Annual Report
& Financial Statements
2010

Family Bank
With you, for life

Our Purpose

To enable people create and sustain wealth through access to flexible, affordable financial services.

Our Core Values

Winning Together
within ourselves and with our customers, we work together and we win together

Self Belief
in ours and our customers' ability to change the world

Transparency
our customers will trust and reward us for it

Humility
it's not about us, it's about our customers

Contents

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 20th MAY 2011, AT KENYATTA INTERNATIONAL CONFERENCE CENTRE (K.I.C.C.) 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, 2010 together with the Directors' and Auditors' Reports thereon.

4. To confirm the payment of dividend of Ksh 0.40 per share recommended by the Directors to Shareholders. The register will close on 20th May 2011 for the purpose of computation of dividend and reopen on 10th June 2011.

5. (a) To elect Directors as follows:
   i) Director Skander Oueslati, who retires by rotation and being eligible, offers himself for re-election.
   ii) Director Karl Moursund, who retires by rotation and being eligible, offers himself for re-election.

   (b) Confirmation of Directors' Fees.

6. To appoint external auditors for the ensuing year and authorize the Board to fix the auditors' remuneration thereon.

(B) ANY OTHER BUSINESS

To transact any other business of an Annual General Meeting.

24th March 2011
By Order of the Board

Company Secretary
P.O. Box 74145-00200
NAIROBI

NB: The abridged version of the Bank's Annual Report and Financial Statements for the year ended 31st December 2010 are available on our website: www.familybank.co.ke and the same were published in the daily newspapers.

The proxy forms are available for collection at our Company Secretary's office and at any of our branches countrywide.

Corporate *Information*

Family Bank Limited is a Financial INstitution licensed under the Kenya Banking Act (Chapter 488) and is regulateed by the Central Bank of Kenya. The bank is incorporated and domiciled in Kenya and offers retail, micro and other banking services.

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

NON EXECUTIVE DIRECTORS

Mr. T.K. Muya	***Chairman***
Dr. Kabiru Kinyanjui	***Vice Chairman***
Mr. Skander Oueslati	
Prof David Kimutai Arap Some	
Mr. Karl Moursund	
Dr. James.M.Njau	
Mr. George Odo	***Alternate to Skander Oueslati***

EXECUTIVE DIRECTORS

Peter Kinyanjui	***Managing Director***
Njung'e Kamau	***Finance & Strategy Director***
Mark Keriri	***Operations & Technology Director***

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*

Seated (Left to Right): Dr. James Mukuha Njau, Dr. Kabiru Kinyanjui, Mr. T. K. Muya, Mr. Skander Oueslati.

Standing (Left to Right): Prof. David Kimutai arap Some, Mr. Mark Keriri, Mr. George Odo, Mr. Karl Moursund, Mr. Njung'e Kamau, Mr. Peter Kinyanjui.

Board of Directors

Mr. TK 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. He is the Founder, Chairman and Director of Family Bank.

Prof. David Kimutai arap Some

Prof Some is the 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. Skander Oueslati

Prior to Joining AfricInvest Capital Partners, Skander Oueslati was head of Structured Finance with MediCapital Bank, a Wholesale and Investment bank dedicated to Africa and based in London as well as Senior Investment Officer with the International Finance Corporation in Washington DC, USA. During his time with IFC he worked on investments across several sectors including, Telecoms and Infrastructure as well as Treasury where he executed IFC's first local currency bond issue in Francophone West Africa. He is a graduate of France's Ecole Polytechnique and MIT, Cambridge, USA.

Mr. George Odo

George joined AfricInvest in 2009 as the Managing Director for the East Africa office. He has over eighteen years experience in Finance, Agribusiness, Microfinance, Business Advisory and SME investment. Prior to joining AfricInvest, George worked with Capital Enterprise Partners providing business advisory services to SMEs in Uganda, Tanzania, Zambia, Mozambique and Kenya. Before that George was an Agribusiness manager for a medium sized business exporting floriculture produce to the EU and in his early part of his career was an auditor. George has served in several boards including chairing an Agribusiness company in Kenya, chairing a deposit taking MFI in Zambia, a director in a MFI in Kenya and a director of a Foundation of a large bank in Kenya.He is a Bachelor of Commerce graduate, from Rani Durgavati University (India), studied his CPA in Strathmore University (Kenya) and attained his PBAS accreditation from ODI/Prince of Wales IBLF (UK).

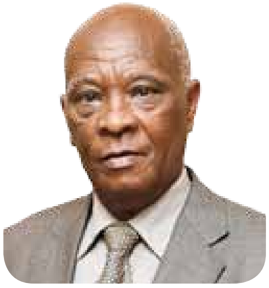
Mr. Mark Keriri

Operations & Technology Director

Mr. Keriri is the Operations & Technology Director of Family Bank. He is responsible for the introduction of the Smart Banking Technology and WAN Connectivity which facilitates easy accessibility of inter Branch transactions by the Bank's Account Holders. 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.

Dr. Kabiru Kinyanjui
Vice Chairman

Dr. Kinyanjui is the chairman of Kenya National Examination Council and a former chairman of the Public Universities Inspection Board and also an International Development Consultant. He holds a Masters and Doctorate degree 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 the Managing Director of Cooper Kenya Ltd. He is a veterinary doctor by profession with a broad commercial expertise.

Mr. Karl Moursund

Karl Moursund currently serves as the Chief Executive Director (CED) of Banco Terra in Mozambique. Before joining Banco Terra, Mr Moursund held the position as Investment Director with Norfund. Mr Moursund has extensive banking experience after having established and run two banks, the first one Finansbanken ASA - a commercial bank for high net worth individuals founded in 1986. He left the position as CEO in 1999 when the bank was acquired by the Norwegian insurance company Store brand. Mr Moursund then went on establish Privatbanken ASA and served as working chairman of the board until bank was acquired by the Swedish commercial bank Skandinaviska Enskilda Banken (SEB) in 2006. In addition to this Mr Moursund has been the CEO of Union Bank of Norway on 1990 / 1991 and the CEO of Industri – and Skipsbanken in Bergen, Norway. He has also headed a rehabilitation institution for drug addicts run by the Salvation Army in Norway. Mr Moursund holds a degree in Law from the University of Oslo, Norway.

Mr. Peter Kinyanjui,
Managing Director

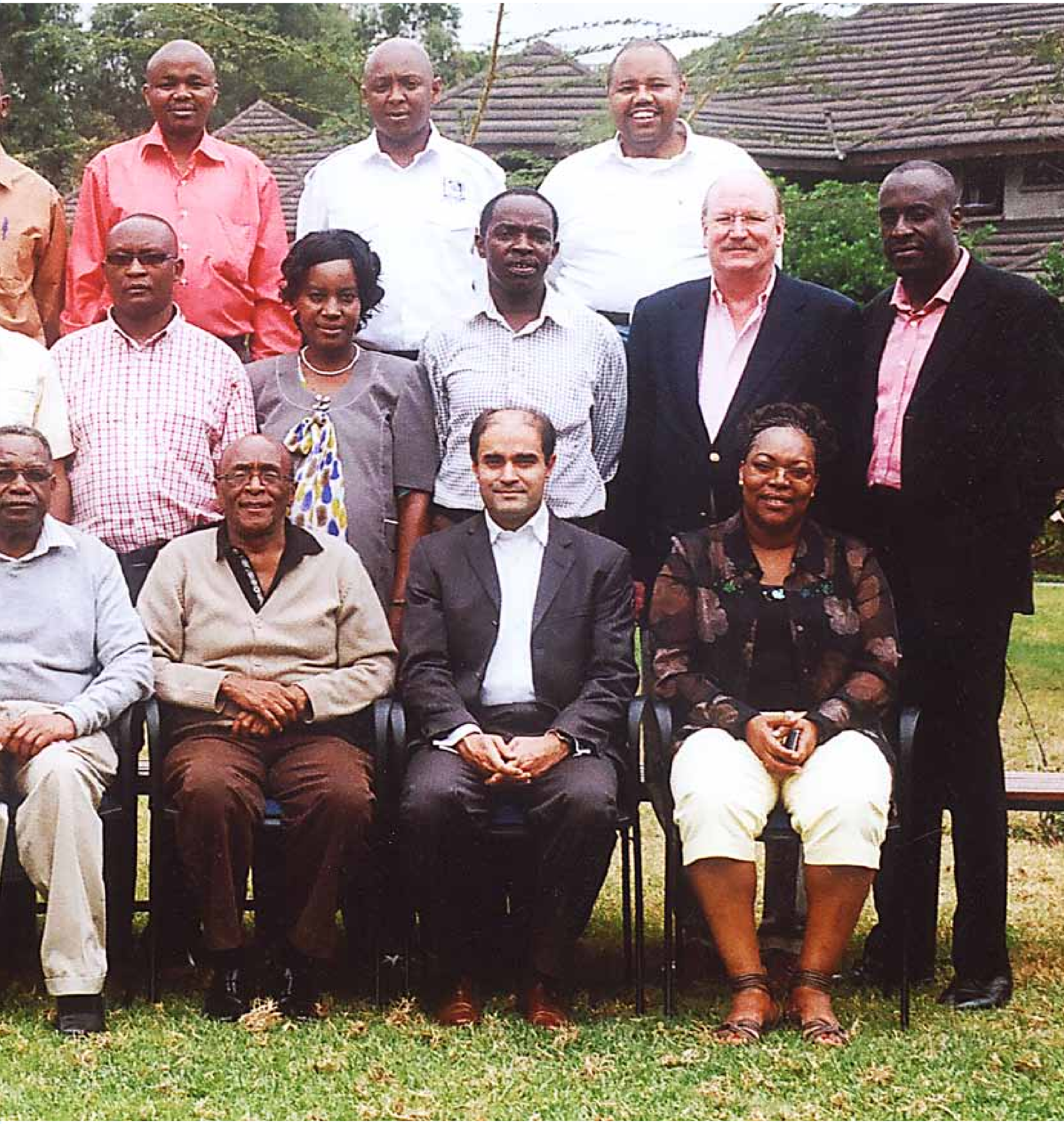
Mr. Kinyanjui is the Managing Director of Family Bank. He joined the Bank on 1st August, 2005 as the Business Development Manager then moved on to be the Head of Operations. He is currently the Managing Director. Mr. Kinyanjui is a professional banker with over 20 years experience in banking operations , finance and risk management having worked in various branches and Head Office. 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 Charted Institute of Bankers – London and a Fellow, Kenya Institute of Bankers (FKIB).

Mr. Njung'e Kamau
Finance & Strategy Director

Njung'e Kamau is the Finance & Strategy Director of the Bank. He joined the Bank as a Finance Manager. He has over 19 years professional working experience in Audit, Business Risk Assurance, Strategy, 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 as 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 from Moi University, a B.Com degree (Accounting Option) from the University of Nairobi. He is also a Certified Public Accountant (CPA-K), Certified Public Secretary (CPS-K) & a member of ICPAK and ICPSK. He is also a Certified Financial Modeller (CFM). He has also attended several banking courses locally and in the USA and Australia.

Senior Management, Board Members & Consultants

Seated L-R: Marianne Holvensen, Peter Kinyanjui, Kathleen Goense, Kabiru Kinyanjui, T.K. Muya, Skander Oueslati, Joyce Kamau.
1st Row Standing L-R: David Some, Dickson Gachuche, Karl Moursund, James Njau, Njung'e Kamau, Benjamin Ikenye, Margaret Mburu, Henry Karugu, Bill Thomas, Martin Miruka.



2nd Row Standing L-R: George Odo, Ruth Waweru, Keriri Muya, Mercy Kamau, Peter Mukuria, John M. Wachiuri, Julius B.K. Muyah, Kevin Kihara.

Chairman's *Statement*

Dear Shareholders of Family Bank,

Preamble to the Shareholders

On behalf of the Board and staff of Family Bank, I am delighted to present to you the Annual report and Financial Results of the Bank for the year ended 31st December 2010.

The year under review has been remarkable in many ways in the history of the Bank and our country in general. This year, the country marked the promulgation of the new constitution for our country which was indeed a landmark event that promises to bring good socio-economic prospects for our country. This makes the prospects of attaining the Vision 2030 goals that much tenable.

For our Bank, we had phenomenal growth of over 50% in all fronts; deposit base, loan book, profitability, branch network and customer base to name but a few. In addition, the Bank ushered in new strategic partners and launched the new Family Bank brand identity in a colourful event that was graced by the Prime Minister, Hon. Raila Odinga. The entry of the new investors was preceded with the rights issue that was done towards the end of 2009. The new investors not only brought in the much needed capital injection but also considerable benefits in strategic value-add to the Bank. The partnership will also help steer the bank into the next business frontiers and prepare us to take on the future challenges competitively.

Trading Environment

Political

To pick on a few highlights in the year that impacted on our business, on the political front we continued to see the country's democracy continue to mature and take shape . A peaceful referendum was held in August 2010 which was further reinforced by the promulgation of the new constitution a few days later. With a constitution that is more robust and clearly sets out the roles of various organs of the government whilst segregating the powers with clear checks and balances, one can only say that the futures is indeed bright for this country and trading environment once the constitution is implemented in full.

Economic

The Kenyan economy is now on the recovery path after registering a growth rate of 5.4% in 2010 compared to a growth of 2.6% in 2009. The growth in 2010 was still below the growth of 7.1% achieved in 2007. The increase in the GDP was attributable to, amongst other factors, the rainfall experienced towards the end of 2009, and early 2010, which impacted positively on agriculture and electricity generation. Other sectors that performed well included the tourism sector, transport & communication sector, and the building & construction sector with high demand for residential houses and office buildings. The growth in the economy had a positive impact to the growth in the financial performance of the Bank.
Tea production outperformed all the other agricultural cash crops in the period January to November 2010, following good rains recorded in most parts of the country. The tea farmers therefore benefited from increased production during the year and increased prices of tea coupled with a depreciating Kenya shilling against other foreign currencies. However, the incidences of

T. K. Muya - Chairman

drought being experienced at the end of the year may have an adverse effect on the economy in the coming year.

The informal (business) sector has also grown a lot and becoming a key sector in addressing the growing unemployment in the country.
The Treasury Bills' rates dropped to 2.3%, 2.6% and 3.4% for the 91, 182 and 364 days respectively by December 2010 as compared to the high of 6.7%, 7.2% and 8.0% for the 91, 182 and 364 days respectively as at December 2009. This drop led to a reduction in lending interest rates for the Bank.

Inflation declined from 5.3% in 2009 to 4.5% in 2010. There was however a marked increase in inflation in November and December 2010 which was attributed to the onset of dry weather leading to higher food prices and rising international oil prices which has had an adverse effect on manufacturing and transport costs. The Kenya Shilling value dropped against major world currencies from Ksh 75.8 in January 2010 to Ksh 80.5 in December 2010 to the Dollar. There was however, an increase in the NSE 20 share index from 3247.44 as at December 2009 to 4432.60 as at December 2010.

As at December 2010, the banking sector comprised of 43 commercial banks, 1 mortgage finance company, 4 deposit taking microfinance institutions and 126 foreign currency bureaus.

Social

The Kenyan Population Growth increased steadily from 30 million as indicated in the last census of 1999 to 39 million per the 2010 census which creates more potential in the labour force, market and general economic growth. This will require us to open more branches to serve the unbanked /under banked and the underserved. Our schools, hospitals, housing and infrastructure are all reeling under the weight of this population growth.

Competition

There is stiff competition in the Banking Industry from other commercial banks and MFIs as well as the mobile phone service providers. The Bank however is well positioned to compete at the top level.

New investors

With effect from 1st September 2010, the Bank brought on board a consortium of foreign investors. These investors were introduced to the other shareholders at the Extraordinary General Meeting held on 6th December 2010 at the Laico Regency. Their profiles are as follows;

- ***AfricInvest Fund II –*** This is a Pan African Private Equity Fund with total commitments of Euros 143 million from a prestigious group of investors that includes: DFIs (AfDB, FMO, IFC, Proparco, CDC, etc.);
- ***AfricInvest Financial Sector (AFS) Fund –*** This is a Pan African sector specific Private Equity Fund with total commitments of Euros 31 million from FMO, Proparco and DID.
  The Fund manager for both funds is AfricInvest Capital Partners, which is part of a Group

Chairman's
Statement *...continued*

with over 17 years of experience in Private Equity and with past investments in financial services; AfricInvest is a private equity fund set up as a joint venture between the Dutch Development Bank (FMO) and Tuninvest Finance Group, the leading private equity firm in North Africa with over USD 550 million under their management in Africa. They have offices in Tunisia, Kenya, Algeria, Morocco, Nigeria, and Cote d'ivoire and two satellite offices in Ghana and Togo. AfricInvest is sponsored by prestigious Development Finance Institutions (DFIs), such as; FMO, IFC, EIB, AfDB, BIO, Proparco, FINNFUND, SIFEM among others.

- ***FMO –*** This is a Dutch Development Finance Institution with investments in more than 20 financial institutions. FMO currently manages a portfolio of Euros 4.5Billion in emerging markets of which Euros 1.4 Billion is invested in Africa;
- ***Norfund –*** This is a Norwegian Development Finance Institution with a committed investment portfolio of over NOK 5.3 Billion and with vast investments in developing countries and the financial sector including Africa.

The entry of the new investors will boost the Bank's capital and bring in technical expertise in capacity building in the various functions within the Bank as well as strategic value-add. The Bank will also benefit from enhanced corporate governance in line with the world's best practices. Please join me in heartily welcoming our new investors on board.

Corporate Governance
The Bank practices good corporate governance in line with guidelines provided by Central Bank of Kenya. To further enhance this and in view of the new foreign shareholders coming on Board, the Bank appointed the following new non-executive directors; Skander Oueslati (Tunisian), Karl Moursund (Norwegian) and George Odo (Kenyan) as an alternate to Skander Oueslati.

Corporate Social Responsibility
The Bank continues to participate in various corporate social responsibility activities to help the needy as indicated in our corporate social responsibility statement included in this report.

Expansion and Branch Network
During the year, the Bank opened 4 branches, namely; River Road Branch (Nairobi), Nkubu, Banana and a second branch in Kisumu to bring the total number of branches to 54 by the end of the year. This is to further reinforce the Bank's business model of targeting the mass market customers who continue to power its low-margin high-volume business.

Dividend
The Directors recommend payment of a dividend of Ksh 0.40 per share of par value of Ksh 2 each. This amounts to Ksh 96.8 million which translates to a 25% dividend payout ratio.

Future Outlook
The future of the bank looks bright. We have a sound and visionary management structure in place and we continue to strengthen it. The market is ripe and the opportunities are opening up which the bank is positioned to take full advantage of. We will continue the roll-out of new branches and ATMs to further facilitate easy access to our customers.

Chairman's Statement ...continued

It is impossible to survive in today's world without leveraging on new technology. In this regard, we have recently invested in the state of the art new core banking system, flexcube, so that we can better serve our customers. With the mobile phone becoming a major driver of money transfer service delivery, we also introduced m-banking to enable us tap into the growing channel.
We will continue to innovate new ways, and products & services that will bring financial services to the growing population and financial needs. This will include exploring other areas of new product offering which are innovative and cost-effective in reaching our customers such as agency banking, internet banking amongst other in order to capture the growth opportunities.
For us to remain competitive a wider regional footprint and differentiated product offerings are imperative and with this additional capital injection and technical expertise, we will focus on redefining our strategy to embrace these expectations.
We are excited at the economic integration of the East African Community and the recent developments in Southern Sudan which offer more opportunities to Kenyans. We are studying the situation with a view to seizing the opportunities as they present themselves for expanding our business beyond the Kenyan borders.
We will continue to partner with the Women Fund, Youth Enterprise Development Fund in order to help address the youth unemployment and other government initiatives. We are also partnering with the government to bring the digital village to every constituency in the country. This is to enlighten the rural population and in recognition that without being digitally connected countrywide, we cannot play in the e-commerce world which is going to be the economy of tomorrow.

The Bank registered commendable growth during the year and we target to perform much better in 2011. I take this opportunity to thank our customers, shareholders and all other stakeholders for their continued selfless support over the years which indeed made year 2010 a great success. I also want to appreciate the invaluable support of the Board of Directors and the commitment and hard work by the staff of Family Bank during the year.

Thank you

T. K. Muya

Chairman

Managing Director's *Statement*

Dear Shareholders,

Preamble

The year 2010 will go down as one of the truly historic years in the life of Family Bank. We had numerous achievements which could only have been achieved with the sterling support of the shareholders, the Board, staff and most importantly our highly esteemed customers. During the year, we had impressive business growth, we brought on board new foreign investors, and we re-branded the Bank, roll-out of our own ATM switch in addition to successfully migrating to a new state of the art core banking system, flexcube.

Financials

The Bank registered commendable growth in its financial performance for the year ended 31st December 2010.
The net profit after tax increased by 77% from Ksh 220.9 million in 2009 to Ksh 391 million in 2010 while the profit before tax for the period increased by Ksh 158.06M (or 46%) from Ksh 342.61M in 2009 to Ksh 500.66M in 2010. The increase was mainly attributable to income from loans and investments.

The Bank's Statement of Financial Position which is reflected in total assets grew by Ksh 6.7 billion, being a 50% increase, from Ksh 13.5 billion as at December 2009 to Ksh 20.2 billion as at December 2010. This growth in total assets to over Ksh 20 billion marked another milestone for the Bank by moving it from Tier 2 to Tier 1 Bank as ranked by the Central Bank of Kenya. This is a major achievement given that the Bank was ranked as Tier 3 on conversion to a commercial bank just recently in 2007. The increase in assets was mainly attributable to the growth in loans and investments. Net loans and advances stood at Ksh 10.2 billion as at December 2010 compared to Ksh 7.7 billion as at December 2009, being a growth of 33%.

Deposits grew by Ksh 5.2 billion, being a 50% increase, from Ksh 10.5 billion as at December 2009 to Ksh 15.7 billion as at December 2010. This impressive growth was mainly attributable to the growth of the economy, aggressive marketing, roll-out of 4 new branches and growth in customer numbers.

The total shareholders' funds grew by Ksh 1.2 billion, a 69% growth from Ksh 1.9 billion as at December 2009 to Ksh 3.1 billion as at December 2010. The growth was attributable to both the increase in retained earnings and the injection of additional capital by the new investors.

Mr. Peter Kinyanjui - Managing Director

The Banking Awards 2010
1st Runners Up
Best Bank in Micro-Finance

The Banking Awards 2010
2nd Runners Up
Best Bank in Tier II

Key Achievements

Some of the key achievements include;

1. Moving from being a Tier 2 to a Tier 1 Bank as indicated above. Family Bank also won the annual interbank quiz during the year.

2. The launching of Pesa Pap! the mobile banking platform that has grown to become a household name with over Ksh 1 billion deposits and over 150,000 customers registered to date, it is certainly one of the most popular m-Banking products in the market. The Marketing Society of Kenya ranked the m-banking product as 2nd runners-up best product launch of the year 2010.

3. During the year, the Think Business Banking Awards Survey ranked Family Bank the 2nd runners-up best bank in MicroFinance service offering.

4. Most recently InterBrand Sampson, the world renowned International Brand consultants 2010 ranked Family Bank amongst the 6th most preferred banks in Kenya, in a customer service research conducted in Africa.

5. The bank also successfully migrated to a new Core Banking System, Flexcube in addition to rolling out its own ATM switch, and,

6. The partnership with the new strategic investors is yet another major achievement.

Managing Director's
Statement *...continued*

Strategic Investors
The coming on board of the new strategic investors will indeed help to catapult the Bank to being a premier lender to our SMEs within the market. This will see the Bank play a greater role in supporting the growth of our economy and eventually the realization of our Vision 2030 goal.

With injection of capital by our new investors, the Bank will be able to expand its footprint geographically thus making the provision of banking services much more accessible. This will help improve the service offering to our customers.
The strategic intent will be to focus on getting more relevant products that will address the dynamic needs of our customer in this unique environment.

Rebranding
Our brand is a collection of impressions, perceptions and experiences in the hearts and minds of everyone that comes into contact with it. In the Bankwide exercise that took most of the first half of the year, the Bank came up with a new brand blue print. The new Brand strategy reaffirms our commitment to our customers at large. The new proposition clearly restates how we will compete in the market as we grow our market share.

The Bank's strategic intent is to enable our people create and sustain wealth through access to flexible, affordable financial services.
Our new brand identity will bring with it a variety of unrivaled products and services to the market, with an unbeatable basket of tailor-made products particularly for our SME clientele.
We are now about to roll out our corporate communication as we continue to invest in our brand in order to strengthen it.

The Prime Minister Rt. Hon. Raila Odinga, the Chairman TK Muya and the MD Peter Kinyanjui unveiling the new Family Bank brand identity.

The New Core Banking System
The Bank believes that to be able to do business in the 21st century and to remain competitive we must be able to provide our customers with excellent customer services. A wide footprint that guarantees access to financial services to the 'unbanked', will need to be backed by an efficient core banking system that is technological driven and where risks are mitigated.

To this end, on 22nd November 2010, the Bank successfully migrated to a new Core Banking System, flexcube. This is the top of the range core banking system that automates and centralizes all our banking services whilst building in very robust risk mitigated processes in our banking business. This investment will go a long way in ensuring we are well placed to handle the growing customer base. Additionally, these improvements will enable us to serve our customers more efficiently whilst enabling us to introduce new lines of products and services.

Managing Director's Statement *...continued*

Our Staff

Dear staff, I pay glowing special tribute to you all for the selfless effort and hard work that you put in throughout the year and most remarkably during the system migration when you worked through so many sleepless nights. Upon migration, the demands of the new core banking system were enormous but the team braved it all and served the customers cheerfully.

We will continue to invest in training our staff so that they can serve our customers even better. A well motivated and competent work force is imperative if our business is to tackle the competitive environment we operate in effectively as well as maintaining our warm and friendly customer service that Family Bank has been renowned for.

We thank the board for standing with us through the migration period and most certainly you our highly esteemed customers and shareholders for giving us the opportunity to achieve this no mean feat with unequaled patience. Indeed we appreciate you in a big way. We assure you that the system is now well stabilized and serving the customers efficiently.
As an equal opportunity employer, the Bank continues to empower Kenyans and to this end, the staff complement increased from 938 as at the end of last year to stand at 1,003 at the close of this year. We also carried out numerous staff training in various operational areas.

Into the future

Dear Shareholders, Family Bank's future is bright. I want to assure you that the Bank is surely well placed and actively playing its quota in supporting the key sectors of our economy to grow and thus realize our country's goals of becoming a middle income economy by the year 2030 which is only 20 years away. We will be rolling out new products and services in the coming year.

I wish to thank all our shareholders, customers, the Board, staff and all stakeholders who have supported the bank since its incorporation in 1984.

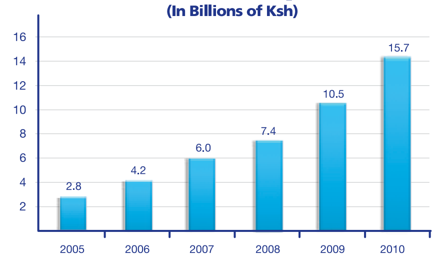
Thank you

Peter Kinyanjui

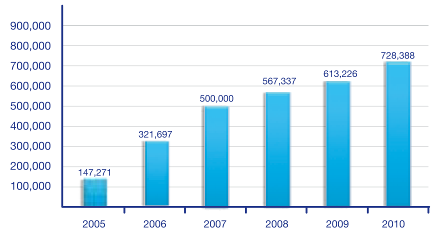
Managing Director

Financial Highlights

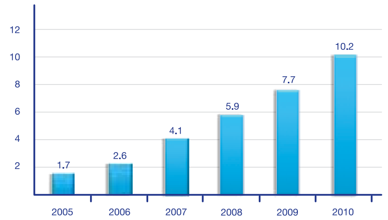
Customer Deposits
(In Billions of Ksh)



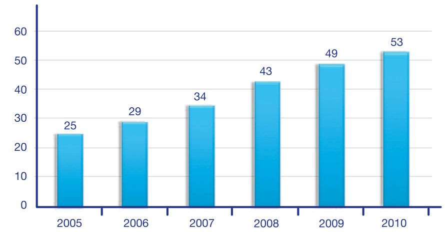
Number of Customers



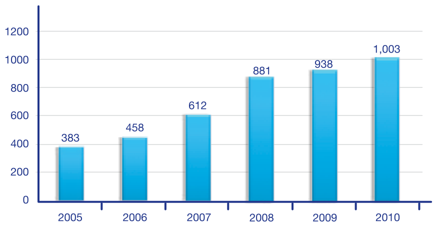
Loan Portfolio
(In Billions of Ksh)



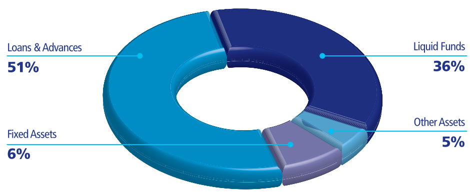
Number of Branches



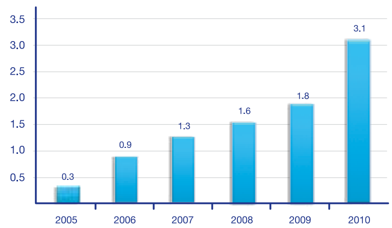
Number of Staff



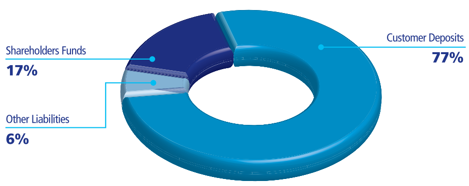
Composition of Assets



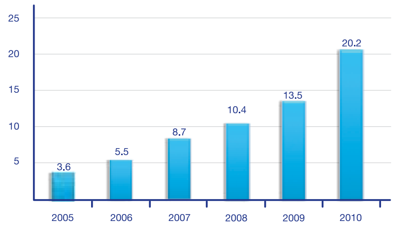
Shareholders' Funds
(In Billions of Ksh)



Composition of Liabilities



Total Assets
(In Billions of Ksh)



Key financial performance highlights

- Total assets grew by 50% from Ksh 13.3 Billion in 2009 to Ksh 20.2 Billion in 2010
- Deposits grew by 50% from Ksh 10.5 Billion in 2009 to Ksh 15.7 Billion in 2010
- Loans grew by 33% from Ksh 7.7 Billion in 2009 to Ksh 10.2 Billion in 2010
- Profit before tax grew by 46% from Ksh 342.6 Million in 2009 to Ksh 500.7 Million in 2010
- Total Shareholders' funds grew by 69% from Ksh 1.9 Billion in 2009 to Ksh 3.1 Billion in 2010
- The Bank now has 53 branches
- The bank has over 700,000 customers

REPORT OF *THE DIRECTORS*

The Directors have the pleasure of presenting their report together with the audited financial statements for the period ended 31st December 2010.

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

RESULTS
The results for the year are shown on page 28.

DIVIDEND
The directors recommend a dividend of KSh 0.40 per share amounting to KSh 96,836,977 representing a final dividend on the issued share capital for the year ended 31 December 2010.

DIRECTORS
The present directors are shown on page 6 and 7.

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

Date: March 2011

Corporate Social Responsibility *Statement*

As a responsible corporate citizen, Family Bank believes that CSR initiatives are a fundamental requirement for the Bank to coexist prosperously with various stakeholders over the long term. Further the banks recognize that we owe our success to the people of Kenya and that it is our responsibility to give back to the community in appreciation of their continued support.

This sense of national duty and pride on the part of business is part of the brand legacy, aspirations and truly reflected in our rallying call of Transforming Life.

The bank therefore remained committed for sustainable growth through an active approach to CSR. Family Bank therefore extended support to orphanages sponsorships for sporting activities / events, cultural ceremonies; education and health provision;

Even amid the current uncertain economic climate, it is the intention to continue to unabatedly promote initiatives for CSR and for the environment.

SOCIAL

The bank extended financial and material support to various children homes and needy cases spread across the country. Some of the beneficiaries include:

Sananda Foundation - Sabatia
Emusala School for the Mentally Handicapped- Kakamega
Daisy Special School – Kakamega
St. Lawrence Children Rehabilitation Home - Nkubu.

Family Bank Chairman Mr. Titus K.Muya (Right), MD, Peter Kinyanjui (2nd right) hands over a cheque to Energy Minister. Hon Kiraitu Murungi to support St. Lawrence Chldren Rehabilatation Center - Nkubu

Cecilia Mwangi (Right) of Ahadi Kenya and FBL staff gets ready for an anti jigger clinic sponsored by FBL

St. Lucy's School for the Blind – Egoji
The Prayers Beyond Ministries Orphanage – Mai Mahiu
Kenya Network of Women with AIDS – KENWA

The Bank additionally supported a Healthy Clinic in partnership with AHADI KENYA in an anti jigger campaign in Gatundu within the Kiambu County.Ahadi Kenya is a non governmental body that is involved in the fight against the Jigger Menace in Kenya. Members of staff drawn from several branches and departments participated in the medical camp.

SPORTS

Kenya continues to be a big force in the sports world especially in athletics. Family Bank continued with her tradition supporting sporting events through out the year.
The Eldoret Family Bank Half Marathon a key landmark in the Athletics Calendar was held on 3nd October 2010.The Bank tripled the sponsorship going to this event leading to even bigger prizes for the winners. Further the Bank extended support to the KIMSCA games held at Nakuru.

The St Mary s School Alumni Rugby team benefited from the Banks support during the Safaricoms Safari Seven s Rugby tournament held in the year.

Some funds were also set aside towards the sponsorship of the United States International University (USIU) Alumni Golf tournament held at Muthaiga Golf Club.

In the motor rallying, the Bank sponsored the Issa Amwari Rallying team participation in the Safari Rally. The sponsorship boosted teams performance and ranking in the Kenya Motor Rallying Championships.

Issa Amwari cruises through a spectators section during the 2010 KNRC series

The Annual Family Bank Eldoret Marathon participants prepare to start

TALENT DEVELOPMENT

During the year 2010, the bank continued with the University Talent Development (UTD) Program. Under this programmed best Kenya certificate of secondary education (KCSE) students are identified from the eight provinces for an opportunity to work in the bank until the time they join the universities.

Family BANK additionally supported the Laiser Hill Academy Talent Show Nite held on 17th JULY 2010.The event is geared towards identifying, nurturing, and encouraging artistically creative skills inherent in students and developing the skills into fruitful entrepreneurship.

An upcoming Local Gospel Artiste – Betty Bayo was another beneficiary of the Bank CSR initiative during her launch of the Siyabonga VCD.

EDUCATION

The Bank donated 57 trophies for award during the various education days / prize giving ceremonies in the education sector to recognize excelling schools and students in the national final exams.

The bank is keen to partner even more closely with the education sector and support worthy causes aimed at improving academic performance in our schools and creation of future human capital for our growing economy.

ECONOMIC DEVELOPMENT

The Bank continued to play a key role as a financial intermediary for the Women Enterprise Fund as well as the Youth Enterprise Fund which are the Government Of Kenya Initiatives aimed at empowering the Women and the Youths entrepreneurs by providing loans and advances. This has had a very positive impact in their businesses and a transformation on their lives.

Corporate Governance Statement

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

Family Bank has adequate policies and procedures in place that are reviewed regularly and which include clearly defined responsibilities and authority of directors, the Managing Directors and management of enhancing corporate governance.

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 and any special / extraordinary meetings of the Bank.

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 & work experience and from different nationalities. The Board comprises of 6 Non-executive Directors and 3 Executive Directors.

The Non-executive Directors are the Chairman, Mr. TK Muya, the Vice Chairman, Dr. Kabiru Kinyanjui, Prof. David Kimutai Arap Some, Dr. James Mukuha Njau, Mr. Karl Moursund and Mr. Skander Oueslati. Mr. George Odo is an Alternate Director to Mr. Skander Oueslati. Mr. Ng'ang'a Muchai, who was also a Non-executive Director retired from the Board during the year.

The 3 Executive Directors are; Mr. Peter Kinyanjui (Managing Director), Mr. Keriri Muya (Operations & Technology Director) and Mr. Njung'e Kamau (Finance & Strategy 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 and growth. 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 & wastage, compliance with regulatory requirements as well as ensuring that systems are in place to facilitate

the effective management of all risks that may affect 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 any 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 Managing Director (MD) are separate. The chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions. The MD is responsible to the Board and takes responsibility for the effective and efficient management of the Bank. All the non-executive directors are independent of management.

The non-executive Directors meet informally from time to time, without the MD, the Executive Directors 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 MD 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 MD 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 and the Head of Audit. Any other member of the Management or Board 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 four 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 MD, FD, Operations & Technology Director 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

Board HR / Executive Committee

The HR / Executive Committee is comprised of three non-executive directors of the board, the MD and the Head of HR. 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 MD 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 Strategy Committee

The Board also formed a new Board Strategy Committee towards the end of the year. This committee is comprised of three non-executive directors, the MD, the FD and the Operations & Technology Director. The Strategy Committee's role and responsibilities include an analysis of the strategy of the Bank and specifically the following:

- Oversight of the implementation of the strategy approved by the Board and review of progress on a regular basis.
- Review of the budget and strategic plan of the Bank prior to submission to the Board.
- Design of action plans per business unit to ensure that objectives are met while factoring in organisational, human, technical and financial aspects.
- Consider analysis of any investment/CAPEX programme prior to its submission to the Board.
- Design and submission to the Board of the main strategic orientations of the Bank.
- Review any updated policy and environmental changes (e.g. Basel, CBK guidelines, IFRS/IAS, etc) and weigh the impact on the Bank and make recommendations for implementation.
- Design and implementation of an environmental and social policy in compliance with the World Bank /FMO guidelines.
- Branch expansion plan of the Bank

The Committee will commence its meetings in February 2011.

Board meetings' attendance, 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 and direction in strategic planning & implementation, involvement in key management staff recruitment & other Human Resource matters, financial performance review & approval, 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 and signing for the Bank's new core banking system. This was 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.

There were changes in the composition of the Board with effect from 1st August 2010. During the 8 months to 31st August 2010, the main Board convened and held a total of 4 Board meetings and there was 100% attendance by the 8 Directors. During the ensuing 4 months from 1st September to 31st December 2010, 1 Director resigned and was replaced by 2 new foreign Directors. During this period, 2 Board meetings were held and the attendance was 100%.

The Board Credit Committee convened and held a total of 10 meetings during the year with an attendance rate of over 75% by the members. The Board Audit Committee convened and held a total of 4 meetings during the year with a 100% attendance rate by the Board members. Further, 5 Risk Management Board Committee meetings were held during the year with over 80% attendance rate by the Board members. Additionally, four HR Board Committee meetings were held and the attendance rate was a 100%.

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

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

Annual general meeting and other shareholders meetings

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.

Statement of Directors' Responsibilities
for the year ended 31St December, 2010

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 Bank.

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.

T. K. Muya
CHAIRMAN

Peter Kinyanjui
MANAGING DIRECTOR

Date: 24th March 2011

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 page numbers 28 to 49 which comprise the Statement on Financial Position as at 31st December 2010, 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 2010 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
Certified Public Accountants (K)
Dominion House, Muthithi Road
P. O. Box 46671 - 00100
NAIROBI

Statement of Comprehensive Income

for the year ended 31St December, 2010

	Note	2010 Kshs.	2009 Kshs.
Interest income	5	1,896,114,172	1,372,281,726
Other loan income		360,553,960	240,809,475
Interest expense	6	(225,725,726)	(199,140,308)
Net Interest Income		**2,030,942,406**	**1,413,950,893**
Net fees and commission income		1,079,031,550	768,495,944
Fair value gain on Investments		181,922	3,904,614
Other Operating Income	7	8,670,490	4,137,087
Net Operating Income		**3,118,826,368**	**2,190,488,538**
Provision for impaired loans and advances		(388,873,891)	(71,249,975)
Employee benefits	8	(936,198,936)	(756,442,387)
Operating lease expenses	9	(162,559)	4,034,032
Depreciation and amortisation	10	(246,115,572)	(204,777,067)
Other Operating expenses	11	(1,046,813,147)	(819,446,385)
Total Expenses		**2,618,164,105**	**1,847,881,782**
Profit before income tax		**500,662,263**	**342,606,756**
Income tax expense	12	(109,662,994)	(121,711,476)
Profit for the period		**390,999,269**	**220,895,280**
Attributable to:			
Equity shareholders		**390,999,269**	**220,895,280**
Earnings per share	13	**1.62**	**1.20**
Dividend per share	14	**0.40**	**0.50**

Statement of Financial Position
for the year ended 31St December, 2010

	Note	2010 Kshs.	2009 Kshs.
ASSETS			
Cash and balances due from banking institutions	15	1,894,334,810	1,233,160,631
Placement with other banks	16	91,749,554	484,313,011
Government securities	17	5,211,146,458	1,836,000,000
Other securities	18	499,325,350	489,589,750
Loans and advances to customers	19	10,208,136,543	7,675,806,206
Other investments	20	568,922	387,000
Other receivables	21	964,618,802	490,106,315
Investment properties	22	27,670,000	27,670,000
Prepaid Lease Rentals	23	6,184,123	6,346,682
Property and equipment	24	1,034,524,657	1,026,916,639
Intangible assets	25	173,583,547	149,131,381
Deferred tax asset	12	76,535,018	33,838,510
TOTAL ASSETS		**20,188,377,784**	**13,453,266,125**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customer deposits	26	15,731,246,837	10,490,292,787
Loans	27	472,971,634	685,186,972
Taxation	12	17,915,394	-
Other Payables		838,954,812	424,908,451
TOTAL LIABILITIES		**17,061,088,677**	**11,600,388,210**
EQUITY			
Share capital	28	484,184,883	368,219,431
Share premium	28	1,644,429,039	782,747,711
Revaluation Reserve		44,075,806	44,405,806
Proposed dividend	14	96,836,977	92,054,858
Retained earnings		857,762,402	565,450,109
TOTAL EQUITY		**3,127,289,107**	**1,852,877,915**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**20,188,377,784**	**13,453,266,125**

The accounts set out on pages 28 to 49 were approved by the Directors on 24th March 2011, and signed on its behalf by:

T. K. Muya
CHAIRMAN

Peter Kinyanjui
MANAGING DIRECTOR

Statement of Changes in Equity

for the year ended 31St December, 2010

	Note	Share Capital Kshs	Share Premium Kshs	Retained Earnings Kshs	Revaluation Reserve Kshs	Proposed dividend Kshs	Total Kshs
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 for the Year 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		-	-	(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**
Year ended 31 December 2010							
At start of year		**368,219,431**	**782,747,711**	**565,450,109**	**44,405,806**	**92,054,858**	**1,852,877,915**
Prior year adjustments				(1,849,999)			
As Restated		**368,219,431**	**782,747,711**	**563,600,110**	**44,405,806**	**92,054,858**	**1,851,027,916**
Dividend paid (2010)		-	-		-	(92,054,858)	**(92,054,858)**
Adjustment to reserve					(330,000)		**(330,000)**
Profit for the year		-	-	390,999,269		-	**390,999,269**
Proposed dividends		-	-	(96,836,977)	-	96,836,977	**-**
Right issue proceeds		115,965,452	861,681,328				**977,646,780**
At end of year		**484,184,883**	**1,644,429,039**	**857,762,402**	**44,075,806**	**96,836,977**	**3,127,289,107**

Statement of Cashflows

for the period ended 31St December, 2010

	Notes	2010 Kshs.	2009 Kshs.
OPERATING ACTIVITIES			
Net Cash From Operations	**29(a)**	47,014,185	418,403,836
Taxation Paid		(113,451,074)	(171,076,056)
CASH GENERATED FROM OPERATING ACTIVITIES		**(66,436,889)**	**247,327,780**
INVESTING ACTIVITIES			
Purchase of Investments		(9,735,600)	(489,589,750)
Purchase of property and equipment		(258,036,794)	(232,443,170)
Additions to investment property			(3,170,000)
Purchase of intangible assets		(81,880,238)	(123,961,595)
Proceeds from disposal of property and equipment		11,368,320	-
CASH USED IN INVESTING ACTIVITIES		**(338,284,312)**	**(849,164,515)**
FINANCING ACTIVITIES			
Proceeds from sale of shares		977,646,780	228,562,742
Loan proceeds		32,000,000	84,000,000
Loan Repayment		(244,260,000)	(110,955,385)
Dividends paid		(92,054,858)	(103,753,904)
CASH USED IN FINANCING ACTIVITIES		**673,331,922**	**97,853,453**
INCREASE IN CASH AND CASH EQUIVALENTS	**29(b)**	268,610,721	(503,983,282)
CASH AND CASH EQUIVALENTS AT 1st JAN 2010		1,717,473,643	2,221,456,925
CASH AND CASH EQUIVALENTS AT 31 DEC. 2010		**1,986,084,364**	**1,717,473,643**

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 lAS 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 six months during the year of purchase that qualify for depreciation.No depreciation is charged during the year of disposal.

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

	2010	2009
Freehold Land	Nil	Nil
Buildings	2.50%	2.50%
Motor vehicles	20.00%	20.00%
Office equipment	12.50%	12.50%
Fixtures and Fittings	12.50%	12.50%
Computers	20.00%	20.00%
ATM machines	16.70%	16.70%
Software	20.00%	20.00%

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 revaluaition 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.

Cash and cash equivalents

n. 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 seperate 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.

a. Impairment and provision policies

		2010 Loans & advances Ksh'000	2010 Provisions Ksh'000	2009 Loans & advances Ksh'000	2009 Provisions Ksh'000
Grade 1	Normal risk	9,065,505	90,655	6,670,187	66,702
Grade 2	Watch risk	959,077	28,772	702,406	21,072
Grade 3	Substandard risk	250,117	77,677	127,305	33,959
Grade 4	Doubtful risk	273,460	142,918	158,774	33,238
Grade 5	Loss risk	476,602	476,602	207,437	173,808
	Total	**11,024,761**	**816,624**	**7,866,109**	**328,779**

The above table represents a worst case scenario of the credit exposure to the bank as at 31st December 2010 and 2009, 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 3 respectively to cater for any unidentified risk.Loans under Grade 3,4 and 5 are impaired and the bank deem that it is uncertain to collect the principal and interest due as per the contractual agreeements. The bank therefore has provided for specific impairment on these grades.

b. Concentration of credit risk

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

	2010 Ksh'000	2009 Ksh'000
Agriculture	305,029	186,243
Trading	5,780,328	62,229
Wholesale and retail trade	12,561	2,436,124
Transport	910,851	1,166,540
Business services	330,009	998,289
Consumer durables	3,685,984	3,294,476
Total	**11,024,762**	**8,143,901**

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 2010 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.

Notes to the Financial Statements
for the year ended 31st December, 2010 *(Continued)*

	Up to 1 month Ksh.'000'	1 - 3 Months Ksh.'000'	3 - 6 Months Ksh.'000'	6 - 12 Months Ksh.'000'	1 - 3 Years Ksh.'000'	3 - 5 Years Ksh.'000'	Over 5 Years Ksh.'000'	Non-interest bearing Ksh.'000'	Total Ksh.'000'
FINANCIAL ASSETS									
Cash and balances with other banks	-	-	-	-	-	-	-	1,894,335	1,894,335
Placements with other banks	71,750	20,000	-	-	-	-	-	-	91,750
Investments	2,940	-	7,060	100,000	-	-	5,601,041	-	5,711,041
Overdrafts	-	-	-	-	-	-	-	-	-
Loans	1,222,710	411,741	266,728	939,043	3,172,644	3,097,525	1,097,745	-	10,208,137
Fixed Assets	-	-	-	-	-	-		1,241,962	1,241,962
Others	-	-	-	925,945	76,535	38,674	-	-	1,041,154
Total financial assets	**1,297,400**	**431,741**	**273,788**	**1,964,988**	**3,249,179**	**3,136,199**	**6,698,786**	**3,136,297**	**20,188,378**
FINANCIAL LIABILITIES									
Balances due to banks	-	-	-	-	-	-	-	-	-
Customer deposit	4,888,943	2,153,395	1,217,071	1,221,582	2,234,913	3,355,562	659,781	-	15,731,247
Loans and Advances	391	27,815	27,815	118,630	292,162	-	6,159	-	472,972
Capital and reserves	-	-	-	-				3,127,289	3,127,289
Provisions for bad debts	-	-	-	-	-	-	-	-	-
Other Liabilities	-		-	-			-	856,870	856,870
Total financial liabilities	**4,889,334**	**2,181,210**	**1,244,886**	**1,340,212**	**2,527,075**	**3,355,562**	**665,940**	**3,984,159**	**20,188,378**
Interest rate sensitivity gap	**(3,591,934)**	**(1,749,469)**	**(971,098)**	**624,776**	**722,104**	**(219,363)**	**6,032,846**	**(847,862)**	**0**

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.

a) 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.

b) 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:

	2010	2009
As at 31 Dec	45%	37%
Average for the period	38%	35%
Highest for the period	47%	39%
Lowest for the period	30%	30%

c) Contractual maturities of financial 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 31 December 2010 to the contractual date.

	Up to 1 month Ksh.'000'	1 - 3 Months Ksh.'000'	3 - 6 Months Ksh.'000'	6 - 12 Months Ksh.'000'	1 - 3 Years Ksh.'000'	3 - 5 Years Ksh.'000'	Over 5 Years Ksh.'000'	Total Ksh.'000'
FINANCIAL ASSETS								
Cash and balances with other banks	1,894,335		-	-	-	-	-	1,894,335
Placements with other banks	71,750	20,000			-	-	-	91,750
Investments	2,940	-	7,060	100,000	-	-	5,601,041	5,711,041
Overdrafts	-	-	-	-	-	-	-	-
Loans	1,222,710	411,741	266,728	1,139,043	2,972,644	3,097,525	1,097,745	10,208,137
Fixed Assets	-	-	-	-	10,369	324,785	906,808	1,241,962
Others	-	-	-	925,945	76,535	38,674	-	1,041,154
Total financial assets	**3,191,735**	**431,741**	**273,788**	**2,164,988**	**3,059,548**	**3,460,984**	**7,605,594**	**20,188,378**
FINANCIAL LIABILITIES								
Balances due to banks								-
Customer deposits	4,888,943	2,153,395	1,217,071	1,221,582	2,234,913	3,355,562	659,781	15,731,247
Loans and Advances	391	27,815	27,815	118,630	292,162	-	6,159	472,972
Capital and reserves	-	-	-	-	857,762	44,076	2,225,451	3,127,289
Provisions for bad debts					-	-	-	-
Other Liabilities	-	-	46,452	243,405	2,134	564,879	-	856,870
Total financial liabilities	**4,889,334**	**2,181,210**	**1,291,338**	**1,583,617**	**3,386,971**	**3,964,517**	**2,891,391**	**20,188,378**
Net Liquidity gap	**(1,697,599)**	**(1,749,469)**	**(1,017,550)**	**581,371**	**(327,423)**	**(503,533)**	**4,714,203**	**0**

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.
iv. Requirements for appropriate segregation of duties, including the independent authorization of transactions.
v. Requirements for the reconciliation and monitoring of transactions.
vi. Documentation of controls and procedures.
vii. Requirements for the yearly assessment of operational risks faced and adequecy of controls and procedures to address the risks identified.
viii. Requirements for the reporting of operational losses and proposed remedial action.
ix. Development of contingency plans.
x. Training and professional development.
xi. Ethical and business standards.
xii. Risk mitigation, including insurance where applicable.

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 formingthe 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.

4 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 500 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 10 was as follows;

	2010 Ksh' 000	2009 Ksh' 000
Tier 1 - Core Capital		
Share capital	484,185	368,219
Share premium	1,644,429	782,748
Retained earnings	857,762	583,861
Sub total	**2,986,376**	**1,734,828**
Tier 2 - Supplementary capital		
Revaluation reserve (25%)	8,832	8,914
Sub total	**8,832**	**8,914**
Total Capital	**2,995,208**	**1,743,742**
Core capital / Total deposit liabilities (CBK minimum 8%)	19%	16%
Core capital / Total risk weighted assets (CBK minimum 8%)	23%	18%
Total capital / Total risk weighted assets (CBK minimum 12%)	23%	18%

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

		2010 Kshs	2009 Kshs
5	***INTEREST INCOME***		
	Loans and advances to customers	1,588,280,076	1,225,530,786
	Placement with other banks & government securities	307,834,096	146,750,940
		1,896,114,172	**1,372,281,726**
6	***INTEREST EXPENSE***		
	Interest on loans and overdrafts	29,611,306	55,035,866
	Interest on overnight borrowing	2,530,271	
	Interest on customers savings accounts	1,470,955	1,575,550
	Interest on customers fixed deposit accounts	192,113,194	142,528,892
		225,725,726	**199,140,308**
7	***OTHER OPERATING INCOME***		
	Bad debt recoveries	6,024,588	3,836,211
	Profit on sale of fixed assets	2,243,597	-
	Rent income	386,285	272,139
	Investment income	16,020	28,737
		8,670,490	**4,137,087**
8	***EMPLOYEES BENEFITS***		
	Salaries & Allowances	828,702,276	637,347,138
	Contributions to defined contribution plans	31,524,325	24,745,430
	NSSF contribution	2,169,575	2,010,450
	Medical expenses	51,155,731	54,983,890
	Training & development	13,229,638	26,111,765
	Other Staff cost	9,417,390	11,243,714
		936,198,936	**756,442,387**
9	***LEASE AMORTISATION***		
	Operating lease expenses	162,559	(4,034,032)
		162,559	**(4,034,032)**
10	***DEPRECIATION***		
	Furniture & equipment	136,141,860	108,877,531
	Computer equipment	99,694,508	85,357,138
	Buildings	2,661,634	2,661,634
	Motor Vehicle	7,617,570	7,880,764
		246,115,572	**204,777,067**
11	***OPERATING EXPENSES***		
	Occupancy expenses	392,121,771	340,175,041
	Goodwill written off	15,940,000	12,800,000
	Contribution to Deposit Protection Fund	13,492,370	9,492,636
	Auditors' remuneration	1,713,634	2,073,623
	Legal and other professional fees	14,429,959	4,029,982
	AGM expenses	2,980,971	1,910,776
	Directors emoluments	28,176,529	15,398,500
	Core banking expenses	66,734,088	33,918,615
	Other operating expenses	511,223,825	399,647,212
		1,046,813,147	**819,446,385**
12	***TAXATION***		
	(a) Taxation charge		
	Current year @ 30% based on chargeable profit for the year	152,359,502	119,282,303
	Deffered Tax	(42,696,508)	2,429,173
		109,662,994	**121,711,476**
	The tax on the profit differs from the theoretical amount using the basic tax rate as follows:		
	Accounting profit before tax	500,662,263	342,606,755
	Tax at the applicable rate of 30%	150,198,679	102,782,027
	Tax effect of expenses not deductible for tax	131,755,728	73,577,564
	Tax effect of income not taxed	(129,594,905)	(57,077,287)
	Deferred Tax	(42,696,508)	2,429,173
	Tax charge for year	**109,662,994**	**121,711,476**

		2010 Kshs	2009 Kshs
12	**b) Deferred Tax Asset**		
	Balance as at 1st January	(33,838,510)	(36,267,683)
	Charge for the year	(42,696,508)	2,429,173
	Balance as at 31st December	76,535,018)	(33,838,510)
	Tax Payable		
	Balance brought forward	(20,993,034)	30,162,410
	Charge for the year	152,359,502	119,282,303
	Adjustment		638,309
	Tax refund		
	Payments during the year	(113,451,074)	(171,076,056)
		17,915,394	(20,993,034)

13 ***EARNINGS PER SHARE***

Earnings per share are calculated on the profit attributable to shareholders of Kshs 390,999,269 (2009 - 220,895,280) and on the weighted average number of ordinary shares in issue during the year.

		2010 Kshs	2009 Kshs
	Net Profit attributable to shareholders	390,999,269	220,895,280
	Weighted average no. of shares	242,092,442	184,109,716
	Basic earnings per share	1.62	1.20
14	***DIVIDEND PER SHARE***		
	A final dividend of Kshs 0.40 per share amounting to a total of Kshs was declared to shareholders in the register.	96,836,976.60	92,054,858
15	***CASH AND BALANCES DUE FROM BANKING INSTITUTIONS***		
	Cash on hand	834,291,613	593,738,778
	Balances due from CBK	914,861,938	498,314,926
	Balances due from banking institutions	99,302,023	90,613,910
	Balances due from banks abroad	45,879,236	50,493,017
		1,894,334,810	1,233,160,631
16	***PLACEMENTS WITH OTHER BANKS***		
	Due within 90 days	91,749,554	484,313,011
	Due After 90 days	-	-
		91,749,554	484,313,011
17	***GOVERNMENT SECURITIES***		
	Maturing within 90 days	-	850,000,000
	Maturing after 90 days	5,211,146,458	986,000,000
		5,211,146,458	1,836,000,000
18	***OTHER SECURITIES***		
	Maturing within 90 days	-	-
	Maturing after 90 days	499,325,350	489,589,750
		499,325,350	489,589,750
19	***LOANS AND ADVANCES TO CUSTOMERS***		
	Loans and advances	11,024,761,772	8,143,900,188
	Provision for impairment losses	816,625,229	468,093,983
	Carrying amount for loans and advances	10,208,136,543	7,675,806,205
	Impaired loans and advances:		
	Impaired loans and advances (specific)	1,000,179,970	493,515,563
	Provisions for impairment losses (specific)	705,182,908	308,222,811
	Recoverable amount of impaired loans and advances	294,997,062	185,292,752

	2010 Kshs	2009 Kshs
20 OTHER INVESTMENTS		
Quoted ordinary shares	568,922	387,000

Quoted investments are stated at the market values as at 31st December 2010.

21 OTHER ASSETS		
Other Receivables	964,618,802	490,106,315
22 INVESTMENT PROPERTIES		
At 1st January 2010	27,670,000	24,500,000
Acquisition		3,170,000
Disposals		-
At 31st December 2010	27,670,000	27,670,000

Investment properties include the cost of land and buildings held for capital appreciation and other unspecified purposes.

23 PREPAID OPERATING LEASE RENTALS	2010 Kshs	2009 Kshs
Cost	8,600,000	8,600,000
Additions	-	-
Reclasification	-	-
Revaluation	-	-
Balance as at 31st December	**8,600,000**	**8,600,000**
Amortisation		
Balance as at 1st January	2,253,319	5,587,350
Adjustments		(3,500,000)
Charge for the year	162,559	165,969
Balance at 31st December	2,415,878	2,253,319
Carrying value as at 31st December	**6,184,123**	**6,346,681**

24 a. PROPERTY & EQUIPMENT (2009)

	Land Kshs.	Buildings Kshs.	Computers Kshs.	Vehicles Kshs.	Furniture Fixtures & Fittings Kshs.	Total 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	-	-	37,765,528	4,200,800	207,417,886	249,384,214
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	17,450,589	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**	**1,026,916,638**
At 01.01.2009	**4,700,000**	**83,012,650**	**256,857,379**	**21,362,564**	**599,559,802**	**965,492,395**

24 b. PROPERTY & EQUIPMENT (2010)

	Land Kshs.	Buildings Kshs.	Computers Kshs.	Vehicles Kshs.	Furniture Fixtures & Fittings Kshs.	Total Kshs.
Cost/Valuation						
At 1.1.2010	2,400,000	106,465,342	511,529,414	42,753,953	1,008,518,899	1,671,667,608
Reclassification	-	-		-		-
Adjustment	-				-	-
Additions	-	39,691,898	42,940,247	4,768,812	170,635,837	258,036,794
Revaluations	-	-	-		-	-
Disposals	-	-	-	(11,368,320)	-	(11,368,320)
At 31.12.2010	**2,400,000**	**146,157,240**	**554,469,661**	**36,154,445**	**1,179,154,736**	**1,918,336,082**
Depreciation						
At 1.1.2010	-	23,114,326	303,574,183	25,223,020	292,839,441	644,750,969
Release on disposal/ Adj.	-			(7,055,117)		(7,055,117)
Adjustments \ Rev.				-		-
Charge for the year	-	2,661,634	99,694,508	7,617,570	136,141,861	246,115,572
At 31.12.2010	**-**	**25,775,959**	**403,268,691**	**25,785,473**	**428,981,302**	**883,811,425**
Net Book Value						
At 31.12.2010	**2,400,000**	**120,381,281**	**151,200,970**	**10,368,972**	**750,173,434**	**1,034,524,657**
At 01.01.2010	**2,400,000**	**83,351,016**	**207,955,231**	**17,530,933**	**715,679,458**	**1,026,916,638**

		2010	2009
25	***INTANGIBLE ASSETS***		
	Cost	**Kshs**	**Kshs**
	At 1st January	260,872,948	156,071,495
	Prior Year adjustment		
	Reclassification		(16,219,864)
	Additions	58,456,634	121,021,317
	At 31st December	319,329,582	260,872,948
	Amortisation		
	At 1st January	111,741,568	101,283,633
	Charge for the period	34,004,467	10,457,934
	At 31st December	145,746,035	111,741,567
	Written Down Value	173,583,547	149,131,381

26 a.	***CUSTOMER DEPOSITS***		
	Demand Accounts	11,949,261,525	7,588,486,300
	Savings Accounts	348,214,640	415,744,580
	Call & Fixed Deposits	3,433,770,672	2,486,061,907
		15,731,246,837	10,490,292,787
b.	***DEPOSITS AND PLACEMENTS DUE TO BANKS***	-	-
		472,971,634	10,490,292,787

27	***LOANS***		
	Youth Fund	90,283,900	160,183,973
	PTA Loan	287,421,666	398,681,667
	Women Fund	89,106,900	120,162,164
	Practical Action Fund	6,159,168	6,159,168
		472,971,634	685,186,972

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

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.

		2010	2009
28 a.	***SHARE CAPITAL***		
	Authorised	**Kshs**	**Kshs**
	500,000,000 ordinary shares of Sh 2 each	1,000,000,000	1,000,000,000
	Issued & fully paid		
	242,092,442 ordinary shares (184,109,716 - 2009) have been issued and paid up.	484,184,884	368,219,431

During the year, a consortium of Foreign investors namely Africinvest, Norfund and FMO purchased a total of 54 Million shares worth Ksh 108 Million. This was duly ratified through a Extra Ordinary General Meeting.

		2010	2009
b.	***SHARE PREMIUM***	**Kshs**	**Kshs**
	Share Premium	1,644,429,039	782,747,711

The Share Premium increased resulting from new shares purchased during the year.

c. ***REVALUATION RESERVE***

The amount of Ksh 44,075,806 arises from revaluation of various Assets over the past years.

	2010 Kshs	2009 Kshs
29 NOTES TO THE CASHFLOW STATEMENT		
a. **Cashflow from operating activities**		
Profit before taxation	500,662,263	342,606,756
Adjustments:		
Depreciation	246,115,572	204,777,067
Foreign exchange Gain \ Loss	4,312,278	(12,699,557)
Profit/Loss on disposal of investment properties		
Gain in value of quoted investments	(181,922)	(3,904,614)
Provision on leave pay	16,935,638	(12,077,918)
Provision on AGM	2,000,000	2,000,000
Profit \ (Loss) on disposal of assets	2,243,597	178,858
Amortization of lease rental	162,559	165,969
Amortization of Intangible asset	34,004,467	10,457,934
Operating Profit Before Working Capital Changes	**806,254,452**	**531,504,495**
Changes in working capital items		
Government securities	(3,375,146,458)	(805,158,300)
Loans and advances to customers	(2,532,330,337)	(1,785,969,997)
Other receivables	(517,208,993)	(82,099,927)
Customers deposits	5,240,954,051	2,886,223,516
Other Payables	424,491,470	(326,095,951)
Increase in operating assets	**(759,240,267)**	**(113,100,659)**
Cash generated from operations	**47,014,185**	**418,403,836**
b. **Increase in cash and cash equivalents**		
Cash and cash equivalents as at 1st Jan 2010	1,717,473,643	2,221,456,925
Cash and cash equivalents as at 31st Dec 2010	1,986,084,363	1,717,473,643
Increase in cash and cash equivalents	**268,610,721**	**(503,983,282)**
30 NUMBER OF EMPLOYEES AT THE END OF THE YEAR	**1,003**	**938**

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 2010, the bank held deposits in banking institutions under the following foreign currencies in equivalent Kenya shilling:

	2010 Kshs	2009 Kshs
Dollar	28,743,409	35,264,121
Euro	73,500,180	4,971,248
Sterling pound	(26,119,232)	1,011,675

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

	2010 Kshs	2009 Kshs
Dollar	80.67	75.27
Euro	106.81	107.59
Sterling pound	125.10	120.85

32 RELATED PARTY TRANSACTIONS

	2010	2009
Balance as at 1st Jan 2010	**479,581,538**	**201,936,133**
Loans advanced during the year	390,883,300	408,144,517
Loans repayments received	(411,462,744)	(130,499,112)
Balance as at 31st Dec 2010	**459,002,094**	**479,581,538**

33 KEY MANAGEMENT PERSONNEL REMUNERATION

	2010	2009
Salary & benefits	49,661,929	43,925,000
Directors emoluments	28,176,529	15,398,500
Total	**77,838,458**	**59,323,500**

34 OFF- BALANCE SHEET ITEMS

	2010	2009
Guarantees to third parties	391,445,113	199,499,983
Contigencies	59,692,514	5,963,173
Total	**451,137,627**	**205,463,156**

35 CAPITAL COMMITMENTS

	2010	2009
Authorised and contracted	176,737,800	99,051,198
Authorised but not contracted	16,378,500	55,000,000
Total	**193,116,300**	**154,051,198**

36 ASSETS PLEDGED AS SECURITY

As at 31st December 2010, placement with other banks included an amount of Ksh 658,005 which represented assets pledged as securities for facilities given to banks and related parties.

The Government securities included an amount of Ksh 360,000,000, 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
07280298333/120555/120444,
0733332300
Fax: 318174

BRANCHES

FOURWAYS RETAIL
Ground Floor
Fourway Towers
Muindi Mbingu Street
Tel: 2240639 0726610472
Fax: 318174

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

SONALUX
Moi Avenue
Tel; 341229,341230,341231
07240255733/952240
Fax; 318845

KENYATTA AVENUE
Tel; 2241557/9, 2243314, 2243771
0724255731 0752240259
Fax; 241559

CARGEN
Tel; 2213872, 2213801, 2213853
0724255740/0724040961
Fax; 2213918

KTDA RETAIL
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Fax; 2242267

KTDA CORPORATE
5th floor
Tel; 2213156, 2213141,
2210085, 0726610433
Fax; 312991

GIKOMBA
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0727531150, 6763963
Fax; 6763989

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0725011900,0711481036
Fax; 8710247

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Fax; 2370401

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Fax; 22749

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Fax; 65264

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0726610469
Fax; 745507

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Fax; 30262

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Fax; 44244

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Fax; 2030318

KANGEMA
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Fax; 322183

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Fax; 51428

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0719390122, 0731200383
Fax; 52198

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0726610475
Fax; 21316

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Fax; 21694

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07260610438
Fax; 71250

NAKURU FINANCE
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07120202679, 0724255737
Fax; 2216002

NAKURU NJORO
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Fax: 22165002

MOLO
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0726610468
Fax: 721464

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0724255734
Fax: 2030745

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0726610467
31795
Fax: 30048

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Fax: 202615

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Fax: 31469

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Fax: 20795

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0726610436
Fax: 2317633

MOMBASA - JOMO KENYATTA AVENUE
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Tel: 041 2495816/20
0710602293/0731130651
Fax: 81630

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P O Box 217
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Fax: 52443

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Tel: 065 22008, 2013 0712076034
Fax: 22011

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P O Box 29 Busia,
Tel: 055 22263, 22503, 22504
0712076019
Fax: 22264

RUIRU
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Tel: 067 55003/4/5/6 0713026158,
0731275457
Fax: 30611

MERU
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Tel: 064 30219/36/41 0713600850
Fax: 30611

DONHOLM
P O Box 74145-00200
Tel: 020-785372/787936/783528
0710602290
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 1486-50100
Tel: 056-30300/20/08 0729112887
Fax: 30557

KILIMANI
P O Box 76348-052
Tel: 020-3864600/1/2
0717724877,0734650165
Fax: 3864609

TOM MBOYA
P O Box 74145-00200
Tel: 020-342561/2/5 0719504549,
0734650265
Fax: 342563

KAYOLE
P O Box 74145-00200
Tel: 020-2515431/2 0724329751
Fax: 2515433

NGARA
P O Box 74145-00200
Tel: 6768541/2/3 0719397049

KITENGELA
P O Box 401-00242
Tel: 045-22883/5 0719397046

INDUSTRIAL AREA
P O Box 19602-00500
Tel: 020-558104/6

NAIVASHA
P O Box 1614-20117
Tel: 050-2030253/4/5 0719397048

NKUBU
P.O. Box 757 - 60202
Tel. 51155/35 0715363850

BANANA
P.O. Box 962- Karuri
Tel.020-2648536/7 0715363814

RIVER ROAD
P.O. Box 74145
Tel.2225320/1 0715363817

DAGORETTI
P.O.Box 2177-00505
Tel. 020

WESTLANDS
P.O. Box 669-00606
Tel. 020 444230/7/8

Notes

Notes

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, 20th May 2011 at 10.00 a.m. at K.I.C.C. 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.......................2011

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, 18th May 2011, 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.: ....

FOLD HERE

AFFIX POSTAGE
STAMP HERE

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

FOLD HERE

Family Bank
With you, for life

Fourway Towers, 6th Floor,
Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi, Kenya
Tel: 254-2-318173/318940/2/7/0720 098 300
Fax: 254-2-318174
Email: info@familybank.co.ke
Website: www.familybank.co.ke