterling.

Treasury Bill rates were contained within the single digit range during 2007 providing a helpful environment for borrowers. The benchmark 91 day Treasury Bill rate increased from 5.8% at year end 2006 to 6.8 % at year end 2007. The Central Bank Rate was increased marginally to 8.75% from 8.50% in August.

The Stock Market experienced an overdue correction in 2007 after two years of double digit returns to investors. The NSE index declined from 5,645 at year end 2006 to 5,444 at year end 2007. However the market capitalisation increased from 791 at year end 2006 to 851 at year end 2007 due to additional listings during the year.

OUTLOOK FOR 2008

This year started on a subdued note due to the political tension in the country in the aftermath of the elections held in December 2007. The disruptions caused to the transportation systems and distribution chains for essential commodities including food items and fuel in the first two months of the year pushed up market prices for a variety of goods and services. Unfortunately this coincided with the increase in fuel and food prices induced by scarcity conditions witnessed internationally. The informed view indicates a slow down of the economy to a GDP growth rate of 4% for this year as the country grapples with the challenges of resettling internally displaced persons and containing inflationary pressures arising from the steep increase in fuel and food prices. However there is cautious optimism that the economy has the resilience to bounce back to a higher growth trajectory in the latter part of the year.

Chairman's statement

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HIGHLIGHTS OF PERFORMANCE IN 2007

Banking assets increased by 10.4% from Sh 25.392 billion as at year end 2006 to Sh 28.021 billion as at year end 2007. The Bank's core capital increased by 4.9% from Sh 2.960 billion to Sh 3.107 billion and shareholders' funds increased to Sh 3.339 billion. The Bank was fully compliant with financial ratios stipulated by Central Bank of Kenya, with both capital adequacy and liquidity ratios comfortably exceeding the minimum requirements. The Bank's pre-tax profit rose to Sh 921 million from Sh 678 million representing an increase of 35.8%. The profit after tax increased from Sh 498 million for 2006 to Sh 656 million for 2007 representing an increase of 31.7%.

Group assets increased by 7.2% from Sh 40.369 billion as at year end 2006 to Sh 43.263 billion as at year end 2007. Group pre-tax profit declined marginally from Sh 1.367 billion for 2006 to Sh 1.353 billion for 2007. Similarly profit after tax declined by 1.6% from Sh 940 million for 2006 to Sh 925 million for 2007. Profit attributable to shareholders declined by 2.1% from Sh 786 million to Sh 770 million, with a corresponding reduction in earnings per share from Sh 5.04 to Sh 4.94.

This modest performance at Group level resulted principally due to much reduced investment income from our insurance operations, thanks to the correction in share prices at NSE and the relative absence of profitable trading opportunities from the Treasury Bond portfolio due to unfavourable movement in interest rates. Pre-tax profit from insurance operations declined marginally by Sh 12.207 million from Sh 739.142 million for 2006 to Sh 726.935 million for 2007. Our investment banking subsidiary had a difficult year in 2007. CFC Financial Services recorded a loss before tax of Sh 88 million for 2007 compared to a profit before tax of Sh 231 million for the previous year. This was principally due to the decision to write off overdue debtor positions, a number of which arose from the market price correction experienced in 2007. I would like to re-assure you that risk management has been enhanced and the control environment considerably strengthened and that CFCFS remains strong and fully compliant with all regulatory guidelines.

Your Board recommends the payment of a final dividend of Sh 0.50 per share in addition to the interim dividend of Sh 1.40 per share paid in December 2007. This makes for a total dividend pay out of Sh 1.90 per share, up from Sh 1.75 per share paid for the year 2006.

MERGER WITH STANBIC BANK KENYA LIMITED

You will recall that at the Extraordinary General Meeting held on 12 November 2007 necessary resolutions were passed to approve a Scheme of merger of CFC Bank with Stanbic Bank Kenya Limited and the acquisition of a controlling interest in your company by Stanbic Africa Holdings Limited subject to the receipt of required regulatory approvals in Kenya and South Africa.

The necessary regulatory approvals for the merger were received as set out below:

Minister of Finance (through the Monopolies and Prices Commissioner)	28 August 2007
Central Bank of Kenya	5 October 2007
Capital Market Authority	9 October 2007
Nairobi Stock Exchange	14 November 2007
Insurance Regulatory Authority (Receipt of Notification)	28 January 2008
South African Reserve Bank	2 April 2008

As all requisite approvals are in place we will now proceed to implement the resolutions passed at the Extraordinary General Meeting of the 12 November 2007 and conclude the transaction. Substantial progress has been made by the management teams at both banks to integrate operating systems, policies and processes in key business functions and it is expected that the merger will be completed by 31 May 2008 and the new structure approved by the members will come into effect from 1 June 2008.

Chairman's statement

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On completion of the transaction and the successful hive down of the banking assets and liabilities to CFC Stanbic Bank Limited your company will be renamed as CFC Stanbic Holdings Limited and will become the holding company for the entire Group encompassing banking, insurance and investment banking businesses. The company's shares will continue to be listed on the Nairobi Stock Exchange.

In conclusion as we stand at the threshold of a significant development in the evolution of CFC Bank I proudly recall our many successes and achievements over the last five decades. I take this opportunity to salute our founder the Late P K Jani for his business acumen and visionary leadership during his long tenure as Chairman of the company before his death in December 2005.

I would also 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 express my gratitude to our loyal customers and business partners for their patronage and most importantly to you, shareholders for your consistent support.

Thank you.



C Njonjo

25 April 2008



The CFC Group Chairman Charles Njonjo shakes hands with Dr. Joe Wanjui, Chairman of Stanbic Bank Kenya after the merger agreement signing ceremony in June 2007

Taarifa ya mwenyekiti

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Mpendwa Mwanahisa,

Kwa mara nyingine tena, ni furaha yangu kuwasilisha kwenu Taarifa ya Mwaka na Hesabu za Benki kwa mwaka uliomalizikia Disemba 31 2007.

Kabla ya kushughulikia maswala makuu yanayohusu matokeo ya utendakazi wa shirika, itakuwa sawa kwanza nitafakari taswira ya shughuli zetu katika mwaka wa 2007.

MAZINGIRA YA KIBIASHARA

Katika kipindi cha mwaka tunaoutazama, uchumi uliendelea kuimarika kutokana na msukumo wa ukuaji ulioendelea kutoka mwaka wa 2006. Kwa mujibu wa makadirio ya Benki kuu ya Kenya Jumla ya pato Halisi (GDP) ilikuwa kwa asilimia 7 katika 2007 ikilinganishwa na asilimia 6.1 katika 2006. Ukuaji huu ulisaidiwa zaidi na kuimarika kuzuri kwa sekta za kilimo, utalii, ujenzi na uundaji, sekta za huduma za kifedha, uchukuzi na mawasiliano, na mahitaji ya bidhaa zitumiwazo majumbani. Mazingira haya ya kuwzeshesha yalileta kuwoko utulivu wa viwango vya riba na vile vya ubadilishanaji wa fedha pamoja kurahisisha upataji wa mikopo.

Shinikizo la kupanda kwa gharama ya maisha lilihimiliwa vyema katika kipindi kikubwa cha mwaka wa 2007. Jumla ya kupanda kwa gharama ya maisha katika miezi 12 kulirekodi upungufu maridhawa kutoka asilimia 15.6 katika Disemba 2006 hadi asilimia 12.03 katika Disemba 2007. Wakati huo huo nadharia ya upandaji wa gharama ya maisha ukiwa ni baina ya kiwango kidogo cha asilimia 4.90 katika Februari 2007 na kiwango cha juu cha asilimia 5.46 katika Julai 2007. Licha ya haya, kupanda kwa hivi karibuni kwa gharama za kawi na bei ya chakula kulisababisha ongezeko kubwa la gharama ya maisha hadi kufikia asilimia 19.1 katika Februari 2008.

Matokeo ya Makadirio ya Bajeti ya Serikali yalikuwa na upungufu wa Sh Bilioni 27.7 katika nusu ya kwanza ya mwaka wa kiserikali wa 2007/08 ikiwakilisha asilimia 1.4 ya Jumla ya pato la watu (GDP) kwenye matarajio ikilinganishwa na kasoro ya Sh Bilioni 7.8 au asilimia 0.5 ya jumla ya mapato ya watu katika kipindi kama hiki kwenye mwaka wa kifedha wa kiserikali uliomalizika. Hata hivyo ikiegemezwa katika asilimia ya jumla ya mapato ya watu, upungufu huu wa bajeti kutumia dutu ya fedha taslimu itakuwa ilipungua kutoka asilimia 1.6 hadi asilimia 1.1 katika kipindi hiki tunachokizungumzia. Natija hii katika hazina ya serikali katika kipindi hiki inaonyesha kuimarika kwa kuridhisha katika mapato ya kodi na upungufu wa gharama kinyume na ilivyokadiriwa.

Kwa ujumla, urari wa malipo uliimarika hadi kufikia ziada ya US\$ Milioni 882 katika mwisho wa mwaka wa 2007 kutoka US\$ Milioni 675 katika mwisho wa mwaka wa 2006 hii ikisababishwa na kuingizwa kwa pesa na watu binafsi katika akaunti za mtaji na za fedha. Hata hivyo kulikuwa na kasoro katika akaunti za Current kufikia US\$ Bilioni 1.155 katika 2007 ikilinganishwa na US\$ Milioni 529 katika 2006. Hazina ya jumla ya ubadilishanaji wa pesa za kigeni iliimarika kutoka US\$ Bilioni 3.331 kumalizikia 2006 hadi US\$ Bilioni 4.557 ulipomazika 2007 ikiwakilisha miezi 4.1 ya maduhuli. Katika 2007, Shilingi ya Kenya iliimarika kwa asilimia 9.4 dhidi ya Dola ya Marekani na asilimia 6.1 dhidi ya Pauni ya Uingereza.

Viwango vya Hawala za Serikali vilihimiliwa katika anuwai ya dijiti moja katika kipindi cha 2007, hii ikileta mazingira maridhawa kwa wakopaji. Alama reule ya siku 91 ya kiwango cha Hawala za Serikali ilipanda kutoka asilimia 5.8 katika mwisho wa 2006 hadi asilimia 6.8 katika mwisho wa 2007. Kiwango cha Benki kuu Ya Kenya cha asilimia 8.75 kilibaki katika takriban mwaka wote wa 2007.

Soko la Hisa lilihisi marekebisho yaliochelewa katika 2007 baada ya waekezaji kuwa na mapato ya miaka miwili ya dijiti mbili. Kielezo cha Soko la Hisa la Nairobi kilionyesha upunguaji kutoka 5,645 katika mwisho wa 2006 hadi 5,444 mwishoni mwa 2007. Licha ya hivi, ugeuzaji wa fiada kuwa mtaji sokoni ulizidi kutoa 791 mwisho wa 2006 hadi 851 mwishoni mwa 2007 kutokana na ongezeko la waorodheshwaji katika kipindi cha mwaka huo.

MTAZAMO KATIKA MWAKA WA 2008

Mwaka huu ulianza kwa mwendo wa taratibu kutokana na fujo la kisiasa lililokabili nchi yetu kufautia utata wa matokeo ya uchaguzi mkuu uliyofanyika Disemba 2007. Vurugu hili lilisababisha kusambaratika kwa mfumo wa uchukuzi na usambazaji wa bidhaa muhimu pamoja chakula na petroli katika miezi miwili ya kwanza mwakani na kuleta mfuriko wa bei ya bidhaa na huduma kote nchini. Kwa bahati mbaya, matokeo haya yalifanyika wakati kulikuwa na mfumuko wa bei ya petroli na chakula kote ulimwenguni kutokana na uchache wa bidhaa hizi. Maoni ya wataalamu yaashiria upungufu wa

Taarifa ya

mwenyekiti

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kasi ya ukuaji wa uchumi hadi kiwango cha Jumla ya pato la watu cha asilimia 4 karika mwaka huu wakati ambapo nchi inapambana na changamoto za kuwarudishia makao wakimbizi wa humu na kuthibiti shinikizo la kupanda kwa gharama ya maisha iliyoletwa na kuongezeka zaidi kwa bei ya petroli na chakula. Licha ya kuweko kwa hali hii kuona matumaini japo ya hadahari kuwa uchumi una uwezo wa kurudi na nguvu mpya na kufikia usitawi wa upeo wa juu katika miaka inayokuja.

MATOKEO MUHIMU KATIKA 2007

Rasilimali za Benki ziliongezeka kwa asilimia 10.4 kutoka Sh Bilioni 25.392 kumalizikia mwaka wa 2006 hadi Sh Bilioni 28.021 wakati wa kumalizika 2007. Kiini cha mtaji wa Benki uliongezeka kwa asilimia 4.9 kutoka Sh Bilioni 2.960 hadi Sh Bilioni 3.107 na hazina ya wenyehisa kuzidi hadi Sh Bilioni 3.339. Benki ilitekeleza kikamilifu uwiano wa kifedha uliowekwa na Benki Kuu ya Kenya na kutosheleza viwango vya mtaji pamoja na vya uwezo wa kutaslimisha pesa hadi kupita kwa urahisi viwango vilivyowekwa. Faida ya Benki kabla ya ulipaji kodi iliongezeka hadi kufikia Sh Milioni 921 kutoka Sh Milioni 678 hii ikiwakilisha ongezeko la asilimia 35.8. Faida baada ya kulipa kodi iliongezeka kutoka Sh Milioni 498 katika 2006 hadi Sh Milioni 656 ya mwaka wa 2007 hii ikiwa ni ongezeko la asilimia 31.7.

Rasilimali za Kundi ziliongezeka kwa asilimia 7.2 kutoka Sh Bilioni 40.369 wakati wa kumalizika 2006 hadi Sh Bilioni 43.263 ulipomalizika mwaka wa 2007. Faida ya Kundi kabla ya ulipaji kodi ilipungua kidogo kutoka Sh Bilioni 1.367 za 2006 hadi Sh Bilioni 1.353 za 2007. Vile vile, faida baada ya kulipa kodi ilipungua kwa asilimia 1.6 kutoka Sh Milioni 940 za 2006 hadi Sh Milioni 925 za 2007. Faida itokanayo na wenyehisa ilishuka kwa asilimia 2.1 kutoka Sh Milioni 786 million hadi Sh Milioni 770, kukiwa na upungufu unaofanana katika mapato ya kila hisa kutoka Sh 5.04 hadi Sh 4.94.

Matokeo haya ya wastani katika shughuli za Kundi sana yalichangiwa na kupungua zaidi kwa mapato ya uwekezaji kutoka katika biashara yetu ya bima, kwa msaada wa marekebisho ya bei za hisa katika soko la hisa la Nairobi pamoja na kutokuweko kwa fursa za kibiashara za daftari za Hawala serikali kutokana na mwenendo usiyoridhisha wa viwango vya ubadilishanaji. Faida kabla ya kulipa kodi kutokana na biashara yetu ya bima ilipungua kwa wastani kwa Sh Milioni 12.207 kutoka Sh Milioni 739.142 za 2006 hadi Sh Milioni 726.935 za 2007. Matokeo ya kampuni yetu tanzu ya benki ya uwekezaji hayakuwa ya kupendeza katika 2007. Kampuni ya CFC Financial Services Limited ilirekodi hasara kabla ya kulipa kodi ya Sh Milioni 88 katika 2007 ambapo ikilinganishwa kulikuwa na faida kabla ya kulipa kodi ya Sh Milioni 231 katika mwaka uliyopita. Zaidi, matokeo haya yalitokana na azimio lililochukuliwa la kutambua hasara za biashara zitokanazo na marekebisho ya bei sokoni yaliyohisiwa katika 2007 na kufunga kabisa madeni yaliopitwa na muda. Ningependa kuwahakikishia ya kuwa usimamizi wa shaka ya madeni umeimarishwa na kuweko kwa mazingara bora ya usimamizi kumedhibitiwa vilivyo na kuwa CFCFS bado ni imara na inaendelea kutekeleza kikamilifu kanuni na sheria zinazohitajika.

Halmashauri yenu inapendekeza malipo ya mwisho ya mgawo ya Sh 0.50 kwa kila hisa kuongezea malipo ya mgawo ya muda ya Sh 1.40 kwa kila hisa yaliyotolewa Disemba 2007. Hii inajumuisha malipo ya mgawo kuwa Sh 1.90 kwa kila hisa, ikiwa ni ongezeko kutoka Sh 1.75 kwa kila hisa ilivyolipwa katika mwaka wa 2006.

KUUNGANA NA STANBIC BANK KENYA LIMITED

Utakumbuka kuwa katika Mkutano Mkuu usiyo wa kawaida uliyofanyika mnamo tarehe 12 Novemba 2007, uamuzi ufaao ulipitishwa wa kuidhinishwa mpango wa muungano wa CFC Bank na Stanbic Bank Kenya Limited na kuchukuliwa kwa hatamu za usimamizi shughuli za kampuni yenu na Stanbic Africa Holdings Limited kutegemea kukubaliwa rasmi kwa mujibu wa sheria za Kenya na za Afrika Kusini.

Vibali kwa mujibu wa sheria za pande zote mbili na kutoda idara zinazohusika zilipokewa kama ifuatavyo:

Waziri wa Fedha kupitia kwa Kamishna wa Ukiritimba na Bei	28 Agosti 2007
Benki Kuu ya Kenya	5 Oktoba 2007
Halmashauri ya Mtaji wa Soko	9 Oktoba 2007
Soko la Hisa la Nairobi	14 Novemba 2007
Halmashauri ya Kudhibiti Bima (Risiti ya Arifa)	28 Januari 2008
Benki ya Hifadhi ya Afrika Kusini	2 Aprili 2008

Taarifa ya mwenyekiti

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Kukubaliwa rasmi kwa mujibu wa sheria za Kenya kulipokewa kutoka idara wahasika mnamo Oktoba 2007. Kukubaliwa rasmi na Benki Kuu ya Afrika Kusini ya uwekezaji wa Stanbic Africa Holdings Limited kulipokelea mwanzo mwanzo wa mwezi wa Aprili 2008. Kwa vile mahitaji yote ya idhini tayari yameshatimizwa sasa tutaendelea kutekeleza maazimio yaliyopitishwa katika kikao cha Mkutano Mkuu wa mwaka usiyo wa kawaida cha tarehe 12 Novemba 2007 na kuhitimisha shughuli hiyo. Maendeleo makubwa yamefikwa na makundi ya usimamizi katika benki zote mbili katika kuoanisha mipango ya utendakazi, sera na mifumo muhimu ya utendaji wa biashara na inatarajiwa kuwa muungano huu utakamilika ifikapo tarehe 31 Mei 2008 na muundo msingi mpya uliyoidhinishwa na wanachama kutekelezwa kuanzia tarehe 1 Juni 2008.

Shughuli hii itakapomalizika na ugawaji rasilimali na dhima za benki kwa CFC Stanbic Bank Limited kampuni itabadilishwa jina na kuitwa CFC Stanbic Holdings Limited na itakuwa kampuni shikilizi ya Kundi lote likijumuisha biashara zote za kibenki, bima na benki ya uwekezaji wa biashara. Hisa za kampuni hii zitaendelea kuorodheshwa kwenye soko la hisa la Nairobi.

Kutamatisha, wakati tunaposimama kileleni cha maendeleo yanayostahili sifa katika mabadiliko ya CFC Bank, napenda kukumbuka mafanikio yetu na maendeleo katika kipindi cha miaka hamsini iliyopita. Nachukua fursa hii kumshukuru hayati P K Jani kwa umaahiri wa biashara na maono katika uongozi wakati alipokuwa Mwenyekiti wa shirika hili kwa muda mrefu kabla ya kuaga dunia mnamo Disemba 2005.

Ningependa vile vile kutoa shukrani zangu za dhiti kwa wakurugenzi wenzangu katika halmashauri, wasimamizi na wafanyakazi wa kampuni zote za Kundi la CFC kwa kujitolea kwao kunakostahili kuigwa na utendaji kazi mwema. Pia nadhihirisha shukrani zangu kwa wateja wetu waaminifu na washirika wa kibiashara kwa kutuamini na kuendelea kuwa nasi na muhimu zaidi kwenu nyinyi wenyehisa kwa kuendelea kutuunga mkono.

Asante.



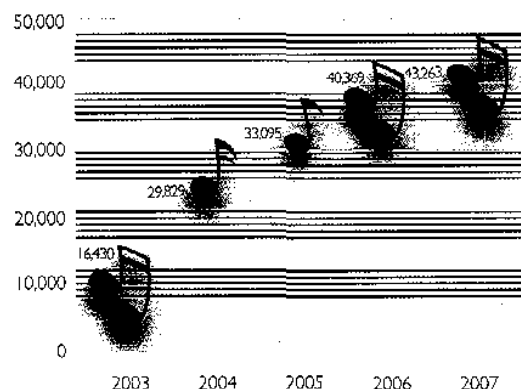
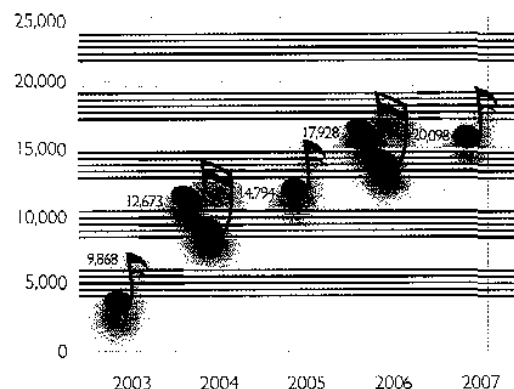
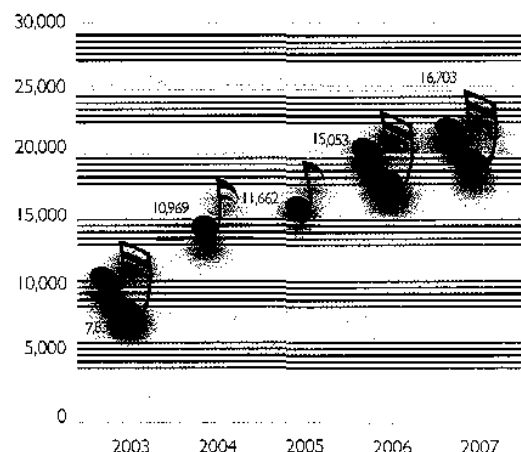
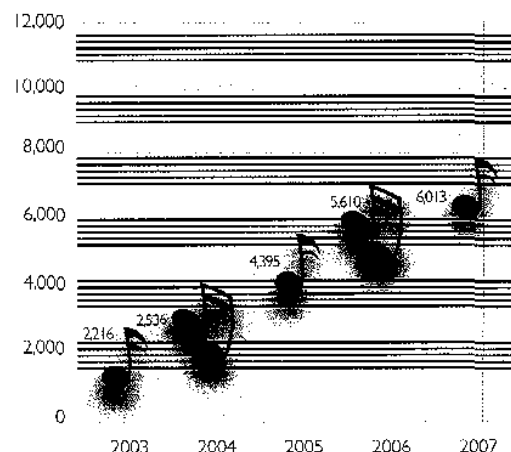
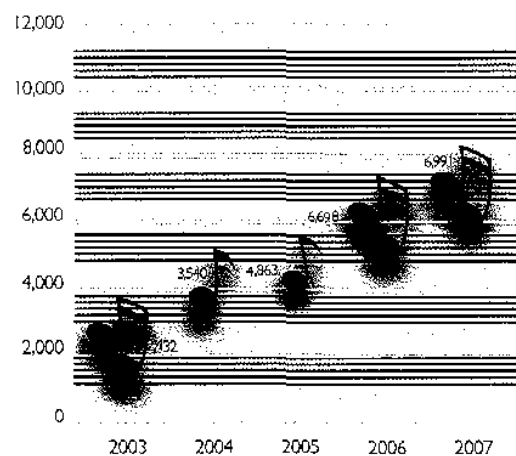
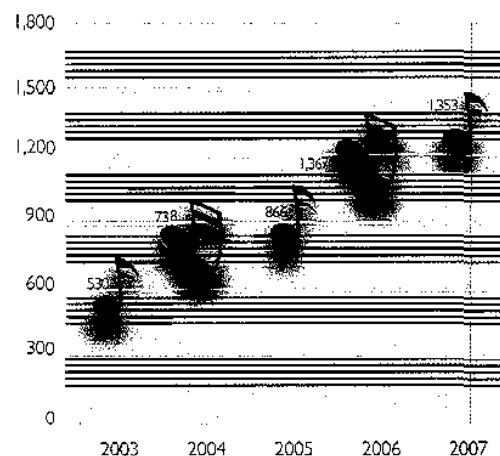
C Njonjo

Tarehe 25 Aprili 2008

Financial

highlights

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TOTAL ASSETS (Sh Millions)**CUSTOMER DEPOSITS** (Sh Millions)**LOANS AND ADVANCES** (Sh Millions)**SHAREHOLDERS EQUITY** (Sh Millions)**OPERATING INCOME** (Sh Millions)**PROFIT BEFORE TAX** (Sh Millions)

Corporate Governance

Report 13

Corporate Governance is the framework and processes used to ensure effective leadership and management of CfC Bank and its subsidiaries' business affairs, in order to safeguard and enhance long term shareholder value, while taking cognizance of the interests of other stakeholders. This includes a structured approach to overall review, monitoring and management of risks within an established controls framework.

The Board is committed to ensuring compliance with Best Practices on Corporate Governance issued by the Commonwealth Centre for Corporate Governance. 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 the 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. The Governance framework for the Bank and Group is outlined below.

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 nine Members of the Board, including the Chairman, are independent Non-Executive Directors. The Board of Directors is responsible for overall policy formulation and providing strategic direction for the Group's business. The Board also ensures that the Group's business is conducted with integrity, transparency, accountability and responsibility. The Board retains full responsibility for the direction and control of the Bank and Group.

The composition of the Board ensures that each Director brings on board specific expertise and a range of skills and experience considered important for the effective discharge of the Board's responsibilities.

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 Board is chaired by a non-executive Director and met during the year as tabled below:

Name of Director	Meeting held on 28 March 2007	Meeting held on 30 May 2007	Meeting held on 28 August 2007	Meeting held on 26 October 2007	Meeting held on 28 November 2007
C Njonjo (Chairman)	X	X	X	X	X
J G Kiereini	X	X	X	X	X
S Lewis	X			X	
U P Jani					
A D Gregory	X	X	X	X	
F Ojiambo			X	X	X
T Naikuni		X			
M Soundararajan	X	X	X	X	X
A Munda	X	X	X	X	X

Corporate Governance

Report

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EVALUATION OF THE BOARD'S AND DIRECTORS' PERFORMANCE

The Board has in the first quarter 2008 reviewed its performance for 2007 in line with the objectives set for itself. This evaluation has confirmed that the Board was successful in executing its Agenda for 2007 in line with set performance standards.

In line with good Corporate Governance, a self assessment and peer level review of the performance of individual directors for the year ended 31 December 2007 was also undertaken. This evaluation has confirmed that the Directors were effective in the discharge of their mandate.

The Board has delegated authority for the day to day running of the Bank and its Subsidiary Companies to the Managing Directors of the respective companies. The following are the key Board and Management Committees in place to assist the Board in the discharge of its mandate.

BOARD COMMITTEES

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

Audit & Risk Committee

The principal Board Committee is the Audit & Risk Committee which is chaired by an independent Non-Executive Director and comprises 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 policies 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.

The Committee met as follows during the year:

Name of Director	30 January 2007	21 March 2007	30 May 2007	26 June 2007	27 August 2007	22 November 2007	13 December 2007
A D Gregory, Chairman	X	X	X	X	X	X	X
J G Kiereini	X	X	X	X	X	X	X
T Naikuni	X		X	X			

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for the appointment, induction and remuneration of the Directors. Remuneration of the Directors is based on responsibilities allocated to the Directors, and is subject to annual review 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 in addition to 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 Board Credit Committee plays a significant role in the formulation and review of the Bank's Credit policies to ensure they remain responsive to the changing market conditions and are in compliance with various regulatory requirements. The Committee is also responsible for the review, sanctioning and monitoring of all significant credit facilities in line with the Bank's credit policies. It comprises three Non-Executive Directors, Managing Director, Head of Corporate Banking and General Manager – Risk. The Committee meets on a monthly basis or more frequently as the business requires.

Corporate Governance

Report

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MANAGEMENT COMMITTEES

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

Executive Management Committee

This Committee whose membership includes Department Heads and is chaired by the Managing Director is responsible for overall management and monitoring of the Bank's performance. It meets at monthly intervals or more frequently as required to review status of strategy implementation and actual performance vis à vis the approved Annual Budget.

Management Credit Committee

The Management Credit Committee is chaired by the Managing Director. Membership includes General Manager – Risk, Head of Corporate Banking, and Assistant General Manager – Risk.

Its responsibilities include review of credit facility applications and approval in line with the Delegated Authority Limits in place. The Committee also monitors and reviews non-performing assets and ensures adequate provisions are held against identifiable losses. The Committee meets at least monthly, or more frequently as may be required by the Board through the Board Credit Committee.

Assets and Liability Management Committee (ALCO)

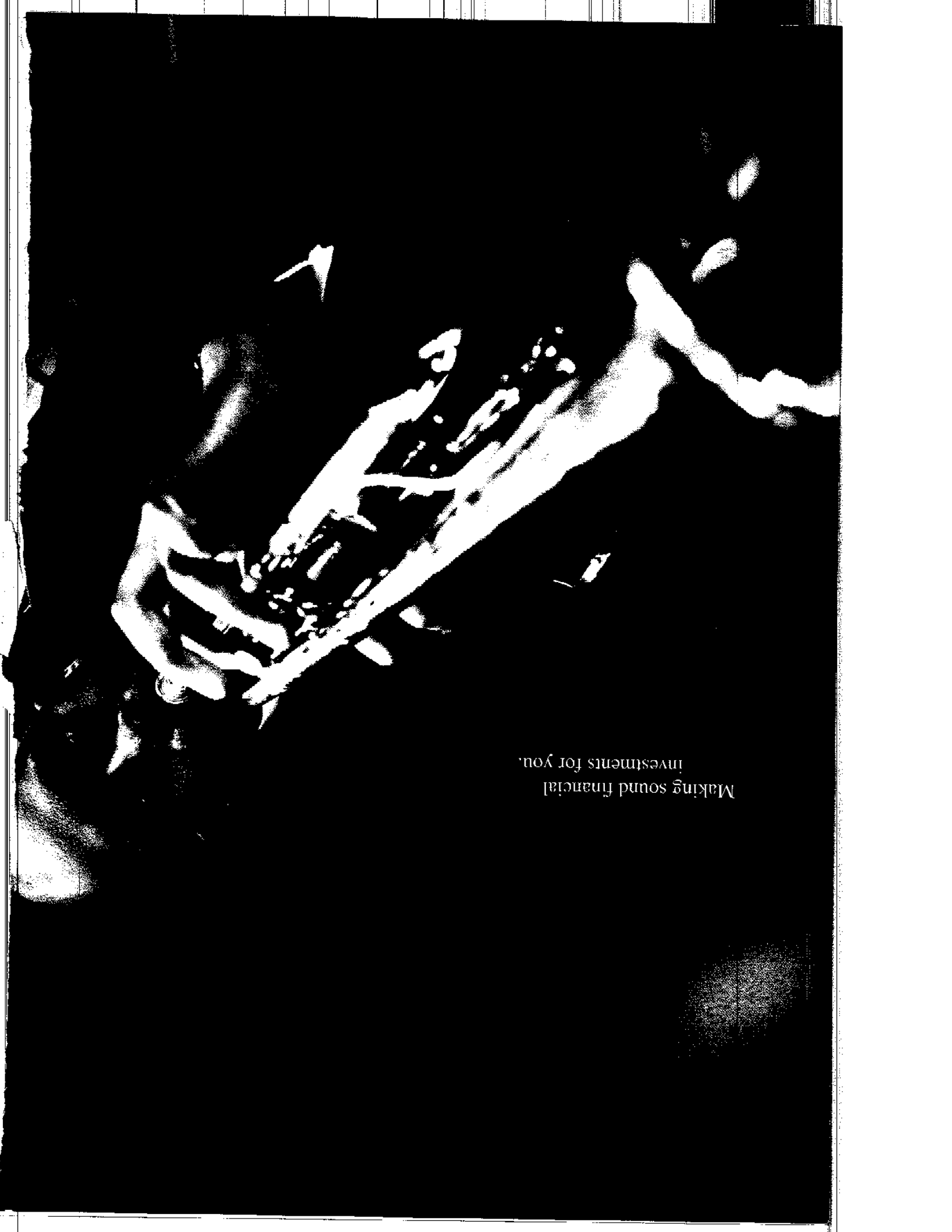
ALCO is responsible for review and Management of market, liquidity and interest rate risks. It also reviews/manages the Bank's overall Balance Sheet and Capital Structure in line with the approved strategy, while ensuring the Bank's Capital Adequacy ratios remain compliant with CBK Prudential Guidelines.

The Committee meets monthly or more frequently when deemed necessary.

RELATIONS 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, the Capital Markets Authority Act, 2002 and the Central Bank of Kenya Prudential Guidelines.



Making sound financial
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Corporate Governance

Report

15

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Corporate Social Investment

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CfC Bank's CSI mission statement is 'to improve the quality of life of the community'

At CfC Bank we believe that a more wholesome environment determines the economic stability of an organization and that the private sector is best placed to monitor and improve environmental standards. CfC Bank holds the view that investment in social and environmental improvement is a logical way of spurring economic growth and hence our commitment of 1.5% of the Bank's profit after tax to CSI initiatives. The scope of our Corporate Social Investment is focused on five main principles which are:

- Community based business enterprise and development
- Education sponsorship and mentoring
- Health Sector
 - Environmental improvement
- Support of our customers' CSI initiatives.

In light of the above, in 2007 we continued to build sustainable partnerships that enabled us to achieve the following:

Naivasha Horticultural Fair

Now a popular fixture in Naivasha community's calendar, this is an annual event that attracts local and international investors who exhibit flower farming related machinery and technology. The money collected from sponsorships, exhibit and entrance fees is used to support a number of community based initiatives. CfC Group has been the main sponsor of this event since its inception. A portion of the money that was collected last year was used for the rehabilitation of a safe house for abused children, among many other projects. For more information see www.naivashahortifair.com

Kijani Kenya

Kijani music festival is an annual event that is held to benefit the Kijani Kenya Trust, a charitable trust working to improve HIV care and education in Africa, as well as supporting conservation of natural resources to create a better future for the continent. CfC Bank was one of the major sponsors for last year's event.

Mater Heart Run

It is estimated that out of 1,000 children, 12 are born with congenital heart disease. The Mater Hospital organizes a run every year to collect funds to assist children with this kind of condition to undergo corrective operations. CfC Bank supports this initiative.

AMREF at 50

For the last fifty years AMREF has empowered communities to improve the health of disadvantaged people at their point of need. As AMREF celebrated its 50th birthday last year CfC Bank was at hand again in a partnership to ensure they continue to reach out to the most vulnerable people in our communities.

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.

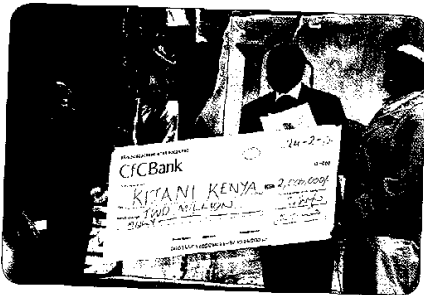
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies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

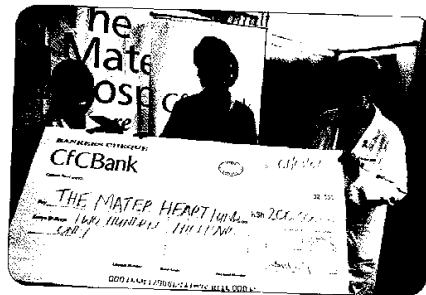
CfCBank

Corporate Social Investment

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The chairman of CFC Group Charles Njonjo presents a cheque for Sh. 2.0 million to Lis Woods, the director of Kijani Trust, during the Kijani festival in Naivasha



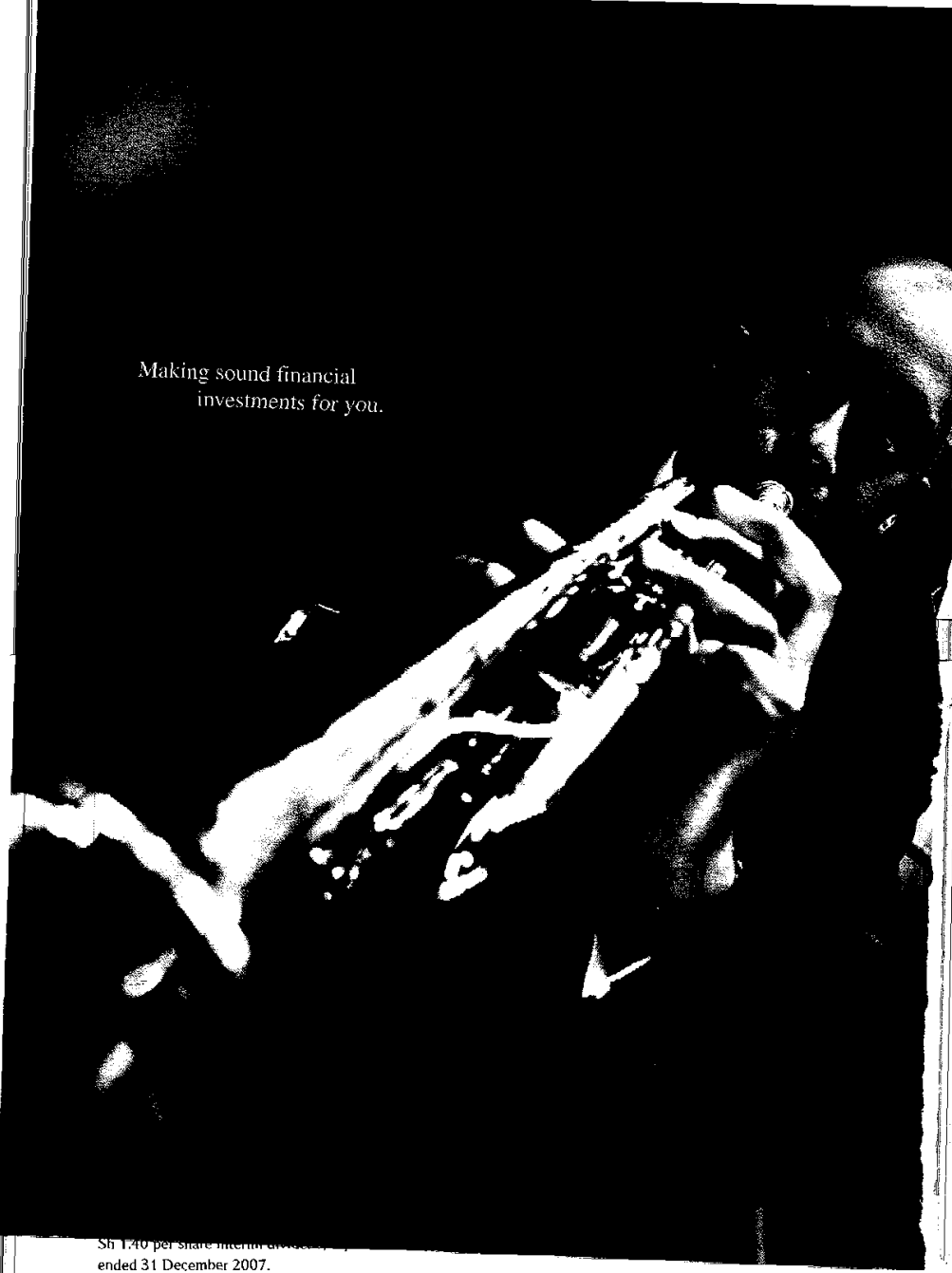
Head of PR and communication for CFC Group, Alice Kirenge presents a cheque to Sr. Dr. Marian Dolan the Medical Director at Mater Hospital



MD of CFC Bank Soundararajan presents a cheque to Hon. Njoki Ndung'u and Lady Justice Aluoch at the safe house opening ceremony



Some of the beneficiaries of the Naivasha Horticultural Fair sing their hearts out during the fair



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Sh 1.40 per share interim dividend for the year ended 31 December 2007.

DIRECTORS

The present directors are shown on page 2.

F N Ojiambo retires by rotation under provisions of Article 90 of the Articles of Association and being eligible offers himself for re-election.

A D Gregory retires by rotation under provisions of Article 90 of the Articles of Association and does not offer himself for re-election.

PROPOSED MERGER BETWEEN CFC BANK LIMITED AND STANBIC (KENYA) LIMITED

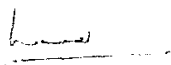
Some of the major shareholders of CFC Bank have entered into negotiations with Standard Bank Group of South Africa, which, if successfully concluded, will result in a significant expansion of CFC Group's banking operations through a merger with Stanbic Bank Kenya Limited. The merger has been approved by local regulators among them, the Central Bank of Kenya.

The conclusion of the proposed transaction is subject to approval from the South African Reserve Bank.

AUDITORS

The auditors, Deloitte & Touche, do not offer themselves for reappointment as auditors and on the recommendation of the Board of Directors it will be proposed to the shareholders at the Annual General Meeting that PricewaterhouseCoopers be appointed auditors of the Company in accordance with section 159 (2) of the Companies Act and subject to section 24 (1) of the Banking Act.

BY ORDER OF THE BOARD

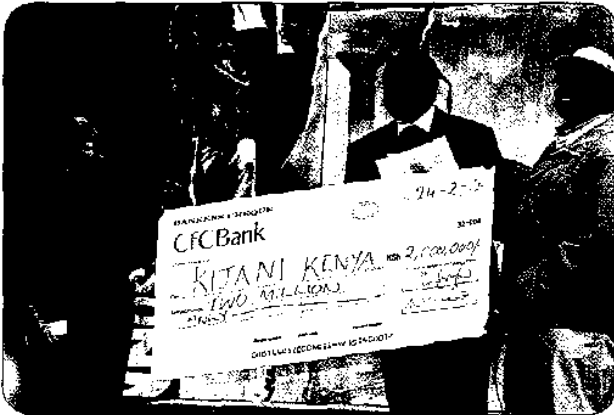


R R Vora
Secretary

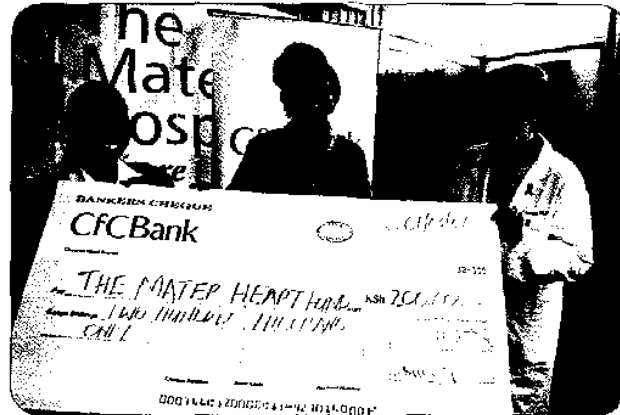
26 March 2008
Nairobi

Corporate Social Investment

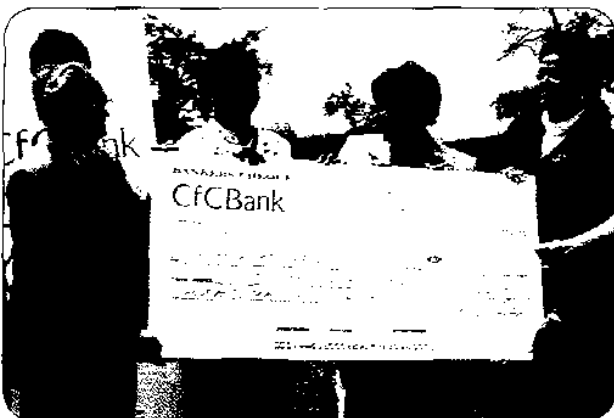
17



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Report of the Directors

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The directors present their report together with the audited financial statements for the year ended 31 December 2007.

ACTIVITIES

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

GROUP RESULTS	Sh'000
Profit before taxation	1,352,919
Taxation expense	(428,202)
Profit after taxation	924,717
Minority interest	(154,785)
Profit for the year transferred to reserves	769,932

DIVIDEND

The directors recommend a final dividend of Sh 0.50 per share amounting to Sh 78,000,000 which, together with the Sh 1.40 per share interim dividend, represents a total dividend of Sh 1.90 per share on the issued share capital for the year ended 31 December 2007.

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BY ORDER OF THE BOARD



R R Vora
Secretary
26 March 2008
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

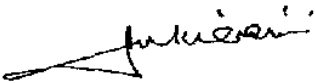
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The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of 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.

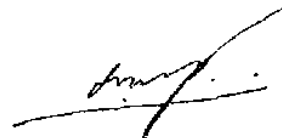
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Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.



Director

26 March 2008



Director

26 March 2008

Making sound financial
investments for you.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CFC BANK LIMITED

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We have audited the financial statements of CFC Bank Limited set out on pages 22 to 79 which comprise the consolidated and company balance sheets as at 31 December 2007, 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 31 December 2007 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
26 March 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

✓

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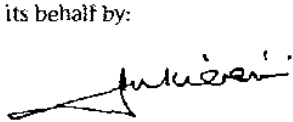
	Note	2007 Sh'000	2006 Sh'000
INTEREST INCOME	4	3,599,308	3,025,201
INTEREST EXPENSE	5	(1,331,113)	(1,009,394)
		2,268,195	2,015,807
NET INTEREST INCOME			
Fees and commission income		897,442	1,007,493
Foreign exchange trading income		160,558	157,174
Other operating income	6	3,626,994	3,496,524
OPERATING INCOME		6,953,189	6,676,998
Operating expenses	7	(5,319,691)	(5,159,589)
Impairment losses on loans and advances	17	(318,103)	(171,966)
OPERATING PROFIT		1,315,395	1,345,443
SHARE OF PROFIT IN ASSOCIATES	18	37,524	21,469
PROFIT BEFORE TAXATION		1,352,919	1,366,912
TAXATION	9	(428,202)	(426,772)
PROFIT AFTER TAXATION	10	924,717	940,140
ATTRIBUTABLE TO:			
MINORITY INTEREST		154,785	154,068
EQUITY HOLDERS OF THE PARENT		769,932	786,072
		924,717	940,140
EARNINGS PER SHARE		Sh	Sh
Basic and diluted	11	4.94	5.04
DIVIDEND PER SHARE	12	1.90	1.75

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2007

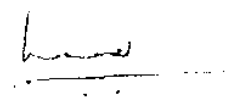
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	Note	2007 Sh'000	2006 Sh'000 (restated)
ASSETS			
Cash and balances with Central Bank of Kenya	13	1,971,627	1,581,064
Government securities	14	9,827,545	11,173,093
Deposits and balances due from banking institutions	15	2,224,009	1,479,696
Loans and advances to customers	16	16,702,520	15,053,024
Investment in associates	18	172,191	108,889
Other assets	19	5,322,235	5,367,144
Taxation recoverable	9(c)	-	31,927
Investment properties	21	418,829	380,500
Other investments	22	3,337,044	2,503,746
Property and equipment	23(a)	1,495,241	1,266,966
Operating lease prepayment	24	75,702	31,579
Goodwill	25	1,084,647	1,084,647
Intangible assets	26	483,577	197,104
Deferred tax asset	27(a)	147,614	109,283
Total assets		43,262,781	40,368,662
LIABILITIES			
Customer deposits	28	20,097,960	17,928,427
Deposits due to banking institutions	29	1,972,975	1,686,880
Line of credit	30	-	304,500
Borrowings	31	693,842	926,502
Other liabilities	32	14,328,139	13,572,557
Taxation payable	9(c)	32,065	119,419
Deferred tax liability	27(b)	114,922	137,010
Dividends payable	12	9,909	83,050
Total liabilities		37,249,812	34,758,345
CAPITAL RESOURCES			
Share capital	33(a)	780,000	780,000
Share premium		669,420	669,420
Capital reserve		233,809	266,921
Fair value reserve		377,274	394,438
Revaluation reserve		163,487	40,962
Revenue reserve		2,636,622	2,386,612
Statutory reserves	33(b)	337,124	230,349
Currency translation reserve		(37,581)	(36,611)
Equity attributable to equity holders of the parent		5,160,155	4,732,091
Minority interest		852,814	878,226
Total equity		6,012,969	5,610,317
Total equity and liabilities		43,262,781	40,368,662

The financial statements on pages 22 to 79 were approved by the board of directors on 26 March 2008 and were signed on its behalf by:


Director


Director

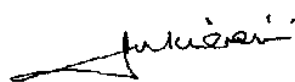

Secretary

BANK BALANCE SHEET 31 DECEMBER 2007

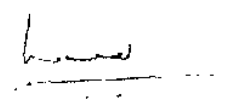
24

	Note	2007 Sh'000	2006 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	1,777,462	1,577,337
Government securities	14	4,760,800	5,816,590
Deposits and balances due from banking institutions	15	1,460,307	653,910
Loans and advances to customers	16	16,702,520	15,053,024
Other assets	19	1,362,021	623,472
Due from subsidiary companies		231,595	248,336
Investment in subsidiary companies	20	698,332	641,235
Other Investments	22	-	-
Property and equipment	23(b)	608,806	649,767
Operating lease prepayments	24	75,000	30,887
Intangible assets	26	240,814	6,078
Deferred tax asset	27(a)	103,007	91,478
Total assets		28,020,664	25,392,114
LIABILITIES			
Customer deposits	28	20,819,591	18,506,647
Deposits due to banking institutions	29	1,972,975	1,686,880
Line of credit	30	-	304,500
Borrowings	31	800,000	800,000
Other liabilities	32	1,039,689	943,111
Taxation payable		37,386	73,093
Amount due to subsidiary companies		2,081	5,046
Dividends payable		9,909	83,050
Total liabilities		24,681,631	22,402,327
CAPITAL RESOURCES			
Share capital	33(a)	780,000	780,000
Share Premium		669,420	669,420
Revenue reserve		1,657,163	1,510,970
Fair value adjustments reserve		79,698	(26,627)
Statutory reserves	33(b)	152,752	56,024
Shareholders' funds		3,339,033	2,989,787
Total liabilities and shareholders' funds		28,020,664	25,392,114

The financial statements on pages 22 to 79 were approved by the board of directors on 26 March 2008 and were signed on its behalf by:


Director


Director


Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	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	Currency translation reserves Sh'000	Equity attributable to equity- holders of the parent Sh'000	Minority interest Sh'000	Total Sh'000
As 1 January 2006	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 available for sale	-	-	-	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 transfer	-	-	12,351	-	-	(17,417)	5,066	-	-	19,770	19,770
At 31 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

	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	Currency translation reserves Sh'000	Equity attributable to equity- holders of the parent Sh'000	Minority interest Sh'000	Total Sh'000
At 1 January 2007 as previously reported	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
Prior year adjustment - Heritage Tanzania	-	-	-	-	-	(22,005)	-	-	(22,005)	(35,224)	(57,229)
At 1 January 2007 -as restated	780,000	669,420	266,921	394,438	40,962	2,364,607	-	(36,611)	4,710,086	843,002	5,553,088
Net profit for the year	-	-	-	-	-	769,932	-	-	769,932	154,785	924,717
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	(970)	-	(19,138)	(20,108)
Fair value adjustments on available for sale	-	-	-	(17,164)	-	-	-	-	(17,164)	(44,962)	(62,126)
Property revaluation	-	-	-	-	122,525	-	-	-	122,525	-	122,525
Total income and expenses items recognised directly in equity	-	-	-	(17,164)	122,525	769,932	-	(970)	874,323	90,685	965,008
Dividend 2006 paid in 2007	-	-	-	-	-	(195,000)	-	-	(195,000)	(26,347)	(221,347)
Interim dividends 2007 paid	-	-	-	-	-	(218,400)	-	-	(218,400)	-	(218,400)
Transfer from/to statutory reserves	-	-	(33,112)	-	-	(96,728)	96,728	-	(33,112)	(45,992)	(79,104)
Other transfers	-	-	-	-	-	12,211	10,047	-	22,258	(8,534)	13,724
At 31 December 2007	780,000	669,420	233,809	377,274	163,487	2,636,622	337,124	(37,581)	5,160,155	852,814	6,012,969

- 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 adjustments 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 systems implementations costs.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

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	Share capital	Share premium	Fair value adjustments reserve	Revenue reserve	Statutory reserve	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 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 31 December 2006	780,000	669,420	(26,627)	1,510,970	56,024	2,989,787
At 1 January 2007	780,000	669,420	(26,627)	1,510,970	56,024	2,989,787
Transfer to statutory reserves	-	-	-	(96,728)	96,728	-
Fair value adjustment -available for sale						
Financial assets			(16,273)			(16,273)
Revaluation surplus	-	-	122,598	-	-	122,598
Profit for the year	-	-	-	656,321	-	656,321
Dividend paid – 2006	-	-	-	(195,000)	-	(195,000)
Interim dividend paid – 2007	-	-	-	(218,400)	-	(218,400)
At 31 December 2007	780,000	669,420	79,698	1,657,163	152,752	3,339,033

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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	Note	2007 Sh'000	2006 Sh'000
CASH GENERATED FROM OPERATING ACTIVITIES	35(a)	4,453,808	24,692
Taxation paid		(556,454)	(382,909)
Net cash generated from/ (used in) operating activities		3,897,354	(358,217)
INVESTING ACTIVITIES			
Additions to property and equipment		(444,333)	(426,704)
Additions to intangible assets		(62,867)	(190,376)
Proceeds from sale of equipment		12,732	18,213
Additions to investment properties		(152,154)	(35)
Additions to investment in associates		(31,302)	-
Net cash used in investing activities		(677,924)	(598,902)
FINANCING ACTIVITIES			
Dividends paid		(291,541)	(131,496)
Dividends paid to minority		(26,347)	(27,618)
Net repayments proceeds from borrowings		(232,660)	(25,910)
Dividend from associate		4,923	9,265
Net cash used in financing activities		(545,625)	(175,759)
Exchange rate adjustments		(2,656)	(6,292)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,671,149	(1,139,170)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,255,843	2,395,013
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35(b)	3,926,992	1,255,843

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised international financial reporting standards

At the date of authorisation of these financial statements, the following Standards and Interpretations had become effective for the first time and have been adopted by the group where relevant to its operations. The comparative figures have been restated as required in accordance with the relevant requirements.

- IFRS 7 on Financial Instruments Disclosures; this standard introduces new qualitative and quantitative disclosure requirements about exposure to risks arising from financial instruments. Minimum disclosure on credit, market and liquidity risk has been defined.
- IAS 1 Amendment – Capital Disclosures – defines minimum disclosure requirements about the level of Bank Capital and management thereof.

The following amendments to an existing standard and new standards and interpretations will become effective on or after 1 January 2008.

- IFRS 8 on Operating Segments
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programs
- IFRIC 14 and IAS 1 the limit on a defined benefit asset, minimum funding requirement and their interaction

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 31 December. A listing of the bank's subsidiaries is set out in note 20.

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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

(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 20) are stated at cost less provision for impairment loss where applicable.

Investment properties

Investment properties are stated at open market value and are not depreciated. Valuations are carried out every three years by independent valuers and updated every year by the directors. Changes in their carrying amounts are accounted for in the income statement in accordance with International 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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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. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

Retirement benefit obligations

Each operating company in the group operates a defined contribution retirement benefits scheme, the assets of which are held in separate trustee administered funds. The schemes are funded by contributions from employees and the group companies. The amounts of contributions are determined by the respective scheme rules.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund. Contributions are determined by local statute.

The group's contribution in respect of retirement benefits obligations are charged to the income statement 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 of 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements in applying accounting policies (Continued)

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.

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 cash flows 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 measured 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES

1) Financial risk management

Group risk management framework and governance structures

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The notes below provide detailed information on each of the above risks and the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. It arises principally from lending, leasing, trade finance and treasury activities. The amounts presented in the balance sheet are net of impairment for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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1 ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements in applying accounting policies (Continued)

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.

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 cash flows 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 measured 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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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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	
	2007	2006	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Income	3,767,751	3,093,972	4,255,678	4,557,345	8,023,429	7,707,862
Expenditure	(3,141,766)	(2,466,202)	(3,528,743)	(3,818,203)	(6,670,509)	(6,340,950)
Segment result	625,985	627,770	726,935	739,142	1,352,920	1,366,912
Taxation	(241,346)	(245,569)	(186,856)	(181,203)	(428,202)	(426,772)
Profit after taxation	384,639	382,201	540,079	557,939	924,717	940,140
Assets	30,220,060	26,332,864	13,042,721	14,035,798	43,262,781	40,368,662
Goodwill	1,084,647	1,084,647	-	-	1,084,647	1,084,647
Liabilities	25,812,756	22,908,457	11,437,055	11,849,888	37,249,811	34,758,345
Capital expenditure	282,994	168,762	224,206	448,318	507,200	617,080
Depreciation & amortisation	142,163	91,154	57,439	40,851	199,602	132,004

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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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	
	2007	2006	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Income	7,598,846	7,035,475	722,981	672,386	8,321,826	7,707,862
Expenditure	(6,353,545)	(5,782,105)	(615,362)	(558,845)	(6,968,907)	(6,340,950)
Segment result	1,245,301	1,253,370	107,619	113,541	1,352,919	1,366,912
Taxation	(402,582)	(401,238)	(25,620)	(25,534)	(428,202)	(426,772)
Profit after taxation	842,719	852,132	81,999	88,077	924,717	940,140
Assets	41,045,133	38,232,672	2,217,648	2,135,990	43,262,781	40,368,662
Goodwill	1,084,647	1,084,647	-	-	1,084,647	1,084,647
Liabilities	35,383,093	33,016,310	1,866,719	1,742,035	37,249,812	34,758,345
Capital expenditure	440,991	602,147	3,342	14,933	444,333	617,080
Depreciation & amortisation	192,823	120,600	6,835	11,405	199,658	132,005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES

1) Financial risk management

Group risk management framework and governance structures

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit and Risk Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The notes below provide detailed information on each of the above risks and the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. It arises principally from lending, leasing, trade finance and treasury activities. The amounts presented in the balance sheet are net of impairment for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

i) Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee.

The Credit Committee, through Head of Risk, on the delegated authorities, is responsible for oversight of the group's credit risk, including:

- Formulating credit policies in consultation with business units, covering risk acceptances criteria in target market, collateral requirements, credit appraisal, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk on all exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties and industries (for loans and advances).
- Developing and maintaining the group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of several grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Committee and risk grades are subject to regular reviews by Credit Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the group in the management of credit risk.

Each business unit is required to implement group credit policies and procedures, in line with credit approval authorities delegated from the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and group credit processes are undertaken by internal audit.

ii) Maximum exposure to credit risk before collateral held

	2007		2006	
	Sh'000	%	Sh'000	%
Credit Exposures				
On-balance sheet items				
Deposits and balances due from				
banking institutions	2,224,009	7	1,822,289	5
Loans and advances to customers	16,702,520	50	15,053,024	45
Government securities	9,827,545	30	11,173,093	31
	<u>28,754,074</u>	<u>87</u>	<u>28,048,406</u>	<u>82</u>
Off balance sheet items	4,399,719	13	6,459,127	18
Total	<u>33,153,793</u>	<u>100</u>	<u>34,507,533</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

The above represents the worst case scenario of credit exposure for both years, without taking account of any collateral held or other credit enhancements attached.

Loans and advances to customers and off-balance sheet items comprise of 51% (45% in 2006) of the total maximum exposure. While collateral is an important mitigant to credit risk, the group's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out.

iii) Classification of loans and advances

	2007 Sh'000	2006 Sh'000
Neither past due nor impaired	13,045,630	12,202,637
Past due but not impaired	2,653,825	1,908,745
Impaired	1,746,932	1,367,406
Gross	17,446,387	15,478,788

Apart from the loans and advances to customers all other credit exposures are neither past due nor impaired.

Loans and advances that are neither past due nor impaired

The group classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a provision of 1% is made and appropriated under statutory reserves.

Past due but not impaired

This category includes exposures that are over 30 days (31 - 90 days) past due, where losses may have occurred/ been incurred but have not been identified. These exposures are graded internally as watch in line with Central Bank of Kenya guidelines. Through the management information generated by our core banking application, management are able to monitor indications of impairments through internally designed limit management and past due monitoring systems.

Impaired loans and advances

Impaired loans and securities are loans and securities for which the group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded in accordance with CBK guidelines and are termed as non-performing loans.

Allowances for impairment

The group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

iv) Write-off policy

The group writes off loans and advances net of any related allowances for impairment losses, when Credit Committee determines that the loans and advances are uncollectible and securities unrealisable. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay the obligation, or that proceeds from sale of collateral will not be sufficient to pay back the entire exposure and after exhausting all other means including litigation. For smaller balance standardised loans, charge off decisions are generally based on a product specific past due status.

v) Collateral held

The group holds collateral against loans and advances to customers in the form of mortgage interests over property, registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and refreshed after every three years. Security structures and legal covenants are also subjected to regular review to ensure they continue to fulfil their intended purpose. Collateral generally is not held over deposits and balance due from banks and items in the course of collection from other banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against government securities, and no such collateral was held at 31 December 2007 or 2006.

vi) Settlement risk

The group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter-party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the group mitigates this risk by pre-arranging facilities with the customer. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from ALCO.

vii) Concentrations of risk

The Bank monitors concentration of risk by economic sector in line with set limits per sector. An analysis of concentrations within the loan and advances to customers, customer deposits and off balance sheet items are as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

(vii) Concentrations of risk (continued)

Loans and advances to customers

	2007 Sh'000	%	2006 Sh'000	%
Agriculture	1,022,340	6	1,019,080	6
Manufacturing	2,940,659	16	2,668,993	18
Wholesale and retail trade	2,263,174	13	1,614,912	10
Transport and communication	3,140,504	17	2,995,110	19
Real estate	284,146	2	204,298	1
Social community and personal services	315,656	2	222,089	1
Electricity and water	45,893	0	38,521	0
Business services	4,007,125	22	4,213,570	27
Other	3,426,890	20	2,502,215	16
	17,446,387	100	15,787,788	100
Customer deposits				
Non profit institutions	6,828,125	34	6,622,859	37
Private enterprises	12,312,480	61	9,925,627	55
Insurance companies	929,211	5	847,838	5
Non-Financial public enterprises			524,433	3
Government- (Central & Local)	22,450	0	1,743	0
Co-operative societies	5,694	0	5,927	0
	20,097,960	100	17,928,427	100
Off balance sheet items				
Agriculture	105,459	2	4,668	0
Manufacturing	412,265	10	319,656	5
Wholesale and retail	978,761	23	840,648	13
Transport and communications	368,815	9	246,573	4
Business services	1,055,584	24	669,668	10
Other	1,478,835	33	4,377,914	68
	4,399,719	100	6,459,127	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

b) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations from financial liabilities. Assets and Liabilities Committee (ALCO), a management committee is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due, and that the bank will not encounter difficulty in meeting obligations from its financial liabilities as they occur. ALCO relies substantially on the bank Treasury department to coordinate and ensure discipline across the bank's business units, certify sufficient liquidity under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

The bank, like any other bank, does not maintain cash reserves to meet all of obligations as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

i) Liquidity and funding management

The bank's liquidity and funding policies require;

- The bank enters into lending contracts subject to availability of funds.
- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements,
- Maintaining an array of diverse range of funding sources with back –up facilities,
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory funding mix.
- Investment 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 bank has sufficient cash flows.
- Maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications.

ii) Source of funding

The bank has an aggressive strategy aimed at increasing the customer deposit base. To this end, the bank maintains a diversified and stable funding base comprising of the core retail and corporate customers in addition to the institutional banking component. The bank borrows from the inter bank market through transactions with other banks, and from the wholesale markets through transactions with pension funds and insurance companies for short term liquidity requirements.

iii) Exposure to liquidity risk

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers (liquidity ratio). For this purpose, net liquid assets are considered as including cash and cash equivalents and investment in securities for which there is an active and liquid market less any deposits from banks, as well as other borrowings and commitments maturing within the next month. The Central Bank of Kenya requires that the bank maintain a cash reserve ratio computed as 6% of customer deposits of the preceding month.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

b) Liquidity risk (Continued)

iii) Exposure to liquidity risk (Continued)

The treasury department receives information from other business units regarding the liquidity profile of their *financial assets and liabilities and details of other projected cash flows arising from projected future business*. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole. The liquidity requirements of business units and subsidiaries are met through various funding options to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

Consolidated data is not utilised in the management of liquidity as management is of the opinion the figure will not materially differ from that of the bank. The table below details the liquidity ratio trends over the year:

	2007	2006
	%	%
As at 31 December		
Average for the period	31.50	34.61
Maximum for the period	44.53	48.77
Minimum for the period	25.02	24.03

The bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

Liquidity risk based on undiscounted cash flows

The table below represents the cash flows payable by the group under non- derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. The bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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
FINANCIAL ASSETS								
Cash and balances with Central Bank of Kenya	1,722,983	89,669	115,937	23,569	-	2,717	-	1,954,875
Government securities	1,068,561	346,014	714,328	215,413	1,293,997	1,148,143	2,645,711	7,432,167
Deposit and balances due from banking institutions	1,624,490	528,410	136,224	44,506	-	-	-	2,333,630
Loans and advances to customers	7,099,225	2,915,369	956,616	1,006,387	4,895,196	1,907,603	93,452	18,873,848
Other assets	-	-	389,160	-	-	4,933,075	-	5,322,235
Total financial assets	11,260,410	1,879,462	2,312,265	1,289,875	5,389,193	2,858,463	2,739,163	35,916,755
FINANCIAL LIABILITIES								
Customer deposits	17,258,142	1,476,943	1,915,936	391,975	57,852	-	-	21,100,848
Deposits and Balances due to banking institutions	1,816,948	252,530	-	-	-	-	-	2,069,478
Term loan	-	592,119	-	-	-	-	-	592,119
	-	-	-	-	-	-	-	-
Total financial liabilities	19,075,090	2,321,592	1,915,936	391,975	57,852	-	-	23,762,445
As at 31 December 2006	22,801,235	539,001	1,777,434	-	-	-	-	25,117,670

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. The Treasury department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

The management of market risk is supplemented by the monitoring of sensitivity analysis of the key market risk variables. The bank normally uses simulation models to measure the impact of changes in interest rates on net interest income. The key assumption used in these models include expected loan payoffs rates, loan volumes and pricing and changes in market conditions. Those assumptions are based on the best estimates of actual positions. The model cannot precisely predict the actual impact of changes in interest rates on income because these assumptions are highly uncertain.

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 rates, as funds are sourced at both fixed and floating rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the group's exposure to changes in interest rates and liquidity.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, 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.

Hedging activities are evaluated regularly in line with the average interest rate and the defined risk appetite. Optimal hedging strategies are applied, by positioning the balance sheet or protecting interest expense through different interest rate cycles.

Interest rates on customer deposits are negotiated between the bank and the customer with the bank retaining the discretion to adjust the rates in line with changes in market trends. 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 Government of Kenya through the Central bank of Kenya. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for a bank ever to completely be matched due to the nature of business terms and types.

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.

Interest Rate Risk (continued)								
	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
FINANCIAL ASSETS								
Cash and balances with Central Bank of Kenya	240	-	-	-	-	-	1,971,387	1,971,627
Government securities	5,240,543	334,288	732,651	222,449	1,599,282	1,698,332	-	9,827,545
Deposit and balances due from banking institutions	-	-	-	-	-	-	-	-
Loans and advances to customers	1,998,834	48,278	132,235	44,662	-	-	-	2,224,009
Other assets	16,702,520	-	-	-	-	-	-	16,702,520
	-	389,160	-	-	-	-	4,933,075	5,322,235
Total financial assets	23,942,137	771,726	864,886	267,111	1,599,282	1,698,332	6,904,462	36,047,936
FINANCIAL LIABILITIES								
Customer deposits	17,777,726	1,870,406	391,975	57,853	-	-	-	20,097,960
Deposits and Balances due to banking institutions	1,972,975	-	-	-	-	-	-	1,972,975
Line of credit	-	-	-	-	-	-	-	-
Borrowings	103,842	-	-	-	-	590,000	-	693,842
Other liabilities	-	805,422	-	-	-	-	13,522,717	14,328,139
Total financial liabilities	19,750,701	2,675,828	391,975	57,853	-	590,000	13,551,747	37,018,104
Total interest repricing gap	4,118,474	(1,841,845)	825,815	218,928	1,599,282	1,108,332	(6,028,986)	10,626,335
As at 31st December 2006								
Total financial assets	16,483,220	1,825,994	813,764	2,960,283	1,938,931	2,858,809	2,748,470	29,629,471
Total financial liabilities	20,174,054	265,623	93,122	313,510	-	15,506,495	-	40,706,853
Total interest repricing gap	(2,465,072)	(179,451)	834,013	3,109,321	2,722,504	3,722,891	(7,744,206)	11,077,382

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

c) Market risk (Continued)

Interest rate risk – stress test

The group monitor the impact that an immediate hypothetical increase or decrease in interest rates of 5% would have on our net interest income assuming a growing balance sheet and current interest rate risk profile. The following table summarises such estimated impact:

	2007 Sh'000	2006 Sh'000
5% increase in interest rates	45,479	48,297
5% decrease in interest rates	(74,935)	(72,596)

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

ii) Foreign exchange risk

The group is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. Foreign currency risk is addressed through the following measures.

- On a daily basis, the overall foreign exchange risk exposure is measured using spot mid-rates as availed by the Central Bank of Kenya and should not exceed 20% of the core capital.
- The single currency exposure, irrespective of short or long positions should not exceed the limit of 20% of core capital.
- Intra-day foreign exchange exposures are limited within strictly defined limits by the Board of Directors.

iii) Currency risk

The bank operates wholly within Kenya and its assets are reported in the local currency. Although it maintains trade with other correspondent banks, and has a subsidiary with majority shareholding in a company in Tanzania, it held no significant foreign currency exposure as at 31 December 2007.

The group takes deposits and lends in currencies other than Kenyan shillings. The bank's currency position and exposure are managed within the exposure guideline of 20% of core capital as stipulated by Central Bank of Kenya. The significant currency positions are detailed below:

Market Risk (Continued)

At 31 December 2007

	currency Sh'000	Local US Dollar Sh'000	GB Pound Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
ASSETS						
Cash and balances with Central Bank of Kenya	1,863,975	80,169	10,753	13,844	2,886	1,971,627
Government securities	9,603,054	-	-	-	224,491	9,827,545
Deposit and balances due from banking institutions	956,578	642,247	250,172	351,655	23,357	2,224,009
Loans and advances to customers	12,549,637	3,088,943	150,106	913,672	161	16,702,520
Other assets	3,552,849	1,048,353	4,824	20,325	695,885	5,322,235
TOTAL FINANCIAL ASSETS	28,526,092	4,859,712	415,855	1,299,496	946,780	36,047,935
LIABILITIES						
Customer deposits	15,313,392	3,455,147	377,169	944,016	8,236	20,097,960
Deposits and balances due to banking institutions	1,489,093	309,728	12,567	161,587	-	1,972,975
Line of credit	-	-	-	-	-	-
Term loans	693,842	-	-	-	-	693,842
Other liabilities	8,248,485	577,669	45,996	83,610	352,152	9,307,912
Insurance contract liabilities	3,507,841	1,058,671	-	-	453,715	5,020,226
TOTAL FINANCIAL LIABILITIES	29,252,653	5,401,214	435,731	1,189,214	814,104	37,092,916
NET BALANCE SHEET POSITION	(726,561)	(541,502)	(19,877)	110,281	132,677	(1,044,982)
OFF BALANCE SHEET NET NOTIONAL POSITION	4,268,183	161,474	(21,144)	(8,238)	(556)	4,399,719

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

c) Market risk (Continued)

iii) Currency risk

At 31 December 2006

	Local currency Sh'000	US Dollar Sh'000	GB Pound Sh'000	Euro Sh'000	Others Sh'000	Total Sh'000
ASSETS						
TOTAL FINANCIAL ASSETS	28,159,523	5,440,052	198,687	752,543	103,216	34,654,021
TOTAL FINANCIAL LIABILITIES	28,191,170	5,249,457	656,165	599,921	61,632	34,758,345
NET BALANCE SHEET POSITION	(31,647)	190,595	(457,478)	152,622	41,584	(104,324)
OFF BALANCE SHEET NET NOTIONAL POSITION	6,092,070	57,575	488,469	(194,550)	15,563	6,459,127

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

	2007 Sh'000	2006 Sh'000
US Dollar	63.55	69.60
GB Pound	125.67	136.34
Euro	91.53	91.63
Tanzania shilling	0.06	0.06

Foreign exchange risk – stress test

Foreign currency exchange risks refer to the potential changes in current and future earnings or capital from movement in foreign exchange rates. The bank through stringent intra-day limit and overnight exposure limits ensures that potential risk of loss arising from foreign exchange fluctuations to the bank's capital is within prudential guidelines. Any material over-night position is covered by a stop-loss order with our international counter-parties. As a policy, the closing exposures are more to do with residual positions rather than a proprietary positions / transactions. The table below summarises the estimated impact of a 0.50 cts decline / increase on the Kenya Shilling on the four major currencies i.e. US Dollar, British Pound, Euro and Japanese Yen.

	2007 Sh'000	2006 Sh'000
0.50 cts appreciation/depreciation of the Kenya Shilling	±750	±600

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the group's operations and are faced by all business entities.

The group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The management team ensures that:

- An effective, integrated operational risk management framework that incorporates a clearly defined organizational structure is maintained.
- Each department has defined roles and responsibilities for all aspects of operational risk management.
- Appropriate tools that support the identification, assessment, control and reporting of key risks are used.
- All Information technological services systems architecture are highly scalable and require minimal lead-time to increase capacity to match growth in demand.
- Operational risk systems are subjected to independent reviews including testing from external reputable firms.
- A comprehensive business continuity plan is maintained and reviewed regularly.

i) Compliance risk

Compliance risk is the risk arising from failure to comply with relevant laws, regulations and regulatory requirements governing the conduct of business. It is the composite risk that can result in regulatory sanctions, financial penalties, litigation exposure and loss of reputation.

The compliance function is headed by a Head of Risk and Compliance, reporting directly to the Managing Director and liaises strongly with the Board Audit and Risk Committee. The function is tasked with the responsibility of:

- Development of compliance policies.
- Advising management on compliance matters.
- Assessment and monitoring of policies and compliance programs.
- Reporting on compliance to the Board of Directors.

ii) Reputation risk

The Board of Directors is of the opinion that the reputation of the Group is of paramount importance to continued prosperity and is the responsibility of the Managing Director. Reputation risk can arise from social, ethical, or environmental issues, or as a consequence of operations risk events. The group's reputation depends upon the way in which business is conducted, but can also be affected by the way in which customers, to whom we provide financial services, conduct themselves.

Reputation risk is considered and assessed by the Board of Directors and senior management during the establishment of standards for all major aspects of business and the formulation of policy. These policies, which are an integral part of the internal control systems, are communicated through manuals and statements of policy, and have been centrally availed and accessible to all staff. The policies set out operational procedures

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

in all areas of reputation risk, including money laundering deterrence, environmental impact, anti-corruption measures and employee relations.

The group has established a strong internal structure to minimize the risk of operational and financial failure and to ensure that a full appraisal of reputation risk is made before strategic decisions are taken.

e) Capital management

The bank's objective when managing capital are driven by the broader concept of capital as defined by the Central Bank of Kenya, which substantially relies on the guidelines developed by the Basel Committee, for supervisory purposes. Those objectives are intended to:

- Sustain a strong capital base to support the development of business.
- To safeguard the banks' ability to continue as a going concern.
- To comply with the capital requirements set out by the Central Bank of Kenya.

The bank's total regulatory capital is divided into two tiers;

- Tier 1 Capital (Core Capital); share capital, share premium, plus retained earnings.
- Tier 2 Capital (Supplementary Capital): 25% (subject to prior approval) of revaluation surplus, subordinated debt not exceeding 50% of tier 1 capital and hybrid capital instruments. Qualifying tier 2 Capital is limited to 100% of tier 1 capital.

In implementing current capital requirements, the Central Bank of Kenya requires each bank to maintain:

- A minimum level of regulatory capital of Sh 250 million.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of - and reflecting an estimate of the credit risk associated with each assets and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

	2007 Sh'000	2006 Sh'000
Tier 1 Capital	3,106,584	2,960,390
Ordinary Share Capital	780,000	780,000
Share Premium	669,420	669,420
Retained earnings	1,657,163	1,510,970
Tier 2 Capital		
Statutory credit risk reserve	152,752	56,024
Term Subordinated Debt	560,000	720,000
Tier 2 Capital	712,752	776,024

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES (Continued)

e) Capital management (Continued)

	2007 Sh'000	2006 Sh'000
Tier 1 + Tier 2 Capital	3,819,335	3,736,414
Risk-weighted assets		
On-balance sheet	19,925,611	19,346,808
Off-balance sheet	37,552	15,427
Total risk-weighted assets	19,963,163	19,362,235
Basel ratios		
Tier 1 (CBK minimum – 8%)	15%	14%
Tier 1 + Tier 2 (CBK minimum – 12%)	19%	18%
Core Capital / Deposits Ratio (CBK minimum – 8%)	14%	14%

INSURANCE RISK MANAGEMENT

The 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.

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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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INSURANCE RISK MANAGEMENT (Continued)

Long term insurance contracts—Process used to decide on assumptions, changes in assumptions and sensitivity analysis.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. The estimation of future benefit payments from long-term insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

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.

In general the value of insurance liabilities is based on best estimate assumptions of future experience plus prescribed margins as required in terms of PGN 104 plus additional discretionary second tier margins determined by the statutory actuary. The process of deriving the best estimate assumptions relating to future mortality, morbidity, medical, withdrawals, investment returns, maintenance expenses, expense inflation and tax are described below:

a) Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business, while Group specific tables are used for larger classes. 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. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity 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.

An investigation into mortality experience is performed annually. The period investigation extends over the latest three full years for larger classes of business. Investigations relating to smaller classes usually extend over five years in order to gain sufficient credibility of the data. The results of the investigation are used to set the valuation assumptions, which are taken as an adjustment to the respective standard table.

In setting the assumptions, provision is made for the expected increase in AIDS-related claims. In general, Actuarial Society of South Africa (ASSA) models are used to allow AIDS-related claims. The practice differs by class of business, however for major classes of business, a basic allowance for AIDS related deaths is included in the base mortality rates against which annual mortality investigations are conducted. A further discretionary margin is then held using the ASSA2000 lie model.

b) Morbidity

The incidence of disability claims is derived from industry experience studies, adjusted where appropriate for CfC Life's own experience. The same is true for the incidence of recovery from disability.

c) Medical

The incidence of medical claims is derived from the risk premium rates determined from annual investigations. This is adjusted where appropriate to allow for the future expected experience.

NOTES TO THE FINANCIAL STATEMENTS

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d) Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration, policy term and Company. Typically the rates are higher for risk type products versus investment type products, and are higher at early durations.

e) Expenses

An expense analysis is performed on the actual expenses incurred in the calendar year preceding the balance sheet date. The expenses are split between acquisition, maintenance and non-recurring expenses. The individual annual maintenance cost per policy, which forms the base for future projections, are as follows:

	2007	2006
	Sh'000	Sh'000
Initial expense per policy	19,500	17,791
Renewal expenses per policy	2,800	2,160

The expenses derived from this analysis are adjusted accordingly by an expense inflation assumption to obtain an appropriate expense base assumption to be used in the calculation of the insurance.

f) Correlation:

No correlations between assumptions are allowed for.

g) Sensitivity analysis:

Shown in the table below are the sensitivities of the value of insurance liabilities disclosed in this note to various changes in assumptions used in the estimation of the insurance liabilities. Each value is shown with only the indicated assumption being changed and holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Change in policy holders' liabilities under insurance contracts using the Gross Premium Valuation (GPV) model

	2007		2006	
	Sh'000	% change	Sh'000	% change
Main basis	6,577,283		6,146,665	
Expenses plus 10%	6,687,693	1.7%	6,236,233	1.5%
Mortality and other claims experience plus 10%	6,621,859	0.7%	6,201,612	0.9%
Interest rate less 1%	6,708,090	2.0%	6,291,895	2.4%
Expense inflation plus 1%	6,630,978	0.8%	6,203,664	0.9%
Withdrawals plus 10%	6,360,637	(3.3%)	6,146,358	(0.0%)

NOTES TO THE FINANCIAL STATEMENTS

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	2007 Sh'000	2006 Sh'000
4 INTEREST INCOME		
Loans and advances	2,049,579	1,650,897
Government securities –held to maturity	327,580	631,220
Government securities –available for sale	779,717	473,456
Placements and bank balances	124,086	176,326
Other	318,346	93,302
	<u>3,599,308</u>	<u>3,025,201</u>
5 INTEREST EXPENSE		
Customer deposits	955,367	736,544
Deposits and placements from other banks	120,818	180,920
Interest on borrowed funds	254,928	91,930
	<u>1,331,113</u>	<u>1,009,394</u>
6 OTHER OPERATING INCOME		
Insurance premiums earned	3,152,857	2,808,264
Gain on disposal of quoted equity investments	90,674	185,597
Gain on sale of government securities – available for sale	129,823	93,372
Dividends from quoted equity investments	79,959	53,702
Rental income	44,871	38,979
Gain on disposal of equipment	11,501	3,816
Fair value gain on investment properties	99,525	46,370
Other income	17,784	266,424
	<u>3,626,994</u>	<u>3,496,524</u>
7 OPERATING EXPENSES		
Insurance claims incurred	2,296,341	2,373,000
Staff costs (Note 8)	1,172,801	1,065,362
Other costs	702,037	876,658
Depreciation	135,505	121,959
Fees and commissions	726,330	509,173
Directors' emoluments:-		
- as directors	11,211	14,388
- as executives	105,183	95,417
Rent	65,781	59,973
Amortisation –intangible assets	63,723	9,671
-operating lease-leasehold land	340	374
Contributions to Deposit Protection Fund	28,090	22,914
Auditors' remuneration – parent	2,860	2,200
- subsidiaries	9,489	8,500
	<u>5,319,691</u>	<u>5,159,589</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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	2007 Sh'000	2006 Sh'000
8 STAFF COSTS		
Salaries and benefits	912,606	932,426
Pension contributions – defined contribution scheme	84,367	54,165
Termination benefits	3,143	635
National Social Security Fund (NSSF)	3,924	1,184
Other staff costs	168,761	76,952
	1,172,801	1,065,362
9 TAXATION		
(a) Taxation expense		
Current tax at 30%	501,027	460,275
Deferred taxation		
Credit (note 27(a))	(39,275)	(37,852)
(Credit)/debit (note 27(b))	(35,580)	4,349
Prior year under provision	2,030	-
	(72,825)	(33,503)
	428,202	426,772
(b) Reconciliation of taxation expense to expected tax based on accounting profit		
Accounting profit before taxation	1,352,919	1,366,912
Tax at the applicable rate of 30%	405,876	410,073
Deferred tax under provided in prior periods	2,030	-
Tax effect of expenses not deductible for tax	48,184	46,569
Tax effect of changes in tax rates	-	(1,034)
Tax effect of income not taxable	(36,764)	(40,426)
Other items resulting in reduced tax charge	8,876	11,590
	428,202	426,772
(c) Taxation payable –net		
At 1 January	87,492	43,629
Charge for the year	501,027	426,772
Paid	(556,454)	(382,909)
At 31 December	32,065	87,492
Split as follows:		
Tax payable	32,065	119,419
Tax recoverable	-	(31,927)
Net tax payable	32,065	87,492

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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10 PROFIT AFTER TAXATION

Profit after taxation dealt with in the books of the Bank is Sh 656,321,000 (2006 - Sh 498,378,000).

11 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.

	2007	2006
	Sh'000	Sh'000
Earnings (Sh'000)		
Earnings for purposes of basic earnings per share	769,932	786,072
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	4.94	5.04

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 769,932,000 (2006 - Sh 786,072,000) and 156,000,000 (2006 - Sh 156,000,000) weighted average number of ordinary shares in issue during the year.

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

12 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 30 May 2008, a final dividend is to be proposed in respect of 2007 of Sh 0.50 per share (2006 - Sh 1.25 per share) amounting to a total of Sh 78,000,000 (2006 - Sh 195,000,000). The financial statements for the year ended 31 December 2007 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2008.

An interim dividend of Sh 1.40 (2006-Sh 0.50) per share representing an amount of Sh 218,400,000 (2006-78,000,000) was paid in December 2007.

	2007	2006
	Sh'000	Sh'000
The movement in unclaimed dividend is as follows:		
At 1 January	83,050	5,506
Final dividend declared	-	131,040
Interim dividend declared	218,400	78,000
Dividend paid	(291,541)	(131,496)
At 31 December	9,909	83,050

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.

NOTES TO THE FINANCIAL STATEMENTS

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13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
Cash on hand	532,303	257,673	338,138	253,947
Balances with Central Bank of Kenya:				
Cash ratio requirement	1,322,777	1,072,492	1,322,777	1,072,492
Other (available to finance group operations)	116,547	250,899	116,547	250,898
	1,971,627	1,581,064	1,777,462	1,577,337

The cash ratio balance is non interest earning and is based on the value of deposits as adjusted by the Central Bank of Kenya requirements. These funds are not available to finance the Bank's day to day operations.

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
14 GOVERNMENT SECURITIES				
Treasury Bills & Bonds				
(a) Maturing within 90 days of the balance sheet date	3,027,107	954,456	1,165,650	444,200
Maturing after 90 days of the balance sheet date	6,800,438	10,218,637	3,595,150	5,372,390
	9,827,545	11,173,093	4,760,800	5,816,590
Classification of government securities				
Held to maturity	2,907,361	6,384,387	-	2,874,700
Available for sale	6,920,184	4,788,706	4,760,800	2,941,890
Total	9,827,545	11,173,093	4,760,800	5,816,590

The effective interest rate on treasury bills as at 31 December 2007 was 5.94 % per annum (2006 - 7.95%).

The effective interest rate on treasury bonds as at 31 December 2007 was 9.76 % per annum (2006 - 9.28%).

NOTES TO THE FINANCIAL STATEMENTS

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15 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
Balances due from banking institutions	1,181,752	422,782	418,050	94,396
Deposits due from banking institutions	1,042,257	1,056,914	1,042,257	559,514
	2,224,009	1,479,696	1,460,307	653,910

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2007 was 6% (2006- 5%) and nil for balances due from banking institutions.

	2007	2006
	Sh'000	Sh'000
16 LOANS AND ADVANCES TO CUSTOMERS		
GROUP AND BANK		
Finance leases (Note 16 (a))	5,891,045	5,018,949
Loans, advances and bills discounted (Note 16(b))	11,555,342	10,459,839
	17,446,387	15,478,788
Impairment losses on loans and advances (Note 17)	(743,867)	(425,764)
	16,702,520	15,053,024

Analysis of gross loans and advances by maturity:

(a) Finance lease receivables

	Minimum lease payments	2006	Present value of minimum lease payments	2006
	2007		2007	
	Sh'000	Sh'000	Sh'000	Sh'000
Amounts received under Finance leases:				
Within one year	521,345	953,002	521,345	953,002
In the second to fifth year inclusive	6,366,469	4,875,847	5,369,700	4,065,947
	6,887,814	5,828,849	5,891,045	5,018,949
Less unearned finance income	(996,769)	(809,900)	-	-
	5,891,045	5,018,949	5,891,045	5,018,949

NOTES TO THE FINANCIAL STATEMENTS

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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 (2006: nil).

The interest rate inherent in the lease is variable at the contract date for all of the lease term. The weighted average interest rate on finance lease receivables at 31 December 2007 was 14.20% (2006 14%).

The related party transactions and balances are covered under note 41 and concentrations of advances to customers are covered under note 3(a).

	2007 Sh'000	2006 Sh'000
(b) Loans, advances and bills discounted:		
Maturing within one year	8,672,717	6,846,558
Over one year to three years	1,176,054	1,846,425
Over three years	1,706,571	1,766,856
	11,555,342	10,459,839

The effective interest rate on loans and advances to customers as at 31 December 2007 was 13% (2006 - 13%).

The aggregate balance of impaired loans and advances to customers as at 31 December 2007 was Sh 1,746,932,000 (2006 - Sh 1,367,406,000). These are included in the balance sheet (net of impairment losses) at Sh 383,928,000 (2006 - Sh 493,221,000).

17 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2007 Sh'000	2006 Sh'000
Specific allowances for impairment		
Balance brought forward	276,957	131,782
Charge for the year	302,595	160,334
Recoveries	(6,009)	-
	296,586	160,334
Amounts written off during the year	-	(15,159)
	573,543	276,957
Collective allowances for impairment		
Balance brought forward	148,807	137,175
Charge for the year	21,517	11,632
	170,324	148,807
	743,867	425,764

NOTES TO THE FINANCIAL STATEMENTS

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	2007 Sh'000	2006 Sh'000
18 INVESTMENT IN ASSOCIATES GROUP		
At 1 January	108,889	109,533
Additions during the year	31,302	-
Share of profit for the year	37,524	21,469
Dividends received	(4,923)	(9,265)
Currency translation	(601)	(12,848)
At 31 December	172,191	108,889

Strategis Insurance Company (T) Limited and Alliance Insurance Company (T) Limited are associates of Heritage Insurance Company (T) Limited in which it owns 24% and 45% of the shares respectively. Investment in associates has been accounted for by the equity method of accounting.

	GROUP		BANK	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
19 OTHER ASSETS				
Items in Transit	469,994	342,593	469,994	342,593
Insurance premium receivables	852,162	542,320	-	-
Due from reinsurers	104,518	208,213	-	-
Deferred insurance commission	95,056	108,715	-	-
Reinsurance share of technical provision	1,206,139	1,364,218	-	-
Trade receivables and prepayments	1,018,069	1,314,078	420,099	280,879
Other	1,576,297	1,487,007	471,928	-
	5,322,235	5,367,144	1,362,021	623,472

20 INVESTMENT IN SUBSIDIARY COMPANIES

	Beneficial ownership by Bank	Country of incorporation	2007 Sh'000	2006 Sh'000
Company				
CFC Financial Services Limited	100%	Kenya	100,530	100,530
Equity Stock Brokers Limited	100%	Kenya	-	-
The Heritage Insurance Company Limited	64.08%	Kenya	65,705	65,705
Azali Limited	64.08%	Kenya	-	-
The Heritage Insurance Company (T) Limited	38.45%	Tanzania	-	-
CFC Holdings Limited	100%	Kenya	532,097	475,000
CFC Life Assurance Limited	100%	Kenya	-	-
CFC Investments Limited	100%	Kenya	-	-
			698,332	641,235

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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20 INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

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

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

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

	2007 Sh'000	2006 Sh'000
21 INVESTMENT PROPERTIES - GROUP		
Freehold properties		
At 1 January	380,500	293,981
Additions resulting from acquisitions	157,654	35
Disposals	(61,500)	-
Reclassification from property and equipment	(157,350)	40,114
Net gain from fair value adjustments	99,525	46,370
At 31 December	418,829	380,500

Investment properties were revalued as at 31 December 2007 by Lloyd Masika Limited, independent registered valuers on an open market basis. The resultant revaluation gain net of deferred tax was credited to the income statement.

	GROUP		BANK	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
22 OTHER INVESTMENTS				
Quoted equity investments at mid-market value	3,051,974	2,344,502	-	-
Unquoted equity investments at cost	255,070	120,959	-	-
Commercial paper, corporate bonds and other investments at amortised cost	30,000	38,285	-	-
	3,337,044	2,503,746	-	-

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2007 was 8.89 % (2006 - 8.08%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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23 PROPERTY AND EQUIPMENT

(a) GROUP

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture & equipment Sh'000	Total Sh'000
COST/VALUATION				
At 1 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)
Reclassification	(40,114)	(46)	(633)	(40,793)
Revaluation surplus	24,314	-	-	24,314
Disposals	-	(36,226)	(2,305)	(38,531)
At 31 December 2006	620,046	109,158	1,280,299	2,009,503
COST/VALUATION				
At 1 January 2007	620,046	109,158	1,280,299	2,009,503
Currency adjustment	-	(60)	(179)	(239)
Additions	-	36,257	408,076	444,333
Reclassification	157,350	-	(369,955)	(212,605)
Revaluation surplus	133,369	-	-	133,369
Disposals	-	(29,941)	(20,880)	(50,821)
Eliminated on revaluation	(56,079)	-	-	(56,079)
At 31 December 2007	854,686	115,414	1,297,361	2,267,461

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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23 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
DEPRECIATION				
At 1 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 31 December 2006	50,979	56,994	634,564	742,537
At 1 January 2007	50,979	56,994	634,564	742,537
Currency translation	-	(34)	(119)	(153)
Charge for the year	7,054	23,407	105,044	135,505
Eliminated on disposals	-	(23,216)	(26,374)	(49,590)
Eliminated on revaluation	(56,079)	-	-	(56,079)
At 31 December 2007	1,954	57,151	713,115	772,220
NET BOOK VALUE				
At 31 December 2007	852,732	58,263	584,246	1,495,241
At 31 December 2006	569,067	52,164	645,735	1,266,966

Motor vehicles, furniture and equipment stated at a cost of Sh 292,044,774 (2006 - Sh 342,865,774) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 60,405,920 (2006 - Sh 70,917,628).

Buildings were revalued as at 31 December 2007, by Tysons Limited, independent valuers, on the basis of the market value for existing use.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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23 PROPERTY AND EQUIPMENT (Continued)

(b) BANK

	Building on leasehold Land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1 January 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 31 December 2006	352,710	45,711	688,681	1,087,102
At 1 January 2007	352,710	45,711	688,681	1,087,102
Revaluation	78,369	-	-	78,369
Additions	-	17,966	231,750	249,716
Elimination of accumulated depreciation	(56,079)	-	-	(56,079)
Disposals	-	(24,745)	-	(24,745)
Reclassification	-	-	(287,329)	(287,329)
At 31 December 2007	375,000	38,932	633,102	1,047,034
DEPRECIATION				
At 1 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 31 December 2006	49,025	26,109	362,201	437,335
At 1 January 2007	49,025	26,109	362,201	437,335
Charge for the year	7,054	8,846	59,809	75,709
Eliminated on disposals	-	(18,737)	-	(18,737)
Elimination on revaluation	(56,079)	-	-	(56,079)
At 31 December 2007	-	16,218	422,010	438,228
NET BOOK VALUE				
At 31 December 2007	375,000	22,714	211,092	608,806
At 31 December 2006	303,685	19,602	326,480	649,767

Motor vehicles, furniture and equipment stated at a cost of Sh 154,826,519 (2006 – Sh 236,473,363) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 35,954,178 (2006 – Sh 54,914,401).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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24	OPERATING LEASE PREPAYMENT		
		GROUP	BANK
		Sh'000	Sh'000
	COST		
	At 1 January 2006 and 31 December 2006	36,000	35,000
	At 1 January 2007	36,000	35,000
	Reclassification/Revaluation	44,463	44,463
	Elimination of accumulated depreciation	(4,463)	(4,463)
	At 31 December 2007	76,000	75,000
	AMORTISATION		
	At 1 January 2006	4,047	3,750
	Eliminated on reclassification to investment property		
	Amortisation for the year	374	363
	At 31 December 2006	4,421	4,113
	At 1 January 2007	4,421	4,113
	Amortisation for the year	340	350
	Eliminated on revaluation	(4,463)	(4,463)
	At 31 December 2007	298	-
	NET BOOK VALUE		
	At 31 December 2007	75,702	75,000
	At 31 December 2006	31,579	30,887
25	GOODWILL		
		2007	2006
		Sh'000	Sh'000
	COST		
	At 1 January and at 31 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 (2006 10% per annum) was applied in the value in use model.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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		2007	2006		
		Sh'000	Sh'000		
GROUP					
27 (b)	DEFERRED TAX LIABILITY				
Liability					
Revaluation reserve		100,263	80,643		
Fair value adjustment on investment properties		29,858	13,911		
Excess depreciation		(1,429)	(1,429)		
Other		(13,770)	43,885		
		114,922	137,010		
Movement on the deferred liability is as follows:					
At 1 January		137,010	125,917		
Transfer to deferred tax asset		26	-		
Income statement (credit)/charge – note 9 (a)		(35,580)	4,349		
Revaluation reserve		11,436	7,294		
Prior year adjustment		2,030	(550)		
At 31 December		114,922	137,010		
28	CUSTOMER DEPOSITS				
		GROUP		BANK	
		2007	2006	2007	2006
		Sh'000	Sh'000	Sh'000	Sh'000
Maturities					
Payable within 90 days		17,777,726	17,567,674	18,499,357	18,145,894
Payable after 90 days					
but within one year		2,262,381	358,745	2,262,381	358,745
Payable after one year		57,853	2,008	57,853	2,008
		20,097,960	17,928,427	20,819,591	18,506,647

The effective interest rate on customer deposits as at 31 December 2007 was 4.99 % (2006 - 4.71%).

The related party transactions and balances are covered under note 41 and concentrations of customer deposits is covered under note 3(a).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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24	OPERATING LEASE PREPAYMENT		
		GROUP	BANK
		Sh'000	Sh'000
	COST		
	At 1 January 2006 and 31 December 2006	36,000	35,000
	At 1 January 2007	36,000	35,000
	Reclassification/Revaluation	44,463	44,463
	Elimination of accumulated depreciation	(4,463)	(4,463)
	At 31 December 2007	76,000	75,000
	AMORTISATION		
	At 1 January 2006	4,047	3,750
	Eliminated on reclassification to investment property		
	Amortisation for the year	374	363
	At 31 December 2006	4,421	4,113
	At 1 January 2007	4,421	4,113
	Amortisation for the year	340	350
	Eliminated on revaluation	(4,463)	(4,463)
	At 31 December 2007	298	-
	NET BOOK VALUE		
	At 31 December 2007	75,702	75,000
	At 31 December 2006	31,579	30,887
25	GOODWILL		
		2007	2006
		Sh'000	Sh'000
	COST		
	At 1 January and at 31 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 (2006 10% per annum) was applied in the value in use model.

NOTES TO THE FINANCIAL STATEMENTS
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26 INTANGIBLE ASSETS

	GROUP Computer Software Sh'000	BANK Computer software Sh'000
COST		
At 1 January 2006	79,562	48,326
Additions	190,376	674
Reclassification	(106)	-
At 31 December 2006	269,832	49,000
At 1 January 2007	269,832	49,001
Additions	62,867	4,582
Reclassification	287,329	287,329
At 31 December 2007	620,028	340,912
AMORTISATION		
At 1 January 2006	63,057	36,302
Charge for the year	9,671	6,620
At 31 December 2006	72,728	42,922
At 1 January 2007	72,728	42,922
Charge for the year	63,723	57,176
At 31 December 2007	136,451	100,098
NET BOOK VALUE		
At 31 December 2007	483,577	240,814
At 31 December 2006	197,104	6,078

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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26 INTANGIBLE ASSETS (Continued)

GROUP

Intangible assets still in use by the group stated at a cost of Sh 38,603,495 (2006 – Sh 38,603,495) have been fully amortised. The normal annual amortisation charge in respect of these assets would be Sh 10,601,532 (2006 – Sh 10,601,532).

BANK

Intangible assets still in use by the company stated at a cost of Sh 29,437,331 (2006 – Sh 29,437,331) have been fully amortised. The normal annual amortisation charge in respect of these assets would be Sh 8,831,199 (2006 – Sh 8,831,199).

27 (a) DEFERRED TAX ASSET

	2007 Sh'000	2006 Sh'000
GROUP		
Asset		
General provision for bad and doubtful debts	75,975	40,415
Accelerated capital allowances	5,803	57,410
Provision for staff bonus	30,026	900
Provision for staff gratuity	892	1,028
Leave provision	8,519	798
Tax losses	14,194	-
Other temporary differences	12,205	8,732
	147,614	109,283

Movement on the deferred tax asset is as follows:

At 1 January	109,283	69,246
Currency translation	(970)	(808)
Transfer from deferred tax liability	26	3,584
Income statement credit – note 9 (a)	39,275	37,852
Prior year overprovision	-	(591)
At 31 December	147,614	109,283

BANK

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

General provision for bad and doubtful debts	21,517	35,015
Depreciation in excess of capital allowances	80,598	55,435
Provision for gratuity	892	1,028
	103,007	91,478

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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		2007 Sh'000	2006 Sh'000
GROUP			
27 (b)	DEFERRED TAX LIABILITY		
	Liability		
	Revaluation reserve	100,263	80,643
	Fair value adjustment on investment properties	29,858	13,911
	Excess depreciation	(1,429)	(1,429)
	Other	(13,770)	43,885
		114,922	137,010
	Movement on the deferred liability is as follows:		
	At 1 January	137,010	125,917
	Transfer to deferred tax asset	26	-
	Income statement (credit)/charge – note 9 (a)	(35,580)	4,349
	Revaluation reserve	11,436	7,294
	Prior year adjustment	2,030	(550)
	At 31 December	114,922	137,010
28	CUSTOMER DEPOSITS		
		GROUP	BANK
		2007 Sh'000	2006 Sh'000
		2007 Sh'000	2006 Sh'000
	Maturities		
	Payable within 90 days	17,777,726	17,567,674
	Payable after 90 days		
	but within one year	2,262,381	358,745
	Payable after one year	57,853	2,008
		20,097,960	17,928,427
		20,819,591	18,506,647

The effective interest rate on customer deposits as at 31 December 2007 was 4.99 % (2006 - 4.71%).

The related party transactions and balances are covered under note 41 and concentrations of customer deposits is covered under note 3(a).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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29 DEPOSITS DUE TO BANKING INSTITUTIONS

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
Maturities				
Maturing within 90 days	1,972,975	1,686,880	1,972,975	1,686,880

The weighted average effective interest rate for deposits due to banking institutions at 31 December 2007 was 5.46% (2006 – 8%).

30 LINE OF CREDIT

GROUP AND BANK

	2007	2006
	Sh'000	Sh'000
African Development Bank	-	304,500

The group had an unsecured revolving term line of credit with the African Development Bank of Sh 487.2 million (US\$ 7,000,000). As at 31 December 2007, the line of credit was fully paid.

31 BORROWINGS

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
Term loan	103,842	311,502	-	-
Corporate bond	590,000	615,000	800,000	800,000
	693,842	926,502	800,000	800,000

The term loan from Barclays Bank of Kenya Limited is held in a subsidiary company, CFC Holdings Limited. The loan is secured by a letter of comfort from the Bank and a letter of negative pledge from the subsidiary company.

The loan is repayable over three years with semi-annual instalments.

The weighted average effective interest rate for year-end was 8.99%.

The corporate bond which was issued by the Bank on 31 October 2005 has a 7 years maturity and pays interest at the rate of the Treasury bill just before re-pricing plus 1.75%. The bond reprises quarterly.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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32 OTHER LIABILITIES

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
Payable under deposit Administration				
Contracts	5,429,113	5,001,161	-	-
Insurance contract liabilities	5,022,228	3,486,691	-	-
Unearned insurance premiums	884,546	1,323,935	-	-
Provisions for insurance claims	157,892	-	-	-
Amounts due to insurers	25,829	318,226	-	-
Bankers cheques unrepresented	564,128	359,753	564,128	359,753
Other liabilities	2,244,403	3,082,791	475,561	583,358
	14,328,139	13,572,557	1,039,689	943,111

33 (a) SHARE CAPITAL

Balance at 1 January 2007 and at

31 December 2007	156,000,000	780,000
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The total authorised number of share is 200,000,000 with a par value of Sh 5 each. 156,000,000 shares are fully paid.

(b) STATUTORY RESERVES

	GROUP		BANK	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	230,349	166,197	56,024	-
Transfer from revenue reserves				
- long term insurance business	10,047	5,066	-	-
- loans and advances	96,728	59,086	96,728	56,024
At 31 December	337,124	230,349	152,752	56,024

NOTES TO THE FINANCIAL STATEMENTS

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34 SHAREHOLDING

The top ten shareholders as at 31st December 2007

No	Name	Number of shares	% shareholding
1.	Gambit Holdings Limited	71,243,617	45.67
2.	African Liason & Consultant Services Limited	43,063,683	27.60
3.	Sovereign Trust Limited	19,879,554	12.74
4.	Kingsway Nominees Limited	5,198,498	3.33
5.	Kamau Mike Maina	1,533,518	0.98
6.	Shah Aruna Chandrakant (Mrs).	811,802	0.52
7.	Beechwood Investments Limited	516,747	0.33
8.	Supernatural Trading Company Limited	516,007	0.33
9.	Phoenix of East Africa Assurance Company Limited	355,410	0.23
10.	Sayani Investments Limited	343,678	0.22

The distribution of shareholders as at 31 December 2007 was as follows:

	Number of shareholders	Number of shares held	% shareholding
1 - 500	1,278	261,967	0.17
501 - 5,000	1,001	1,725,682	1.11
5,001 - 10,000	397	2,926,067	1.88
10,001 - 100,000	219	5,213,492	3.34
100,001 - 1,000,000	21	4,953,922	3.18
Over 1,000,000	5	140,918,870	90.33
TOTAL	2,921	156,000,000	100

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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	2007 Sh'000	2006 Sh'000
35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT		
(a) Reconciliation of consolidated profit before taxation to net cash generated from operating activities		
Consolidated profit before taxation	1,352,919	1,366,912
Depreciation	135,505	121,959
Amortisation of intangible asset	57,176	9,671
Amortisation of operating lease prepayments	340	374
Profit on sale of equipment	(11,501)	(3,816)
Share of fair value gain in associate	(99,525)	(21,469)
Fair value adjustment for investment property	(602)	(46,370)
	1,434,312	1,427,261
Decrease/(increase) in operating assets:		
Loans and advances to customers	(1,649,496)	(3,391,310)
Other assets	(1,069,964)	(2,949,460)
Cash ratio requirement	(250,285)	(141,039)
Government securities	3,418,199	(528,337)
	448,454	(7,010,146)
Increase in operating liabilities		
Customer deposits	2,169,533	3,134,385
Line of credit	(304,500)	(139,256)
Other liabilities	419,913	2,648,673
Deposits due to other banking institutions	286,095	(36,225)
	2,571,041	5,607,577
Net cash generated from operating activities	4,453,808	24,692

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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35 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2007 Sh'000	2006 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	648,850	508,571
Treasury bills and bonds	3,027,107	954,456
Deposits and balances due from banking institutions	2,224,009	1,479,696
Deposits and balances due to banking institutions	(1,972,975)	(1,686,880)
	3,926,991	1,255,843

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

	2007 Sh'000	2006 Sh'000
Opening balance	926,502	952,412
Received in the year	-	135,500
Paid in the year	(232,660)	(161,410)
Closing balance (note 31)	693,842	926,502

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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36 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

(a) Contingent liabilities

	2007 Sh'000	2006 Sh'000
GROUP AND COMPANY		
Acceptances and letters of credit	1,329,753	614,306
Guarantees and performance bonds	2,246,453	1,492,655
Spot and forward contracts	755,375	4,294,402
Others	68,138	57,764
	4,399,719	6,459,127

NATURE OF CONTINGENT LIABILITIES

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate.

Letters of credit commit the bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default.

Foreign exchange spot and forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

(b) Capital commitments

	GROUP		COMPANY	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
Contracted but not provided for in the financial statements	310,541	49,580	310,541	273,568
Authorised but not contracted for	310,541	273,568	310,541	273,568

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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36 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

(d) Operating lease arrangements

The group and company as a lessor

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

	GROUP		BANK	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
Amounts receivable in the next year in respect of obligations under operating leases expiring:				
Within one year	-	-	6,842	13,272
In one to five years	-	-	27,367	-
	-	-	34,209	13,272

The group and company as a lessee

	GROUP		BANK	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
Amounts payable in the next year in respect of obligations under operating leases expiring:				
Within one year	25,011	27,151	25,011	13,461
In one to five years	98,472	115,096	98,472	89,148
After five years	103,537	88,936	103,537	88,936
	227,020	231,183	227,020	191,545

37 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, GBP pounds, Euro, Australian Dollar, Japanese Yen and South African Rands.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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38 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 88,291,000 (2006 – Sh 55,349,000). Retirement benefit costs are included in staff costs (note 8).

39 ASSETS PLEDGED AS SECURITY

As at 31 December 2007, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

40 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.

41 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	
	2007	2006	2007	2006
	Sh'000	Sh'000	Sh'000	Sh'000
<i>Loans and advances:</i>				
At 1 January	419,469	253,428	207,349	148,055
Net movement during the year	161,213	166,041	7,143	59,384
At 31 December	580,682	419,469	214,492	207,439
<i>Deposits:</i>				
At 1 January	1,160,831	1,157,083		
Net movement during the year	60,310	3,748		
At 31 December	1,221,141	1,160,831		

Key management compensation

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

	2007	2006
	Sh'000	Sh'000
Salaries and other benefits	157,216	199,750

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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41 RELATED PARTY TRANSACTIONS (Continued)

	2007 Sh'000	2006 Sh'000
Directors' remuneration		
Fees for services as directors	11,211	14,388
Other emoluments (included in key management compensation above)	105,183	95,417
	116,394	109,805

Loans and advances to customers at 31 December 2007 include loans and advances to companies associated to the directors and loans to employees of Sh 214,492,000 (2006 – Sh 207,439,000). There were no outstanding advances to directors.

These loans and advances are performing and adequately secured.

Contingent liabilities at 31 December 2007 include contingencies on behalf of companies associated to the directors of Sh 583,095,000 (2006 – Sh 866,000,000).

Directors fees has been disclosed in note 7.

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

42 INCORPORATION

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

43 CURRENCY

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

Proxy Form

We, the Shareholder(s) whose details are set out below being a member(s) of CFC Bank Limited, hereby appoint the Proxy (or failing him/her the Alternate Proxy) (details of whom are set out below) or failing him/her the duly appointed Chairman of the meeting to be my/our Proxy, to vote on my behalf at the Annual General Meeting of the Company to be held on 30 May, 2008 at 10.30 a.m. CFC Centre, Chiromo Road, Westlands Nairobi or at any adjournment thereof.

Dated this _____ day of _____ 2008

Name of Shareholder _____ Address _____

Signature/Seal of Shareholder _____ CDS A/C No. _____

Name of Shareholders _____ Address _____

Signature of Shareholder _____ CDS A/C No. _____

Name of Proxy _____ Address _____

Name of Proxy (Alternate) _____ Address _____

Notes:

1. This Proxy Form is to be delivered to the Company Secretary at CFC Centre, Chiromo Road, P. O. Box 72833 – 00200, Nairobi not later than 10.30 a.m. on 28 May, 2008.
2. A Proxy Form must be delivered in writing and in the case of an individual shall be signed by the shareholder or by his/her attorney and in the case of a corporate, the Proxy Form must be signed under its common seal or by its attorneys or by an officer of the corporation.
3. The Admission Card (below) must be completed by the shareholder and presented in person by the Shareholder or the duly appointed Proxy for purposes of being admitted to the Annual General Meeting.

----- (Cut along this line)

ADMISSION CARD

Please admit _____ (Proxy) to the Annual General Meeting of CFC Bank Limited which will be held on Friday, 30 May, 2008 at 10.30 at CFC Centre, Chiromo Road, Westlands Nairobi.

Name of Shareholders _____ Address _____

Signature/Seal of Shareholder _____ CDS A/C No. _____

Note: This Admission Card must be produced by the shareholder or his/her Proxy in order to obtain entrance to the Annual General Meeting.