Family Bank

Positively Transforming Life Since 1984

2009

ANNUAL REPORT

& FINANCIAL STATEMENTS

Best Bank in Tier 2
Best Bank in Micro Finance: 2nd Runners up

To all our customers countrywide,
Asanteni sana!
Your support has seen us grow from strength to strength.

Positively transforming life since 1984

Visit our website: www.familybank.co.ke

Family Bank
Faster, Friendlier Banking

Familynk...SMS Banking

My Phone, My Bank

Mobile Banking Services Available

- √ Balance Enquiry
- √ Mini Statement Request
- √ Salary Credit Advice
- √ Deposit Advice
- √ Counter Withdrawal Advice
- √ ATM Withdrawal Advice
- √ Airtime Purchase

... among other services

Register at any Family Bank Branch countrywide

Family Bank...Positively transforming life since 1984

CONTENTS

Vision

“To be the financial institution that leads in the positive transformation of people’s lives”

Mission

“We positively transform people’s lives by providing quality financial services through innovative, efficient and reputable practices”

Core Values

Teamwork
Respect
Integrity
Innovation
Professionalism
Passion for Excellence
Humility
Leadership by Example

Slogan

Positively Transforming Life Since 1984

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF FAMILY BANK LIMITED WILL BE HELD ON FRIDAY 28TH MAY 2010, AT KENYATTA INTERNATIONAL CONFERENCE CENTRE (KICC) AT 10.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS

(A) ORDINARY BUSINESS

1. Confirmation of quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if deemed fit approve the Audited Financial Statements of the Bank for the year ended 31st December, 2009 together with the Directors' and Auditors' Reports thereon.
4. To confirm the payment of dividend of Ksh 0.50 per share recommended by the Directors to Shareholders. The register will close on 28th May 2010 for the purpose of computation of dividend and reopen on 4th June 2010.
5. (a) To elect Directors as follows:
    - i) Director Dr. James Mukuha Njau, who retires by rotation and being eligible offers himself for re-election.
    - ii) Director Ng'ang'a Muchai retires after serving the Bank for twenty six years in the same capacity.

   (b) Confirmation of Directors Fees.
6. To note that the Auditors M/s Wachira Irungu & Associates continue in office for the ensuing year and authorize the Board to fix the auditors remuneration.

(B) ANY OTHER BUSINESS

To transact any other business of an Annual General Meeting.

By Order of the Board

Company Secretary
P.O. Box 74145 00200
Nairobi

CORPORATE INFORMATION

FOR THE PERIOD ENDED 31ST DECEMBER, 2009

REGISTERED OFFICE
Family Bank Limited
6th Floor, Fourway Towers, Muindi Mbingu Street
P.O. Box 74145
NAIROBI
Tel: 254-2-318173/318940/2/7/0720 098 300
Fax: 254-2-318174
Email: info@familybank.co.ke
Website: www.familybank.co.ke

DIRECTORS

T.K. Muya
Ng'ang'a Muchai
Kabiru Kinyanjui
James.M.Njau
D. K. Arap Some
Mark Keriri

MANAGEMENT

Peter Kinyanjui
Njung'e Kamau
Abubaker Athman
Nicodemus Kanyiri
Joyce Kamau

COMPANY SECRETARY

Mercy Kamau

LEGAL ADVISORS

E.W. Gachomba & Co. Advocates
Mboya & Wangong'u Advocates

BANKERS

Central Bank of Kenya
P.O. Box 60000 00400
Nairobi

AUDITORS

Wachira Irungu & Associates
Certified Public Accountants (K)
Dominion House, Muthithi Road
P. O. Box 46671 00100
NAIROBI
Tel No.: 3753270/71/74 Fax No.: 3753269
Email:info@dominion-wia.com

BOARD OF DIRECTORS, THE CEO, THE CFO AND THE COMPANY SECRETARY

Dr. Kabiru Kinyanjui

Mr. TK Muya

Prof. David Kimutai Arap Some

Dr. James Mukuha Njau

Mr. Ng'ang'a Muchai

Mr. Mark Keriri

Mr. Peter Kinyanjui (CEO)

Ms Mercy Kamau (Company Secretary)

Mr. Njung'e Kamau (CFO)

Mr. T K Muya (Chairman)
Mr. Muya is a career banker having started his banking career in 1984. Prior to this, he held various senior positions in the ministries of Home Affairs and Tourism. Mr. Muya also served as the institution's Chief Executive Officer from 1984 to June 2006.

Prof. David Kimutai Arap Some
Prof. Some is the immediate former Vice Chancellor of Moi University, Eldoret. He holds a Doctorate in Agricultural Engineering from the University of Newcastle-upon Tyne in the UK. He has a wealth of experience in leadership and management. Prof. Some serves on several boards and advisory committees.

Mr. Ng'ang'a Muchai,
Mr. Muchai is a graduate of Makerere and Kenyatta Universities, Mr. Muchai is an Educationist and a former principal of Mang'u High School. He is also a prominent businessman with interests in Nairobi and Thika.

Dr. Kabiru Kinyanjui
Dr. Kinyanjui is the chairman of the Public Universities Inspection Board and an International Development Consultant. He is also the chairman of the Kenya National Examination Council (KNEC). He holds Masters and Doctorate degrees from Harvard University. Dr. Kinyanjui has authored distinguished publications and is the chairman of the K-Rep Advisory Services Limited.

Dr. James Mukuha Njau
Dr. Njau served as the General Manager of Welcome Kenya Ltd. and is a former Managing Director of Cooper Kenya Ltd. He is a veterinary doctor by profession with a broad commercial expertise.

Mr. Mark Keriri
Mr. Keriri is an Executive Director of Family Bank and the Head of ICT. Mr. Keriri previously worked for PNC Bank in Pittsburg, Pennsylvania and holds a Bachelor of Science Degree (Major Information Technology; Minor Finance) from the Duquesne University in Pennsylvania USA.

1. Mr. Peter Kinyanjui,
Chief Executive
Mr. Kinyanjui joined the institution on 1st August, 2005 as the Business Development Manager then moved on to be the Head of Operations. He is currently the Chief Executive. Mr. Kinyanjui is a professional banker with over 20 years experience in banking operations, financial and risk management. He started his banking career with Barclays Bank and later Industrial Development Bank where he held senior managerial positions.
He holds a Bachelor of Science degree in Business Administration and Masters in Business Administration from USIU. He is also an Associate of the Chartered Institute of Bankers London and a Fellow of the Kenya Institute of Bankers.

2. Mr. Njung'e Kamau,
Chief Finance Officer
Njung'e Kamau joined the Bank on 14th February 2005 as a Finance Manager. He has over 18 years professional working experience in Audit, Business Assurance, Risk and Financial Management. He commenced his career with Ernst & Young and also worked with Lonrho Africa Plc as a Senior Auditor covering 14 countries. He has also worked with East African Breweries Limited (EABL) as a Manager, Business Risk Assurance. Prior to joining Family Bank, Njung'e was the Finance Manager at Equity Bank. He holds an MBA in Finance & Banking, a Bachelor's degree in Commerce (Accounting Option) from the University of Nairobi. He is also a Certified Public Accountant, Certified Public Secretary & a member of ICPAK. Njung'e has also attended several banking and other courses locally and in the USA and Australia.

3. Mr. Mark Keriri,
Executive Director & Head of ICT
Mr. Keriri is an Executive Director of Family Bank and the Head of ICT. Mr. Keriri previously worked for PNC Bank in Pittsburg, Pennsylvania and holds a Bachelor of Science Degree (Major Information Technology; Minor Finance) from the Duquesne University in Pennsylvania USA.

4. Mr. Abubaker Athman,
Head of Operations & International Banking
Mr. Athman joined the institution on 3rd October 2005, and is currently the Head of Operations & International Banking. He has extensive banking experience of over 15 years in Banking Operations, Business Development and International Trade. He previously worked with Habib Kenya Finance, Habib AG Zurich and Industrial Development Bank. He holds a Bachelor of Education (Honors) degree from the University of Nairobi. He majored in Commerce and Economics. He has participated in both local and international workshops, seminars and trainings related to Banking.

5. Ms. Mercy Kamau,
Company Secretary
Ms. Mercy Kamau joined the Bank in September 2008 and was appointed as Company Secretary. She is a Certified Public Secretary (CPS) with the Institute of Certified Public Secretaries of Kenya (ICPSK) and an advocate of the High Court. Mercy holds a Bachelor of Law degree with a Diploma in Law from Kenya School of Law, and a Masters in Law (LLM) from University of Nairobi. Mercy served as a Company Secretary/Legal Advisor with Kabage & Mwirigi Insurance Brokers Limited in 1994, and later as commercial and litigation advocate and Legal Advisor. She later joined Kagwe, Kamau & Karanja Advocates as a Partner. Prior to this appointment, Mercy held the position of Company Secretary/Legal Advisor and Nonexecutive director with Paramount Universal Bank Limited.

6. Ms. Joyce Kamau,
Head of Human Resources
Joyce joined the Bank on 1st January 2007 as Head of Human Resources. She is an experienced banker with over 10 years working experience gained while working with Barclays Bank both at Branch and Head office. She is a HR practitioner with extensive experience in the HR field. She was previously working as the Company Training Manager for Homegrown Kenya Limited. Prior to this assignment, she was the Regional Learning & Development Manager for Barclays Africa responsible for the East African Region. Joyce is a double major graduate in Accounting/ Business Administration & Management from Daystar University. She is currently pursuing an MBA with concentration in Strategic Management and Human Resources Management. Joyce also holds a post graduate qualification in HR Management from Kenya School of Professional Studies and a Diploma in

Left-Right: Njung'e Kamau, Chief Finance Officer, Mercy Kamau, Company Secretary, Mark Keriri, Executive Director and Head of ICT, Peter Kinyanjui, Chief Executive and Abubaker Athman, Head of Operations & International Banking

Left-Right: Kevin Kihara, Relationship Manager CEO's Office, Benjamin Ikenye Head of Business Growth and Development, Joyce Kamau, Head of Human Resources, Nicode-mus Kanyiri, Head of Credit and Julius Muya, Head of Marketing & Communications

IT from the Institute of Data Processing Management (UK). She is a member of the Institute of Personnel Management, Kenya and the British Council Leadership Forum.

7. Mr. Julius Muya,
Head of Marketing
Mr. Muya holds a Bachelors Degree (BA Economics) from Maxwell School of Arts and Sciences, Syracuse University New York. He joined the institution in August 2006 bringing 10 years wealth of experience in Marketing and Business growth in commodity markets. A licensed commodities broker, he has worked with SunTrust Bank, Foreign Currency International and Risk Capital Trading in Atlanta Georgia where he trained in the commodities brokerage industry. He is also a graduate of IBSS, Hongkong.

8. Benjamin Ikenye,
Head of Sales and Business Development
Mr. Benjamin Ikenye joined Family Bank on 7th January 2008 having held the position of Customer Service Manager & Branch Manager (Naivasha & Fourways Tower branches) at Equity Bank. He is the Head of Sales & Business Development. He had worked previously with Family Bank Limited as a Branch Operations Officer and joined the Marketing Team as Assistant Marketing Manager. He holds a B.A. degree (Economics and Sociology) and a Master of Arts.

9. Mr. Nicodemus Kanyiri,
Head of Credit
Nicodemus joined Family Bank on 2nd May 2008. He started his banking career in 1998 at Barclays Bank where he served in various capacities, the last one being Risk Assessor. He later joined Equity Bank where he had served as Head of Credit Risk for over 4 years. He holds a Bachelor of Science Degree in Mathematics from the University of Nairobi.

10. Mr. John Wachiuri,
Manager, Audit
Mr. Wachiuri commenced his career as an Internal Auditor with Equity Bank Limited, and later moved to Credit Bank Limited as Finance Officer. He joined Family Bank Limited as Compliance Officer, and was appointed Audit Manager on 1st June 2008. Mr. Wachiuri also has experience as a Lecturer gained at Strathmore University, School of Accountancy. Mr. Wachiuri is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is a Certified Public Accountant (CPA-K). Mr. Wachiuri holds a Bachelor of Education degree in Business Studies and Economics and is currently pursuing a Masters of Business Administration (Finance Option).

11. Mr. John Mohoni Rioba
Manager Ag. Risk & Compliance
John joined Family Bank in 2004 as Branch Supervisor. He then joined the Internal Audit Department as Internal Auditor in 2008 and later promoted to the position of Assistant Manager. He is an experienced accountant and has previously held various accounting responsibilities at Parklands Sports Club and the donorfunded Kuria Development Project. Mr. Rioba is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and currently pursuing a Bachelor of Business Administration at Kenya Methodist University.

Left-Right: Harun Njuguna, Manager, Debt Recovery Unit, Francis Owino, Manager, Security & Investigation, John Rioba Manager, Risk & Compliance, and John Wachiuri Manager, Audit, Dipesh Shah, Manager, Bancassurance

12. Mr. Kevin Kihara,
Relationship Manager, CEO's Office
Kevin holds a B.A in Government and Economics from University of Texas at Austin and a Masters of International Public Policy (M.I.P.P.) from The School of Advanced International Studies (SAIS), Johns Hopkins University (USA). Kevin brings to Family Bank valuable experience gained from previous assignments: Operations Officer, Dyer & Blair Investment Bank (1994-1996) and later as Trade & Investment Officer with The AGOA Linkage in COMESA (2001-2006). Prior to joining Family Bank, he was Analyst in Private Equity with Kingdom Zephyr Africa Management Co. Ltd and Wolfensohn and Co. where he left to join the Bank in April 2009.

13. Mr. Francis Owino,
Manager, Security & Investigation
On 26th June 2007, Mr. Owino joined Family Bank. His experience in Security and Investigation matters spans over fifteen (15) years, with thirteen (13) years at Co-operative Bank. Positions held include Security Officer, Internal Auditor Inspection Department, and Manager Security Department. In addition, he also held the role of part-time trainer. Francis received his first training at Kenya Police Training College and later trained as an Inspector of Police. He has successfully undergone various security related training courses including criminal investigations at an advanced level, fraud, and customer service.

14. Mr. Harun Njuguna,
Manager, Debt Recovery Unit
Mr. Njuguna joined the bank in March 2000. He is seasoned banker having worked with Standard Chartered Bank for 24 years in various capacities, including but not limited to being the Branch Manager Moi Avenue Nairobi. Mr. Njuguna has wealth of experience and has completed numerous relevant banking courses.

15. Mr. Dipesh Shah,
Manager, Bancassurance
Dipesh joined the bank on 1st October 2009 as the Bancassurance Manager. He holds an Engineering degree (Electronics) and is currently pursuing his MBA (Strategic Management) at Strathmore Business School. He has vast experience in the insurance and investment industry, having previously worked with Jubilee Insurance Company and Old Mutual. He has participated widely in various training sessions in Kenya and abroad.

CHAIRMAN'S STATEMENT

Mr. TK Muya, Chairman

PREAMBLE TO THE SHAREHOLDERS

I am pleased to present the Annual Report and Accounts of the Bank for the financial year ended 31st December 2009. The Bank marked 25 years as a financial institution devoted in positively transforming the lives of our customers and the communities around them. The silver jubilee celebrations held on 22nd June 2009 were graced by His Excellency the President and Commander in Chief of the Armed Forces, Mwai Kibaki.

From the mid 1980's, majority of Kenya's population became essentially "unbanked" due to wholesale rationalization of branch networks by Kenya's mainstream banks. The punitive cost of bank accounts particularly in the rural areas, resulted to most of the regions lacking a single bank branch to offer them with financial services. As I reflect on our background as the Chairman, it is upon this foundation of the unbanked that Family Bank, then Family Finance Building Society, was started with its mission to positively transform the lives of its customers with zeal. The Bank has over the years been strengthened by the strong goodwill and support from our customers. It is on the backdrop of this that Family Bank today is the Bank of Choice to over 600,000 Kenyans from all walks of life served at our 50 branches countrywide.

We dedicate this Anniversary to all our very loyal and highly esteemed customers, staff and all other stakeholders and look forward to serving you for many more years to come.

TRADING ENVIRONMENT

A reluctant path to economic recovery was registered in 2009. In this challenging year, the GDP growth reached 2.5% compared to 1.7% growth registered in 2008. This was still far below the 2007 GDP growth of 7.1%. While the GDP growth in the first and second quarters of 2009 increased to 4% and 2.4% respectively, the growth rate dropped in the third quarter to 0%. This was mainly a result of a contraction in the largest sectors of the economy, i.e., agriculture and forestry, which are mainly the pillars of economic growth that traditionally contributes half of the GDP.

The slow economic growth during the year affected banking operations. The profound challenges such as global economic crisis, the lingering impact of the post election violence and severe drought were systemic impediments to economic growth in general and characterized the difficult trading environment of the year under review.

Drought was a singular and pervasive factor that impacted negatively on agriculture causing food deficits countrywide. The UN's Food and Agriculture Organization (FAO) reported that Kenya's cereal output in 2009 was an estimated 22% lower than the production of 2008. These lower production levels led to food price inflation that reorganized domestic household income away from savings and investment towards consumption.

President Mwai Kibaki and the Chairman, TK Muya, cutting the 25th Anniversary Cake. Looking on is the CEO, Peter Kinyanjui, and the Company Secretary, Mercy Kamau

These internal shocks were heightened by higher prices for inputs such as fertilizers and seeds that further negatively affected agricultural production. However, lower crop production output led to higher commodity prices overall. Production of tea, which is the mainstay agricultural export product, fell to 314,193 Metric Tonnes in 2009 compared to 345,818 Metric Tonnes in 2008.

With these unfavorable weather conditions, the economy also shouldered the burden of both higher prices and higher energy costs by falling levels in the country's major hydro-power generating dams. The need to switch to relatively expensive thermal sources of electricity as well as the increased costs of inputs for agro-processing contributed to the demise of the performance of the manufacturing sector in 2009.

The Kenyan National Bureau of Statistics (KNBS) moved to adopt the geometric mean in the calculation of inflation, leading to the release of a new inflation series in October 2009. The level of inflation was lower in the geometric mean series through the elimination of what is viewed to be an upward bias in the calculation of inflation using the arithmetic mean. Yet despite this computational change, food inflation remained the main driver of inflation contributing to more than two-thirds of inflationary expansion in the year under review.

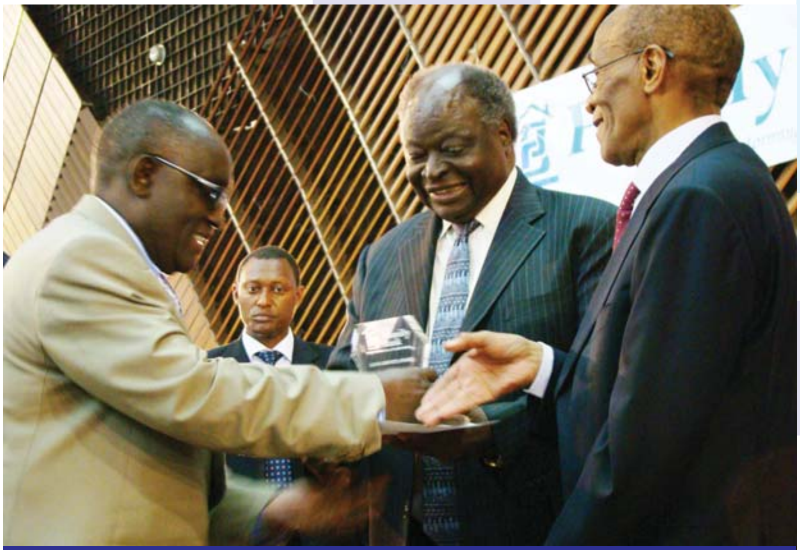
At a colorful contract signing ceremony in Bangalore, India, between Family Bank and Oracle Financial Software Services Ltd for the implementation of Flexicube core-banking system to run the bank's operations.
Standing: Prof. David Kimutai Arap Some (FBL Director) and Deepak Kunhikannan (Oracle Regional Sales Manager)
Seated from left to right: Mr. Peter Kinyanjui (FBL CEO), Mr. T.K Muya (FBL Chairman), Mr. N R K Raman (Oracle MD & CEO), and Mr. K Suryanarayan (Oracle Regional Sales Head).

Food inflation was an average of 12.8% in 2009, compared to an overall inflation of 9.4% in 2008. The underlying inflation, as considered by the Central Bank of Kenya, was on average 6.6% during the year, falling to 5.3% in December 2009. This measure of inflation excludes food, energy and transport. The high inflationary trends have led to high cost of doing business.

The Nairobi Stock Exchange (NSE) 20 Share Index closed at 3,247 in 2009, which was below the high of 5,646 points registered in 2006. The impact of the global economic crisis and the subdued domestic appetite led to a bear market for equities towards a bias in more stable fixed income instruments and bonds. This switch in investment preferences has been driven by Government fiscal spending that in FY2009/2010 was accelerated through a national stimulus package projected to reach Ksh 140 billion partially financed through infrastructure bonds.

In the banking sector, one additional commercial bank license was issued in 2009 leading to 46 licensed commercial banks and one mortgage finance company (of which 32 of these institutions are locally owned and 13 are foreign owned), one deposit taking microfinance institution and 130 licensed forex bureaus. The footprint of the commercial banks in September 2009 stood at 918 branches, an increase of over 154 branches from the corresponding period in 2008.

The Treasury Bills' rates dropped to 6.7% and 7.3% for the 91 and 182 days respectively as compared to 7.35% and 8.22% for 91 and 182 days respectively during the same period last year. The rates were 8.59% and 9.06% respectively as at the end of 2008. Further, overnight lending rates have dropped from an average of 5.78% last year to an average of 2.5% thus adversely affecting the income earned. The dropping rates' trend is expected to persist given the Government's Monetary Policy market interest intervention of further reducing the CBR rate from a high of 8.5% to the current 6.75%. This is aimed at stimulating supply of credit that will support economic growth and anchor inflation.



President Mwai Kibaki giving an award to the longest serving staff, Mr. John Njoroge who has worked for the bank for 25 years. Looking on is the Chairman, TK Muya

The foreign exchange rate, though high, remained stable for most of the year despite experiencing a few shocks during the said period.

EXPANSION AND BRANCH NETWORK

This significant performance was driven by strong growth and expansion seen in the consumer finance market particularly among the Bank's mass market customers who continue to power its low margin - high volume business model.

The bank continued to expand its footprint in the Kenyan market by opening seven new branches, namely; Tom Mboya, Kayole, Gikomba-Sokoni, Kitengela, Ngara, Naivasha and Industrial Area. The number of outlets stood at 50 branches by the end of year 2009.

RIGHTS ISSUE

During the Extra-Ordinary Meeting of the shareholders of the Bank held on 30th September 2009 at the Kenyatta International Conference Centre (KICC), the shareholders resolved;

- To split the Bank's shares from a par value of Five Kenya Shillings each(5/-) to a par value of Two Kenya Shillings each (2/-) which therefore increased the number of shares held by two and a half times;
- To increase the Bank's share capital from Five Hundred Million Kenya Shillings (500,000,000/-) to One Billion Kenya Shillings (1,000,000,000/-);
- To approve a rights issue of shares to the shareholders of the Bank prorata to their shareholding.

CORPORATE GOVERNANCE STATEMENT

The Bank practices good corporate governance in line with the guidelines provided by the Central Bank of Kenya for the banking industry. The Board recognizes corporate governance as a fundamental part of the culture and business practices that are undertaken with due regard to the entire bank's stakeholders and its role in the community. A comprehensive report on corporate governance is included in this report.

CORPORATE SOCIAL RESPONSIBILITY

Family Bank participates in various corporate social responsibility activities as indicated in our corporate social responsibility statement included in this report.


Family Bank 25 Years Anniversary Cake

FUTURE PLANS

The bank will continue to expand outreach to reach the unbanked Kenyans by opening additional strategic branches in 2010. Additional ATMs will also be installed in strategic locations to make cash and other services easily accessible to our customers. We will also explore the possibilities of introducing other value adding services.

In addition, the Bank will work on completing the ongoing implementation of the new flexcube core-banking software and the ATM point of sale products' project roll-out. The new Core Banking System will also allow more functionalities in our current operations and product offering. This will not only improve efficiency and customer service delivery, but will also enable the introduction of new offerings in addition to the existing line of quality products and services.

The Bank has also welcomed CBK amendments to the Banking Act that will allow Agency Banking and the use of third parties by banks to provide banking services. Family Bank is working on plans to venture into this market in future.

CONCLUSION

Despite the challenges faced during the year, the Bank was able to grow and register good financial results. Year 2010 looks positive and we remain strong in looking forward to a better year.

I take this opportunity to thank our customers, shareholders, the Board, staff and all other stakeholders for the continued support, goodwill and for making the year a success. It is also my sincere hope that with your continued support, we shall continue to grow this bank in many years to come.

Thank you

T.K. Muya

HIS EXCELLENCY PRESIDENT MWAI KIBAKI, THE MINISTER FOR FINANCE, UHURU KENYATTA AND THE CBK GOVERNOR PROF. NJUGUNA NDUNG'U, POSE FOR A GROUP PHOTO WITH THE OFFICIALS OF FAMILY BANK DURING THE JUBILEE CELEBRATIONS HELD AT K.I.C.C ON THE 22ND JUNE 2009

THE CEO'S STATEMENT


Mr. Peter Kinyanjui (CEO)

PREAMBLE

I am happy to highlight the performance of the Bank and other activities that were undertaken by the Bank during the year under review.

FINANCIAL PERFORMANCE

Family Bank recorded an impressive financial performance for the year ended 31st December 2009. This was on the back drop of slower economic growth domestically during the year.

Deposits grew by 38% from Ksh 7.6 Billion in 2008 to Ksh 10.5 Billion in 2009. Loans & Advances to customers grew by 30.5% from Ksh 5.9 Billion in 2008 to stand at Ksh 7.7 Billion in 2009. Total assets of the bank grew by an impressive 27% from Ksh 10.6 Billion in 2008 to Ksh 13.5 Billion in 2009. In turn with this growth, shareholders' funds grew by 19% from Ksh 1.6 Billion to Ksh 1.9 Billion. In year 2009, the Bank recorded a profit before tax of Ksh 342.6 Million compared to a pre-tax profit of Ksh 530.7 Million for 2008. Gross income grew by 14% from Ksh 2.1 Billion in 2008 to Ksh 2.4 Billion in 2009. The growth was driven by aggressive marketing and the opening of another 7 branches countrywide bringing the number of branches to 50. This was also attributable to an increase in lending, investments in treasury bills, and placements with other banks.

KEY ACHIEVEMENTS & AWARDS

On 2nd November 2009, the Bank started participating directly in the Automated Clearing House (ACH) after being hand-held (clearing through) by Consolidated Bank for just two and a half years.

The Bank was also nominated to the Security and Clearing House Committee membership of the Kenya Bankers Association (KBA).

The Bank also marked 25 years during the year.

The Bank was ranked 5th overall in a composite rating by Kenya Banking Survey and Best Bank in Tier II and 2nd Runners Up Best Bank in MicroFinance among all banks in the country. The survey also ranked the Bank 4th and 5th in customer numbers and branch network respectively.


Rose Detho, Director, Banking Supervision, Central Bank with Family Bank's Chief Executive Mr. Peter Kinyanjui (right) and Abubaker Athman, Head of Operations holding the awards which were awarded to Family Bank.

ENHANCEMENT IN THE BANK'S TECHNOLOGY

During the year under review, the Bank embarked on major systems and process re-engineering on the core banking System and the ATM Switch.

Towards this end, the Bank partnered with Oracle Financial Services Software Ltd to implement flexcube, a formidable core banking platform, that will enable the Bank to run a centralized online system on real time basis that can handle millions of accounts and high transaction volumes with 24/7 up-time and connectivity. These initiatives are also to ensure that the Bank responds to the high competitive financial services market that demands scale, accessibility and convenience in banking services. Central to this partnership with Oracle is that the flexcube platform will also provide Family Bank with capacity for multiple product delivery with a full suite of financial products that extend its retail and business banking services to new product lines in the future. This platform will additionally support other alternative banking channels including ATMs, point-of-sale (POS) terminals, call centers, mobile devices, and internet banking to complement its existing financial services.

In line with the Bank's objective of enhancing accessibility to our customers, the Bank continued to enhance its Automated Teller Machine (ATM) network in the year under review. The Bank while remaining a member of the Kenswitch shared ATM switch consortium, acquired its own ATM Switch from Postilion. This is an ATM transaction processing engine which will now enhance greater efficiency on customers' transaction processing and ATM card management. The other benefits include increased uptime of the network connectivity, faster roll-out of e-banking products & m-banking products per customer needs, greater monitoring & control of our ATMs, and enhanced security and transactions integrity.

The ATM project which was started in 2006 in partnership with Kenswitch, has so far achieved a roll-out of 90 ATMs across the branch network. The ATM Switch will be connected to both the Bank's and Kenswitch ATMs. The Bank's ATMs are accessible both to our customers and other Kenswitch network ATMs throughout the country. Family Bank is one of the banks with the highest number of ATMs on the Kenswitch network, which currently has a total of 665 shared ATMs.

To provide convenience and extend its outreach beyond brick and mortar, the Bank focused on increasing its distribution by introducing new mobile-phone based products that leverage the networks of mobile phone operators with Safaricom's mobile money transfer platform, M-pesa, as a particular focus. The Bank thus has partnered with Safaricom to deliver these services to our customers.

Family Bank has also integrated its banking systems with the M-pesa money transfer platform to launch two distinct products, *Pepesha Pesa!* that facilitates the payment of loans through M-pesa mobile fund transfer and *Chapaa Chap! Chap!* that facilitates M-pesa money transfers from Family Bank ATMs to a registered M-pesa customer. In a further innovative development, *Pepesha Pesa!* also facilitates the withdrawal of funds from a customer's account to M-pesa, eliminating the need to come to the Bank and offering 24/7 banking services.

With these products, Family Bank has taken the strategic initiative to complement the mobile money transfers towards greater accessibility and convenience for our customers. The Bank has therefore taken a market lead in recognizing the convergence of technology and banking in the future.

STAFF COMPLEMENT

The Bank is an equal opportunity employer and has also built up a formidable staff capacity drawn from all over the country. Training and development has been a major activity of the Bank over the years. The Bank now has its own training center. Our focus in staff development has been mainly credit, operations and customer service as well as in marketing. Staff training and development was therefore a major investment during the year to enhance knowledge and skills, and build reliable in-house capacity. The staff complement was 938 staff as at the end of the year.

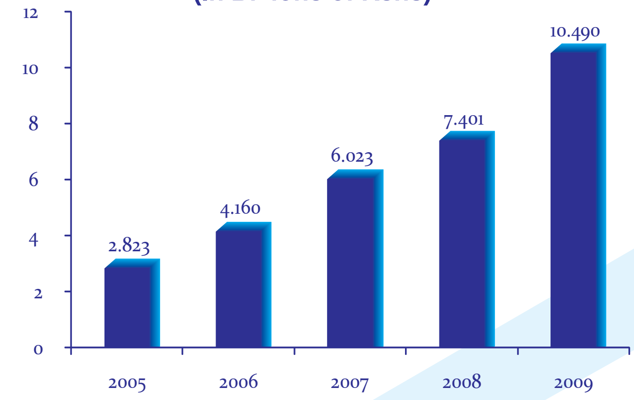
CONCLUSION

The financial performance for the year was commendable and we are positive that we shall perform much better as we accelerate the momentum into the future. I take this opportunity to thank all our customers, shareholders, staff and all other stakeholders for their support.

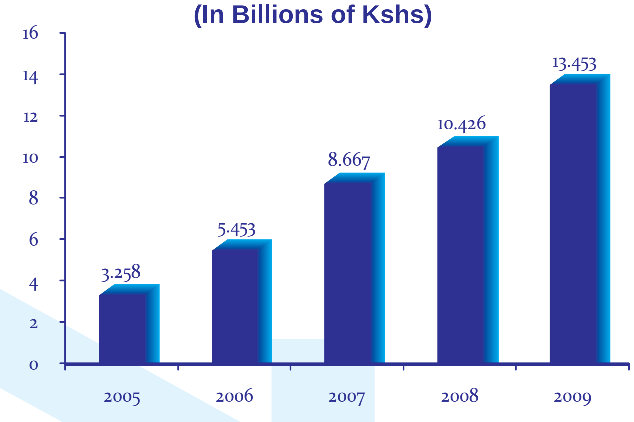
Thank you

Peter Kinyanjui

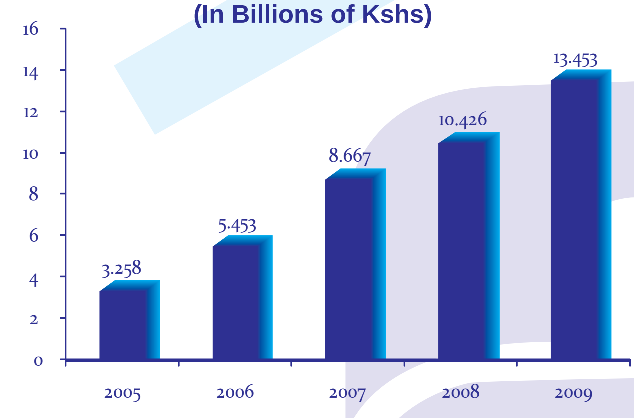
Customer Deposits
(In Billions of Kshs)



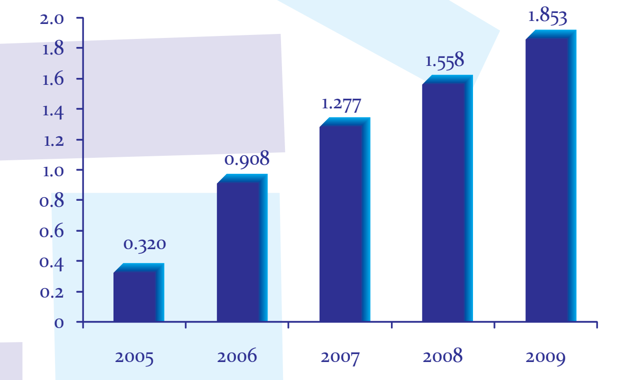
Loan Portfolio
(In Billions of Kshs)



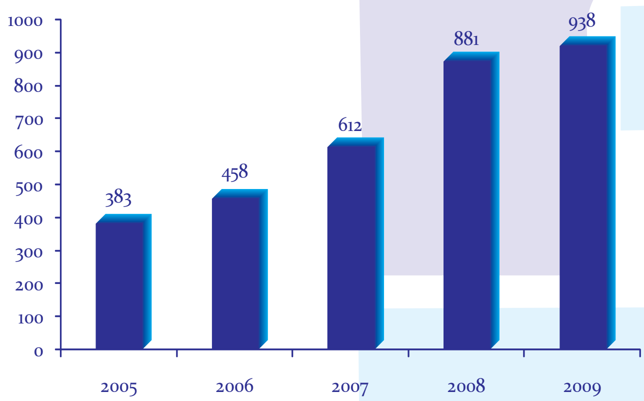
Total Assets Trend Analysis
(In Billions of Kshs)



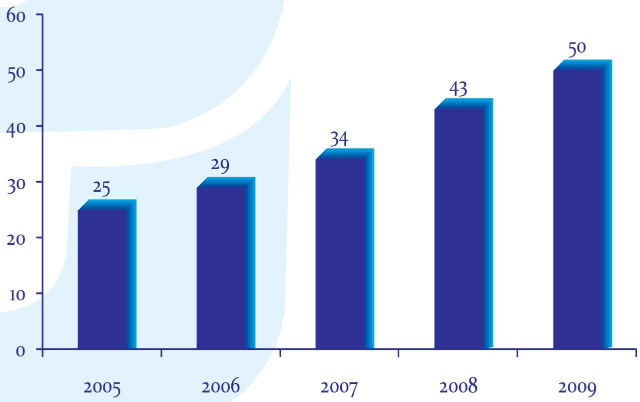
Shareholders' Fund
(In Billions of Kshs)



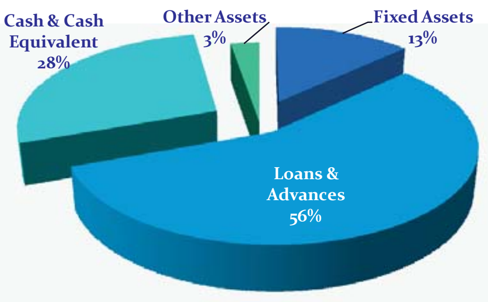
Staff Numbers



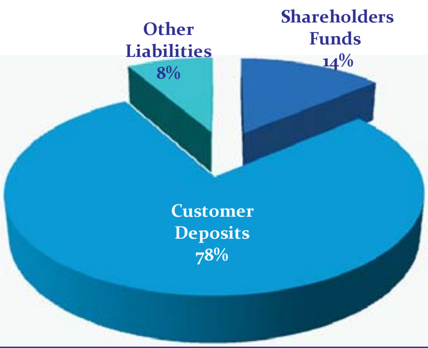
Number of Branches



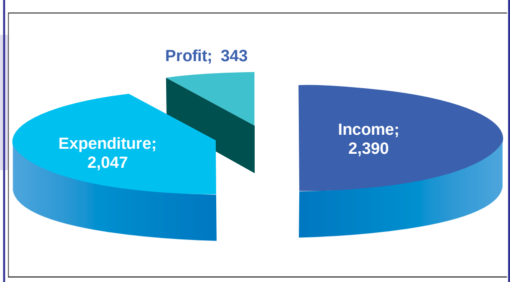
Composition of Assets



Composition of Liabilities



Total Income, Expenditure & Profit
(In Millions of Kshs)



REPORT OF THE DIRECTORS

The Directors have the pleasure of presenting their report together with the audited financial statements for the year ended 31st December 2009.

ACTIVITIES

The principal activities of the Bank are the provision of banking and other related financial services.

RESULTS

The results for the year are shown on page 24 to 49.

DIVIDEND

The board recommend a dividend of Ksh 0.50 per share amounting to Ksh 92,054,858 for the year ended 31 December 2009 subject to approval by shareholders at the annual general meeting.

DIRECTORS

The directors who served during the year are shown on page 5

AUDITORS

The auditors Messrs Wachira Irungu & Associates have expressed their willingness to 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:

Director

Director

26th March 2010

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY

Family Bank Limited as a corporate citizen has made deliberate efforts to demonstrate leadership in Corporate Social Responsibility (CSR) initiatives. The Bank is involved and participates in events and activities that lead to the positive transformation of people's lives. Family Bank prides itself by contributing in the areas of Education, Talent development, Sporting, Social and Economic well-being aspects. Its worth noting that this was the year that the bank celebrated 25 years of existence.

President Mwai Kibaki and the Bank Chairman, TK Muya, presenting the Manager of AIC Childrens Home of Nyanza, Eric Ojuang' Jerre, with a Cheque donation

SOCIAL

The celebrations were also marked by contributing various donations to several community projects some of which are as follows;

- Hisabul Ayatum childrens home in Nothern Kenya
- Springs of Hope Childrens center in Eastern Kenya
- AIC Childrens Home in Nyanza

The Bank and staff also donated foodstuff to feed the hunger stricken Kenyans in various parts of the country.

In addition the Bank also partnered with Kenya Scout Movement to sponsor the 13th World Scout Moot and the dinner for the same. The bank also sponsored the 'One Song Event' that brought together several choral groups from East and Central Africa.

EDUCATION

During the year 2009, Family Bank continued to support education initiatives with an aim of building and enhancing capacity. The bank donated over 19 trophies to various schools to award the best students during prize giving events. There was also a direct recognition to the Masinde Muliro University Scholar challenge where recognition certificates were awarded by the Bank. These donations and awards have gone a long way in becoming a source of motivation to the students' fraternity.

TALENT DEVELOPMENT

The Bank runs initiative of the University Talent Development (UTD) Program. This program targets and benefits the best boy and girl in the Kenya Certificate of Secondary Education (KCSE) from each of the eight (8) provinces in the country. Since inception of the program, Family Bank has given several young secondary school graduates an opportunity to work with the Bank and get exposed to work environment as they prepare to join various Universities. Family Bank working environment ensures that the trainees are mentored with an aim of making them responsible citizens as they join the institutions of higher learning. In addition, the Trainees get an opportunity to save in a safe environment for their university tuition fees.

SPORTS

The Bank also supported sporting activities including sponsorship of the world youth chess championship final qualifiers. The Bank also branded and sponsored the calendar of events for Limuru Country Club. The Bank, which is the official sponsor of the Eldoret Marathon supported the year 2009 event, where sports men and women from all over the country participated.

ECONOMIC DEVELOPMENT

Family Bank continues to partner with the Government of Kenya through the Ministry of Gender, Culture and Social Services to support the Kenyan Women entrepreneurs and those who wish to start businesses. Through this programme women entreprenuers have received loans and advances to the tune of Kshs 202 Million. The Bank is also a financial intermediary for the Youth Enterprise Development Fund where over 7,000 youth have received loans and advances totalling to over Kshs 0.6 Billion.

CONCLUSION

Family Bank is committed to the positive transformation of People's lives and to this end the bank has deliberately integrated various aspects of life in its corporate social responsibility activities. The bank continually encourages the employees, shareholders and other stakeholders to identify areas where it can participate in other areas of corporate social responsibility. This has gone a long way in positioning the bank in its quest to contribute effectively to the positive transformation of people's lives.

PREAMBLE

Corporate governance is the process of directing and managing an organization's business in a transparent and accountable manner with the ultimate objective of maintaining and enhancing long-term shareholder and other stakeholders' value and satisfaction.

The Board of Directors' promotes the best practice on corporate governance per the guidelines developed by Central Bank of Kenya for the banking industry. The Board recognizes corporate governance as a fundamental part of the culture and business practices that are undertaken with due regard to the entire bank's stakeholders and its role in the community.

Family Bank has adequate policies and procedures in place that are reviewed regularly and which include clearly defined responsibilities and authority of directors, the Chief Executive Officer and management.

SHAREHOLDERS

The shareholders' responsibility is to appoint the Board of Directors, appoint the external auditors and ensure that the Board is held responsible and accountable for the efficient and effective governance of the institution. There is no shareholder acting as an executive director or in management with more than 5% shareholding.

The bank publishes the quarterly and audited annual accounts in the daily newspaper(s) in line with the Central Bank of Kenya requirements and the same is also updated on our website.

All shareholders are entitled to attend the Annual General Meeting.

BOARD OF DIRECTORS

The Board of Directors is responsible for the overall corporate governance of the Bank. The Board's Charter sets out the objectives which include among others to provide strategic guidance and effective oversight of the management and maximization of the banks' financial performance and shareholder value within the framework of appropriate risk assessment.

BOARD COMPOSITION

Family Bank has a competent Board of Directors with diverse backgrounds, expertise and work experience. The Board comprises of a Chairman, Mr. T.K. Muya, an executive director, Mr. Keriri Muya and four non-executive directors, namely, Mr. Ng'ang'a Muchai, Prof. David Kimutai Arap Some, Dr. Kabiru Kinyanjui and Dr. Mukuha Njau. The Chairman of the Board of Directors is a non-executive director.

RESPONSIBILITIES OF THE BOARD

The Board provides strategic guidance to the Bank and assumes primary responsibility of fostering the sustainability of the Bank's business. The board is responsible for providing the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholders' value.

The directors are also responsible for the formulation and implementation of sound policies and procedures which enhance effective controls to safeguard the bank against fraud and wastage, compliance with regulatory requirements as well as ensuring that systems are in place to facilitate the effective management of the principal risks of the bank.

The Board also considers and approves the Bank's strategy and its roadmap to achieving the agreed objectives.

BOARD INDEPENDENCE

The Board has set a structure and standards to ensure the Directors' are independent. The fundamental premise of the standards is that the Director is independent of management and free of any business or other relationship that could materially interfere with exercising their independent judgement.

The roles of the Chairman and the Chief Executive Officer (CEO) are separate. The chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions. The CEO is responsible to the Board and takes responsibility for the effective and efficient management of the institution. All the non-executive directors are independent of management.

The non-executive Directors meet informally from time to time, without the Chief Executive Officer, the Executive Director and other members of management being present, to ensure that the non-executive Directors maintain independence of thought and judgement.

The Board also evaluates the performance of the Chief Executive Officer to ensure this is in tandem with the principal objectives of the bank.

BOARD DELEGATION

The Board retains the overall control of its operations and has established various committees to assist in giving expertise attention to specific areas.

The Chief Executive Officer holds a delegated authority to implement the Board decisions and provide a clear flow of information between management and the Board.

COMMITTEES OF THE BOARD

To further enhance corporate governance, the Board appointed several committees comprising of Board members, with delegated responsibilities to oversee certain roles. These Board committees, their composition and responsibilities are as follows:

BOARD AUDIT COMMITTEE

The committee is comprised of two non–executive directors. In addition the Audit Manager and the Chief Executive Officer are in attendance by invitation. Other Heads of Departments are invited as and when required.

The external auditors are invited from time to time, but are required to attend once a year when the audited financial statements are being reviewed. The committee meets quarterly and is charged with the responsibility of reviewing the financial condition of the bank, its internal controls, and recommend appropriate remedial action where necessary. The committee reviews all areas of risk to the institution and considers the reports on the various divisions and departments which are audited according to the internal audit programme. The committee also ensures that appropriate action has been taken on the recommendations of the internal auditors and the same is implemented.

BOARD CREDIT COMMITTEE

This committee is made up of three non-executive directors and meets at least once quarterly to review the overall lending policy. It also meets at least once a month to consider and approve loan applications beyond the credit management committee approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's risk management and ensuring that the credit policy and risk lending limits of the institution are reviewed where appropriate. It also regularly reviews the credit policy of the bank.

The Chief Executive Officer, Chief Finance Officer, Head of Operations and the Head of Credit are in attendance by invitation. Other management staff attend on a need to basis.

BOARD RISK MANAGEMENT COMMITTEE

The Board Risk Management Committee comprises of three non-executive directors. The committee meets quarterly and is responsible for ensuring quality, integrity and reliability of the institution's risk management. The committee assists the board in the discharge of its duties relating to the corporate accountability and associated risks, namely, strategic risk, liquidity risk, foreign exchange risk, interest rate risk, price risk, operational risk, credit risk, regulatory risk, and reputational risk; in terms of identification, mitigation and overall management of risks.

BOARD HR / EXECUTIVE COMMITTEE

The HR / Executive Committee is comprised of three non-executive directors of the board and the CEO. The committee meets on a need to basis. It acts as the link between the board and management and is responsible for the review of business units operations, human resources functions, identification and management of key risks and opportunities.

The committee also assists the CEO to guide and control the overall direction of the business of the institution and act as a medium of key management staff and new Board members' recruitment, communication and co-ordination between the business units and the board.

BOARD MEETINGS' ATTENDANCE

The board meets quarterly but other special and extraordinary meetings are convened and held on a need to basis. A total of 10 board meetings were held during the year. Out of the total number of 6 Directors, 4 of them attended 100% of the Board meetings while the remaining 2 Directors attended 9 out of 10 meetings which translated to 90% attendance rate. All the Board meetings held had sufficient quorum.

The individual directors therefore attended more than 75% of the meetings convened during the year effectively complying with the CBK prudential guidelines.

BOARD PERFORMANCE AND EFFECTIVENESS

The Board performed effectively over the year as supported by the high rate of attendance to meetings and decisions & resolutions made / passed per the minutes. Their work involved advice to management, review of internal and external audit findings & the level of implementation of the audit recommendations, oversight role in strategic planning & implementation, involvement in key management staff recruitment & other Human Resource matters, financial performance review, capital enhancement and oversight especially on credit and regulatory compliance.

Some members of the board were also involved in the review and site visits as part of the process of sourcing the Bank's new core banking system. This is to ensure the bank gets the best system and part of the board's oversight role. The Board was also trained on an effective directors' course as part of the Bank's training and development initiatives.

During the year, the Board convened and held a total of 10 Board meetings. The Board Credit Committee convened and held a total of 14 meetings during the year while the Board Audit Committee convened and held a total of 5 meetings with a 100% attendance rate by the Board members. Further, 4 Risk Management Board Committee meetings were held during the year with a 100% attendance rate by the Board members. 5 HR Board meetings were also held and the attendance rate was a 100%.

On another note, there was also one Annual General Meeting and one Extra-ordinary General Meeting held by the shareholders of the Bank during the year.

Overall, the Board's performance was effective which led to the excellent performance of the Bank in all parameters.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31ST DECEMBER 2009

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The Kenyan Companies Act also requires the directors to ensure that the company maintains proper books of accounts which are in agreement with the balance sheet and profit and loss account.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement 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 bank 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 and in accordance with the International Financial Reporting Standards.

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

DIRECTOR　　　　DIRECTOR

26th March 2010

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF FAMILY BANK LIMITED

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Family Bank Limited set out on pages 24 to 49 which comprise the Statement on Financial Position as at 31st December 2009, and the Statement of Comprehensive Income, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The Kenyan Companies Act also requires the directors to ensure that the company maintains proper books of accounts which are in agreement with the balance sheet and profit and loss account.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the bank at 31st December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER REQUIREMENTS

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) The company's Statement on Financial Position and Statement on Comprehensive Income are in agreement with the books of account.

Wachira Irungu Associates

Wachira Irungu & Associates

CERTIFIED PUBLIC ACCOUNTANTS
DOMINION HOUSE, MUTHITHI ROAD
P.O. BOX 46671 - 00100
NAIROBI

26th March, 2010

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2009

	Note	2009	2008
		Kshs.	Kshs.
Interest income	5	1,372,281,726	1,085,084,172
Other loan income		240,809,475	232,531,952
Interest expense	6	(199,140,308)	(142,620,100)
Net Interest Income		**1,413,950,893**	**1,174,996,024**
Net fees and commission income		768,495,944	773,513,091
Fair value gain on Investments		3,904,614	1,632,550
Other Operating Income	7	4,137,087	1,171,135
Net Operating Income		**2,190,488,538**	**1,951,312,800**
Provision for impaired loans and advances		(71,249,975)	95,431,144
Employee benefits	8	(756,442,388)	(661,736,121)
Operating lease expenses	9	4,034,032	(54,389)
Depreciation and amortisation	10	(204,777,067)	(147,653,954)
Other Operating expenses	11	(819,446,385)	(706,565,224)
Total Expenses		**1,847,881,783**	**1,420,578,545**
Profit before income tax		342,606,756	530,734,256
Income tax expense	12	(121,711,476)	(163,993,772)
Profit for the period		**220,895,280**	**366,740,484**
Attributable to:			
Equity shareholders		220,895,280	366,740,484
Earnings per share (EPS)	13	1.20	5.33
Dividend per share (DPS)	14	0.50	1.50

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER, 2009

	Note	2009	2008
ASSETS		**Kshs.**	**Kshs.**
Cash and balances due from banking institutions	15	1,233,160,631	1,224,429,515
Placement with other banks	16	484,313,011	997,027,410
Government securities	17	1,836,000,000	1,030,841,700
Other securities	18	489,589,750	-
Loans and advances to customers net	19	7,675,806,206	5,889,836,208
Other investments	20	387,000	530,436
Other receivables	21	490,106,317	387,013,356
Investment properties	22	27,670,000	24,500,000
Prepaid Lease Rentals	23	6,346,682	3,012,650
Property and equipment	24	1,026,916,639	965,492,395
Intangible assets	25	149,131,381	54,787,862
Deferred tax asset	12	33,838,510	36,267,683
TOTAL ASSETS		**13,453,266,125**	**10,613,739,214**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	26	10,490,292,787	7,604,069,271
Loans	27	685,186,972	712,142,357
Taxation	12	-	30,162,410
Other Payables		424,908,452	709,958,966
TOTAL LIABILITIES		**11,600,388,210**	**9,056,333,003**
EQUITY			
Share capital	28	368,219,431	345,846,345
Share premium	28	782,747,711	576,538,055
Revaluation Reserve		44,405,806	44,425,806
Proposed dividend	14	92,054,858	103,753,904
Retained earnings		565,450,109	486,842,101
TOTAL EQUITY		**1,852,877,915**	**1,557,406,211**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,453,266,125**	**10,613,739,214**

The accounts set out on pages 24 to 49 were approved by the Board of Directors on 26th March, 2010 and signed on its behalf by:

DIRECTOR

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Share Capital	Share Premium	Retained Earnings	Revaluation Reserve	Proposed dividend	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Year ended 31 December 2008						
At start of year	345,846,345	576,538,055	310,317,107	44,730,806	-	1,277,432,313
Dividend paid (2007)	-	-	(86,461,586)	-	-	(86,461,586)
Adjustment to reserve				-305000	-	(305,000)
Profit for the year	-	-	366,740,484	-	-	366,740,484
Proposed dividends (2008)	-	-	(103,753,904)	-	103,753,904	-
At end of year	**345,846,345**	**576,538,055**	**486,842,101**	**44,425,806**	**103,753,904**	**1,557,406,211**
Year ended 31 December 2009						
At start of year	345,846,345	576,538,055	486,842,101	44,425,806	103,753,904	1,557,406,211
Prior expenses			(50,232,414)	-	-	(50,232,414)
As Restated	345,846,345	576,538,055	436,609,687	44,425,806	103,753,904	1,507,173,797
Dividend paid (2008)	-	-	-	-	(103,753,904)	(103,753,904)
Adjustment to reserve			-	(20,000)	-	(20,000)
Profit for the year	-	-	220,895,280	-	-	220,895,280
Proposed dividends (2009)	-	-	(92,054,858)	-	92,054,858	-
Right issue proceeds	22,373,086	206,209,656	-	-	-	228,582,742
At end of year	**368,219,431**	**782,747,711**	**565,450,109**	**44,405,806**	**92,054,858**	**1,852,877,915**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2009

	Notes	2009 Kshs.	2008 Kshs.
OPERATING ACTIVITIES			
Net Cash From Operations	25(a)	418,403,836	748,541,062
Taxation Paid		(171,076,056)	(207,803,906)
CASH GENERATED FROM OPERATING ACTIVITIES		**247,327,780**	**540,737,156**
INVESTING ACTIVITIES			
Purchase of Investments		(489,589,750)	-
Purchase of property and equipment		(232,443,170)	(555,843,782)
Additions to investment property		(3,170,000)	-
Purchase of intangible assets		(123,961,595)	(35,704,053)
CASH USED IN INVESTING ACTIVITIES		**(849,164,515)**	**(591,547,835)**
FINANCING ACTIVITIES			
Proceeds from sale of shares		228,562,742	-
Loan proceeds		84,000,000	62,829,167
Loan Repayment		(110,955,385)	(54,236,671)
Dividend paid		(103,753,904)	(86,461,586)
CASH USED IN FINANCING ACTIVITIES		**97,853,453**	**(77,869,090)**
INCREASE IN CASH AND CASH EQUIVALENTS	**25(b)**	**(503,983,281)**	**(128,679,769)**
CASH AND CASH EQUIVALENTS AT 1st JAN 09		2,221,456,924	2,350,136,693
CASH AND CASH EQUIVALENTS AT 31 DEC. 09		**1,717,473,642**	**2,221,456,924**

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. Basis of Preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs).

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

Adoption of New and Revised International Financial Reporting Standards (IFRS)
Standards, amendments and interpretations effective in 2009

The following amendment to standard and interpretation is mandatory though not relevant.
The effective date of the amendment to standard and interpretation is 1 July 2009.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures-Reclassification of financial assets. The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term.

Financial assets that would be eligible for classification as loans and receivables (i.e. those assets which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from 'Held-for-trading' to 'Loans and receivables', if the entity has the intention and the ability to hold them for the foreseeable future.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from 'Held-for-trading'to'Available-for-sale'orto'Held-to-maturity', only in rare circumstances. The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation -These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features.

IAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Embedded Derivatives (Amendments to IFRIC 9 and IAS 39). The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. IAS 39 is also amended to state that, if the fair value of the embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid (combined) contract must remain classified as at fair value through profit or loss. An entity shall apply the amendments for annual periods ending on or after 30 June 2009.

IAS 39, Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

b. Revenue Recognition

Interest income and expenses are recognised on an accrual basis. When an account becomes non-performing, interest is suspended until realised on a cash basis. Commission charged is accounted for at the time of effecting the transaction.

c. Provision for impaired losses

Specific provisions are made against advances when in the opinion of the Directors credit or economic risk make recovery doubtful. In addition general provisions are raised based on an evaluation of the portfolio of advances and other exposures, in respect of losses which, although not specifically identified, are known from experience to be present in any such portfolio.

Loans and advances to customers are stated after deduction of provision for impaired losses.

When a loan is deemed uncollectable and a loss has been confirmed, it is written off against the related provision. Subsequent recovery of amounts previously written off are credited to the income statement.

d. Translation of Foreign Currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the Balance Sheet date. Resulting exchange differences are recognised in the Income Statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

e. Property and Equipment

Items of premises, office equipment and furniture and fittings are stated at cost or valuation less accumulated depreciation.

Depreciation is charged on a straight line basis over the estimated useful lives of the assets and only assets acquired within the first six months during the year of purchase qualify for depreciation.

No depreciation is charged during the year of disposal.

During the year the rates of depreciation were adjusted as indicated here below:-

	2009	2008
Land	Nil	Nil
Buildings	2.5%	5.0%
Motor vehicles	20.0%	25.0%
Office equipment	12.5%	12.5%
Fixtures and Fittings	12.5%	12.5%
Computers	20.0%	30.0%
ATM machines	16.0%	30.0%
Software	20.0%	30.0%

f. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the leasee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. Goodwill paid for the acquisition of premises is charged to the profit and loss account in the year of acquisition

g. Investment Properties

A revaluation of all investment properties was done at market values in compliance with IAS 40. The revaluation was incorporated in the 2007 accounts.

h. Other Investments

Other investments include ordinary shares quoted on the Nairobi Stock Exchange and are shown at fair value in compliance with IAS 39.

I. Computer Software Costs

Computer software development costs which are clearly associated with an identifiable and unique product which will be controlled by the bank and has a probable benefit exceeding the cost beyond one year are recognised as an intangible asset.

Computer software development costs recognised as assets are stated at cost less amortisation.

j. Placements with other Banks

Investments consisting of fixed interest rate and all deposits are carried at cost and include interest receivable on the balance sheet date.

k. Government Securities

Treasury bills are stated at cost plus interest receivable at the balance sheet date. Treasury bonds are stated at cost adjusted to the market value as at close of the year plus interest receivable.

l. Retirement Benefit Costs

The bank operates a defined contribution scheme, the assets of which are held in a Trustee administered fund. Employees are also members of the National Social Security Fund .The contributions to both schemes are funded by deductions from employees and equal payments by the bank whose contributions are charged to the income statement in the year to which they relate. No provision has been made for the executive director's retirement benefits.

m. Taxation

Tax on the profit or loss for the year comprises current tax and the change in deferred tax.Current tax is provided on the results for the year as shown in the accounts adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to goodwill not deductible for tax purposes and the initial recognition of assets or liabilities which affect neither accounting nor taxable profit (taxable loss).

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability. Net deferred tax assets are reduced to the extent that it is no longer possible that the related tax benefit will be realised.

The principal temporary differences arise from depreciation of fixed assets and general provision for bad and doubtful debts.

n. Cash and cash equivalents

For purposes of presentation in the cash flows statement the cash and cash equivalents is comprised of cash and net balances from banking institutions

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The estimates and judgements including policies and assumptions are critical area and could lead to materially different results.

IFRS require that the Bank adopts accounting policies and estimates that the Directors believe are the most appropriate in the circumstances, in order to give a true and fair view of the state of affairs of the Bank and its profit and cash flows.

Following are some of the estimates and accounting policies and assumptions that are considered as critical and involve significant management valuations and judgements:-

(i) Bad and doubtful debts

The estimation of potential credit losses is inherently uncertain and depends on many factors including economic conditions, individual customer's circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Identified impairement is raised when the Bank considers that the credit worthiness of a borrower has deteriorated such that recovery of the whole or part of an outstanding advance is in doubt. For large accounts, this is done on an individual basis and all the relevant information that have a relevant bearing on the expected future cashflows are taken into account. Subjective judgements are made in this process that may vary from one individual to another.

Unidentified impairment is raised to cover losses which are known from previous historical experience to the present in loans and advances at the balance sheet date, but which have not yet been specifically identified. In determining the level of unidentified impairement, management judgement is applied to the results of the statistical analysis.

(ii) Impairment of financial instruments

Fair value of financial instruments is the amount at which the instrument could be exchanged between willing parties in an arms length transaction.

These instruments are either priced according to market prices or through valuation models which use independently sourced market parameters. Most of these market parameters are observed directly or implied from instrument prices. Where there are no observable prices available, then the instruments' fair value will include provision for the uncertainity in the market parameter based on the sale price levels.

3 FINANCIAL RISK MANAGEMENT

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evalaution, acceptance and management of some degree of risk or combination of risks.

The bank's aim is therefore to achieve a realistic balance between risk and return and minimize potential adverse effects on its performance.

The Board of Directors has the overall responsibility for the establishment and oversight of the bank's risk management framework. The board has instituted a risk management framework for the measuring, monitoring, controlling and mitigation of these risks.The board has established a Board Risk committee and a risk and compliance department to assist in the discharge of its responsibility. The bank's risk management policies are established to identify and analyse the risks faced by the bank, to set up appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Risk committee is assisted in these functions by the Risk and Internal Audit department. Internal Audit undertakes both regular and ad - hoc reviews of the risk management controls and procedures, the results which are reported to the Bank's Audit Committee.

The details how various risks are managed are outlined below:

a) Credit risk

The bank is exposed to credit risk; this is the risk that counterparty will default on its contractual obligations which will result to financial loss to the bank. The bank's credit risk is primarily attributed to its loans and advances.

The Board of Directors has delegated responsibility for the oversight of the credit risk to the Bank's Credit Committee. A separate Credit department is responsible for implementation of the credit risk strategy approved by the Board of Directors and developing policies and procedures for effective management of the credit risks including:-

i. Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with the regulatory requirements.

ii. Adherence to approved Credit Policy which has a well defined policies and procedures stipulating the bank's risk appetite.

iii. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers while the larger facilities require approval by Head of Credit, Board Credit committee or the Board of Directors as appropriate.

iv. Exposure in credit is also managed in part by obtaining collateral and guarantees, though ability to pay is the primary consideration.

v. Reviewing and assessing credit risk, where the Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews are subject to the same review process.

vi. Developing and maintaining the Group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendants risks.

vii. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product .

viii. Regular monitoring of activities for detecting deficiencies and instituting corrective measures exists through areas like snap checks, internal audit, external audit and quarterly management review meetings.

ix. Providing advice, guidance and specialist skills to business units to promote best practise throughout the Bank in management of risk. The bank has no significant concentration of credit risk in any one, with exposure spread over a diversity of personal and commercial customers spread over diverse geographical sectors.

i) Impairment and provision policies

		2009		2008	
		Loan & advances	Provisions	Loan & advances	Provisions
		Ksh'000	Ksh'000	Ksh'000	Ksh'000
Grade 1	Normal risk	6,947,979	69,480	4,626,416	46,264
Grade 2	Watch risk	702,406	21,072	1,180,019	35,401
Grade 3	Substandard risk	127,305	42,685	185,975	32,635
Grade 4	Doubtful risk	158,774	53,903	110,725	59,064
Grade 5	Loss risk	207,437	211,635	171,176	148,135
	Total	**8,143,900**	**398,775**	**6,274,311**	**321,498**

The above table represents a worst case scenario of the credit exposure to the bank as at 31st December 2009 and 2008, without taking account of any collateral held.Loans under Grade 1 and 2 are not impaired. The provisions made on these grades are as per CBK guidelines of 1% and 3% on grade 1 and grade 2 respectively to cater for any unidentified risk. The Bank deem that it is uncertain to collect both the principal and interest due as per the contractual agreement for the impaired loans under Grade 3, 4 and 5. The Bank therefore has provided for a specific impairement for these grades.

ii) Concentration of credit risk

The bank monitors concentration of credits by sector. An analysis of concentrations of credit risk at the reporting date is as shown below:

	2009	2008
	Ksh'000	**Ksh'000**
Agriculture	186,243	156,621
Trading	62,229	490
Wholesale and retail trade	2,436,124	539,040
Transport	1,166,540	1,008,261
Business services	998,289	1,546,929
Consumer durables	3,294,476	3,022,970
Total	**8,143,900**	**6,274,311**

b) Interest risk

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The interest rates will therefore, fluctuate depending on the movement in the market interest rates.

Interest rates on customers are negotiated by the bank and the customers. The bank has the discretion to change the rates in line with market trends. The bank also invests in fixed interest rate instruments issued by Kenya Government through Central Bank of Kenya.

These measures minimize the bank's exposure to the interest rate risk. The management has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The table below shows interest rate sensitivity position of the Bank at 31 December 2009 based on the earlier of maturity or re-pricing dates.

Off balance sheet items do not pose any significant interest rate risk to the Bank.

	Up to 1 month	1 - 3 Months	3 - 6 Months	6-12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-interest bearing	Total
	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'
FINANCIAL ASSETS									
Cash and balances with other banks	-	-	-	-	-	-	-	1,717,474	1,717,474
Investments	450,000	390,000	767,686	499,977	-	-	210,000	-	2,317,663
Loans	2,194,819	1,134,290	1,345,013	845,421	1,099,555	571,606	485,102	-	7,675,806
Fixed Assets	-	-	-	-	-	-		1,210,065	1,210,065
Others	-	-	-	95,999	33,839	254,924	-	-	384,762
FINANCIAL LIABILITIES									
Balances due to banks	-	-	-	-	-	-	-	-	-
Customer deposit	4,244,343	1,635,604	2,079,252	1,489,400	97,670	460,023	484,000	-	10,490,293
Loans and Advances	-	-	-	-	280,518	398,682	5,988	-	685,187
Capital and reserves	-	-	-	-	-	-	-	1,852,878	1,852,878
Other Liabilities	-	-	-	-	-	-	-	277,412	277,412
Total financial liabilities	**4,244,343**	**1,635,604**	**2,079,252**	**1,489,400**	**378,188**	**858,705**	**489,988**	**2,130,290**	**13,305,769**
Interest rate sensitivity gap	**(1,599,524)**	**(111,313)**	**33,447**	**(48,003)**	**755,205**	**(32,175)**	**205,114**	**797,249**	**-**

c) Liquidity risk
The bank is exposed to the risk that it will encounter difficulty to meet obligations associated from its financial liabilities as they mature\ or occur.

i) Management of liquidity risk
The bank mitigates against this risk by maintaining adequate reserves and matching the maturities profiles of assets and liabilities. Further, the bank ensures it always have sufficient liquidity to meet its commitments under both normal and stressed conditions, without incurring unacceptable losses or risking the banks' reputation.

To address the risk, the bank has instituted the following measures;

i. The bank has elaborate and aggressive strategy of increasing the customers deposit base.

ii. The bank enters into leading contracts subject to availability of funds.

iii. The bank invests in short term liquidity instruments which can be liquidated when the need arises in the market.

iv. The bank maintains a mix of assets on the various investing options it engages into.

v. Investments in property and equipment is properly budgeted for and purchased on a need to basis, subject to sufficient cash flows.

vi. Compliance with CBK prudential guidelines on the required minimum liquidity ratio.

ii) Exposure to liquidity risk
A key measure of the liquidity risk is the ratio of net liquid assets to deposit liabilities. The CBK requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposits liabilities.

Liquid assets comprise of cash and bank balances with CBK, net loans and advances with banks, treasury bonds and bills and net balances with bank abroad. Deposits liabilities comprise deposits from customers and other liabilities.

The liquidity ratios at the reporting date and during the reporting period were as follows:

	2009	2008
As at 31 Dec	37%	38%
Average for the period	35%	40%
Highest for the period	39%	57%
Lowest for the period	30%	21%

c) Contractual maturities of assets and liabilities

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date. The table below summarises the maturity profiles of the Bank's assets and liabilities based on the remaining period from 31st December 2009 to the contractual date.

	1	2	3	4	5	6	7	
	Up to 1 month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'	Ksh.'000'
FINANCIAL ASSETS								
Cash and balances with other banks	1,604,219	113,255	-	-	-	-	-	1,717,474
Placements with other banks					-	-	-	-
Investments	450,000	390,000	767,686	499,977	-		210,000	2,317,663
Overdrafts	-	-	-	-	-	-	-	-
Loans	2,194,819	1,134,290	1,345,013	1,045,421	899,555	571,606	485,102	7,675,806
Fixed Assets	-	-	-	-	149,131	126,780	934,153	1,210,065
Others	-	-	-	95,999	33,839	254,924	-	384,762
Total financial assets	**4,249,038**	**1,637,545**	**2,112,700**	**1,641,397**	**1,082,524**	**953,311**	**1,629,255**	**13,305,769**
FINANCIAL LIABILITIES								
Balances due to banks								-
Customer deposits	4,244,343	1,635,604	2,079,252	1,489,400	97,670	460,023	484,000	10,490,293
Loans and Advances					280,518	398,682	5,988	685,187
Capital and reserves					657,505	44,406	1,150,967	1,852,878
Provisions for bad debts					-	-	-	-
Other Liabilities			13,341	129,441	-	134,630	-	277,412
Total financial Liabilities	**4,244,343**	**1,635,604**	**2,092,593**	**1,618,841**	**1,035,693**	**1,037,741**	**1,640,955**	**13,305,769**
Net Liquidity gap	**4,695**	**1,941**	**20,107**	**22,556**	**46,832**	**(84,431)**	**(11,700)**	**-**

d) Operational risk

The bank is exposed to operational risk, which is associated with human errors, system failures and adequate procedures and controls or from external events. To guard against this risk the bank has instituted the following measures;

i. Adherence to an elaborate policy and procedures manual in all levels of the bank's operations to ensure compliance to set rules and guidelines.

ii. The management information system is set on a hybrid grid which allows scalability in terms of assigning rights and responsibilities to the users. Further, the system is highly integrated to ensure very little manual intervention to increase capacity and cater for future growth.

iii. The operational risk systems are reviewed regularly in order to contain emerging risks and enhance efficiency in line with current work demands.

e) Compliance/ Regulatory risk

The bank is exposed to the risk of legal or regulatory sanctions, material financial loss or loss of reputation that it may suffer as a result of its failure to comply with laws, regulations, rules, best business practices, internal policies and procedures, acceptable ethical standards and self imposed code of conduct applicable to its operations.

The bank has established a Compliance & Risk department which is charged with the responsibility of implementing an effective compliance risk management programme and all other risks identified in the Prudential Guidelines. To guard against this risk the bank has instituted the following measures;

i. Identification of risks and their sources, documenting and in forming the whole organization.

ii. Assessment/measurement of the risk in terms of size, duration and probability of adverse occurrence.

iii. The bank profiles the possible risks in terms of high, medium and low and prioritizes necessary actions.

iv. Continuous staff training on all compliance issues i.e., the Banking Act, Prudential Guidelines, KBA etc and ensuring a compliance culture throughout the bank.

f) Foreign exchange risk

The bank operates wholly in Kenya and all its assets and liabilities are carried in local currency.The bank is exposed to the risk that the financial instruments will fluctuate due to changes in foreign exchange rates. The following measures minimizes the bank's exposure to the foreign exchange rate risk;

i. The banks' foreign currency position and exposure are managed within the exposure guidelines of 20% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed daily.

ii. The bank ensures that it earns way above average margins from buying and selling of foreign exchange currency. The bank has the discretion to change the rates in line with changes in the market.

iii. The bank ensures that any asset raised in foreign currency are covered by similar liabilities to hedge against the risk associated with fluctuations in the foreign exchange rates.

iv. The bank undertakes continuous staff training on treasury dealings.

g) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

The objective of the bank management of market risks is to manage and control market risk exposures within the acceptable parameters, while optimising the return on risk.

The bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow. This risk is mitigated by monitoring interest gaps and lending rates are adjusted from time to time to reflect the cost of funds.

The bank is also exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is principally managed through the limits set on the level of exposure by currency and in total for both overnight and intra day positions which are monitored daily.

CAPITAL MANAGEMENT

The Central Bank of Kenya sets and monitors capital requirements for the bank. The banks' objective when managing capital are:

i) To safeguard the banks ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.

ii) To maintain a strong capital base to support the current and future development needs for the bank.

iii) To ensure that the capital is commensurate with the risks associated with its activities and profile.

iv) To comply with the capital requirements set by the Central Bank of Kenya. Capital adequacy and use of regulatory capital are monitored by the management employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires each bank to:

a) Hold a minimum level of regulatory capital of Ksh 350 Million.

b) Maintain a core capital of not less than 8% of total risk weighted assets, plus risk weighted off - balance sheet items.

c) Maintain a core capital of not less than 8% of the total deposits and

d) Maintain total capital of not less than 12% of the risk weighted assets plus risk weighted off balance sheet items.

The banks' regulatory capital is analysed into two tiers;

Tier 1 (Core Capital), which includes ordinary share capital, irredeemable preference shares, share premium and retained earnings after deductions for goodwill and intangible assets.

Tier 2 (Supplementary Capital), which includes 25% revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital and any other approved reserves.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risks attached to the assets and off balance sheet exposures.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development of the business.

The position of Banks' Capital as at 31st Dec 09 was as follows;

	2009 Ksh' 000	2008 Ksh' 000
Tier 1 - Core Capital		
Share capital	368,219	345,846
Share premium	782,748	576,538
Retained earnings	583,861	486,842
Sub total	**1,716,417**	**1,409,227**
Tier 2 - Supplementary capital		
Revaluation reserve (25%)	8,914	8,914
Sub total	8,914	8,914
Total Capital	**1,725,332**	**1,418,141**
Core capital / Total deposit liabilities (CBK minimum 8%)	16%	18%
Core capital / Total risk weighted assets (CBK minimum 8%)	18%	18%
Total capital / Total risk weighted assets (CBK minimum 12%)	18%	18%

The bank has substantially complied with all externally imposed capital requirements throughout the period.

		2009	2008
		Kshs	Kshs
5	**INTEREST INCOME**		
	Loans and advances to customers	1,225,530,786	960,785,523
	Placement with other banks & government securities	146,750,940	124,298,649
		1,372,281,726	1,085,084,172
6	**INTEREST EXPENSE**		
	Interest on loans and overdrafts	55,035,866	76,006,624
	Interest on customers savings accounts	1,575,550	2,787,733
	Interest on customers fixed deposit accounts	142,528,892	63,825,743
		199,140,308	**142,620,100**
7	**OTHER OPERATING INCOME**		
	Bad debt recoveries	3,836,211	890,377
	Rent income	272,139	268,041
	Investment income	28,737	12,717
		4,137,087	**1,171,135**
8	**EMPLOYEE BENEFITS**		
	Salaries & Allowances	637,347,138	562,815,726
	Contributions to defined contribution plans	24,745,430	45,597,751
	NSSF contribution	2,010,450	1,967,475
	Medical expenses	54,983,891	14,049,831
	Training & development	26,111,765	27,374,766
	Other Staff Cost	11,243,714	9,930,572
		756,442,388	**661,736,121**
9	**LEASE AMORTISATION**		
	Operating lease expenses	(4,034,032)	54,389
		(4,034,032)	**54,389**
10	**DEPRECIATION**		
	Furniture & equipment	108,877,531	56,287,811
	Computers	85,357,138	79,289,078
	Buildings	2,661,634	5,323,267
	Motor Vehicle	7,880,764	6,753,799
		204,777,067	**147,653,954**

		2009	2008
		Kshs	Kshs
11	**OPERATING EXPENSES**		
	Occupancy expenses	340,175,041	272,981,385
	Goodwill written off	12,800,000	10,300,000
	Contribution to Deposit Protection Fund	9,492,636	8,072,492
	Auditors' remuneration	2,073,623	1,768,476
	Legal and other professional fees	4,029,982	3,601,085
	AGM expenses	1,910,776	1,366,630
	Directors emoluments	15,398,500	14,641,000
	Core banking expenses	33,918,615	6,709,600
	Other operating expenses	399,647,212	387,124,556
		819,446,385	**706,565,224**
12	**TAXATION**		
	(a) Taxation charge		
	Current year @ 30% based on chargeable profit for the year	119,282,303	159,410,291
	Deffered Tax	2,429,173	4,583,481
		121,711,476	**163,993,772**
	The tax on the profit differs from the theoretical amount using the basic tax rate as follows:		
	Accounting profit before tax	342,606,755	530,734,256
	Tax at the applicable rate of 30%	102,782,027	159,220,277
	Tax effect of expenses not deductible for tax	73,577,564	56,815,125
	Tax effect of income not taxed	(57,077,288)	(56,625,111)
	Deferred Tax	2,429,173	4,583,481
	Tax charge for year	**121,711,475**	**163,993,772**

		2009 Kshs	2008 Kshs
12	**b) Deferred Tax Asset**		
	Balance as at 1st January	(36,267,683)	(40,851,164)
	Charge for the year	2,429,173	4,583,481
	Balance as at 31st December	**(33,838,510)**	**(36,267,683)**
	Tax Payable		
	Balance brought forward	30,162,410	79,934,985
	Charge for the year	119,282,303	159,410,291
	Adjustment	638,309	-
	Tax refund	-	(1,378,960)
	Payments during the year	(171,076,056)	(207,803,906)
		(20,993,034)	**30,162,410**
13	**EARNINGS PER SHARE**		
	Earnings per share are calculated on the profit attributable to shareholders of Kshs 220,895,280 (2008 - 366,740,484) and on the weighted average number of ordinary shares in issue during the year.		
	Net Profit attributable to shareholders	220,895,280	366,740,484
	Weighted average no. of shares	184,109,716	69,169,269
	Basic earnings per share	1.20	5.30
14	**DIVIDEND PER SHARE**		
	A final dividend of Kshs 0.50 was declared to shareholders in the register as at 31st December 2009. This was after a share split of 5 for every 2 held.	92,054,858	103,753,904
15	**CASH AND BALANCES DUE FROM BANKING INSTITUTIONS**		
	Cash on hand	593,738,778	525,594,184
	Balances due from CBK	498,314,926	345,032,648
	Balances due from banking institutions:	90,613,910	349,654,469
	Balances due from banks abroad	50,493,017	4,148,214
		1,233,160,631	**1,224,429,515**

		2009	2008
		Kshs	Kshs
16	**PLACEMENTS WITH OTHER BANKS**		
	Due within 90 days	484,313,011	997,027,410
	Due After 90 days	-	-
		484,313,011	**997,027,410**
17	**GOVERNMENT SECURITIES**		
	Maturing within 90 days	850,000,000	650,000,000
	Maturing after 90 days	986,000,000	380,841,700
		1,836,000,000	**1,030,841,700**
18	**OTHER SECURITIES**		
	Maturing within 90 days	-	-
	Maturing after 90 days	489,589,750	-
		489,589,750	**-**
19	**LOANS AND ADVANCES TO CUSTOMERS**		
	Loans and advances	8,143,900,188	6,274,310,821
	Provision for impairment losses	468,093,983	384,474,612
	Carrying amount for loans and advances	**7,675,806,206**	**5,889,836,208**
	Impaired loans and advances:		
	Impaired loans and advances (specific)	493,515,563	467,876,000
	Provisions for impairment losses (specific)	308,222,811	239,833,535
	Recoverable amount of impaired loans and advances	**185,292,752**	**228,042,465**

	2009 Kshs	2008 Kshs
20 OTHER INVESTMENTS		
Quoted ordinary shares	387,000	530,436
Quoted investments are stated at the market values as at 31st December 2009.		
21 OTHER ASSETS		
Other Receivables	490,106,317	387,013,356
22 INVESTMENT PROPERTIES		
At 1st January 09	24,500,000	24,500,000
Acquisition	3,170,000	-
Disposals	-	-
At 31st December 2009	**27,670,000**	**24,500,000**
Investment properties include the cost of land and buildings held for capital appreciation and other unspecified purposes.		
23 PREPAID OPERATING LEASE RENTALS		
Cost	8,600,000	8,600,000
Additions	-	-
Reclassification	-	-
Revaluation	-	-
Balance as at 31st December	**8,600,000**	**8,600,000**
Amortisation		
Balance as at 1st January	5,587,350	5,532,961
Adjustments	(3,500,000)	-
Revaluation	-	-
Reclassification	-	-
Charge for the year	165,969	54,389
Balance at 31st December	2,253,319	5,587,350
Carrying value as at 31st December	**6,346,681**	**3,012,650**

24 (a) PROPERTY & EQUIPMENT (2008)

	Land	Buildings	Computers	Vehicles	Furniture & Fittings	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Cost/Valuation						
At 1.1.2008	4,700,000	106,465,542	264,296,927	29,365,194	450,302,485	855,130,148
Reclassification	-					-
Adjustment	-	(200)	-	-	-	(200)
Additions	-	-	210,826,396	11,797,959	333,219,227	555,843,582
Disposals	-	-	-	(2,350,000)	-	(2,350,000)
At 31.12.2008	4,700,000	106,465,342	475,123,323	38,813,153	783,521,712	1,408,623,530
Depreciation						
At 1.1.2008	-	18,129,425	138,976,866	11,974,291	127,674,099	296,754,681
Release on disposal/ Adj.	-	-	-	(1,277,500)	-	(1,277,500)
Charge for the year	-	5,323,267	79,289,078	6,753,799	56,287,811	147,653,955
At 31.12.2008	-	23,452,692	218,265,944	17,450,590	183,961,910	443,131,136
Net Book Value						
At 31.12.2008	**4,700,000**	**83,012,650**	**256,857,379**	**21,362,564**	**599,559,802**	**965,492,395**
At 01.01.2008	**4,700,000**	**88,336,117**	**125,320,061**	**17,390,903**	**322,628,386**	**558,375,466**

24 (b) PROPERTY & EQUIPMENT (2009)

	Land	Buildings	Computers	Vehicles	Furniture & Fittings	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Cost/Valuation						
At 1.1.2009	4,700,000	106,465,342	475,123,323	38,813,153	783,521,712	1,408,623,530
Reclassification	-	-	(1,359,437)	-	17,579,301	16,219,864
Adjustment	(2,300,000)	-			-	(2,300,000)
Additions	-	-	37,765,527	4,200,800	207,417,887	249,384,214
Revaluations	-	-	-	-	-	-
Disposals	-	-	-	(260,000)	-	(260,000)
At 31.12.2009	2,400,000	106,465,342	511,529,414	42,753,953	1,008,518,899	1,671,667,608
Depreciation						
At 1.1.2009	-	23,452,692	218,265,944	17,450,590	183,961,910	443,131,135
Release on disposal/ Adj.	-	(3,000,000)	(48,900)	(108,333)	-	(3,157,233)
Charge for the year	-	2,661,634	85,357,138	7,880,764	108,877,531	204,777,067
At 31.12.2009	-	23,114,326	303,574,183	25,223,020	292,839,441	644,750,969
Net Book Value						
At 31.12.2009	**2,400,000**	**83,351,016**	**207,955,231**	**17,530,933**	**715,679,458**	**1,026,916,639**
At 01.01.2009	**4,700,000**	**83,012,650**	**256,857,379**	**21,362,564**	**599,559,802**	**965,492,395**

25 INTANGIBLE ASSETS

	2009 Kshs	2008 Kshs
Cost		
At 1st January	156,071,495	120,367,442
Reclassification	(16,219,864)	-
Additions	121,021,317	35,704,053
At 31st December	**260,872,948**	**156,071,495**
Amortisation		
At 1st January	101,283,633	95,067,608
Charge for the period	10,457,934	6,216,025
At 31st December	**111,741,568**	**101,283,633**
Written Down Value	**149,131,381**	**54,787,862**

26 CUSTOMER DEPOSITS

	2009 Kshs	2008 Kshs
Current & Demand Accounts	7,588,486,300	5,559,157,833
Savings Accounts	415,744,580	249,347,600
Call & Fixed Deposits	2,486,061,907	1,594,984,955
	10,490,292,787	**7,403,490,388**
Deposits due to banks	-	200,578,883
	10,490,292,787	**7,604,069,271**

27 LOANS

	2009 Kshs	2008 Kshs
Youth Fund	160,183,973	130,000,000
PTA Loan	398,681,667	509,941,667
Women Fund	120,162,164	66,000,000
Practical Action Fund	6,159,168	6,200,690
	685,186,972	**712,142,357**

PTA loan is a long term facility, repayable within 5 years inclusive of 1 year grace period. The interest rate charged is the prevailing treasury bill rate plus 3.5% margin repayable on monthly basis. The facility is for business growth purposes in terms of network growth, ATM purchase and installation and acquisition of core banking software.

The Women fund is a Government granted facility for onward lending to women. The principal is repayable after three years and interest of 1% is charged and repayable on quarterly basis.

The Practical Action fund is a revolving fund to onward lending to customers who are undertaking waste management initiatives.

28 (a) SHARE CAPITAL

	2009 Kshs	2008 Kshs
Authorised 500,000,000 ordinary shares of Sh 2 each	1,000,000,000	500,000,000
Issued & fully paid		
184,109,716 ordinary shares (69,169,269 - 2008) have been issued and paid up.	368,219,431	345,846,345

During the year, the following amendments to the share capital structure were made through a well constituted SGM:-

i The Authorised Share capital was adjusted to Ksh 1 Billion constituting of 500,000,000 ordinary shares of Sh 2 each.

ii A share split was undertaken where a share was split by 2.5 times thus reducing the par value from Sh 5 to Sh 2. This increased the number of shares from 69,169,269 shares to 172,923,173 shares.

iii A rights issue was done on the basis of two shares for every five shares held, where 11,186,543 shares were paid for.

28 (b) SHARE PREMIUM

	2009	2008
Share premium	782,747,711	576,538,055

The share premium increased due to the floatation of Rights issue where 11,186,543 shares were taken up.

29 NOTES TO THE CASHFLOW STATEMENT

	2009	2008
a) Cashflow from operating activities		
Profit before taxation	**342,606,756**	**530,734,256**
Adjustments:		
Depreciation	204,777,067	147,653,954
Foreign exchange Gain \ Loss	(12,699,557)	(9,423,016)
Profit/Loss on disposal of investment properties		728,996
Gain in value of quoted investments	(3,904,614)	(1,632,550)
Provision on leave pay	(12,077,918)	13,880,763
Provision on AGM	2,000,000	2,000,000
Profit \ (Loss) on disposal of assets	178,858	(138,620)
Amortization of lease rental	165,969	54,389
Amortization of Intangible asset	10,457,934	6,216,025
Operating Profit Before Working Capital Changes	**531,504,495**	**690,074,196**
Changes in working capital items		
Government securities	(805,158,300)	298,706,126
Loans and advances to customers	(1,785,969,997)	(1,787,705,885)
Other receivables	(82,099,927)	(153,543,979)
Customers deposits	2,886,223,516	1,580,191,420
Other Payables	(285,050,514)	120,819,184
Increase in operating assets	**(72,055,221)**	**58,466,866**
Cash generated from operations	**459,449,274**	**748,541,062**

		2009	2008
b)	Increase in cash and cash equivalents	Ksh	Kshs
	Cash and cash equivalents as at 1st Jan 09	2,221,456,925	2,350,136,693
	Cash and cash equivalents as at 31st Dec 09	1,717,473,643	2,221,456,925
	Increase in cash and cash equivalents	**(503,983,282)**	**(128,679,770)**
30	**NUMBER OF EMPLOYEES AT THE END OF THE YEAR**	**938**	**881**

31 FOREIGN CURRENCY

The bank operates wholly within Kenya and its assets and liabilities are carried in the local currency. However, as at 31st December 2009, the bank held deposits in banking institutions under the following foreign currencies in equivalent Kenya shilling:

	2009	2008
Dollar	35,264,121	13,141,644
Euro	4,971,248	6,482,122
Sterling pound	1,011,675	376,628

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

	2009	2008
Dollar	75.27	76.00
Euro	107.592	109.49
Sterling pound	120.848	112.69

32 RELATED PARTY TRANSACTIONS

	2009	2008
Balance as at 1st Jan 2009	201,936,133	342,204,852
Loans advanced during the year	408,144,517	361,906,813
Loans repayments received	(130,499,112)	(502,175,532)
Balance as at 31st Dec 2009	**479,581,538**	**201,936,133**

33 KEY MANAGEMENT PERSONNEL REMUNERATION

	2009	2008
Salary & benefits	43,925,000	43,925,000
Directors emoluments	15,398,500	14,641,000
Total	**59,323,500**	**58,566,000**

34 OFF- BALANCE SHEET ITEMS

	2009	2008
Guarantees to third parties	199,499,983	41,359,554
Contigencies	5,963,172	4,524,736
Total	**205,463,156**	**45,884,290**

35 CAPITAL COMMITMENTS		
Authorised and contracted	99,051,198	52,073,332
Authorised but not contracted	55,000,000	149,753,537
	154,051,198	**201,826,869**

36 ASSETS PLEDGED AS SECURITY

As at 31st December 2009, placement with other banks included an amount of Ksh 4,313,011 which represented assets pledged as securities for facilities given to banks and related parties.

The Government securities included an amount of Ksh 310,000,000, pledged as security for an Intra Day Liquidity facility (ILF) with Central Bank of Kenya.

37 BUSINESS SEGMENT INFORMATION

a) Business segments
The Bank's main business is banking/finance which accounts for more than 99% of the total income. There are therefore no material distinct business segments to necessitate detailed disclosure.

b) Geographical segments
The bank operates wholly within Kenya.

38 COUNTRY OF INCORPORATION

The bank is incorporated in Kenya under the Companies Act (Cap 486).

39 CURRENCY

The accounts are expressed in Kenya Shillings (Kshs).

BRANCH DETAILS

HEAD OFFICE
Fourway Towers
Muindi Mbingu Street
P. O. Box 74145. 00200
Nairobi.
Tel: 318173, 318940, 318942, 318947
Fax: 318174

BRANCHES

Fourways Retail
Ground Floor
Fourway Towers
Muindi Mbingu Street
Tel: 2240639
Fax: 318174

Fourways Corporate
3rd Floor
Fourway Towers
Muindi Mbingu Street
Tel: 2240639, 2214894, 2243392
Fax: 2250507

Sonalux
Moi Avenue
Tel: 341229, 341230, 341231
Fax: 318845

Kenyatta Avenue
Tel: 2241557/9, 2243314, 2243771
Fax: 241559

Cargen House
Tel: 2213872, 2213801, 2213853
Fax: 2213918

KTDA Retail
Tel: 2241852, 2242059
Fax: 2242267

KTDA Corporate
5th Floor
(Corporate Wing)
Tel: 2213156, 2213141, 2210085, 2210085
Fax: 312991

Gikomba
Tel: 6763922, 6763925, 6763941, 6763963
Fax: 6763989

Gikomba Sokoni
P.o. Box 74145-00200
Tel. 020-2514835/077385668

Githurai
Tel: 8710255/6, 8030102
Fax: 8710247

Kariobangi
Tel: 2370422, 2364257
Fax: 2370401

Kiambu
P. O. Box 974, Kiambu
Cell. 0726-610434
Fax: 22749

Githunguri
P. O. Box 207, Githunguri
Cell. 0726-610473
Fax: 65264

Gatundu
P. O. Box 481
Tel: 067 74328, 26008, 26017,
Fax: 745507

Thika
P. O. Box 354
Tel: 067 30262, 30113
Fax: 30262

Kangare
P. O. Box 196
Cell: 0727-220045
Fax: 44244

Muranga
P. O. Box 82
Tel: 060 2030318,
Fax: 2030318

Kangema
P.O. Box 76
Tel: 060 322364, 322183
Fax: 322183

Kiriaini
P. O. Box 82
Cell: 0726- 610439,
Fax: 51428

Othaya
P. O. Box 763
Tel: 061 3152242/3152516
Fax: 52198

Kerugoya
P. O. Box 1264
Tel: 060 21357, 21327, 21304
Fax: 21316

Embu
P. O. Box 789
Tel: 068 30704, 30159
Fax: 21694

Limuru
P. O. Box 223
Tel: 066 72121, 71289, 71284, 71262
Fax: 71250

Nakuru Finance
P. O. Box 519
Tel: 051 2210038, 2213555, 2216079
Fax: 2216002

Nakuru Njoro
P. O. Box 520
Tel: 051 2216083, 2213810
Fax: 22165002

Molo
P. O. Box 519
Tel: 051 721452, 721464, 721473
Fax: 721464

Eldoret
P. O. Box 629
Tel: 0532031141/2/3
Fax: 2030745

Kitale
P. O Box 1927
Tel: 054 30046, 31794, 30048, 31796, 31795
Fax: 30048

Kisumu
P. O. Box 3628
Tel: 057 2026211/2/3
Fax: 202615

Kisii
P. O. Box 2435
Tel: 058 31465/6/7/8
Fax: 31469

Bungoma
P. O. Box 1068
Tel: 055 30928/29/30/34
Fax: 30935

Machakos
P. O. Box 1250
Tel: 044 20892/59/7, 20795/81
Fax: 2317633

Mombasa Nkurumah Road
P. O Box 81630
Tel: 041 2317629/30/31/32/33
Fax: 2317633

Mombasa Jomo Kenyatta Avenue
P. O. Box 97268 – 80112
Tel: 041 2495816/20
Fax: 81630

Kapsabet
P. O. Box 217
Tel: 053 52323/448/8
Fax: 52443

Nyahururu
P. O. Box 2103
Tel: 065 22008, 22013
Fax: 22011

Busia
P. O. Box 29 Busia, Kenya.
Tel: 055 22263, 22503, 22504
Fax: 22264

Ruiru
P. O. Box 788-00232
Tel: 067 55003/4/5/6
Fax: 55003

Meru
P.O. Box 3092-60200
Tel: 064-30219/36/41
Fax: 30611

Donholm
P.O. Box 74145-00200
Tel: 020-785372/787936/783528
Fax: 8016104

Nyeri
P.O. Box 163
Tel: 061-20315701/2
Fax: 2401030

Nyamira
P.O. Box 932
Tel: 020-8090269
Fax: 2401030

Kakamega
P.O. Box
Tel: 056-30300/20/08
Fax: 30557

Kilimani
P.O. Box 76348-052
Tel: 020-3864600/1/2
Fax: 3864609

Tom Mboya
P.O. Box 74145-00200
Tel: 020-342561/2/5
Fax: 342563

Kayole
P.o box 74145- 00200
Tel.020- 2515431/2
Fax 2515433

Ngara
P.o. Box 74145-00200
Tel. 020-6768541/2/3

Kitengela
P.o Box 401-00242
Tel.045- 22883/5

Industrial Area
P.o. Box 18602-00500
Tel. 020-558104/6

Naivasha
P.O. Box1614-20117
Tel.050-2030253/4/5

PROXY

Shareholder's Account No.......................

The Company Secretary
Family Bank Limited
Fourways Towers, 6th Floor, Muindi Mbingu St.
P O Box 74145-00200
Nairobi

PROXY FORM

I/We ....
of P. O. Box ...., being a shareholder of Family Bank Limited, appoint .... of P. O. Box ....and failing him/her, the Chairman of the meeting to be my / our proxy, to vote on my / our behalf at the Annual General Meeting of the bank to be held on Friday, 28th May 2010 at 10.00 a.m. at KICC and at any adjournment thereof. This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he /she deems fit.

As witnessed by my / our hand this..........................day of.......................2010

Signed......................................

NOTES:

1. A member who is unable to attend the meeting is entitled to appoint a proxy to attend and vote on his or her behalf,
2. A proxy need not be a member,
3. In the case of a corporate body the proxy must be under its common seal or under the hand of an officer or attorney duly authorised in writing,
4. Joint account holders must state their joint names and sign according to their signing mandates,
5. This proxy must be delivered to the bank's registered office not later than 10.00 a.m. on Wednesday, 26th May 2010, failing which it will be invalid.

Shareholder's Admission Form

Please complete this form and note that it must be produced at the Annual General Meeting by you or your proxy for admission.

Name..Signature..........................

Shareholder's Account No..

Branch Country Footprint

Family Bank Limited Head Office, Fourway Towers, Muindi Mbingu Street
P.O.Box 74145 Nairobi. Tel: 318940 / 318942 / 318947 Fax: 318174
Email: info@familybank.co.ke Website: www.familybank.co.ke

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