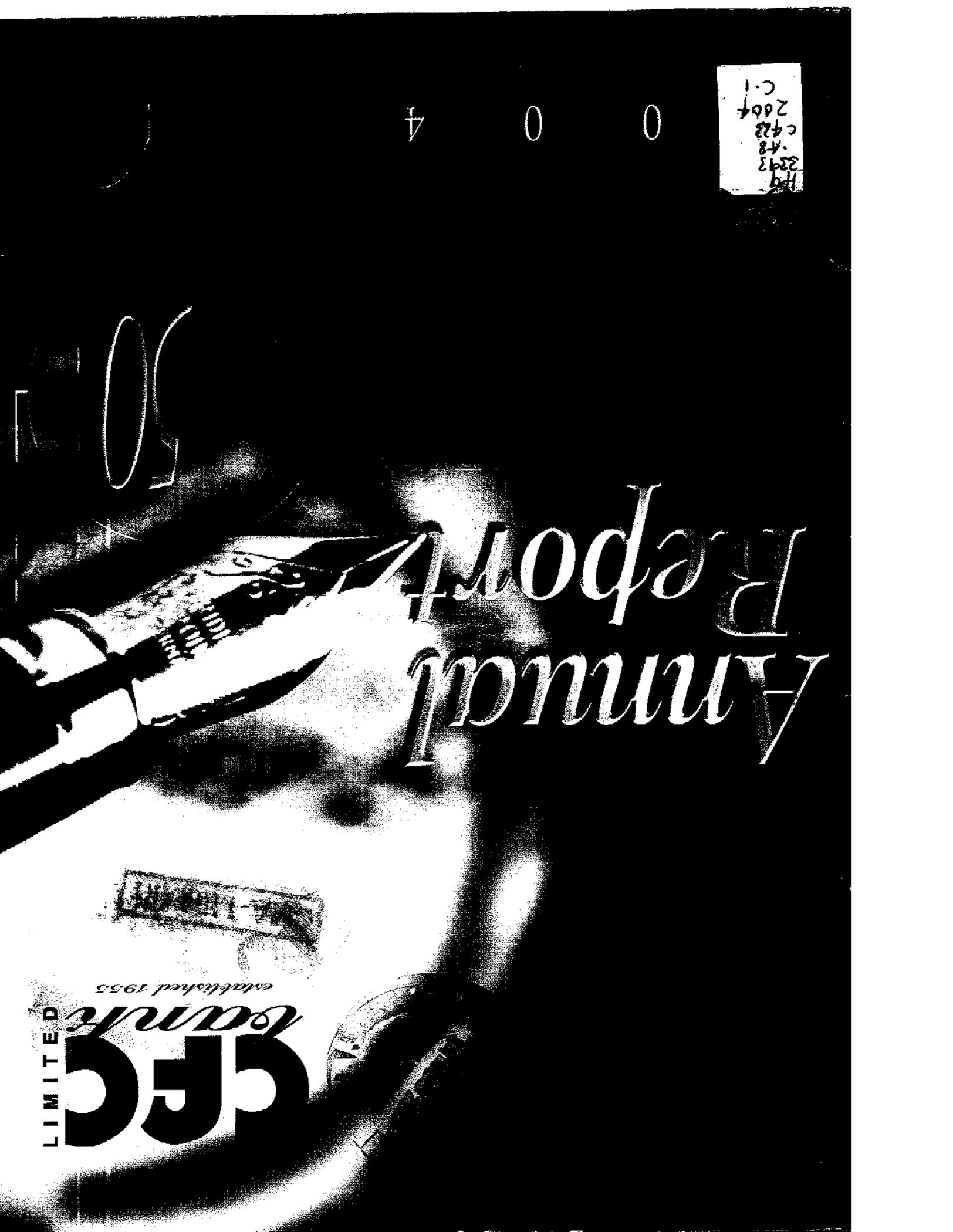


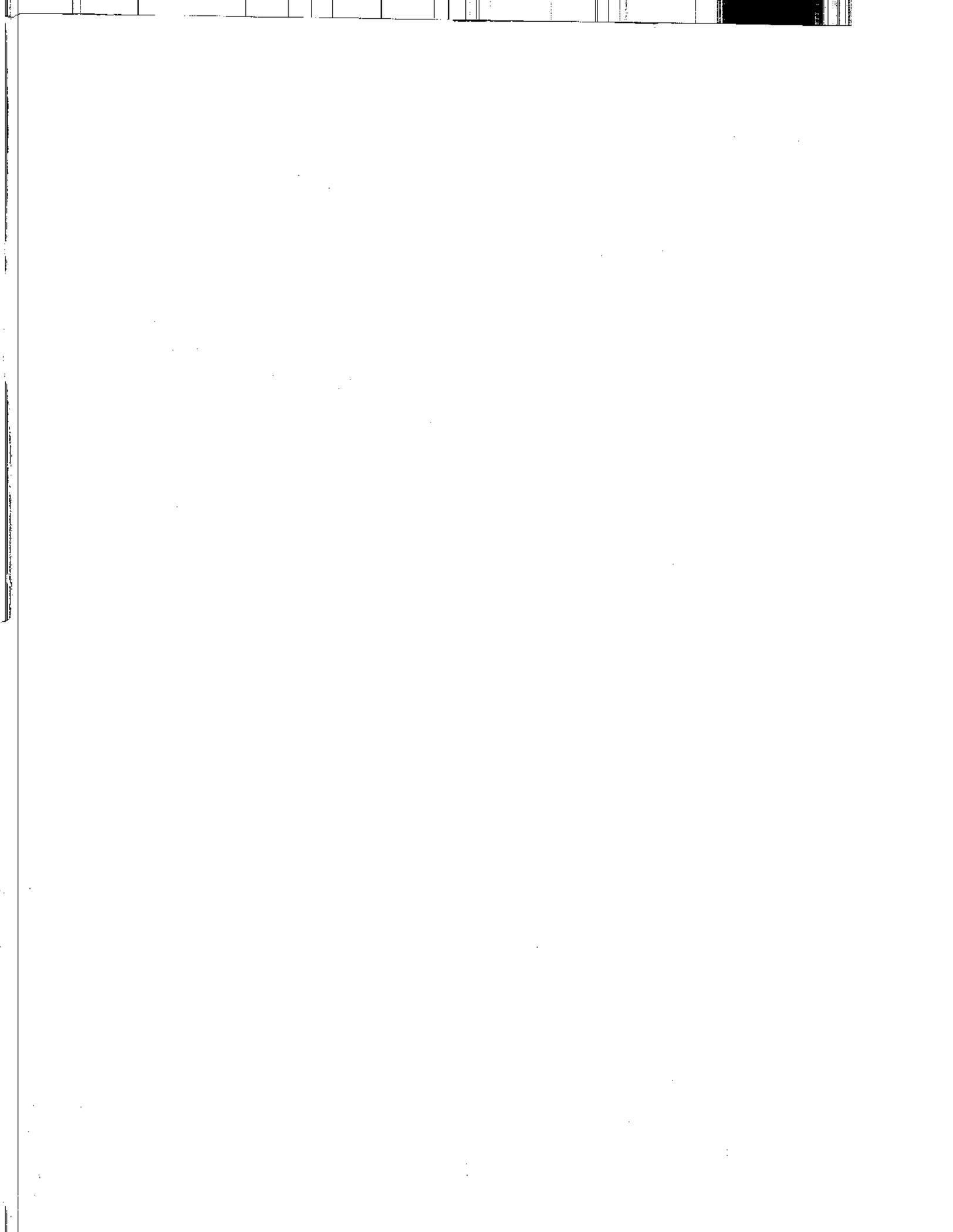
100
2604
C-1
2393
48
0423

0 0 4

Annual Report

CFC
Bank
established 1955
LIMITED





CONTENTS

CMA-LIBRARY

CORPORATE INFORMATION	2
NOTICE OF THE ANNUAL GENERAL MEETING	3
CORPORATE GOVERNANCE REPORT	4 - 5
CHAIRMAN'S STATEMENT	6 - 12
REPORT OF THE DIRECTORS	13
STATEMENT OF DIRECTORS' RESPONSIBILITIES	14
INDEPENDENT AUDITORS REPORT	15
FINANCIAL STATEMENTS	
CONSOLIDATED INCOME STATEMENT	16
CONSOLIDATED BALANCE SHEET	17
BANK BALANCE SHEET	18
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19 - 20
BANK STATEMENT OF CHANGES IN EQUITY	21
CONSOLIDATED CASH FLOW STATEMENT	22
NOTES TO THE FINANCIAL STATEMENTS	23 - 61

CMA - Ke Library



AR0328



3393
0A8
2432
200

2. Banker and banking - Kenya - periodicals



CORPORATE INFORMATION

BOARD OF DIRECTORS

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

* British
** Indian

COMPANY SECRETARY

R. R. Vora

AUDIT COMMITTEE

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

SENIOR MANAGEMENT

R. J. Barry	-	Managing Director
M. Soundarajan	-	Director
K. S. Krishnakumar	-	General Manager
S. Sanger	-	General Manager

HEADS OF DEPARTMENTS

M. Soundarajan	-	Head of Credit and Liability Management
K. S. Krishnakumar	-	Head of Projects
S. Sanger	-	Head of Treasury
A. Gathigi	-	Head of Finance and Administration
S. Mbori	-	Head of Operations
A. K. Seth	-	Head of Coast Operations
G. Kariuki	-	Head of Liability Management
G. W. Radier	-	Head of Risk
P. Ndonga (Mrs)	-	Head of Human Resources
O. K. Omar	-	Head of Information Technology
L. Naibo	-	Head of Internal Audit

OFFICES

Registered Office

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

Mombasa Branch
Social Security House, Nkrumah Road
P O Box 84418, Mombasa

Intercontinental Hotel Agency
P O Box 755501 00200 Nairobi

Kimathi Street Branch
Corner House, Kimathi Street
P O Box 75501, 00200 Nairobi

AUDITORS

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

2007/0328



NOTICE OF THE ANNUAL GENERAL MEETING



Notice is hereby given that the fiftieth Annual General Meeting of CFC Bank Limited will be held at the CFC Centre, Chiromo Road, Westlands, Nairobi on Friday, 27th May 2005 at 10.30 a.m for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st December 2004 and the Directors' and Auditors' reports thereon.
2. To approve the payment of a first and final dividend for the year ended 31st December 2004 of 16.8% on the Issued Share Capital.
3. To elect Directors:
 - i) Mr. C. Njonjo, a Director who is over 70 years, retires by rotation. Special notice has been received by the Company pursuant to Section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186(5) of the said Act to be considered and, if thought fit, passed by the members:

"That Mr. C. Njonjo, a Director who is over 70 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
 - ii) Mr. A.P. Hamilton, a Director who is over 70 years, retires by rotation. Special notice has been received by the Company pursuant to section 142 of the Companies Act of the intention to propose the following resolution, in accordance with section 186(5) of the said Act to be considered and, if thought fit, passed by the members:

"That Mr. A.P. Hamilton, a Director who is over 70 years be and is hereby re-elected to serve as Director of the Company until he next comes up for retirement by rotation under the Company's Articles of Association".
4. To approve the Directors' remuneration for the year ended 31st December 2004 as provided in the Financial Statements.
5. To note that Deloitte & Touche continue as Auditors under the provisions of Section 159(2) of the Companies Act (Cap 486) and subject to Section 24 (1) of the Banking Act (Cap 488) and to authorise the Directors to agree their remuneration.

By Order of the Board

R. R. Vora
Secretary

Date: 16 March 2005

Note:

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



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

SHAREHOLDERS' RESPONSIBILITIES

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

BOARD RESPONSIBILITIES

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

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of directors has eight members, six of whom are independent non-executives, and meets regularly. The Board retains full responsibility for the direction and control of the Bank. Appointments to the board are considered by the Nominating Committee, which comprises all board members. The Board is composed of Directors with a good mix of skills and experience in fields relevant to the operations of the Bank, which has enabled it to steer the Bank to its present level of success.

SEPARATION AND DISTRIBUTION OF POWERS BETWEEN THE BOARD AND MANAGEMENT

The roles of the Board and Management are clearly defined and separated. The Chairman of the Board is responsible for its management while the Managing Director is responsible for implementing the decisions of the Board.

INFORMATION FOR THE BOARD

The Board is continuously appraised on the operations of the Bank through regular reports from the various management committees.

CONFLICT OF INTEREST

The Bank has in place an elaborate system of monitoring transactions with related parties to ensure that conflicts of interests are addressed as appropriate and such transactions are disclosed in the financial statements and to the relevant regulatory authorities.

BOARD AND MANAGEMENT COMMITTEES

AUDIT COMMITTEE

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

EXECUTIVE MANAGEMENT COMMITTEE

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

CREDIT COMMITTEE

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

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

ASSETS AND LIABILITIES COMMITTEE

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

REMUNERATION COMMITTEE

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

FUTURE DEVELOPMENTS

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



2005 has a very special significance to CFC Bank Limited as we celebrate the 50th anniversary of our incorporation, 35 years of our listing on the Nairobi Stock Exchange, 10th anniversary of our conversion to a commercial bank and the successful completion of the acquisition of ALICO Kenya, which was one of the largest financial transactions concluded in the Kenyan financial services sector. With this acquisition, CFC Group has been propelled into a major Kenyan financial services provider.

Before looking at the Bank's performance and other developments, a brief look at the economic scenario during the year is appropriate.

Real GDP growth increased to 2.6% up from 1.8% last year. Although the growth was lower than the government's original forecast, all key sectors of the economy registered positive growth with the financial sector posting a solid growth of 3%.

Donor funding resumed in 2004 resulting in improved investor and donor confidence. However various issues remain to be specifically addressed in consultation with the donors. It is critical that the necessary steps are taken as the gains to Kenya will be enormously positive.

Government Securities' interest rates peaked at 8.6% in December from a low of 1.4% at the beginning of the year, due to the indication of higher government borrowing from the domestic market and the delayed disbursement of donor funds. Against a backdrop of an increase of credit of some 20% to the private sector, the surge in rates unsettled the financial markets and unnerved borrowers. Net interest margins will be under further pressure this year.

Inflation averaged 11.7% in 2004 mainly due to higher food and oil prices. Encouragingly, the Consumer Price Index rate dropped significantly to 16.2%. The foreign exchange market evidenced a reduction in the shilling exchange rate with a spike in December in line with volatile market conditions.

For the future, we expect inflation to slide further to 6% with a period of relative stability for interest rates. Subject to the expected disbursement of donor funds, we foresee shilling exchange rates to gradually depreciate.

Turning now to the performance of your Bank, the acquisition of ALICO Kenya during the year established the Group as the premier one-stop shop financial services provider in East Africa. Our financial results reflect this growth and success.

Turnover increased from Sh 2.7 billion to Sh 3.9 billion an increase of 43% with insurance business contributing 88% to this increase. This is in line with the group's strategy of diversification of income streams. Other income recorded a growth of 48% with foreign exchange income increasing by 233%.

Group pre-tax profit rose to Sh 881 million, up from Sh 530 million, an increase of 66%. Profit attributable to shareholders increased by 45% from Sh 299 million to Sh 433 million. Basic earnings per share went up to Sh 3.01 from Sh 2.08, an increase of 45%.

CHAIRMAN'S STATEMENT (Continued)



Turning to the Group balance sheet, total assets increased to a record level of Sh 30 billion, from Sh 16 billion in 2003. Loans and advances to customers increased by 40%, up from Sh 7.8 billion to Sh 11 billion with both hire purchase and banking business recording growth of 40% and 36% respectively. Your bank continues to exercise prudent risk assessment policies with total non-performing assets of Sh 394 million constituting 4% of the net loans and advances, one of the lowest in the industry.

The Bank's deposit base continued to grow during the year. Total deposits increased by 27% from Sh 11 billion to Sh 14 billion. It is worth noting that current and savings accounts recorded an increase of Sh 840 million.

The subsidiaries continued to make positive contribution to the group's profits. The Heritage All Insurance consolidated operation recorded an increase of 14% in the general business while the Life Fund grew by 21% to Sh 810 million. CFC Financial Services continues to make a positive contribution to the group performance.

As alluded to earlier, CFC Group successfully acquired the entire issued share capital of American Life Insurance Company (ALICO). The life business of ALICO was acquired in December 2004 for Sh 1.9 billion. The company now joins the growing family of CFC Group. ALICO has operated in the country for the last 40 years and is the second largest life insurer in Kenya in terms of market share. It has a presence in 9 locations across the country with over 400 agents. As we welcome ALICO to the CFC family of companies, we are convinced that the company will not only grow in terms of client base but will also become the leading life insurer in the country.

It is extremely encouraging to note that the cash flows generated over the years by the Bank and its subsidiaries enabled this substantial acquisition to be funded without recourse to the shareholders. With this in mind, your Board recommends a final dividend of Shs 0.84 per share on an increased share capital of 720 million.

Looking to the future, with the recent acquisition of ALICO Kenya, your Group will now embark on the development of group synergies in order to remain the top financial services group in Kenya.

Implementation of a new banking software is under way and is expected to be completed by the end of the year. This will further enhance our capacity to roll out new information technology solutions to the market. Credit and debit cards are some of the new products that will be rolled out with the new software.

In line with our expansion programme, we had hoped to open a new branch at Naivasha town in 2004 to tap the fast growing horticultural business in this region. The branch is now to come on line by mid this year.

The challenge for the group in the coming years will be to harness the group synergies existing in the East African region and Kenya in particular. I have no doubt in my mind that our professional staff within the Group will rise to the challenge as they have consistently done in the past.



Whilst developing the core businesses, we do realize that staff are our most important resource. We continue to ensure that appropriate resources are allocated for staff training and development, both locally and overseas.

As a good corporate citizen, we have not taken our role lightly at CFC Group. We believe in improving the lives of those in the societies we operate in and hence we have put in place a comprehensive corporate social responsibility agenda. We have been actively involved in helping those less fortunate in our society, especially institutions that deal with underprivileged children and those that take care of the terminally ill to try and make a difference in their lives.

Last but not least, we have in the conduct of our business recognised that sustainable economic development for our country cannot be achieved without prudent environment management practices. To this end, the Bank underwent an environmental audit during the year to enable us understand the impact of our activities to the environment and thus help in the development of a plan that will ensure that we minimise negative impacts while promoting environmental friendly initiatives.

In conclusion, I wish to welcome the 140 employees of ALICO to the CFC family of companies. I would also like to register my appreciation to the board, management and staff of the CFC Group for their tireless efforts and commitment throughout the year. I wish to also pass my regards to you the shareholders and our clients for your confidence in our products and services and your continued support over the years.

Thank you.

P. K. Jani

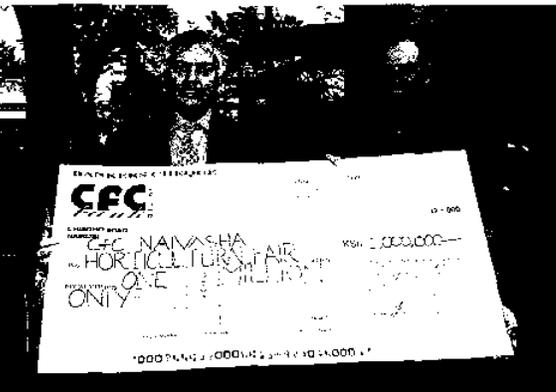
Chairman.

16th March 2005



Mr Robert Barry (left) MD, CFC Bank presents a cheque for Ksh 1 Million to Mr Roddey Benjamin, spokesperson for the Naivasha Horticultural Fair. All proceeds from the fair were donated to local charity organisations and to the Save a Life Fund.

Ms Grace Okode, Mother of the house number 13 and her youngest daughter, Patricia Mwende could not hide their joy after CFC Bank officially adopted their house at the SOS Village, Buruburu.



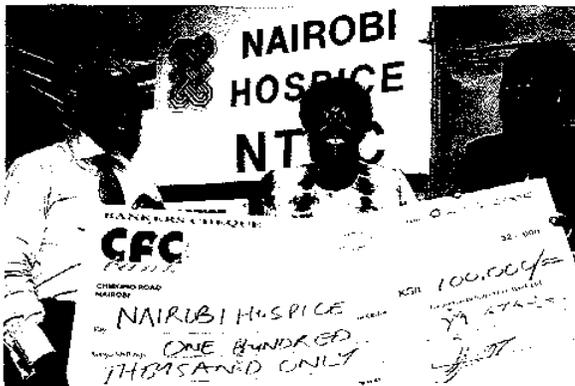
Mr Anthony Gathigi (left) Head of Finance & Administration, CFC Bank, presents a cheque for Ksh 250,000 to Sister Martha Kimani (second left), Mr James Mwandia (Second right) and Sister Susan Muthoni of Maria immaculata Childrens' Education Center, in Kiambu. Looking on is Mr George Kariuki, Head of Liability Management, CFC Bank.



Mr George Kariuki, Head of Liability Management, CFC Bank, presents a cheque for Ksh 250,000 to Sister Teresa of Nyumbani Childrens' Home. Looking on are Mrs Lillian Mwangi (centre) of Liability Management, CFC Bank and some staff and children of the Home.



Mr Patrick Muthama of Liability Management, CFC Bank, presents a cheque for Ksh 100,000 to Ms Bridget Sirengo (centre), Chief Executive Officer, Nairobi Hospice. The donation was towards the construction of proposed health facilities.



Mwaka 2005 una umuhimu mkubwa kwa benki ya CFC tunaposherehekea miaka 50 tangu kusajiliwa, miaka 35 tangu kuorodheshwa katika Soko la Ubadilishanaji wa Hisa la Nairobi, miaka 10 tangu kusajiliwa kama benki ya kibiasara na kukamilika vyema kwa shughuli ya ununuzi wa Kampuni ya ALICO Kenya, shughuli ambayo ilikuwa ni kubwa katika sekta ya maswala ya kifedha nchini Kenya. Kutokana na ununuzi huu, Kundi la CFC limekuwa kubwa katika kutoa huduma za kifedha nchini Kenya.

Kabla ya kuangalia jinsi benki ilivyotenda na maendeleo mengine, ni muhimu kuangazia yaliyotendeka katika sekta ya kiuchumi.

Uzalishaji wa mapato ya nchi (GDP) uliongezeka hadi asilimia 2.6 kutoka asilimia 1.8 ya mwaka jana. Ijapokuwa matarajio ya serikali hayakufikiwa, nyanja zote muhimu za kiuchumi zilikuwa ambapo sekta ya kifedha ilipata ongezeko la asilimia 3.

Utoaji wa ufadhili ulirejelewa mwaka wa 2004 na kuleta uaminifu kwa serikani kutoka kwa wawekezaji na pia wafadhili. Lakini maswala kadhaa bado yanahitaji kujadiliwa pamoja na wafadhili. Ni mwafaka kuchukua hatua kabambe kwani manufaa yake yatakuwa ya kuridhisha kwa nchi ya Kenya.

Riba kutokana na Hisa za Serikani ziliongezeka kufikia asilimia 8.6 mwezi Desemba kutoka asilimia 1.4 hapo mwanzoni mwa mwaka. Ongezeko hili lilitokana na hisia kwamba serikali ingekopa kwa kiwango cha juu kutoka kwa mashirika ya fedha humu nchini na pia kucheleweshwa kutolewa kwa msaada na wafadhili. Kutokana na ongezeko la asilimia 20 katika sekta ya kibinafsi, kupanda kwa riba kulileta mtafaruko katika soko la kifedha na pia kwa wakopaji. Mapato kutoka kwa riba yatazidi kubanwa mwaka huu.

Kupanda kwa Gharama ya Maisha kulifikia asilimia 11.7 mnamo mwaka 2004 sanasana kutokana na ongezeko la bei za chakula na mafuta. Lakutia moyo ni kwamba, Kiwango cha Kigezo cha Bei ya Wateja kilishuka hadi asilimia 16.2. Soko la Ubadilishanaji wa Fedha za Kigeni lilikumbwa na kushuka kwa kiwango cha ubadilishanaji wa shilingi hasa mwezi wa Desemba kutokana na kutoimarika kwa soko.

Katika siku za usoni, tunatarajia Kiwango cha Kupanda kwa Gharama ya Maisha kushuka zaidi hadi asilimia 6 kutokana na hali ya kuimarika kwa kiwango cha riba. Kiwango cha ubadilishanaji wa shilingi vinatarajiwa kuteremka polepole kikitegemea jinsi wafadhili watakvayotoa misaada.

Tukirudi kuangazia utendaji wa benki yenu tutaona kwamba, ununuzi wa Kampuni ya ALICO Kenya katika mwaka uliopita ulilifanya Kundi la CFC kuwa shirika bora la kutoa huduma za kifedha katika eneo la Africa Mashariki. Matokeo ya fedha zetu ni ishara ya ukuaji na mafanikio haya.

Mapato yaliongezeka kutoka shilingi bilioni 2.7 hadi bilioni 3.9 hili likiwa ni ongezeko la asilimia 43 na ambapo biashara ya bima ilichangia asilimia 88. Matokeo haya yanaambatana na mfumo wa Kundi la CFC wa kupanua uwekezaji katika

nyanja mbalimbali ili kuleta mapato. Mapato mengine yalikua kwa kiwango cha asilimia 48, kwa mfano, mapato kutokana na ubadilishanaji wa fedha za kigeni yaliongezeka kwa asilimia 233.

Kabla kutoa ushuru, Kundi la CFC lilipata ongezeko la shilingi milioni 881 kutoka milioni 530 ikiwa ni ongezeko la asilimia 66. Faida ya hisa iliongezeka kwa asilimia 45 kutoka shilingi milioni 299 hadi shilingi milioni 433. Mapato ya kiwango cha kadiri kwa kila hisa yaliongezeka hadi shilingi 3.01 kutoka shilingi 2.08 hii ikiwa ni ongezeko la asilimia 45.

Tunapoangazia hesabu zote zilizojumulishwa, tunaona kwamba mapato yote yaliongezeka kufikia upeo wa juu wa shilingi bilioni 30 kutoka shilingi bilioni 14 mwaka wa 2003. Mikopo kwa wateja iliongezeka kwa asilimia 40 kutoka shilingi bilioni 7.8 hadi shilingi bilioni 11 ambapo ununuzi kwa malipo ya polepole na biashara za benki zikiandikisha ukuaji wa asilimia 40 na asilimia 36 mtawalia. Benki yenu bado inazingatia zaidi kuwepo kwa sera zinazopunguza hasara. Kutokana na haya, kiwango cha mikopo isiyoleta mapato ni cha asilimia 4 ambacho ni cha chini zaidi katika biashara ya benki.

Mtaji wa benki uliendelea kuimarika mwakani. Fedha zote zinazowekwa ziliongezeka kwa asilimia 27 kutoka shilingi bilioni 11 hadi shilingi bilioni 14. Inafaa kuelewa kwamba akaunti za kuweka pesa na za biashara zilikuwa kwa shilingi milioni 840.

Kampuni ndogondogo za Kundi la CFC ziliendelea kuchangia katika kuliletea kundi hili faida zaidi. Shughuli zote za Kampuni ya Bima ya "Heritage All Insurance" zilikuwa na ongezeko la asilimia 14 katika biashara hali Mfuko wa Bima ya Maisha ulikua kwa asilimia 21 kufikia shilingi milioni 810. Kampuni ya "CFC Financial Services" iliendelea kuchangia utendaji wa Kundi la CFC.

Kama ilivyotajwa hapo awali, Kundi la CFC liliweza kununua hisa zote za Kampuni ya "ALICO Kenya". Biashara ya Bima ya Maisha ilinunuliwa mwezi wa Desemba mwaka 2004 kwa shilingi bilioni 1.9. Kampuni hii inajiunga na familia inayokua ya Kundi la CFC. Kampuni ya "ALICO Kenya" imekuwepo kwa muda wa miaka 40 iliyopita na ndiyo ya pili kwa ukubwa inayotoa bima ya maisha nchini Kenya. Kampuni hii inapatikana katika sehemu 19 hapa nchini na ina Maajenti zaidi ya 400. Tunapoikaribisha "ALICO Kenya" katika familia ya Kampuni za CFC, tunaamini kwamba itakua sio tu kwa kuleta wateja wengi bali pia itaongoza katika biashara ya kutoa Bima ya Maisha hapa nchini.

Ni jambo lenye kuridhisha kuona kwamba pesa zilizotokana na benki na makampuni yake madogomadogo miaka baada ya miaka zilituwezesha kuinunua "ALICO Kenya" pasipo kuwafinya wanahisa. Tukitilia akilini haya yote, Bodi ya Wasimamizi inapendekeza mgao wa mwisho wa senti 84 kwa kila hisa kutokana na ongezeko la mtaji wa milioni 720.

Tunapoangalia siku za usoni tunaona kwamba kutokana na ununuzi wa "ALICO Kenya", Kundi lenu halina budi kuanza kuimarisha nguvu za pamoja ili tubakie katika msitari wa mbele katika kutoa huduma za kifedha.

Utekelezaji wa huduma mpya ya benki kupitia mitambo ya komputa unaendelea na unatarajiwa kukamilika kufikia mwisho wa mwaka. Mradi huu utaimarisha uwezo wetu katika teknolojia ya tarakilishi. Huduma za kuweka na kutoa fedha zitakuwa mojawapo ya bidhaa mpya zitakazotokana na mradi huu mpya.

Kulingana na mradi wetu wa upanuzi, tulidhani tungefungua ofisi mpya huko mjini Naivasha mwaka wa 2004 ili kunufaika na biashara ya matunda katika eneo hili lakini haikuwezekana. Ofisi hii sasa itafunguliwa katikati ya mwaka huu.

Changamoto inayolikabili Kundi hili katika miaka ijayo ni kuweza kuyatosheleza mahitaji yaliyopo katika Afrika ya Mashariki na hasa hapa Kenya. Sina shaka kwamba wafanyikazi wetu wenye utaalamu wanaweza kufanya kazi kama walivyotenda hapo mbeleni.

Tunapoendelea kuimarisha biashara yetu kuu, tunafahamu kwamba wafanyikazi wetu ndio rasilimali yetu kubwa. Tunaendelea kuhakikisha kwamba tunatenga pesa ya kutosha kuendeleza masomo ya wafanyikazi wetu ndani na nje ya nchi.

Kama wahudumu wema kwa jamii, hatujawahi kudharau jukumu letu kwa umma. Tunaamini katika kuimarisha maisha ya jamii tunakofanya biashara zetu na kwa hivyo tumeazimia kuendelea kutoa huduma kwa jamii. Tumetoa misaada kwa wale wasiobahatika katika jamii hasa kwa taasisi zinazowahudumia watoto wasiobahatika na pia taasisi zinazowahudumia wagonjwa mahututi ili kuleta tofauti katika maisha yao.

Mwisho ningependa kusema kwamba, katika utendaji kazi wetu tumegundua kwamba kuwepo kwa uchumi endelevu wa nchi yetu hakuwezi kuwepo bila kuzingatia maadili mema ya kulinda mazingira. Ni kwa sababu hii hapo mwakani, benki yetu ilichukua hatua za kutathmini hali ya mazingira yetu ili kutuwezesha kuelewa madhara ya jinsi shughuli zetu zinavyoadhiri mazingira na hivyo kuweka mikakati itakayohakikisha kwamba tunapunguza madhara mabaya na kuendeleza ari za kutunza mazingira.

Hatimaye ningependa kuwakaribisha wafanyikazi 140 wa ALICO kujiunga na familia ya makampuni ya CFC. Ningependa pia kutoa shukrani zangu kwa Bodi, Wasimamizi na pia wafanyikazi wa Kundi la CFC kwa juhudi zao na kujitolea kwao katika mwaka huu. Ningependa pia kutoa shukrani zangu kwenu nyinyi wanaohisa na wanaofanya biashara nasi kwa imani milioniyo katika bidhaa na huduma zetu na kwa kutuunga mkono miaka iliyotangulia.

Asanteni

P.K. Jani

Mwenyekiti

Tarehe 16, Machi, 2005

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

ACTIVITIES

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

GROUP RESULTS

	Sh'000
Profit before taxation	880,896
Taxation expense	(215,442)
Profit after taxation	665,454
Minority interest	(89,669)
Profit attributable to long term insurance business	(142,737)
Net profit for the year transferred to reserves	433,048

DIVIDEND

The directors recommend a first and final dividend of Sh 0.84 per share (16.8%) amounting to Sh 120,800,000 for the year ended 31 December 2004 which is to be paid on or about 27 May 2005 to shareholders registered at the close of business on 6 May 2005.

DIRECTORS

The present directors are shown on page 2.

Mr. C. Njonjo and Mr. A. P. Hamilton, who are over 70 years, retire by rotation. Special notices have been received by the bank pursuant to Section 142 of the Companies Act, and resolutions will be considered at the Annual General Meeting to propose their re-election as directors of the Bank in accordance with Section 186 (5) of the Companies Act.

AUDITORS

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

BY ORDER OF THE BOARD

R.R. Vora

Secretary

Nairobi

16 March 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the bank as at the end of the financial year and of the operating results of the group and the bank for that year. It also requires the directors to ensure that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group.

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

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

C. Njonjo

Director

16 March 2005

R. J. Barry

Director

INDEPENDENT AUDITOR'S REPORT



We have audited the financial statements on pages 16 to 61 for the year ended 31 December 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 12, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- (a) proper books of account have been kept by the bank and the bank's balance sheet is in agreement therewith;
- (b) The financial statements give a true and fair view of the state of affairs of the bank and the group as at 31 December 2004 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

16 March 2005



CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Note	2004 Sh'000	2003 Sh'000 (Restated)
INTEREST INCOME	4	1,450,494	1,103,918
INTEREST EXPENSE	5	(337,076)	(311,687)
NET INTEREST INCOME		1,113,418	792,231
Fees and commission income		350,702	251,380
Foreign exchange trading income		90,324	27,111
Other operating income	6	1,985,863	1,361,484
OPERATING INCOME		3,540,307	2,432,206
Operating expenses	7	(2,602,180)	(1,779,197)
Bad and doubtful debts expense	19	(75,143)	(115,248)
OPERATING PROFIT		862,984	537,761
SHARE OF PROFIT/(LOSS) IN ASSOCIATES	20	17,912	(7,795)
PROFIT BEFORE TAXATION		880,896	529,966
TAXATION	9	(215,442)	(114,858)
PROFIT AFTER TAXATION	10	665,454	415,108
MINORITY INTEREST	11	(89,669)	(82,693)
PROFIT ATTRIBUTABLE TO LONG TERM BUSINESS	12	(142,737)	(33,058)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		433,048	299,357
EARNINGS PER SHARE –BASIC/DILUTED	13	Sh 3.01	Sh 2.08
DIVIDEND PER SHARE	14	0.84	0.84

CONSOLIDATED BALANCE SHEET

as at 31 December 2004



	Note	2004 Sh'000	2003 Sh'000 (Restated)
ASSETS			
Cash and balances with Central Bank of Kenya	15	967,113	768,867
Government securities	16	9,124,433	4,517,398
Deposits and balances due from banking institutions	17	1,264,614	780,111
Loans and advances to customers	18	10,969,365	7,831,494
Investment in associates	20	107,095	10,043
Other assets	21	3,431,734	711,163
Taxation recoverable		5,185	21,476
Investment properties	23	152,250	138,264
Other investments	24	1,776,474	1,067,900
Property and equipment	25(a)	823,240	486,475
Operating lease prepayment	26	36,109	31,950
Goodwill	27	1,084,647	-
Intangible assets	28	18,946	26,173
Deferred tax asset	29(a)	54,357	39,032
Total assets		29,815,562	16,430,346
LIABILITIES			
Customer deposits	30	12,673,291	9,868,243
Deposits due to banking institutions	31	1,464,202	1,221,528
Line of credit	32	393,250	-
Term loan	33	623,000	-
Other liabilities	34	8,720,627	2,154,162
Taxation payable		50,489	25,235
Deferred tax liability	29(b)	74,382	18,118
Unclaimed dividends		4,838	4,212
Total liabilities		24,004,079	13,291,498
CAPITAL RESOURCES			
Share capital	35	720,000	600,000
Capital reserve		231,172	196,841
Revaluation reserve		20,961	47,942
Revenue reserve		1,429,678	1,270,105
Proposed dividend		120,800	100,800
Shareholders' funds		2,522,611	2,215,688
Minority interest	11	501,415	444,130
Life Fund	12	2,787,457	479,030
Total liabilities, shareholders' funds and life fund		29,815,562	16,430,346

The financial statements on pages 16 to 61 were approved by the board of directors on 16 March 2005 and were signed on its behalf by:

C. Njonjo)	
R. J. Barry)	Directors
A. P. Hamilton)	
R. R. Vora)	Secretary



BANK BALANCE SHEET

as at 31 December 2004

	Note	2004 Sh'000	2003 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	967,111	749,811
Government securities	16	3,053,818	3,586,310
Deposits and balances due from banking institutions	17	696,539	395,275
Loans and advances to customers	18	10,969,365	7,831,494
Other assets	21	190,451	143,088
Due from subsidiary companies		100,807	30,568
Investment in subsidiary companies	22	691,235	166,235
Property and equipment	25(b)	451,342	455,924
Operating lease prepayment	26	31,600	31,950
Intangible assets	28	10,771	13,435
Deferred tax asset	29(a)	50,366	34,545
Total assets		17,213,405	13,438,635
LIABILITIES			
Customer deposits	30	12,878,016	10,176,852
Deposits due to banking institutions	31	1,464,202	1,221,528
Line of credit	32	393,250	-
Other liabilities	34	613,855	331,864
Taxation payable		31,513	16,995
Amount due to subsidiary companies		4,988	6,076
Unclaimed dividends		4,838	4,212
Total liabilities		15,390,662	11,757,527
CAPITAL RESOURCES			
Share capital	35	720,000	600,000
Revenue reserve		981,943	980,308
Proposed dividend		120,800	100,800
Shareholders' funds		1,822,743	1,681,108
Total liabilities and shareholders' funds		17,213,405	13,438,635

The financial statements on pages 16 to 61 were approved by the board of directors on 16 March 2005 and were signed on its behalf by:

C. Njonjo)	
R. J. Barry)	Directors
A. P. Hamilton)	
R. R. Vora)	Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004



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



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

	Share capital Sh'000	Capital reserve Sh'000	Revaluation reserve Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2004	600,000	196,841	47,942	1,270,105	100,800	2,215,688
Exchange differences arising on translation of a foreign subsidiary	-	765	714	891	-	2,370
Fair value adjustment on quoted investments	-	-	(19,946)	-	-	(19,946)
Net profit for the year	-	-	-	433,048	-	433,048
Realised on disposal of investment	-	-	(7,749)	-	-	(7,749)
Dividend declared – 2003	-	-	-	-	(100,800)	(100,800)
Proposed dividend – 2004 (Note 14)	-	-	-	(120,800)	120,800	-
Bonus issue of shares by parent company	120,000	-	-	(120,000)	-	-
Bonus issue of shares by subsidiary companies	-	71,474	-	(71,474)	-	-
Transfer to revenue reserve	-	(37,908)	-	37,908	-	-
At 31 December 2004	720,000	231,172	20,961	1,429,678	120,800	2,522,611

Capital reserves result from capitalisation of revenue reserves through bonus issue of shares by subsidiaries and exchange differences arising there from.

Revaluation reserve comprise accumulated surplus on revaluation of property and equipment and fair value adjustments relating to investments.

BANK STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004



	Share capital Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 January 2003	600,000	907,072	80,400	1,587,472
Net profit for the year	-	174,036	-	174,036
Dividend declared – 2002	-	-	(80,400)	(80,400)
Proposed dividend – 2003 (Note 14)	-	(100,800)	100,800	-
At 31 December 2003	600,000	980,308	100,800	1,681,108
At 1 January 2004	600,000	980,308	100,800	1,681,108
Bonus issue of shares	120,000	(120,000)	-	-
Net profit for the year	-	242,435	-	242,435
Dividend declared – 2003	-	-	(100,800)	(100,800)
Proposed dividend – 2004 (Note 14)	-	(120,800)	120,800	-
At 31 December 2004	720,000	981,943	120,800	1,822,743

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	2004 Note	2003 Sh'000	Sh'000
CASH GENERATED/(USED) IN OPERATING ACTIVITIES	36(a)	2,446,075	(1,064,925)
Taxation paid		(190,160)	(113,219)
Net cash used in operating activities		2,255,915	(1,178,144)
INVESTING ACTIVITIES			
Acquisition of subsidiary companies	36(c)	(1,757,333)	-
Investment in associate		(77,786)	(4,444)
Additions to property and equipment		(90,575)	(72,825)
Additions to intangible assets		(4,581)	(28,375)
Proceeds from sale of equipment		273	7,745
Additions to investment properties		(272)	(5,274)
Other investments			(210,663)
Dividend received			13,866
Net cash used in investing activities		(1,930,274)	(299,970)
FINANCING ACTIVITIES			
Dividends paid		(100,174)	(80,000)
Dividends paid to minority shareholders		(21,981)	(16,946)
Net cash used in financing activities		(122,155)	(96,946)
Effects of exchange rate changes on cash and cash equivalents		4,217	-
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		207,703	(1,575,060)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		(69,549)	1,505,511
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	36(b)	138,154	(69,549)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004



1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies remain unchanged from the previous year except for the implementation of the provisions of International Accounting Standard No. 1 Presentation of Financial Statements with regard to presentation of the results of the long term assurance business, and are set out below:

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of CFC BANK LIMITED ("the Bank") and its subsidiaries: CFC Financial Services Limited, CFC Holdings Limited, CFC Investments Limited, ALICO Kenya Limited, Equity Stock Brokers Limited, The Heritage A.I.I. Insurance Company (K) Limited, Azali Company Limited and The Heritage A.I.I. Insurance Company (T) Limited (the Group) all made up to 31 December 2004.

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

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's share of the fair value of the identifiable assets and liabilities of a subsidiary at the date of the acquisition. Goodwill is recognised as an asset and is reviewed for impairment annually.

Investments in subsidiary companies

Investments in subsidiary companies (details of which are disclosed in Note 22) are stated at cost less provision for impairment loss, where applicable.

Investment properties

Investment properties are stated at open market value and are not depreciated. Valuations are carried out every three years by independent valuers and updated every year by the directors. Changes in their carrying amounts are accounted for in the income statement in accordance with International Financial Reporting Standard No. 40, Investment Properties.

Revenue recognition

Banking

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

1 ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

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

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

Income from hire purchase transactions is determined based on the sum of the digits method.

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

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

General Insurance Business

The underwriting result of the general insurance business is determined annually and is included in profit before tax after taking into account premiums, outstanding claims and acquisition costs. Premiums are included net of refunds and a provision for the proportion of premiums written in the year which relate to cover provided for future periods. The provision for claims includes the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date, and is after anticipated recoveries from reinsurers.

Long Term Assurance Business

The value placed on the Group's long term assurance business attributable to shareholders represents a prudent valuation of future earnings of policies in force, together with the net worth of the business, being the net tangible assets and the surplus retained within the long-term assurance funds. This value is determined annually in consultation with independent actuaries. Changes in the value placed on the long-term assurance business attributable to shareholders, which are determined on a post-tax basis, are included in the income statement.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of property and equipment in equal annual instalments over their estimated useful lives. The annual rates generally in use are:

Building	2%
Motor vehicles	25%
Furniture and equipment	12.5% - 30%

Operating lease prepayments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



1 ACCOUNTING POLICIES (Continued)

Intangible assets - computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives at an annual rate of 30%.

Taxation

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

Current taxation is provided on the basis of the results for the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred income tax is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Provision for impairment of loans and advances

Specific provisions for doubtful debts are held in respect of loans and advances. Provisions, based on appraisals of the advances portfolio made in relation to identified risk loans and advances, reflect an estimate of loss expected and are charged to the income statement. An assessment is also made of the inherent risk in the loans and advances portfolio and a general provision is made which is charged to the income statement.

The provision for bad and doubtful loans and advances is increased by charges to income and decreased by write offs (net of recoveries).

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies during the year are converted at the rates ruling at the time of the transactions. The resulting profits or losses are dealt with in the income statement.

Foreign subsidiary

Exchange differences arising on translation of foreign subsidiary are accounted for as part of changes in equity.

Impairment

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



1 ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

Held to maturity investments

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

Financial assets held for trading

Financial assets acquired principally for the purpose of selling in the near term to generate profits from short-term fluctuations in price or dealer's margin are measured at fair value through profit or loss.

Available-for-sale financial assets

Are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Impairment and uncollectability of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

The bank as lessor

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

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

The bank as lessee

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

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

Retirement benefit obligations

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

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

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



1 ACCOUNTING POLICIES (Continued)

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 for more than one accounting period.

Unearned finance charges

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

Contingent liabilities

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

Comparatives

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

2. CENTRAL BANK OF KENYA (AMENDMENT) ACT 2000

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

The court delivered its judgement on 24 January 2002 and ruled that The Act is retrospective and therefore inconsistent with the Constitution of Kenya. Following the ruling, various conflicting legal interpretations have been published.

The directors have taken legal advice in conjunction with KBA which confirms that The Act is not operational for financial year 2004. Accordingly, the directors have prepared these financial statements on the basis of this advice.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



3. SEGMENTAL REPORTING

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

Principal activities are as follows:

Banking and related services - Taking deposits, lending to customers and provision of financial, advisory and stock broking services.

Insurance - Insuring risks for all classes of insurance business.

(a) Primary reporting format - Business segments

	BANKING SERVICES		INSURANCE		GROUP	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Income	1,491,018	1,348,965	2,404,277	1,382,630	3,895,295	2,731,595
Expenditure	1,159,218	1,068,957	1,855,181	1,132,672	3,014,399	2,201,629
Segment result	331,800	280,008	549,096	249,958	880,896	529,966
Taxation					215,442	114,858
Profit after taxation					665,454	415,108
Assets	16,666,711	13,474,286	13,148,851	2,956,060	29,815,562	16,430,346
Goodwill			1,084,647		1,084,647	
Liabilities	14,575,906	11,505,038	9,428,173	2,265,490	24,004,079	12,785,857
Capital expenditure	61,918	66,511	33,238	34,689	95,156	101,200
Depreciation and amortisation	69,367	65,991	23,795	30,439	93,162	96,430

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

(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	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Income	3,488,397	2,420,900	406,898	310,695	3,895,295	2,731,595
Expenditure	2,692,892	1,955,306	321,507	246,323	3,014,399	2,201,629
Segment result	795,505	465,594	85,391	64,372	880,896	529,966
Taxation					215,442	114,858
Profit after taxation					665,454	415,108
Assets	27,264,416	15,897,625	2,551,146	532,721	29,815,562	16,430,346
Goodwill	1,084,647	-	-	-	1,084,647	-
Liabilities	21,712,290	13,447,013	2,291,789	323,515	24,004,079	12,785,857
Capital expenditure	92,072	101,200	3,084	-	95,156	101,200
Depreciation and amortisation	82,861	86,472	10,301	9,958	93,162	96,430

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



3 SEGMENTAL REPORTING (Continued)

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

(c) Primary reporting format – Business segments

Banking and related services
Insurance business

(d) Secondary reporting format – Geographical segments

Kenya
Tanzania

	2004 No.	2003 No.
Banking and related services	215	214
Insurance business	290	160
	535	374
Kenya	503	347
Tanzania	32	27
	535	374
	2004 Sh'000	2003 Sh'000
Loans and advances	936,944	815,593
Government securities	441,552	221,771
Placements and bank balances	52,109	66,554
Other	19,889	-
	1,450,494	1,103,918
Customer deposits	294,981	293,123
Deposits and placements from other banks	35,317	18,564
Interest on borrowed funds	6,778	-
	337,076	311,687
Insurance premiums earned	1,717,814	1,038,401
Profit on disposal of quoted equity investments	130,643	168,015
Other income	54,764	124,938
Dividends from quoted equity investments	33,373	21,532
Rental income	48,996	5,462
Profit on disposal of equipment	273	3,136
	1,985,863	1,361,484

4 INTEREST INCOME

Loans and advances
Government securities
Placements and bank balances
Other

5 INTEREST EXPENSE

Customer deposits
Deposits and placements from other banks
Interest on borrowed funds

6 OTHER OPERATING INCOME

Insurance premiums earned
Profit on disposal of quoted equity investments
Other income
Dividends from quoted equity investments
Rental income
Profit on disposal of equipment

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

7 OPERATING EXPENSES

	2004 S\$'000	2003 S\$'000
Insurance claims incurred	1,104,942	758,030
Staff costs (Note 8)	701,037	505,491
Other costs	503,261	282,708
Depreciation	78,762	83,029
Fees and commissions	80,726	48,619
Directors' emoluments:-		
- as directors	9,896	7,946
- as executives	35,885	31,205
Operating lease rentals – property	52,459	32,894
Amortisation - intangible assets	12,237	10,770
- goodwill		2,281
- operating lease	2,163	350
Contribution to Deposit Protection Fund	13,991	6,439
Auditors' remuneration	6,821	5,957
Loss on disposal of equipment		3,478
	2,602,180	1,779,197

8 STAFF COSTS

Salaries and benefits	656,756	463,600
Pension contributions	35,591	32,460
Termination benefits	7,330	8,645
NSSF	967	786
Other staff costs	393	-
	701,037	505,491

The number of employees for the group has been disclosed in Note 3.

9 TAXATION

(a) Taxation expense:		
Current tax at 30%	225,658	134,524
Prior year overstatement in tax expense	(564)	(15,807)
	225,094	118,717
Deferred tax:		
(Credit) (Note 29(a))	(15,324)	(2,861)
Debit/(credit) (Note 29(b))	5,672	(998)
	(9,652)	(3,859)
	215,442	114,858

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



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

Accounting profit before taxation

Tax at the applicable rate of 30%

Deferred tax asset (under)/over provided in prior periods

Prior year overstatement in tax expense

Tax effect of expenses not deductible for tax

Tax effect of income taxed at lower rates (15%, 10% and 5%)

Tax effect of income exempt from tax

	2004 Sh'000	2003 Sh'000
Accounting profit before taxation	880,896	529,966
Tax at the applicable rate of 30%	264,269	158,990
Deferred tax asset (under)/over provided in prior periods	(2,376)	(139)
Prior year overstatement in tax expense	(564)	(15,807)
Tax effect of expenses not deductible for tax	30,614	21,090
Tax effect of income taxed at lower rates (15%, 10% and 5%)	(3,830)	-
Tax effect of income exempt from tax	(72,671)	(49,276)
	215,442	114,858

10 PROFIT AFTER TAXATION

Profit after taxation dealt with in the financial statements of the Bank is Sh 242,435,000 (2003 - Sh 174,036,000).

11 MINORITY INTEREST

At 1 January 2004

Share of profit after tax

Dividends paid

Other reserve movements

At 31 December

At 1 January 2004	444,130	369,902
Share of profit after tax	89,669	82,693
Dividends paid	(21,981)	(16,946)
Other reserve movements	(10,403)	8,481
At 31 December	501,415	444,130

12 LIFE FUND

Balance at 1 January

Transfer from revenue account - long term insurance business

Actuarial value of policy holders liabilities - American Life Insurance

Company (Kenya) Limited

Transfer to capital reserve

Transfer to general reserve

Transfer to contingency reserve

Surplus on actuarial valuation transferred to other liabilities

Balance at 31 December

Comprising

Heritage All Insurance Company Limited

American Life Insurance Company (Kenya) Limited

Balance at 1 January	479,030	753,646
Transfer from revenue account - long term insurance business	142,737	33,058
Actuarial value of policy holders liabilities - American Life Insurance Company (Kenya) Limited	2,206,173	-
Transfer to capital reserve	(1,075)	-
Transfer to general reserve	-	(102,524)
Transfer to contingency reserve	-	(15,000)
Surplus on actuarial valuation transferred to other liabilities	(39,408)	(190,150)
Balance at 31 December	2,787,457	479,030
Comprising		
Heritage All Insurance Company Limited	581,284	479,030
American Life Insurance Company (Kenya) Limited	2,206,173	-
	2,787,457	479,030

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004

The latest actuarial value of the funds was carried out as at 31 December 2004 by Alexander Forbes Financial Services (EA) Ltd, consulting actuaries, using the net premium valuation method. Significant valuation assumptions are summarised below:

Maturity

	2004	2003
	A1949/52 Ultimate 4% per annum compound	A1949/52 Ultimate 4% per annum compound

13 EARNINGS PER SHARE

Earnings per share is calculated based on the profit attributable to shareholders of Sh 433,048,000 (2003 - Sh 299,357,000) and 144,000,000 shares (2003 - 144,000,000) ordinary shares in issue during the year.

The prior year number of issued shares has been restated to include the bonus issue made during the year, in accordance with IAS 33.

The diluted earnings per share is the same as basic earnings per share.

14 DIVIDEND PER SHARE

At the annual general meeting scheduled for 27 May 2005, a first and final dividend in respect of 2004 of Sh 0.84 per share (2003 - Sh 0.84 per share) amounting to a total of Sh 120,800,000 (2003 - Sh 100,800,000) is to be proposed. The proposed amount has been provided for in accordance with International Financial Reporting Standard No.10, Events After the Balance Sheet Date.

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

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Cash on hand	130,219	141,690	130,217	122,634
Balances with Central Bank of Kenya: Cash ratio requirement	805,319	622,480	805,319	622,480
Other	31,575	4,697	31,575	4,697
	967,113	768,867	967,111	749,811

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



16 GOVERNMENT SECURITIES

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Treasury bills & bonds				
Maturing within 90 days of acquisition	175,948	174,793	49,159	174,793
Maturing after 90 days of acquisition	8,948,485	4,342,605	3,004,659	3,411,517
	9,124,433	4,517,398	3,053,818	3,586,310
Classification of government securities				
Held for trading	5,744,110	334,701	654,907	334,701
Held to maturity	1,789,954	2,062,623	1,387,347	1,131,535
Available for sale	1,590,369	2,120,074	1,011,564	2,120,074
Total	9,124,433	4,517,398	3,053,818	3,586,310

The effective interest rate on Treasury bills as at 31 December 2004 was 6% per annum (2003 - 3%).

The effective interest rate on Treasury bonds as at 31 December 2004 was 6% per annum (2003 - 5%).

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Balances due from banking institutions	525,608	100,068	272,395	100,068
Deposits due from banking institutions	739,006	680,043	424,144	295,207
	1,264,614	780,111	696,539	395,275

The weighted average effective interest rate during the year for deposits due from banking institutions at 31 December 2004 was 4% (2003 - 2%) and nil for balances with banking institutions.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

18 LOANS AND ADVANCES TO CUSTOMERS

GROUP AND BANK

Finance leases (Note 18(a))
Loans, advances and bills discounted (Note 18(b))

Unearned finance charges (Note 18(a))
Provision for bad and doubtful debts (Note 19)

	2004 Sh'000	2003 Sh'000
Finance leases (Note 18(a))	4,258,341	2,896,045
Loans, advances and bills discounted (Note 18(b))	3,749,263	5,511,259
	11,738,196	8,407,304
Unearned finance charges (Note 18(a))	(509,078)	(340,615)
Provision for bad and doubtful debts (Note 19)	(259,893)	(235,195)
	10,969,365	7,831,494

Analysis of gross loans and advances by maturity:

(a) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Amounts receivable under finance leases:				
Within one year	2,145,597	1,475,828	1,888,066	1,300,483
Over one year to three years	2,112,744	1,349,264	1,861,197	1,192,250
Over three years		70,953		62,697
	4,258,341	2,896,045	3,749,263	2,555,430
Less unearned finance income	(509,078)	(340,615)	-	-
Present value of minimum lease payments receivable	3,749,263	2,555,430	3,749,263	2,555,430

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 (2003- 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 2004 was 13% (2003 - 14%).

The related party transactions and balances are covered under Note 46 and concentrations of advances to customers is covered under Note 42.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans, advances and bills discounted:

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

	2004 Sh'000	2003 Sh'000
Maturing within one year	5,765,398	4,736,222
Over one year to three years	1,488,496	648,785
Over three years	226,101	126,252
	7,479,995	5,511,259

The effective interest rate on loans and advances to customers as at 31 December 2004 was 11% (2003 - 12%).

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

The aggregate balance of impaired loans and advances to customers as at 31 December 2004 was Sh 547,948,000 (2003 - Sh 531,823,000 - restated). These are included in the balance sheet (net of impairment losses) at Sh 134,059,000 (2003 - Sh 187,265,000).

19 MOVEMENTS IN PROVISIONS OF IMPAIRMENT OF LOANS AND ADVANCES

	Specific provision Sh'000	General provision Sh'000	Total 2004 Sh'000	Total 2003 Sh'000
GROUP AND BANK				
At 1 January 2004	158,953	76,242	235,195	158,028
Provisions made during the year	46,269	51,774	98,043	115,248
Recoveries and provisions no longer Required	(2,941)	(19,959)	(22,900)	-
Amounts written off during current year	(50,445)	-	(50,445)	(38,081)
At 31 December 2004 (Note 18)	151,836	108,057	259,893	235,195

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

20 INVESTMENT IN ASSOCIATES

GROUP

	2004 Sh'000	2003 Sh'000
At 1 January	10,043	17,838
Currency translation	386	-
Additional investment in Alliance Insurance Company (T) Limited	77,786	-
Share of fair value gain/(loss) on investments	968	-
Credit/(charge) to profit and loss account of negative goodwill and share of post acquisition profit/(loss)	17,912	(7,795)
At 31 December	107,095	10,043

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

Alliance Insurance Company (T) became an associate during the year and has a 31st December year-end.

Investment in associates have been accounted for using equity method of accounting.

21 OTHER ASSETS

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Items in transit	146,407	104,283	146,407	104,283
Insurance premium receivables	479,380	377,974	-	-
Due from reinsurers	53,716	-	-	-
Kenya Motor Insurance pool	-	10,369	-	-
Deferred insurance commission	23,437	21,246	-	-
Reinsurance share of technical provisions	2,275,406	-	-	-
Other	453,388	197,291	44,044	38,805
	3,431,734	711,163	190,451	143,088

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



22 INVESTMENT IN SUBSIDIARY COMPANIES

	Beneficial Ownership	Country of incorporation	2004 sh'000	2003 sh'000
BANK				
Company				
CFC Financial Services Limited	100.00%	Kenya	100,530	100,530
Equity Stock Brokers Limited	100.00%	Kenya	-	-
The Heritage A.I.I. Insurance Company Limited	64.08%	Kenya	65,705	65,705
Azali Company Limited	64.08%	Kenya	-	-
The Heritage A.I.I. Insurance Company (T) Limited	38.45%	Tanzania	-	-
CFC Holdings Limited	100.00%	Kenya	525,000	-
ALICO Kenya Limited	100.00%	Kenya	-	-
CFC Investments Limited	100.00%	Kenya	-	-
			691,235	166,235

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

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

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

23 INVESTMENT PROPERTIES

	2004 sh'000	2003 sh'000
GROUP		
Freehold properties		
At 1 January	138,264	132,990
Additions	272	5,274
Net fair value gain	13,714	-
At 31 December	152,250	138,264



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

29 (a) DEFERRED TAX ASSET

GROUP

Asset

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

2004
Sh'000

2003
Sh'000

32,417	22,872
21,940	13,073
-	2,487
-	600
54,357	39,032

Movement on the deferred tax asset is as follows:

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

39,032	36,171
15,324	2,861

At 31 December

54,357	39,032
---------------	---------------

COMPANY

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

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

32,417	22,872
17,949	11,673
50,366	34,545

(b) DEFERRED TAX LIABILITY

Liability

Accelerated capital allowances
Unrealised exchange differences
Revaluation surplus
Fair value gain on investment property

13,207	10,287
-	(719)
-	(27,686)
(87,589)	-

Over deductible temporary differences

(74,382)	(18,118)
-----------------	-----------------

Movement on the deferred liability is as follows:

At 1 January
Currency translation
Deferred tax on acquisition of subsidiary
Income statement credit/(charge) – Note 9(a)

(18,118)	(19,262)
(40)	146
(50,552)	-
(5,672)	998

At 31 December

(74,382)	(18,118)
-----------------	-----------------

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



22 INVESTMENT IN SUBSIDIARY COMPANIES

BANK Company

	Beneficial Ownership	Country of incorporation	2004 Sh'000	2003 Sh'000
CFC Financial Services Limited	100.00%	Kenya	100,530	100,530
Equity Stock Brokers Limited	100.00%	Kenya	-	-
The Heritage A.I.I. Insurance Company Limited	64.08%	Kenya	65,705	65,705
Azali Company Limited	64.08%	Kenya	-	-
The Heritage A.I.I. Insurance Company (T) Limited	38.45%	Tanzania	-	-
CFC Holdings Limited	100.00%	Kenya	525,000	-
ALICO Kenya Limited	100.00%	Kenya	-	-
CFC Investments Limited	100.00%	Kenya	-	-
			691,235	166,235

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

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

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

23 INVESTMENT PROPERTIES

GROUP

	2004 Sh'000	2003 Sh'000
Freehold properties		
At 1 January	138,264	132,990
Additions	272	5,274
Net fair value gain	13,714	-
At 31 December	152,250	138,264

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

23 INVESTMENT PROPERTIES (Continued)

Investment properties were revalued as at 31 December 2004 by Lloyd Masika Limited, registered valuers on an open market basis. The investment properties are located in Nairobi.

24 OTHER INVESTMENTS

Quoted equity investments at mid-market value
Unquoted equity investments at cost
Commercial paper, corporate bonds and other investments

GROUP	
2004 Sh'000	2003 Sh'000
517,755	273,314
85,101	58,201
1,173,618	736,385
1,776,474	1,067,900

The effective interest rate on commercial paper, corporate bonds and other investments as at 31 December 2004 was 5% (2003 - 5%).

25 PROPERTY AND EQUIPMENT

(a) GROUP

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1 January 2004	352,710	57,284	468,839	878,833
Acquisition of subsidiary	297,591	19,051	147,390	464,032
Currency translation	-	330	839	1,169
Additions	23,564	3,755	63,256	90,575
Disposals	-	(999)	(10,362)	(11,361)
At 31 December 2004	673,865	79,421	669,962	1,423,248
DEPRECIATION				
At 1 January 2004	27,862	34,600	329,896	392,358
Acquisition of subsidiary	29,997	13,289	96,159	139,445
Currency translation	-	138	666	804
Charge for the year	7,054	10,759	60,949	78,762
Eliminated on disposals	-	(999)	(10,362)	(11,361)
At 31 December 2004	64,913	57,787	477,308	600,008
NET BOOK VALUE				
At 31 December 2004	608,952	21,634	192,654	823,240
At 31 December 2003	324,848	22,684	138,943	486,475

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



25 PROPERTY AND EQUIPMENT (Continued)

Motor vehicles, furniture and equipment stated at a cost of Sh 231,587,525 (2003- Sh 178,436,774) have been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Sh 55,271,192 (2003 - Sh 44,857,830).

(b) BANK

	Building on leasehold land Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Total Sh'000
COST				
At 1 January 2004	352,710	23,743	327,077	703,530
Additions	-	2,112	53,661	55,773
Disposals	-	-	(7,552)	(7,552)
At 31 December 2004	352,710	25,855	373,186	751,751
DEPRECIATION				
At 1 January 2004	27,862	10,102	209,642	247,606
Charge for the year	7,054	5,477	47,824	60,355
Eliminated on disposals	-	-	(7,552)	(7,552)
At 31 December 2004	34,916	15,579	249,914	300,409
NET BOOK VALUE				
At 31 December 2004	317,794	10,276	123,272	451,342
At 31 December 2003	324,848	13,641	117,435	455,924

Motor vehicles, furniture and equipment stated at a cost of Sh 152,532,525 (2003 – Sh 100,750,180) have been fully depreciated. The normal annual depreciation charge in respect of these assets would be Sh 36,216,192 (2003 – Sh 25,721,054).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

26 OPERATING LEASE PREPAYMENT

	GROUP Sh'000	BANK Sh'000
COST		
At 1 January 2004	35,000	35,000
Acquisition of subsidiary	6,609	-
At 31 December 2004	41,609	35,000
AMORTISATION		
At 1 January 2004	3,050	3,050
Acquisition of subsidiary	287	-
Amortisation for the year	2,163	350
At 31 December 2004	5,500	3,400
NET BOOK VALUE		
At 31 December 2004	36,109	31,600
At 31 December 2003	31,950	31,950

27 ACQUISITION OF SUBSIDIARY COMPANIES

- (a) On 15th December 2004, the Group acquired the life insurance business of Alico Kenya Limited through the acquisition of the entire issued share capital of Alico Kenya. The acquisition was done through CFC Holdings Limited and CFC Investments Limited (formerly Trans-National Group Limited), both wholly owned subsidiaries of CFC Bank Limited. The transaction has been accounted for as at 15th December 2004 under the purchase method of accounting for business combinations.

	CFC Holdings Limited 2004 Sh'000	CFC Investments Limited 2004 Sh'000	Total 2004 Sh'000
Total acquisition cost	1,269,798	634,582	1,904,380
Fair value of assets acquired	4,539,085	2,324,136	6,863,221
Fair value of Liabilities and contingent liabilities	(2,558,210)	(1,279,105)	(3,837,315)
Actuarial value of the life fund	(1,470,782)	(735,391)	(2,206,173)
Net fair value of assets acquired	510,093	309,640	819,733
Goodwill	759,705	324,942	1,084,647

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



27 ACQUISITION OF SUBSIDIARY COMPANIES (Continued)

(b) On 1st July 2004, the group acquired 100% of the issued share capital of Azali Company Limited for a cash consideration of Sh 5,648,702. The fair value of the net assets acquired was Sh 5,648,702.

28 INTANGIBLE ASSETS

	GROUP Computer software Sh'000	BANK Computer software Sh'000
COST		
At 1 January 2004	65,863	37,356
Currency translation	614	-
Additions	4,581	3,033
At 31 December 2004	71,058	40,389
AMORTISATION		
At 1 January 2004	39,690	23,921
Currency translation	185	-
Charge for the year	12,237	5,697
At 31 December 2004	52,112	29,618
NET BOOK VALUE		
At 31 December 2004	18,946	10,771
At 31 December 2003	26,173	13,435

GROUP

Intangible assets stated at a cost of Sh 21,025,522 (2003 – Sh 26,153,995) have been fully amortized. The normal annual amortization charge in respect of these assets would be Sh 6,306,827 (2003 – Sh 7,201,245).

BANK

Intangible assets stated at a cost of Sh 21,017,231 (2003 – Sh 19,704,460) have been fully amortized. The normal annual amortization charge in respect of these assets would be Sh 6,305,169 (2003 – Sh 5,911,338).



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

29 (a) DEFERRED TAX ASSET

	2004 Sh'000	2003 Sh'000
GROUP		
Asset		
General provision for bad and doubtful debts	32,417	22,872
Accelerated capital allowances	21,940	13,073
Tax losses in subsidiary companies	-	2,487
Provision for staff bonus	-	600
	54,357	39,032

Movement on the deferred tax asset is as follows:

At 1 January	39,032	36,171
Income statement credit – Note 9(a)	15,324	2,861
At 31 December	54,357	39,032

COMPANY

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

General provision for bad and doubtful debts	32,417	22,872
Depreciation in excess of capital allowances	17,949	11,673
	50,366	34,545

(b) DEFERRED TAX LIABILITY

Liability

Accelerated capital allowances	13,207	10,287
Unrealised exchange differences	-	(719)
Revaluation surplus	-	(27,686)
Fair value gain on investment property	(87,589)	-
Over deductible temporary differences	(74,382)	(18,118)

Movement on the deferred liability is as follows:

At 1 January	(18,118)	(19,262)
Currency translation	(40)	146
Deferred tax on acquisition of subsidiary	(50,552)	-
Income statement credit/(charge) – Note 9(a)	(5,672)	998
At 31 December	(74,382)	(18,118)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



30 CUSTOMER DEPOSITS

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Maturities				
Payable within 90 days	11,145,806	8,358,768	11,350,531	8,524,698
Payable after 90 days but within one year	1,424,075	1,422,366	1,424,075	1,565,045
Payable after one year	103,410	87,109	103,410	87,109
	12,673,291	9,868,243	12,878,016	10,176,852

The bank's customer deposits payable within one year include deposits from subsidiary companies amounting to Sh 204,725,000 (2003 – Sh 308,608,000).

The effective interest rate on customer deposits as at 31 December 2004 was 4% (2003 - 2%).

The related party transactions and balances are covered under Note 46 and concentration of customer deposits is covered under Note 42.

31 DEPOSITS DUE TO BANKING INSTITUTIONS

	2004 Sh'000	2003 Sh'000
GROUP AND BANK		
Maturing within 90 days	1,464,202	1,170,840
Maturing after 90 days	-	50,688
	1,464,202	1,221,528

The weighted average effective interest rate for deposits due to banking institutions at 31 December 2004 was 9% (2003 – 2%).

32 LINE OF CREDIT

African Development Bank

393,250

The Bank has an unsecured revolving term line of credit with the African Development Bank of Sh 550,550,000 (US\$ 7,000,000). As at 31 December 2004, the draw down was Sh 393,250,000 (US\$ 5,000,000).

33 TERM LOAN

Barclays Bank of Kenya Limited

623,000



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

33 TERM LOAN (Continued)

The term loan from Barclays Bank of Kenya Limited is 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 at year end was 8.9%.

34 OTHER LIABILITIES

	GROUP		BANKS	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Payable under deposit administration				
Contracts	3,259,350	-	-	-
Long-term business funds	394,314	-	-	-
Provisions for insurance claims	2,996,900	744,575	-	-
Unearned insurance premiums	912,912	366,315	-	-
Amounts due to insurers	165,912	138,026	-	-
Bankers cheques unrepresented	325,290	137,458	325,290	137,458
Due to stockbrokers	-	48,631	-	-
Other liabilities	665,949	719,157	288,565	194,406
	8,720,627	2,154,162	613,855	331,864

35 SHARE CAPITAL

	Number of shares '000s'	Ordinary share capital Sh'000
Balance at 1 st January 2004	120,000	600,000
Bonus issue of shares	24,000	120,000
At 31st December 2004	144,000	720,000

The total authorised number of shares is 144,000,000 with a par value of Sh 5 each, all issued and fully paid up.

During the year, a bonus issue of 24,000,000 shares (1 share for every 5 held) was made by capitalizing Sh 120 million from the revenue reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)



for the year ended 31 December 2004

Top ten shareholders as at 31st December 2004:

No.	Name	Number of shares	%
1.	Gambit Holdings Ltd	65,763,339	45.67
2.	African Liaison & Consultants Ltd	39,751,092	27.60
3.	Sovereign Trust Ltd	18,431,624	12.80
4.	Kingsway Nominees Ltd	4,798,615	3.33
5.	Aruna Chandrakant Shah	727,232	0.51
6.	Phoenix of East Africa Assurance Ltd	641,917	0.45
7.	APA Insurance Ltd	371,188	0.26
8.	Sayani Investments Ltd	317,242	0.22
9.	Beechwood Investments Ltd	300,000	0.21
10.	Insurance Company of East Africa Ltd	264,000	0.18

The distribution of shareholders as at 31 December 2004 was as follows:

Number of shares	Number of Shareholders	Number of Shares Held	% Shareholding
1 – 500	483	101,832	0.07
501 – 5,000	700	1,329,499	0.93
5,001 – 10,000	362	2,453,786	1.70
10,001 – 100,000	331	7,005,517	4.87
100,001–1,000,000	18	4,364,696	3.03
Over 1,000,000	4	128,744,670	89.40
TOTAL	1,898	144,000,000	100.00



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2004 Sh'000	2003 Sh'000
(a) Reconciliation of consolidated profit before taxation to net cash from operating activities		
Consolidated profit before taxation	880,896	529,966
Depreciation	78,762	83,029
Amortisation of intangible asset	12,237	10,770
Amortisation of operating lease prepayments	2,163	350
Amortisation of goodwill	-	2,281
(Profit)/loss on sale of equipment	(273)	(3,478)
Dividends receivable - quoted and unquoted equity investments	-	(13,866)
Exchange difference on translation of a foreign subsidiary	-	(6,965)
Share of fair value gain in associate	(17,912)	-
Fair value adjustment for investment property	(13,714)	-
	942,159	602,087
(Increase)/decrease in operating assets		
Loans and advances to customers	(3,137,871)	(1,657,260)
Other investments	251,062	-
Other assets	(2,396,250)	(121,962)
Cash ratio requirement	(182,839)	(219,294)
Government securities	456,635	(3,159,048)
Effects of exchange rate changes	(3,603)	-
	(5,012,866)	(5,157,564)
Increase/(decrease) in operating liabilities		
Customer deposits	2,805,048	3,165,368
Line of credit	1,016,250	-
Other liabilities	2,786,655	332,583
Deposits due to other banking institutions	(50,688)	(7,399)
Life fund	(40,483)	-
	6,516,782	3,490,552
Net cash generated/(used) in operating activities	2,446,075	(1,064,925)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



36 NOTES TO THE CASH FLOW STATEMENT (Continued)

	2004 Sh'000	2003 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	161,794	146,387
Treasury bills and bonds	175,948	174,793
Deposits and balances due from banking institutions	1,264,614	780,111
Deposits and balances due to banking institutions	(1,464,202)	(1,170,840)
	138,154	(69,549)

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) During the period the Group acquired two subsidiaries (Note 27).
The fair value of assets acquired and liabilities assumed were as follows:

	Sh'000'
Total purchase consideration (All settled in cash and cash equivalents)	1,910,029
Cash and cash equivalents acquired	(152,696)
	1,757,333
Assets other than cash and cash equivalents	
Government securities	5,062,515
Other investments	998,389
Other assets	324,321
Prepaid operating lease rentals	713
Property and equipment	330,236
	6,716,174
Liabilities:	
Actuarial value of policy holders' liabilities	2,206,173
Payable under deposit administration contracts	3,259,350
Unearned premiums	98,122
Outstanding claims provisions	183,170
Other payables	296,673
	6,043,488





37 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2004 to the contractual maturity dates.

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
ASSETS								
Cash and balances with Central Bank of Kenya	648,218	216,323	42,467	50,764	9,341	-	-	967,113
Government securities	59,332	700,047	678,025	939,525	3,174,335	589,350	2,983,819	9,124,433
Deposits and balances due from banking institutions	937,768	93,005	6,182	133,985	93,674	-	-	1,264,614
Loans and advances to customers	2,685,460	2,103,713	1,321,129	1,289,200	2,982,605	367,715	219,543	10,969,365
Other assets	374,980	84,432	8,369	2,128,130	69,784	448,534	864,500	3,978,729
Investment in associates	-	-	-	-	-	107,095	-	107,095
Taxation recoverable	-	-	-	-	-	-	5,185	5,185
Investment properties	-	-	-	-	-	-	152,250	152,250
Other investments	-	1,202	-	1,202	24,606	78,900	1,123,569	1,229,479
Property and equipment	-	-	-	-	7,621	-	815,619	823,240
Operating lease prepayments	-	-	-	-	-	-	36,109	36,109
Intangible assets	-	-	-	-	6,639	-	12,307	18,946
Goodwill	-	-	-	-	-	-	1,084,647	1,084,647
Deferred tax asset	-	-	-	52,853	-	-	1,504	54,357
Total assets	4,705,758	3,198,722	2,056,172	4,595,659	6,368,605	1,591,594	7,299,052	29,815,562

	Up to 1 month Sh'000	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
EQUITY AND LIABILITIES								
Customers deposits	8,387,872	2,928,880	479,852	773,277	103,410	-	-	12,673,291
Deposits and balances due to banking institutions	730,000	734,202	-	-	-	-	-	1,464,202
Line of credit	-	-	-	-	-	1,016,250	-	1,016,250
Other liabilities	945,829	90,366	2,542,184	561,554	-	-	4,580,693	8,720,626
Taxation payable	6,901	35,622	-	-	-	-	7,966	50,489
Deferred tax liability	-	-	-	-	21,829	-	52,553	74,382
Unclaimed dividends	-	4,838	-	-	-	-	-	4,838
Share capital	-	-	-	-	-	-	720,000	720,000
Capital reserves	-	-	-	-	-	-	231,172	231,172
Revaluation reserves	-	-	-	-	-	-	20,961	20,961
Revenue reserves	-	-	-	-	-	-	1,429,698	1,429,698
Proposed dividends	-	120,800	-	-	-	-	-	120,800
Minority interest	-	-	-	-	-	-	501,394	501,394
Life fund	-	-	-	-	-	-	2,787,457	2,787,457
Total equity and liabilities	10,070,602	3,914,708	3,022,036	1,334,831	125,239	1,016,250	10,331,894	29,815,562
Net liquidity gap	(5,364,846)	(715,986)	(965,864)	3,260,828	6,243,366	575,344	(3,032,842)	-
As at 31 December 2003								
Total assets	3,957,571	1,841,009	2,361,647	3,230,595	2,194,230	959,030	1,886,264	16,430,346
Total equity and liabilities	10,064,094	909,359	1,019,130	572,409	250,796	57,285	3,557,273	16,430,346
Net liquidity gap	(6,106,523)	931,650	1,342,517	2,658,186	1,943,434	901,745	(1,671,009)	-

Customer deposits in the first category above represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.



38 INTEREST RATE RISK

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

	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	967,113	967,113
Government securities	759,379	678,025	939,525	3,174,335	589,350	2,983,819	-	9,124,433
Deposits and balances due from banking institutions	1,030,773	6,182	133,985	93,674	-	-	-	1,264,614
Loans and advances to customers	10,969,365	-	-	-	-	-	-	10,969,365
Other assets	-	-	-	-	-	-	3,978,729	3,978,729
Investment in associates	-	-	-	-	-	-	107,095	107,095
Taxation recoverable	-	-	-	-	-	-	5,185	5,185
Investment properties	-	-	-	-	-	-	152,250	152,250
Other investments	1,202	-	1,202	24,606	78,900	1,123,569	-	1,229,479
Property and equipment	-	-	-	-	-	-	823,240	823,240
Operating lease prepayments	-	-	-	-	-	-	36,109	36,109
Intangible assets	-	-	-	-	-	-	18,946	18,946
Goodwill	-	-	-	-	-	-	1,084,647	1,084,647
Deferred tax asset	-	-	-	-	-	-	54,357	54,357
Total assets	12,760,719	684,207	1,074,712	3,292,615	668,250	4,107,388	7,227,671	29,815,562

	1 - 3 months Sh'000	3 - 6 months Sh'000	6 - 12 months Sh'000	1 - 3 years Sh'000	3 - 5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
EQUITY AND LIABILITIES								
Customers deposits	11,316,754	479,852	773,275	103,410	-	-	-	12,673,291
Deposits and balances due to banking institutions	1,464,202	-	-	-	-	-	-	1,464,202
Line of credit	-	-	-	-	-	1,016,250	-	1,016,250
Other liabilities	-	-	-	-	-	-	8,720,627	8,720,627
Taxation payable	-	-	-	-	-	-	50,489	50,489
Deferred tax liability	-	-	-	-	-	-	74,382	74,382
Unclaimed dividends	-	-	-	-	-	-	4,838	4,838
Share capital	-	-	-	-	-	-	720,000	720,000
Capital reserves	-	-	-	-	-	-	231,172	231,172
Revaluation reserves	-	-	-	-	-	-	20,961	20,961
Revenue reserves	-	-	-	-	-	-	1,429,678	1,429,678
Proposed dividends	-	-	-	-	-	-	120,800	120,800
Minority interest	-	-	-	-	-	-	501,415	501,415
Life fund	-	-	-	-	-	-	2,787,457	2,787,457
Total equity and liabilities	12,780,956	479,852	773,275	103,410	-	1,016,250	14,661,819	29,815,562
On balance sheet interest rate sensitivity gap	(20,237)	204,355	301,437	3,189,205	668,250	3,091,138	(7,434,148)	-
As at 31 December 2003								
Total assets	10,310,817	684,965	1,042,470	4,424,440	499,209	3,499,669	4,335,217	24,796,787
Total equity and liabilities	10,132,639	870,024	87,108	-	-	-	13,707,016	24,796,787
On balance sheet interest rate sensitivity gap	178,178	(185,059)	955,362	4,424,440	499,209	3,499,669	(9,371,799)	-



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

39 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 2004.

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

At 31 December 2004

GROUP	Local currency Sh'000	US Dollar Sh'000	GB Pound Sh'000	Euro Sh'000	Others Sh'000	Total Shs'000
ASSETS						
Cash and balances with Central Bank of Kenya	919,387	36,863	6,715	3,883	265	967,113
Government securities	9,124,433	-	-	-	-	9,124,433
Deposits and balances due from banking institutions	581,821	367,082	310,218	602	4,891	1,264,614
Loans and advances to customers	8,360,303	1,930,367	19,783	658,912	-	10,969,365
Other assets	3,944,046	31,413	143	3,020	107	3,978,729
Investment in associate	107,095	-	-	-	-	107,095
Taxation recoverable	5,185	-	-	-	-	5,185
Investment property	152,250	-	-	-	-	152,250
Other investments	1,229,479	-	-	-	-	1,229,479
Property and equipment	823,240	-	-	-	-	823,240
Operating lease prepayments	36,109	-	-	-	-	36,109
Goodwill	1,084,647	-	-	-	-	1,084,647
Intangible assets	18,946	-	-	-	-	18,946
Deferred tax asset	54,357	-	-	-	-	54,357
TOTAL ASSETS	26,441,298	2,365,725	336,859	666,417	5,263	29,815,562
LIABILITIES						
Customer deposits	9,790,919	1,737,583	775,336	360,838	8,615	12,673,291
Deposits and balances due to banking institutions	1,188,732	87,720	45,645	107,330	34,775	1,464,202
Line of credit	-	1,016,250	-	-	-	1,016,250
Other liabilities	8,668,776	38,794	5,114	1,994	5,949	8,720,627
Taxation payable	50,489	-	-	-	-	50,489
Deferred tax liability	74,382	-	-	-	-	74,382
Unclaimed dividends	4,838	-	-	-	-	4,838
Life fund	2,787,457	-	-	-	-	2,787,457
TOTAL LIABILITIES	22,565,593	2,880,347	826,095	470,162	49,339	26,791,536

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004



39 CURRENCY RISK (Continued)

NET BALANCE SHEET POSITION	3,875,705	(514,622)	(489,236)	196,255	(44,076)	3,024,026
OFF BALANCE SHEET NET NOTIONAL POSITION	5,189,644	(308,423)	486,880	(192,120)	(48,169)	5,127,812
At 31 December 2003						
TOTAL ASSETS	22,616,831	1,690,989	194,616	289,919	4,432	24,796,787
TOTAL LIABILITIES	19,918,955	1,703,475	401,067	67,296	46,176	22,136,969
NET BALANCE SHEET POSITION	2,697,876	(12,486)	(206,451)	222,623	(41,744)	2,659,818
OFF BALANCE SHEET NET NOTIONAL POSITION	2,787,329	(88,822)	204,883	(225,153)	43,302	2,721,539

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

	2004 Sh	2003 Sh
US Dollar	78.6500	76.0000
GB Pound	152.1500	135.7100
Euro	107.3300	95.8100
Tanzania shilling	0.076923	0.074100



NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2004

40 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

(a) Contingent liabilities

GROUP AND BANK

	2004 Sh' 000	2003 Sh' 000
Acceptances and letters of credit	1,894,106	1,193,324
Guarantees and performance bonds	961,562	733,482
Spot and forward contracts	2,247,154	780,548
Others	24,988	14,185
	5,127,810	2,721,539

NATURE OF CONTINGENT LIABILITIES

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

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

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

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

Concentrations of contingent liabilities is covered under Note 42.

(b) Capital commitments

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Contracted but not provided for in the financial statements	30,498	52,157		7,127
Authorised but not contracted for	271,320	161,041	271,320	139,558

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004



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

(c) Commitments to extend credit

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

(d) Operating lease arrangements

The Bank as a lessor

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

	GROUP		BANK	
	2004 Sh'000	2003 Sh'000	2004 Sh'000	2003 Sh'000
Amounts receivable in respect of obligations under operating leases expiring:				
<i>Within one year</i>	962	1,924	962	20,799
<i>In one to five years</i>		962		7,254
	962	2,886	962	28,053
 <i>The Bank as a lessee</i>				
Amounts payable in respect of obligations under operating leases expiring:				
<i>Within one year</i>	10,330	14,869	10,330	9,538
<i>In one to five years</i>	46,227	41,088	46,227	41,088
<i>After five years</i>	105,990	87,295	105,990	87,295
	162,547	143,252	162,547	137,921



NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004

41 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 1,614,269,000 and buy Sh 1,653,137,000 equivalents under forward contracts denominated in US dollars, GBP pounds, Euro, and South African Rands.

42 CONCENTRATIONS OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

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

(a) Loans and Advances to customers

	2004 Sh'000	2004 %	2003 Sh'000	2003 %
Agriculture	1,017,752	9	614,634	7
Manufacturing	1,716,115	15	1,574,219	19
Wholesale and retail trade	1,737,751	15	1,274,208	15
Transport and communications	2,218,371	18	1,263,056	14
Real estate	81,800	1	47,594	1
Social community and personal services	134,675	1	45,789	1
Electricity and water	10,150	0	2,922	0
Business services	2,424,387	21	1,643,329	20
Other	2,397,335	20	1,941,553	23
	11,738,336	100	8,407,304	100

(b) Customer deposits

Non-profit institutions	5,075,935	40	4,566,920	45
Private enterprises	6,936,439	54	4,847,684	47
Insurance companies	688,209	5	478,514	5
Non public enterprises	169,130	1	228,734	2
Central Government	6,000	0	52,172	1
Co-operative societies	2,303	0	2,828	0
	12,878,016	100	10,176,852	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004



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

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

	2004 Sh'000	2004 %	2003 Sh'000	2003 %
Agriculture	504,420	10	194,016	7
Manufacturing	845,838	16	532,818	20
Wholesale and retail	305,894	6	358,101	13
Transport and communications	215,938	4	29,855	1
Business services	756,019	15	534,493	20
Other	2,499,703	49	1,072,256	39
	5,127,812	100	2,721,539	100

43 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 43,888,000 (2003 – Sh 33,040,006). Retirement benefit costs are included in staff costs (Note 8).

44 ASSETS PLEDGED AS SECURITY

As at 31 December 2004, there were no assets pledged to secure liabilities and there were no secured liabilities outstanding.

45 FAIR VALUES

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

46 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	
	2004 Sh,000	2003 Sh,000	2004 Sh,000	2003 Sh,000
<i>Loans and advances:</i>				
At 1 January		-	73,993	73,993
Advanced during the year		-	1,556,911	1,556,911
Repayments during the year		-	(1,417,856)	(1,417,856)
At 31 December		-	306,744	213,048
<i>Deposits:</i>				
At 1 January	26,837	18,306	396,420	313,885
Received during the year	230,486	8,531	12,067,475	11,437,628
Repaid during the year	(225,656)	-	(12,193,951)	(11,355,093)
At 31 December	31,667	26,837	269,944	396,420

Loans and advances to customers at 31 December 2004 include loans and advances to companies associated to the directors and loans to employees of Sh 731,420,000 (2003 – Sh 354,730,000). There were no outstanding advances to directors. These loans and advances are performing and adequately secured.

Contingent liabilities at 31 December 2004 include contingencies on behalf of companies associated to the directors of Sh 187,688,000 (2003 – Sh 151,721,000). Directors fees has been disclosed in Note 7.

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

47 RISK MANAGEMENT POLICIES

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

Credit risk

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

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

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

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

The bank has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers as set out in Note 42.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004



47 RISK MANAGEMENT POLICIES (Continued)

Interest rate risk

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

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

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

Liquidity risk

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

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

Currency risk

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

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

48 INCORPORATION

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

49 CURRENCY

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



PROXY FORM



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

_____ of _____

or failing him / her _____ of _____

or failing him / her, the duly appointed Chairman of the meeting as my / our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Bank to be held on 27th May 2005 and at any adjournment thereof.

As witness my/our hand(s) this _____ day of _____ 2005

Member

Notes:

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

FOMU YA UWAKILISHI

Mimi/Sisi _____ wa _____

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

_____ wa _____

ama akikosa _____ wa _____

ama akikosa yeye, basi namchagua / tunamchagua yule aliyechaguliwa Mwenyekiti wa Mkutano huu kuwa Mwakilishi wangu / wetu, kunipigia / kutupigia kura kwa niaba yangu / yetu katika Mkutano Mkuu wa Benki wa Mwaka utakaofanywa tarehe 27 Mei 2005 ama tarehe yo yote ile iwapo mkutano utaahirishwa.

Kama shahidi natia / tunatia sahihi hii / hizi _____ siku hii ya _____ 2005

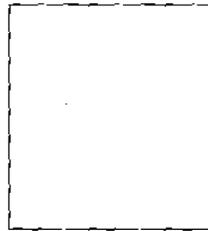
Mwanachama

Ukumbusho:

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



FOLD 2
KISHA KUNJA HAPA



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

FOLD 1
KUNJA HAPA KWANZA

FOLD 3
ALAFU KUNJA HAPA

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