

Vision

To be the financial institution that leads in the positive transformation of peoples' lives in Africa.

Wission

We positively transform peoples lives by providing quality financial services through innovative, efficient and reputable practices.

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

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NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 5th ANNUAL GENERAL MEETING of the Shareholders will be held at the Kenyatta International Conference Centre on Thursday 31st May, 2012 at 10:00 a.m. to transact the following business:

- 1. To consider and, if thought fit, to adopt the Audited Accounts for the year ended 31st December, 2011, the Report of the Directors and the Report of the Auditors thereon.
- 2. To approve the payment of a final dividend of Kshs. 0.40 per share, subject to withholding tax where applicable, on the issued and paid-up share capital of the Company on or about 4th June 2012 to the Shareholders registered as at 31st May, 2012. To facilitate payment of the dividend, the register of members will be closed on 31st May 2012.
- 3. To elect the following Directors who retire by rotation and, being eligible, offer themselves for re-election:
 (a) Mrs. Ruth Waweru
 (b) Mr. David Kimani
- 4. To approve the Directors' remuneration.
- 5. To note that the auditors, Deloitte, will continue in office in accordance with s159 (2) of the Companies Act and to authorise the Directors to fix the Auditors' remuneration.

Special Business:

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

- 6. Rights Issue
 - THAT, out of the unissued ordinary shares of the company, the Company issue by way of rights to holders of ordinary shares of the Company on the register of members at close of business on 31st May 2012, 1 share for every 6 shares held at a price to be determined by the Board following valuation of the Company's shares provided that fractional entitlements shall not be considered and holders of ordinary shares shall not be entitled to fractional certificates or to payments in lieu of them.
- 7. Offer and Allotment of Rights
 - THAT the Board be and is hereby authorized to offer any rights not taken up and paid for in full by the existing shareholders within twenty one days from the date of offer, to such interested investors by way of private placement as the Board deems fit and on such price and terms as the Board may determine provided that such price shall not fall below the rights issue price.
- 8. Submission of Balance Sheets and Profit and Loss Accounts
 THAT Article 63 of the Company's Articles of Association be amended by the adoption of a new Article 63A in addition to the existing Article 63 as follows:

'The Accounts may be sent by post or otherwise be made available to the extent permissible by law, by electronic means and not by post. To the extent permissible by law the Company may send the Accounts to all persons entitled thereto by publishing the Accounts on the Company's official website provided that the Company shall at the same time print its latest balance sheet and last profit and loss statements together with the Auditor's report in one Kenyan daily newspaper with nationwide circulation for one day drawing attention to the website(s) on which the Accounts in full may be read, and the email or other address to which a request for a printed copy of the Accounts may be submitted and upon any such publication the Accounts shall be deemed to have been sent to every Member or other person entitled to receive a copy of the Accounts'.

By order of the Board

J L Oyuyo Githinji Company Secretary Nairobi 27th April, 2012

Note: A member entitled to attend and vote at this meeting may appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the Company. The proxy form is available on the Company's website www.familybank.co.ke and shall be circulated by post.

Corporate Information

DIRECTORS

Non Executive

Mr. Titus K. Muya – Chairman

Dr. Kabiru Kinyanjui - Vice Chairman

Mr. Skander Oueslati

Prof. David Kimutai arap Some

Mr. David Kimani

Ms. Ruth Waweru

Mr. George Odo - Alternate to Skander Oueslati

Mr. Julius Brian Muyah - Alternate to Titus K. Muya

Executive

Mr. Peter Munyiri - Managing Director

Mr. Njung'e Kamau - Finance & Strategy Director

Mr. Mark Keriri - Operations & Technology Director

COMPANY SECRETARY

Jackie Oyuyo Githinji

6th Floor, Family Bank Towers, Muindi Mbingu Street

P.O.Box 74145 -00200.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

REGISTERED OFFICE

Family Bank Limited

6th Floor, Family Bank Towers, Muindi Mbingu Street

P.O.Box 74145- 00200, Nairobi

Tel:254-2-318173/318940/2/7/0720 098 300

Fax:254-2-318174

Email:info@familvbank.co.ke

Website:www.familybank.co.ke

AUDITORS

Deloitte & Touche

Certified Public Accountants (Kenya)

Deloitte Place, Waiyaki Way, Muthangari

P O Box 40092 - 00100

Nairobi

LEGAL ADVISORS

Walker Kontos Advocates

Hakika House, Bishops Road

P O Box 60680 - 00200

Nairobi

Tel: 020 - 2713023/020 - 2718432

www.walkerkontos.com

E.W. Gachomba & Co. Advocates

Uganda House, Kenyatta Avenue

P.O. Box 7366 - 00100

Nairobi

Tel: 020 - 2240958



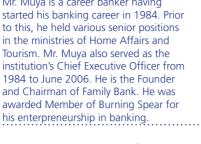
Mr. TK Muya, M.B.S 2 5



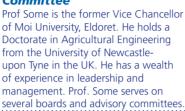




Mr. Muya is a career banker having



Prof. David Kimutai 2 3 Arap Some Chair, Board HR Committee



Mr. Skander Oueslati 2 5 Chair, Board Strategy **Committee**



Committee
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 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 3 5 George joined Africhrest 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

Mr Peter Munyiri 2. 3.5. Chief Executive Officer &



Mr. Munyiri holds a BA honours degree in Economics from the University of Nairobi, an EMBA from Jomo Kenyatta University College of Agriculture and Technology and an MBA in Strategic Management from Newport University. Mr. Munyiri is an Associate Member of the Chartered Institute of Banking UK (ACIB), a Fellow of the Kenyan Institute of Banking (FKIB) as well as Council Member- Pan African Christian University, He has a wealth of experience in banking spanning one 21 years having previously worked at executive levels spanning over 21 years having previously worked at executive levels with Kenya Commercial Bank, Cooperative Bank of Kenya, Standard With Kenya Commetcia Bains, Cooperative Bains of Nernya, Saindaru Chartreed Bank and Bardays Bank of Kenya. He had also worked for the Kenya Government as an Economist. His last appointment was the Deputy Chief Executive Officer with Kenya Commercial Bank. ...He holds a Head of State Commendations (HSC) for his contributions to growth of Kenyan banking industry and transformation of small iness in East Africa through financial intermediation.

Mr. Mark Keriri 2 5 **Operations & Technology Director**



Mr. Keriri is the Operations & Technology Director of Family Bank. He is responsible for the introduction of 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 2 Vice Chairman & Chair, Board **Credit Committee**

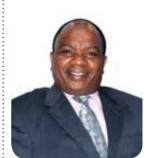
Dr. Kinyanjui is the chairman of the Kenya National Examination Council and a former chairman of the Public Universities Inspection Board and also an international development consultant. He holds a Masters and Doctorate degree from Harvard University. Dr. Kinyanjui has authored distinguished publications, and is the chairman of the K-Rep Advisory Services Limited.

Mrs. Ruth Waweru 4 5 5 Chair, Board Risk Management Committee



Committee
She is a professional in various facets of organisational development including business strategy development, corporate governance, capacity building, human resource development, customer service training and gender mainstreaming. She holds a Bachelor of Education degree from Kenyatta University, an MBA (Human Resource Management and Marketing) from University of Nairobi, and is currently completing her PhD studies in strategic management at the Nelson Mandela Metropolitan University in South Africa. Ruth's experience has seen her transition from managerial roles at the Kenya Institute of Management to heading Liaison Consulting Limited where she is the Chief Executive Officer. She also sits on the Boards of OIKO Credit, All Africa Conference of Churches, and Groots Kenya. Boards of OINO C.C. and Groots Kenya.

Mr. David Kimani 1. 4 **Chair, Board Audit Committee**



Has served in senior positions for over 20 years and has a wealth of experience in auditing, financial management, treasury and general management. He served as finance Director of Kenya Tea Development Agency (KTDA) for 5 years and thereafter as Managing Director of Chai Trading Company Ltd for almost three years. He also served for a short period as a consulting Director of KTDA. He is currently a lead consultant / Director with Superior Consents Management Consultant Living Allon a director. Concepts Management Consultants. He is also a director of Kenya Orient Insurance Ltd.

David holds a B.Sc. Degree in International Business from USIU-A and an MBA in Finance from Maastricht School of Management. He is also a Certified Public Accountant (CPA-K), a Certified Public Secretary (CPS) and holder of Higher Diploma in HR from the Institute of Human Resource Management.

Mr. Julius Brian Muyah 🤙



Holds a Bachelor's Degree in Economics from Syracuse University, New York, and is a seasoned marketer with over 15 years experience in both the Unites States and Kenya. He has extensive knowledge in business development, service delivery management, product development, strategy implementation and staff training, development and motivation.

Julius headed the sales and marketing department during the conversion of Family Finance Building Society into a commercial bank during which time he spearheaded the development of new products and services. Julius is also Chairman of Kenya Orient Insurance Ltd and Daykio Plantations Group, a real estate company, and is the founder Director of Ingenious Concepts Group an outdoor advertising and marketing firm in Kenya marketing firm in Kenya.

Mr. Njung'e Kamau 5 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 Lornho Africa Plc as a Senior Auditor covering 14 countries. He has also worked with East African Breweries Limited as 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-X), Certified Public Secretary (CPS-X) & member of ICPAX and ICPSX. He is also a Certified Financial Modeller (CFM). He has also attended several banking course leavily and in the LISA and Austral courses locally and in the USA and Australia.

Key



Board Credit Committee

Board Human Resource Committee

Board Risk Management Committee

Board Strategy Committee

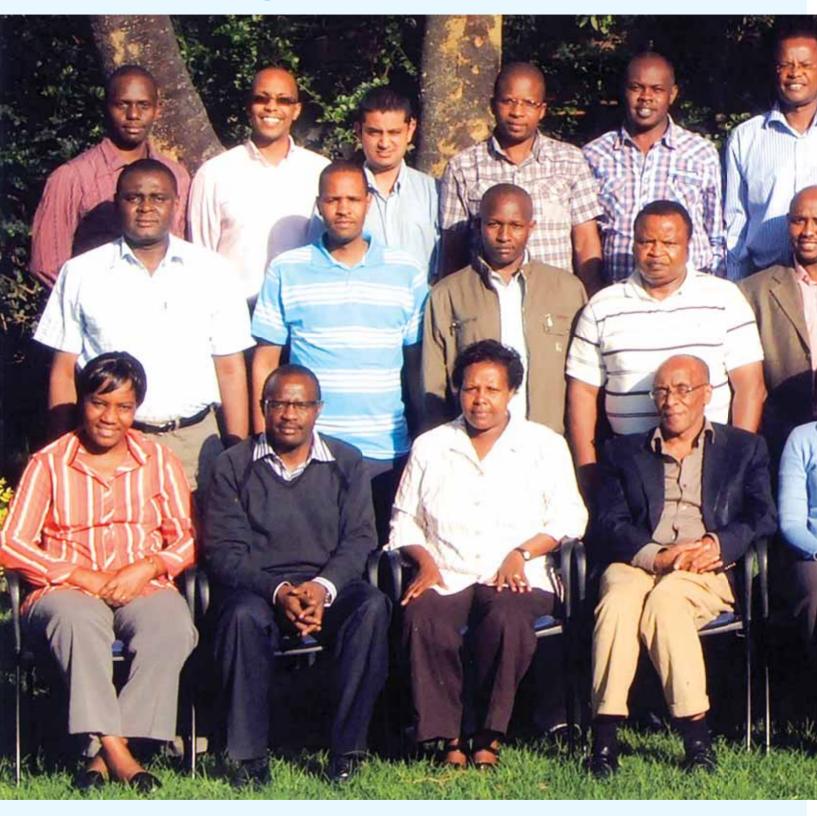
Board of Directors



Standing (Left to Right): Mark Keriri, Njung'e Kamau, Dr. Kabiru Kinyanjui, David Kimani, Julius Brian Muyah, Prof. David Some

Seated (Left to Right): George Odo, Ruth Waweru, T.K.Muya (Chairman), Jackie Oyuyo Githinji (Company Secretary), Peter Munyiri (C.E.O. & Managing Director)

Senior Management, Board Members & Consultants



Seated (Left to Right): Margaret Mburu, Peter Munyiri (MD), Ruth Waweru, T.K. Muya (Chairman), Jackie Oyuyo Githinji, Dr. Kabiru Kinyanjui, Kanini Kioko, Prof. David Arap Some.

Standing (Second Row): Apollo Ongara, George Laboso, John Kamara, Sam Kamiti, Allan Mwangi (Consultant), Tim Kihiko, David Kimani, Dr. Wahome Gakuru (Consultant), Dickson Gachuche (Consultant).



Standing (Third Row): George Odo, Mark Keriri, Dipesh Shah, John Rioba, Peter Lengewa (Consultant), Stephen Gakuya, Njunge Kamau, Henry Karugu, Ruth Murage, Julius Brian Muyah



Chairman's Statement

T. K. Muya - Chairman, MBS

Dear Shareholders,

t gives me great pleasure to present to you the 2011 Annual Accounts. A lot has changed in our industry as well as in your bank since we last met at our previous AGM.

I will begin by introducing our new Managing Director and CEO, Mr Peter Munyiri who joined us in June 2011. He is a man of great talent and considerable banking experience, and is now at the helm of our business, driving our bank's growth agenda. With his entry there have been some changes in the bank's senior management with a view to strengthening our team and the Bank's overall competitiveness as we seek to enhance our business model. We are confident that under his watch, your Bank will soon grow to become a Big Bank, A tier one bank.

Your Bank has continued to grow against a very difficult trading environment especially in the second half of the year. The year under review was characterized by challenging local and global macroeconomic environments with sovereign debt crises in the Euro zone and slowed economic performance in the major economic markets including the United States of America and a number of European countries.

The Kenyan economy has not been spared. We have experienced high inflation due to a surge in oil and food prices, and the consequential higher import bills resulted in a sustained widening of the current account deficits which led to significant depreciation of our local currency.

In order to stabilize the exchange rates and tame the galloping inflation, the regional Central Banks tightened their monetary policies with a consequential steep increase in interest rates, which has pushed up funding costs and constrained private sector demand for credit. The tightened monetary policy also constrained liquidity, leading to high funding costs in deposits. We believe this situation will not persist for long, and that our economy and business environment will soon stabilize to pave way for growth.

Against this backdrop, I am pleased to announce that your Bank has delivered a good performance despite the unfavourable trading environment witnessed in 2011.

Financial Highlights

The CEO and Managing Director will discuss the Bank's financial performance in more detail in his report, and I will therefore mention just a few highlights on our performance. Our total assets grew by 29% from Ksh 20.1 Billion to Ksh 26 Billion in 2011. This was driven by growth in our loans book and deposits. The Total Shareholders' funds grew by 10% from Ksh 3.0 Billion to Ksh 3.3 Billion in 2011.



KEY ACHIEVEME



The Banking Awards 2012 2nd Runners Up Best Bank in Micro-Finance



The Banking Awards 2012 2nd Runners Up Best Bank in Technology use.



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



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

MENTS AND AWARDS

The Banking Awards 2011 Best Bank Product Marketing



The Banking Awards 2011 2nd Best Bank in Technology Use



The Banking Awards 2011 3rd Best Bank in Micro-Finance

Corporate Governance

We have continued to strengthen the board's governance and ability to steer the business through the desired growth. To this end, there were some changes to your Board in the course of 2011.

Mr. Charles Ng'ang'a Muchai and Dr. James Mukuha Njau, both of whom had served the Board for several years including the period of transition to a fully fledged commercial bank retired from the Board in 2011. We also bid farewell to Mr. Karl Moursund during the year under review. We thank these Directors for their contribution to our growth over the years, and wish them all the best in their future endeavours. At the same time, we welcomed two new Directors, Mr. David Kimani and Mrs. Ruth Waweru who joined the Board in 2011.

Mr. Kimani has served in senior positions for over 20 years and has a wealth of experience in audit, financial management, treasury and general management. He served as Finance Director of the Kenya Tea Development Agency (KTDA) for 5 years and thereafter as Managing Director of Chai Trading Company Ltd for almost three years. He also served for a short period as a consulting Director for KTDA. He is currently a lead consultant / Director with Superior Concepts Management Consultants, and he is also a director of Kenya Orient Insurance Ltd.

He holds a B.Sc. Degree in International Business from USIU-A and an MBA in Finance from Maastricht School of Management. He is also a Certified Public Accountant (CPA-K), a Certified Public Secretary (CPS) and holds of Higher Diploma in HR from the Institute of Human Resource Management.

Mrs. Ruth Waweru is a professional in various facets of organisational development including



business strategy development, corporate governance, capacity building, human resource development, customer service training and gender mainstreaming. She holds a Bachelor of Education degree from Kenyatta University, an MBA (Human Resource Management and Marketing) from University of Nairobi, and is currently completing her PhD studies in strategic management at the Nelson Mandela Metropolitan University in South Africa. Ruth's experience has seen her transition from managerial roles at the Kenya Institute of Management to heading Liaison Consulting Limited where she is the Chief Executive Officer. She also sits on the Boards of OIKO Credit, All Africa Conference of Churches, and Groots Kenya.

Chairman's

Statement ...continued

We welcome the two directors on Board and have every confidence that they will help steer the bank to even higher growth.

I want to assure you that your Board will continue to play its role in steering the Bank effectively under our corporate governance structure. Your directors will continue to provide oversight and interact with the management team through board and committee meetings as well as various forums that enable feedback and growth.

Corporate Headquarters

When we last met, we were tenants at Fourways Towers where our head office has been based since inception. We are pleased to announce that we have since acquired the building which we have now renamed 'Family Bank Towers'. We have plans to refurbish the building in order to consolidate our operations whilst profiling our brand and flying the Family Bank banner high.

Listing

Last year in August, we held our EGM and passed a few resolutions, one of which was to list our shares on the Nairobi Securities Exchange (NSE) by the end of last year. However, we were not able to execute this resolution because the equity market turned bearish in the latter half of the year, and the Board at

the advice of our lead listing advisors decided to postpone this process until the market improves.

Future Outlook

Although the challenges ahead are many, the future is bright and promising for the Bank. Inflation is beginning to reduce and the macroeconomic environment is set to stabilize even further. In order to grow, we will continue to align our business model along the Country's vision 2030. This will ensure we are adequately resourced and well positioned for the opportunities arising from the ongoing implementation of the Country's economic blue print.

With the changes introduced by the Constitution of Kenya 2010 beginning to take effect, there will be significant changes in our operating environment. This will bring about new opportunities as well as new



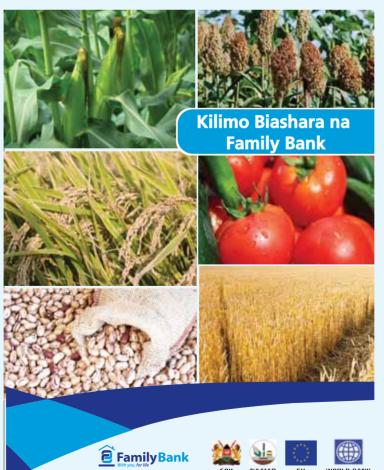
risks which we need to mitigate aganist. We are soon entering an election year and we will need to cushion ourselves and our stakeholders against any potential political turbulence. Management together with the board have put in place measures to ensure we safeguard your investment whilst growing the business's return on equity.

It is therefore my pleasure to confirm that the Bank has come up with a solid business model that is well positioned to take the future growth challenges head on. The Board and Management have set out some very ambitious plans to diversify our business by expanding our geographic and territorial reach. Currently, we are looking at some key markets outside Kenya. We will need more capital to enable us expand this business as well as enter into the markets outside Kenya.

We are rolling out agency banking as an alternative channel to enable us reach out to areas where we have not yet established out network. Ultimately, let us always remember we want to build this Bank to outlast many generations to come, and I am confident that we will get there with your support.

Dividend

Taking into consideration the various factors I have discussed above and the need reinvest in order to support future growth and expansion of the business, the board has made a recommendation of a final dividend at 40cts per ordinary share for the year 2011.



Finally, I wish to express my sincere appreciation to all our shareholders and all our customers for their untiring support to our business over the years. I would also like to thank the management and the staff of Family Bank for the good work they are doing to make this Bank a truly Big Bank that will continue to return a lot of value to our shareholders.

I would also in a very special way thank both the local and Foreign Non-Executive Directors of the Board for the excellent leadership and guidance that they have continued to give to this business.

Thank You *TK Muya*



Managing Director's Statement

Mr. Peter Munyiri Chief Executive Officer & Managing Director

Dear Shareholders

Preamble

t is my honour and privilege to present to you the Bank's financial statements as at December 2011 which marks my first 6 months at the helm of your Bank. The year 2011 was a uniquely uncharacteristic year for the local banking industry in many respects. The economy experienced serious headwinds in the latter half of the year which impacted on the businesses momentum we had just begun to build. This can be explained by a number of factors which I will delve into in more detail in my report .I will also share the way forward.

Financial Review

Despite the challenging macroeconomic environment, the Bank registered growth in most of the key parameters of its financial performance for the year ended 31st December 2011.

I am glad to report that the total income for the year was Ksh. 4.3B in 2011 up from Ksh. 3.3B in 2010 representing a 30% yearly growth. The total assets grew by Ksh. 5.9 billion, representing a 29% increase, from Ksh. 20.1 billion as at December 2010 to Ksh. 26 billion as at December 2011. This increase in assets was mainly attributable to the growth in loans and investments. Net loans and advances stood at Ksh. 16.3 billion as at December 2011 compared to Ksh.10.3 billion as at December 2010, representing a growth of 59%. This has been achieved through a selective acquisition and the loan book is well diversified. Deposits grew by Ksh. 5.7 billion, recording a strong growth of 36% increase, from Ksh. 15.7 billion as at December 2010 to Ksh. 21.4 billion as at December 2011. However during the second half of the year the Central Bank in an effort to contain the rising inflation implemented a monetary policy that is meant to cause credit squeeze. This resulted in high cost of funds and our interest expense grew from Ksh. 226M in 2010 to Ksh. 490M in 2011. To achieve our growth in income, our cost base also grew reflecting the increase in distribution footprints and staff numbers, ICT implementation costs and one off costs on staff who left the bank. Our operating costs grew by 30% to reach Ksh. 2.9B from Ksh. 2.2B in 2010.

As a result we delivered a profit before tax for the year of Ksh. 523 million (2010:Ksh. 518m). This performance has been achieved amidst the ongoing transformation and restructuring of the business and we are confident of making good returns to the shareholders into the future and have now built capabilities across the entire organization and redefined our our business model. The ongoing transformation of our business is meant to embed a very strong retail oriented business with strong and competitive offerings across all the other market segments.

The total shareholders' funds grew by Ksh.0.3 billion from Ksh. 3 billion as at December 2010 to Ksh. 3.3 billion as at December 2011 owing to an increase in retained earnings.

In 2011 a key strategic goal was to widen our outreach by expanding our distribution channels. This would ensure continued future growth of our profits. Thus we did open additional seven branches and grew our account numbers to 1.1 million.

Personal **Current Account** pen a Personal Current Accoun

Operating Environment

As already mentioned, the country's macroeconomic environment turned volatile in the second half of the year when inflation hit the 19% mark. This caused the Treasury and Central Bank to raise the interest rates and Central Bank Rate was at all time high of 23% and Treasury Bill rates to same level. This was in order to stem the currency supply and contain the rising inflation. The resultant effect was an escalation of interest rates to levels not seen in the last 10 years .The cost of borrowing and the cost of funds went up as well, and the market has witnessed a very high interest rate regime since the third guarter of 2011.

With the resultant regime of high interest rates, the borrowing customers reduced their borrowing and, in some instances, deferred their projects pending a lowering of interest rates. In some cases, given our long term relationship with our customers, we have renegotiated terms of payment to ease the burden on our customers to ensure a win-win. We have also implemented a stringent risk management framework to ensure that there is no increase in loan impairments.

Our operating costs increased as the cost of goods and services continued to sky rocket whilst the Kenya shilling weakened considerably in the third quarter of 2011. In addition, our branch network grew with the opening of 7 new branches in the last 12 year to enable us reach new markets. We continue to rationalise our costs while driving growth and will lower the cost to income ratio . We have embarked on an aggressive business growth campaign to bring in as many customers into our branches as is possible and to activate the dormant accounts whilst continuing to mobilise deposits. Our focus is therefore to grow and protect our non-interest income and to grow our customer base by promoting new products that respond to our customers' needs such as bulk payments.

Operational Excellence

Your Bank has embarked on embedding a performance culture in the organisation by strengthening and tracking performance and instituting rigorous company-wide performance metrics and regular reviews in line with best practice. Thus, performance is constantly being monitored and feedback duly given to ensure that the entire business is aligned to our common objectives paramount of which is the delivery of prompt, efficient and personalised customer service. That is the culture and discipline we all want to see established and instutionalized .This process is being driven through the balanced score card and dash boards which have now been implemented

We have also mapped the opportunities in the market against our internal capabilities and we have drawn an ambitious growth strategy that will enable us maximise and build on our strengths to drive this Bank to greater

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heights. We have also streamlined our processes whilst aligning our workforce around key result areas anchored in our historical strengths whilst stretching our increased capabilities to capture the key value chains in the market . It is our strong belief that with a competent and dedicated work force we will be able to develop and maintain a sustainable competitive edge in the long run and achieve more growth in this company.

Our new core banking system was rolled out in November 2010 with a view to unlocking massive efficiencies whilst enabling us to offer our customers superior service .Our transition is a continuing work in progress with your senior management team engaging with our service providers to ensure that this goal is realised and that our customers feel the impact of the enhanced system. With this dedicated effort, I am confident that the 'system' is no longer an impediment to our service delivery and we will continue to leverage on this system's capabilities to grow our business with more differentiated products and value-adding services.

Managing Director's

Statement ...continued

Business Model

As we continue to improve our operational efficiencies and service delivery, it is also important that I share with you the new business segments that we are pursuing in our revised business model. For the last 28 years, the bank has focused on lending to farmers ,micro finance /micro loans and SMEs and this has been a very successful business model. Building on this success, we have looked at our customers' needs and the market opportunities that can help us grow , protect our customer base, and also tap into some key value chains in the market where we are absent and redefined our business model to include the following market segments:

- Retail Banking: Personal Banking, Microfinance and Small and Medium Enterprises; Agribusiness Sector
- Corporate Banking and Trade Finance; More sophisticated products such as asset based finance, leasing and stock financing.
- Mortgage: To enable our customers access affordable and well priced mortgage products and serve the need for homes at low cost, middle income and the high end of the market.
- Institutional Banking and Cash Management: This team is developing and harnessing business from the value chains in the various institutions by providing very customized banking services. They are also the drivers to market our innovation solutions around cash management
- Treasury & Forex Business: To enable our customers buy and sell foreign currencies, and access capital and financial markets. This fully established business line is also offering a whole range of investment products for institutional, corporate and individual customers

Growing our Outreach

In the last 12 months we have been able to develop a Corporate strategy that we believe clearly charts a clear road map for our growth and will propel us to a tier 1 bank in the next five years.

Branch Expansion and Agency Banking

We have rolled out about 7 branches in the last 12 months with another 9 in the pipeline to enable us widen our footprint in the market and reach more customers. We want to grow and this growth is only be possible if we are adequately present where our customers are.

On the Automated Teller Machines (ATMS) we rolled out 7 bringing our number of ATMS spread across the country to 97 (2010:90).

We have also rolled out our agency banking 'Family Pesa Pap!' which is a critical strategy in growing our customer base and increasing our transaction incomes. This alternative distribution channel will enable us enter new markets in a more cost-efficient manner.

We are also rolling out an internet banking solution to enhance the convenience of our service offering.

Another key milestone in 2011 was the recruitment of 200 sales force staff who have been instrumental in driving the increase in uptake of our products.

Product Launches

We rolled out a number of products in the market to help us address the increasingly sophisticated needs of our customer. These products include:

- The 'Growing Home' mortgage to address the housing needs of our customers .
- M-KODI Our mobile banking payment platform that enables landlords and tenants to collect and pay house rents respectively.



Managing Director's

Statement ...continued

- A myriad of Mobile banking products to extend the Pesa Pap mobile banking services
- Trade Finance products ; letters of credit, Guarantees, Bid Bonds, Performance Bonds
- Kilimo Biashara product to support the small scale farmers;
- We also launched banking partnerships to support schools and institution of higher learning.

Key Partnerships

In the course of 2011, we forged several strategic partnerships including the following:

- The Ministry of Agriculture appointed us a key partner to offer the Kilimo Biashara Product;
- The Kenya ICT board appointed us to offer Pasha loans to facilitate the setting up of the digital villages.
- Our bank is driving innovation in mobile banking and partnering with sugar companies for cutters' weekly wage payments.

In addition,we are in partnership with institutions and companies to deploy our mobile banking platform for collection business. This is part of our strategy to increase our fee based revenue sources.

Awards

Building on past achievements and recognising new successes, your bank was recently ranked as the first runners up in the Best Bank in Technology Use and second runners up Best Bank in Microfinance category in the just concluded Banking Awards 2012. We welcome this recognition and sincerely appreciate our customers' role in building our brand in this way.

Business Growth

The Business growth opportunities will also be largely driven by our technology driven transactions and our agency banking. We are working with the various management teams to unlock these opportunities. Thus we are intensifying and will continue to innovate and rollout the other value added services such as E Banking. With the entry of the bank into the new business areas, we foresee more revenues from the treasury trading and investment activities, the SME sector, the Corporate banking and Trade finance, as well as the Consumer Banking. With the continued growth of account numbers we see more transaction incomes coming through our different Channels.

Regional Expansion

We have done preliminary exploratory work on moving into new territories and we have zeroed on a few markets including Southern Sudan. We are carefully evaluating our entry strategy into these markets and we will, as always, keep you apprised of your Board's decisions on this. We certainly need additional capital for this entry.

Future Outlook

The outlook for 2012 remains positive and the Bank expects to grow its market share through our growing branch network and our agency banking channels. We also intend to exploit further the identified spaces in the new business segments, offer superior and responsive service delivery, and continue to diversify our innovative product range. Our Strategic Intent will remain to Grow the business and become a tier one bank within 5 years.

Conclusion

The Bank's management and staff are cognisant of the challenges that lie before us but we are nevertheless excited about our growth prospects. We know that the road to our success is an enormous task which will take our total determination and commitment. We assure you that we are all committed to achieving this.

Our commitment to you is to drive this bank's growth and gain more market Share . We will also continue to pursue to achieve unparalleled customer service in the industry .

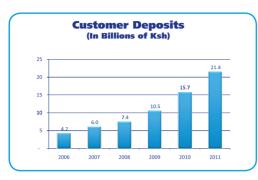
We thank you, our shareholders, for being a part of this journey and we look forward to celebrating more success with you.

My sincere thanks also to our customers, Staff and the Board of Directors who have all played a very big role to enable us to get to where we are.

Thank you and God Bless.

Peter Munyiri Chief Executive Officer & Managing Director

Financial Highlights



















Key financial performance highlights

- •Total assets grew by 29% from Ksh 20.1 Billion in 2010 to Ksh 26 Billion in 2011
 •Deposits grew by 36% from Ksh 15.7 Billion in 2010 to Ksh 21.4 Billion in 2011

- •Loans grew by 59% from Ksh 10.2 Billion in 2010 to Ksh 16.3 Billion in 2011
- Profit before tax grew by 1% from Ksh 518 Million in 2010 to Ksh 522.6 Million in 2011

 •Total Shareholders' funds grew by 10% from Ksh 3.0 Billion in 2010 to Ksh 3.3 Billion in 2011
- •The Bank now has 60 branches
- •The bank has approximately One Million customers

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2011.

ACTIVITIES

The principal activities of the bank, which is licensed under the Banking Act, are the provision of banking, financial and related services.

RESULTS	Sh'000
Profit before taxation	522,565
Taxation charge	(167,961)
Profit for the year	354,604

DIVIDEND

The directors recommend a first and final dividend of Sh 0.40 (2010: Sh 0.40) per share for the year amounting to Sh 96,837,977 (2010: Sh 96,837,977) subject to shareholders' approval at the Annual General Meeting to be held on 31 May 2012.

DIRECTORS

The present members of the board of directors are shown on page 3 to 5. The following changes took place in the directorship during the year and since the last AGM.

- Mr. Peter Munyiri was appointed as the Managing Director on 20 June 2011 to replace Mr. Peter Kinyanjui who resigned on 16 June 2011.
- Dr. James Mukuha Njau retired with effect from 19 May 2011.
- Ms. Ruth Waweru was appointed on 16 June 2011.
- Mr. Julius Brian Muyah was appointed on 9 May 2011 as alternate director to Mr. Titus Muya.
- Mr. David Kimani was appointed on 19 May 2011
- Mr. Karl Moursund (and his alternate Ms. Marianne Halvorsen) resigned on 22 September 2011

SECRETARY

Ms. Jackie Oyuyo Githinji was appointed to the position of Company Secretary on 1 September 2011 replacing Epsilon Registrars who had been appointed in a temporary capacity on 24 March 2011 to replace Ms. Mercy Kamau who had resigned on the same date.

AUDITORS

Deloitte & Touche, who were appointed during the year, have expressed their willingness to continue in office in accordance with the provisions of section 159 (2) of the Companies Act (Cap 486) and subject to approval by the Central Bank of Kenya in accordance with section 24 of the Banking Act.

BY ORDER OF THE BOARD

Chairman Nairobi

23rd March 2012

Corporate Social Responsibility Statement

In 2011, the bank engaged in a number of Corporate Social Responsibility (CSR) projects in line with our vision of transforming the lives of our communities. These projects are our way of expressing our gratitude to the society for supporting our business over the years. The Bank has continued to engage in CSR activities under the following main categories: Youth Development, Education Support, Environmental Conservation, Support for Vulnerable and Orphaned Children, and Health. We have invested about Ksh 20 million in supporting these activities.

Youth Development

The bank has continued to provide support to the young entrepreneurs through business seminars as well as supporting the young upcoming artistes launch their performing arts careers. In the past year, we supported Carol Wanjiru and Paul Mwai nurture their music talents right up to establishing their music careers.

In sports, we sponsored the Eldoret Half Marathon which saw a record turnout of over 2000 participants. This event continues to build new upcoming talent in this home of international athletics champions. In addition we sponsored Ndalat Gaa Cross Country which also had record turnout in Ndalat in Uasin Gishu county.

Recently, the bank has partnered with the Football Kenya Federation to sell tickets through the Family Bank Branches. This has ensured soccer fans are able to obtain genuine tickets readily and from the security of the Bank's branches. Future plans to support even more events are under way.

The bank continued to support the young upcoming rally driver Mr Issa Amwari. He continues to do well and his talent continues to grow.



Family Bank MD, Peter Munyiri (2nd left) presents a sponsorship cheque worth Ksh 2,000,000 to Isaiah Kiplagat 3rd Left (Chairman Athletics Kenya) and the North rift members. The funds were used in organizing the Family Bank Eldoret Half Marathon.



A victorious runner just about to cross the finishing line.



Hundreds of athletes turned up and put



Family Bank Staff Plant trees in Kakamega forest.

Environmental Conservation

The bank partnered with Masinde Muliro to host the first ever International Conference on Tropical Forest Resources Conservation Symposium at MMUST in Kakamega. The Conference was organized by the University through the Centre for Kakamega Tropical Forest Studies with an

Corporate Social Responsibility Statement

aim of drawing awareness in saving Kakamega Forest and other world. Over 500 seedlings were provided by the bank and planted in the Kakamega Natural Forest during the symposium. The bank partnered with the Water and Sewerage Partners Association (WASPA) to bring the annual conference in Nairobi. This meeting discussed the various ways of conserving water in various parts of the country.

Support for Education.



FBL Chairman and the MD present a cheque to St Paul's University Chancellor Dr. S. Kobia. Head of Anglican Church Arc. Bishop Eliud Wabukala (front Left) looks on.

During the last graduation at St Paul's University, the Chairman graced the occasion as the Chief Guest and spoke to the graduating class on leadership and entrepreneurship. On behalf of the Bank, he made a donation of Ksh 1 million to go towards establishing a Chair for the training and development of the young business leaders and upcoming entrepreneurs.

The Bank has recently established a scholarship fund to assist bright but needy children attain quality education. The pioneer 40 beneficiaries of the fund

have been awarded the scholarships. This will become an ongoing project that will help less fortunate families provide education for their children.

We continue to support excellence in education. We donated trophies that were awarded to the best performing schools during the district prize giving days in various districts across the country. The Bank's management team visited various schools to mentor students as well as present prizes to the best performing students with a view to encourage excellence in academic, sports and other co-curriculum activities.

The bank further donated computers worth Ksh. 400,000 to Kiamariga Secondary School – Karatina and Gitiha Community Youth Village Polytechnic in Githunguri.

The bank's staff across the various parts of the country participated in various home visits to give food to the IDP's and orphans and children's homes. This was well received in the various homes visited.



Chairman T.K Muya hands over a cheque to SOS Village Children Home - MERU



Limuru branch staff joins Alpha Joy Children home over Christmas.

Health

The bank sponsored the Kenya Orient Insurance Limited (KOIL) half marathon in Nairobi in July. This event was aimed at sensitizing the Kenyans on how to maintain Healthy Kidneys. Over 1000 people participated in the event.

Going ahead, we will continue to engage in CSR activities aimed at uplifting the wellbeing of the various communities we are doing business with.

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 best practice of corporate governance and guidelines developed by the 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 Bank's responsibility to its stakeholders and its responsibility to the wider 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 Director and the Management in 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 8 non-executive Directors and 3 Executive Directors.

There were changes in the composition of the Board during the year. During the year, two substantive Directors, Mr. Karl Moursund and Dr. James Mukuha Njau and one Alternate Director, Marianne Halvorsen, resigned from the Board. Two other Directors, Mrs. Ruth Waweru and Mr. David Kimani, joined the Board during the year, and Mr. Julius Brian Muyah was appontied as T.K. Muya's alternate.

The current non-executive Directors are the Chairman, Mr. TK Muya, the Vice Chairman, Dr. Kabiru Kinyanjui, Prof. David Kimutai Arap Some, Mr. Skander Oueslati, Mr. David Kimani, and Mrs. Ruth Waweru. Mr. George Odo is an Alternate Director to Mr. Skander Oueslati while Julius Brian Muyah is an Alternate Director to Mr. TK Muya.

The three Executive Directors are; Mr. Peter Munyiri (Managing Director & Chief Executive Officer), Mr. Keriri Muya (Operations & Technology Director) and Mr. Njung'e Kamau (Finance & Strategy Director).

Corporate Governance Statement

Responsibility of the Board

The Board provides strategic guidance to the Bank and assumes the 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 judgment.

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 judgment.

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 expert 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. In addition the Audit Manager attends the meeting whilst the MD occasionally attends 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.

Corporate Governance Statement (Continued)

Board Credit Committee

This committee is made up of four non-executive directors, the MD, the Operations & Technology Director and the Director Credit. The committee meets at least once quarterly to review 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. Approvals are also by circulation through email or otherwise. It also regularly reviews the credit policy of the bank. Other management staff attends on a need to basis.

Board Risk Management Committee

The Board Risk Management Committee comprises of two non-executive directors and the Head of Risk. 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 Human Resource Committee

The Board HR Committee is comprised of three non-executive directors and the MD, and its meetings attended by the Head of HR. The committee acts as the link between the board and management and is responsible for the review of human resources policies and functions.

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. This committee is comprised of three non-executive directors, the MD, the Finance & Strategy Director 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.

Board and Committee meetings' attendance

The main Board convened and held a total of 7 Board meetings and the attendance was 100% by six Directors and 86% for two Directors. The individual directors therefore attended more than 75% of the meetings convened during the year thus complying with the CBK prudential guidelines. The Board Committees held 4 meetings and above with an attendance rate of over 75% by the members. Overall, the Board's performance was effective which led to the excellent performance of the Bank in all parameters during the year.

All the Board meetings held had sufficient quorum.

Corporate Governance Statement (Continued)

Board performance and effectiveness

The Board carried out a peer and self-evaluation of the each of the Board Directors in March 2011 as required by CBK. The next peer and self-evaluation of the Board will be carried out before the end of March 2012.

The Board performed effectively over the year as evidenced by the high rate of attendance to meetings and decisions & resolutions passed. 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 and risk management.

Annual general meeting and other meetings

There was one Annual General Meeting and one Extra-ordinary General Meeting held by the shareholders of the Bank during the year.

Chairman

23 March 2012



Statement of Directors' Responsibilities

for the year ended 31St December, 2011

The Kenyan 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 as at the end of the financial year and of the operating results of the bank 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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.

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.

Chairman

Managing Director

23rd March 2012

Independent Auditors' Report To The Members Of

Family Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Family Bank Limited set out on pages 26 to 76 which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the yearthen ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an 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 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the bank's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the bank's internal controls. 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 accompanying financial statements give a true and fair view of the state of financial affairs of the bank as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal 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 bank, so far as appears from our examination of those books; and
- iii) the bank's statement of financial position(balance sheet) and statement of comprehensive income(profit and loss account) are in agreement with the books of account.

Deloithe & Touche
Certified Public Accountants (Kenya)

29 Harch 2012

Nairobi

Deloitte & Touche Certified Public Accounts (Kenya) Deloitte Place Waiyaki Way, Muthangari P.O. Box 40092 - GPO 00100 Nairobi Kenya

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

<u>Note</u>	2011 Sh'000	2010 (Restated) Sh'000
INTEREST INCOME 6 INTEREST EXPENSE 7	2,844,462 (490,080)	1,896,114 (225,726)
NET INTEREST INCOME	2,354,382	1,670,388
Foreign exchange gain Fee and commission income Other income	30,623 1,331,918 49,118	1,439,586 8,852
OPERATING INCOME Operating expenses 9 Impairment charge on loans and advances 17	3,766,041 (2,906,303) (337,173)	3,118,826 (2,275,294) (325,574)
PROFITBEFORE TAXATION TAXATION 11	522,565 (167,961)	517,958 (163,269)
PROFIT FOR THE YEAR	354,604	354,689
OTHER COMPREHENSIVE INCOME Gain on revaluation of properties Deferred tax on revaluation surplus Reversal of revaluation on disposal of equipment Fair value (loss)/gain on available for 19 sale financial assets	80,856 (24,257) - (286)	(331) 181
OTHER COMPREHENSIVE INCOME	56,313 ———	(150)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	410,917 =====	354,539 =====
EARNINGS PER SHARE	Sh	Sh
Basic and diluted 12	1.46 =====	1.46 =====

Statement of Financial Position

31 DECEMBER 2011

		31 December 2011	31 December 2010	1 January 2010
	Note	Sh'000	(Restated) Sh'000	(Restated) Sh'000
ASSETS	13	1 025 020	1 740 153	1 002 052
Cash and balances with Central Bank of Kenya Balances due from banking institutions	13 14(a)	1,835,028 88,008	1,749,153 236,932	1,092,053 625,421
Government securities	15	4,485,023	5,211,146	1,836,000
Loans and advances to customers	16	16,332,359	10,298,791	7,745,285
Corporate bonds	18	705,990	499,325	489,590
Quoted investment	19	283	569	387
Taxation recoverable	11(c)	-	-	20,992
Other assets	20 21	436,316	854,241	358,737
Investment properties Property and equipment	21	71,400 1,516,039	27,670 1,034,525	27,670 1,026,917
Intangible assets	23	354,897	173,584	149,131
Prepaid operating lease rentals	24	176,410	6,184	6,347
TOTAL ASSETS		26,001,753	20,092,120	13,378,530
LIABILITIES AND SHAREHOLDERS' FUNDS LIABILITIES		======	======	=======
Balances due to banking institutions	14(b)	150,000	-	-
Customer deposits	25	21,443,927	15,731,247	10,490,293
Taxation payable Borrowings	11(c) 26	16,851 527,264	17,916 472,972	- 60E 107
Other liabilities	2 0 27	527,264	836,820	685,187 423,055
Unclaimed dividends	28	983	2,134	4
Deferred tax asset liability	29	25,875	21,393	10,484
TOTAL LIABILITIES		22,678,035	17,082,482	11,609,023
SHAREHOLDERS' FUNDS				
Share capital	30	484,185	484,185	368,219
Share premium	30	1,644,429	1,644,429	782,748
Revaluation surplus Retained earnings		85,314 965,131	30,304 760,065	31,084 517,977
Statutory reserve		144,659	90,655	69,479
Statutory reserve				
TOTAL SHAREHOLDERS' FUNDS		3,323,718	3,009,638	1,769,507
TOTAL LIABILITIES AND				
SHAREHOLDERS' FUNDS		26,001,753 ======	20,092,120 =====	13,378,530 ======

The financial statements on pages 26 to 76 were approved and authorise for issue by the Board of Directors on 23rd March 2012 and were signed on its behalf by:

Chairman

mai m

Director Company Secretary

Managing Director

Statement of Changes in Equity for the year ended 31St December, 2011

Total Sh'000	1,852,878 69,479 (44,323) (108,527)	1,769,507 354,689 (150) 354,539	977,647 (92,055)	3,009,638 ====== 3,127,288 90,655 (97,928) (110,377)	3,009,638 354,604 56,313	410,917	3,323,718
Statutory reserve Sh'000	69,479	69,479	21,176	90,655		54,004	<u>144,659</u> ======
Proposed dividends Sh'000	92,055			96,837			'
Retained earnings Sh'000	565,450 (44,323) (108,527) 13,322 92,055	517,977 354,689 - 354,689	(92,055) (21,176) 900 (270)	760,065 ====== 857,762 (97,928) (110,377) 13,771 96,837	760,065 354,604	354,604 (54,004) (96,837) 1,861 (558)	965,131
Share Revaluation mium surplus h'000 Sh'000	44,406	31,084 (150)	(900)	30,304 ====== 44,075 - (13,771)	30,304	56,313 - - (1,861) 558	85,314 =====
Share Rev Premium Sh'000	782,748	782,748	861,681	1,644,429	1,644,429		1,644,429
Share capital Sh'000	368,219	368,219	115,966		484,185		484,185
Note	8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8			0 0 0 0 0 0 4 4 4 4 4			
	At 1 January 2010 - As previously stated - Prior year adjustment - Prior year adjustment - Prior year adjustment - Reversal of revaluation surplus - Reversal of proposed dividends	As restated Profit for the year Other comprehensive loss Total comprehensive income	Rights issue proceed Dividend paid - 2009 Transfer to statutory reserve Transfer of excess depreciation Deferred tax on excess deprecia-	At 31 December 2010 - restated As previously stated - Prior year adjustment - Prior year adjustment - Prior year adjustment - Reversal of revaluation surplus - Reversal of proposed dividends	As restated Profit and loss for the year Other comprehensive income	Total comprehensive income Transfer to statutory reserve Dividend paid - 2010 Transfer of excess depreciation Deferred tax on excess deprecia- tion	At 31 December 2011

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2011

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2011 Sh'000	2010 (Restated) Sh'000
Net cash generated from/(used in)operations Taxation paid	31(a) 11(c)	1,001,898 (188,801)	(111,845) (113,452)
Net cash generated from/(used in) operating activ	vities	813,097	(225,297)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment Proceeds on sale of property and equipment Purchase of intangible assets Purchase of operating lease rentals	22 23 24	(713,731) 1,578 (272,062) (138,515)	(258,039) 2,068 (58,457)
Net cashused ininvesting activities		(1,122,730)	(314,428)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received Repayment of borrowings Dividends paid Proceeds from issue of shares	26 26 28 30	198,944 (144,652) (97,988)	32,000 (244,215) (89,925) 977,648
Net cash (used in)/generated from financing activ	rities	(43,696)	675,508
NET INCREASE IN CASH ANDCASH EQUIVALENTS DURING THE YEAR		(353,329)	135,783
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,400,573	1,264,790
CASH & CASH EQUIVALENTS AT END OF THE YEAR	31(b)	1,047,244 =====	1,400,573 ======

for the year ended 31st December, 2011

1. REPORTING ENTITY

Family Bank Limited (The "bank") provides commercial banking services. The bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

The address of its registered office is as follows:

Family bank Limited

6th Floor, Fourways Towers, Muindi Mbingu Street

PO Box 74145, Nairobi

2. ACCOUNTING POLICIES

Statement of compliance

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

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New standards and amendments to published standards effective for the year ended 31 December 2011

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The bank continued to disclose such items in the statements of changes in equity and the amendment had no effect on the bank's financial statements.

IAS 24 Related Party Disclosures (as revised in 2009) IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The bank is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendment had no effect on the bank's financial statements.

for the year ended 31st December, 2011

(Continued)

ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) New standards and amendments to published standards effective for the year ended 31 December 2011

IFRIC 19 Extinguishing **Equity Instruments**

The Interpretation provides guidance on the accounting for the Financial Liabilities with extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

> The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the bank has not entered into any transactions of this nature.

Improvements to IFRSs issued in 2010

The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the bank's financial statements

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011

ended 31 December 2011	
	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 19, Employee Benefits (2011)	1 January 2013

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011 (Continued)

Effective for annual periods beginning on or after

New and Amendments to standards

IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities 1

1 January 2014

IFRS 10, Consolidated Financial Statements

1 January 2013

IFRS 11, Joint Arrangements

1 January 2013

IFRS 12, Disclosure of Interests in Other Entities

1 January 2013

IFRS 13, Fair Value Measurement

1 January 2013

Amendment to interpretations

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction; prepayments of a minimum funding requirement

1 January 2013

(iii) Impact of new and amended standards and interpretations on the financial state ments for the year ended 31 December 2011 and future annual periods

IFRS 9. Financial Instruments

IFRS 9, Financial Instruments, issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement, to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk and not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the bank's financial statements for the annual period beginning 1 January 2013 and that the application may have significant impact on amounts reported in respect of the bank's financial assets and financial liabilities. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

for the year ended 31st December, 2011

(Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

• IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions such as how control, joint control, significant influence has been determined
- Interests in subsidiaries including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities information to allow an understanding
 of the nature and extent of interests in unconsolidated structured entities and to
 evaluate the nature of, and changes in, the risks associated with its interests in
 unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required. The directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

• IFRS 13, Fair Value Measurements

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 unobservable inputs for the asset or liability. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The directors anticipate that IFRS 13 will be adopted in the bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Accounting Policies

(Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each
 of the two groups of OCI items (without changing the option to present items of OCI
 either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The bank will apply the amendments prospectively. The directors anticipate no material impact to the bank's financial statements.

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

These amend IAS 12, Income Taxes, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

The above amendments are generally effective for annual periods beginning on or after 1 January 2012. The directors anticipate no material impact to the bank's financial statements currently. However, the bank would have to apply this standard to any such arrangements entered into in the future.

(iv) Early adoption of standards

The bank did not early-adopt new or amended standards in 2011.

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting as modified to include the valuation of property and certain financial assets.

Interest income and expense

Interest income and expense for all interest bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss are recognised in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and any accumulated impairment losses.

Any surplus arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss.

The bank's policy is to professionally revalue property at least once every five years. The last valuation was done in November 2011. The basis of valuation is as follows:

- a) Buildings open market value
- b) Other assets depreciated replacement cost

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset or the revalued amounts, to its residual values over its estimated useful life as follows:

Buildings	2.5%
Fixtures, fittings and equipment	12.5%
ATM Machines	16.7%
Motor vehicles	20%
Computers	20%

Freehold land is not depreciated as it is deemed to have an indefinite life.

The depreciation charge to profit and loss is based on the carrying amounts of the property and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation surplus to retained earnings.

Leasehold land

Payments to acquire interests in leasehold land are treated as prepaid operating rentals. They are stated at historical cost and are amortised over the term of the related lease.

Intangible assets - computer software costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that 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.

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

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 3 years.

Impairment of non-financial assets

At the end of each reporting period, the bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Previously recognised impairment losses may be reversed to the extent of the assets carrying amount.

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the year in which they arise.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss for the year.

for the year ended 31st December, 2011

(Continued)

2. ACCOUNTING POLICIES (Continued)

Foreign currencies

i) Functional and presentation currency

The financial statements of the bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings, which is the bank's functional and presentational currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

i) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

Taxation

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

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

Financial instruments

A financial asset or liability is recognised when the bank becomes party to the contractual provisions of the instrument.

Financial assets

a) Classification and measurement

The bank classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

a) Classification and measurement (Continued)

i) Due from banks and loans and advances to customers

Due from banks and loans, advances and receivables include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

After initial recognition, amounts 'Due from banks' and 'Loans to customers' are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss. The losses arising from impairment are recognised in profit or loss.

ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank has the positive intention and ability to hold to maturity.

Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss

Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

iii) Available-for-sale financial assets

Available for sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in profit and loss when the bank's right to receive the dividends is established.

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

b) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass—through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

c) Impairment and uncollectability of financial assets

The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- · Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level

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

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

c) Impairment and uncollectability of financial assets (Continued)

i) Assets carried at amortised cost

The bank assesses whether objective evidence of impairment exist individually for assets that are individually significant and individually or collectively for assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised inprofit or loss.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised agains in the profit and loss.

ii) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

for the year ended 31st December, 2011

(Continued)

ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial liabilities and equity instruments issued by the bank

a) Classification and measurement

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight line basis over the life of the guarantee.

for the year ended 31st December, 2011

(Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)
Financial liabilities and equity instruments issued by the bank (Continued)

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss. The bank derecognises financial liabilities when, and only when, the bank's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and liabilities are offset and stated at net amount in the statement of financial position when there is a legally enforceable right to set off, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Provisions

A provision is recognised if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Statutory reserve

IAS 39 requires the bank to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central bank of Kenya prudential guidelines require the bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The bank as lessor

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

The bank as lessee

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank of Kenya and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(Continued)

2 ACCOUNTING POLICIES (Continued)

Contingent liabilities

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

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

Employee benefit costs

The bank operates a defined contribution retirement benefit scheme for all its employees. The scheme is administered by an independent investment management company and is funded by contributions from both the bank and employees.

The bank also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time. These are presently a maximum of Sh 200 per month for each employee.

The bank's contributions in respect of retirement benefit costs are charged to the profit and loss in the period to which they relate.

Employee entitlement to leave not taken is charged to profit or loss as it accrues.

Sale and repurchase agreements

Securities sold to Central bank of Kenya subject to repurchase agreements('repos') are retained in the financial statements under government securities and the counterparty liability is included in advances from Central bank of Kenya. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Comparatives

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

3 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the bank's accounting policies, which are described in note 1, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(Continued)

CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(i) Critical judgements in applying the bank's accounting policies

The following are the critical judgements, apart from those involving estimations (see (ii) overleaf), that management have made in the process of applying the bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses on loans and receivables

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit and loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale investments

The bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The bank also records impairment charges on available—for—sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Held -to-maturity investments

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

(i) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Property, equipment and intangible assets

Critical estimates are made by management in determining depreciation rates for property, equipment and intangible assets.

(Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. The bank aims to achieve an appropriate balance between risk and return and minimise the potential adverse effects of the bank's financial performance.

The most important type of risks to which the bank is exposed to are financial risks which include:

- a) Credit risk
- b) Liquidity risk
- c) Market risks

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The board has established a risk management committee comprising of two non-executive directors to assist in the discharge of this responsibility. The board has also established the bank Asset and Liability (ALCO), Credit Committee and Risk and Compliance Committees, which are responsible for developing and monitoring risk management policies in their specified areas. These committees comprise of executive members and report regularly to the board of directors on their activities.

The board provides written principles for overall risk management as well as written policies covering specific risk areas. The bank's risk management policies are established to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best market practices. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk and Compliance Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. This committee is assisted in these functions by the Assurance Function. The Assurance Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

(a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the bank's loans and advances to customers and other banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The bank is also exposed to other credit risks arising from its trading activities including derivatives.

Credit risk is the single largest risk for the bank's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three.non-executive directors and three executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management. The committee assisted by the credit department is responsible for the management of the bank's credit risk including:

(Continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) **Credit risk (Continued)**

Management of credit risk (Continued)

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are delegated to the head of credit and the credit committee while larger facilities require approval by the board of directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans
- Developing and maintaining the bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews by credit department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to bank credit committee on the credit quality of local portfolios and appropriate corrective action
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the bank in the management of credit risk.

Credit risk measurement

In measuring credit risk of loans and advances to customers, the bank takes into account the following factors:

- The probability of default: this is the possibility of the customer failure to pay over the stipulated period in the contract.
- Current exposure on the borrower and the likely future development from which the bank derives the exposure at default
- Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral

The bank assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer the bank takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the bank's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. The impairment allowances on loans and advances computed through the bank's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IAS 39.

Risk limit control and mitigation policies

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate.

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Risk limit control and mitigation policies(Continued)

The bank takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. Collateral held for other financial assets other than loans and advances depends on the nature of the instrument.

The primary purpose of acceptances, letters of credit and guarantees is to ensure funds are available to a customer as required. Guarantees and standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The bank has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers.

Maximum exposure to credit risk before collateral held

	2011		2 010	
	Sh'000	%	Sh'000 !!	!!!!%
Credit Exposures!				
On – balance sheet items				
Balances with Central Bank of Kenya	725,792	3	914,862	5
Balances due from banking institutions	88,008	0	236,933	1
Government securities	4,485,023	20	5,211,146	30
Loans and advances to customers	16,332,359	73	10,298,791	59
Corporate bonds	705,990	3	499,325	3
	22,337,172	100	17,161,057	98
0011				
Off-balance sheet items Guarantees	419,719	<1	391,445	2
	22,756,891	100 ====	17,552,502 ======	100

The above represents the worst case scenario of credit exposure for 31 December 2011 and 31 December 2010, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 70% (2010 - 59%) of the total maximum exposure.

(Continued)

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) **Credit risk (Continued)**

Maximum exposure to credit risk before collateral held (Continued)

While collateral is an important mitigant to credit risk, the bank's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The bank is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table overleaf.

	Classification	on of loa	ns and ac	lvances					
ļ	ļ	!!	ļ	į.	į	ļ	ļ	!Loans a	nd advances
ļ	!	ļ	ļ	ļ.	ļ	ļ.	ļ	to cu	stomers
								2011	2010
								Sh'000	Sh'000
	•	ng amour							
		ually imp							
			paired (s				ļ	610,566!	250,117
			paired (d)			353,361	273,460
	Gr	ade 8: Im	paired (lo	oss)				860,665	476,602
								4 024 502	4 000 470
		oss amou						1,824,592	1,000,179
	All	iowance '	for impai	rment				(1,095,508)	(697,197)
	Ca	rrying an	nount					729,083	302,982
	Ca	irying an	iount					725,005	302,302
	Collect	ively imp	aired (Pa	st due b	ut not in	npaired)			
			Watch list			,		1,172,558	959,077
	All	lowance [.]	for impai	rment				(35,177)	(28,772)
			•						
	Ca	rrying an	nount					1,137,381	930,305
		-	nor imp	aired					
	Gr	ade 1-3: l	Normal					14,465,894	9,065,504
								46 000 056	40 000 704
	Tota	carrying	amount					16,332,359	10,298,791
								========	=======

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

Loans and advances neither past due nor impaired

The bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress. These exposures are categorised internally as grade 1-3, that is, normal accounts in line with CBK prudential guidelines and a provision of 1 % is made and appropriated from revenue reserves to statutory reserves.

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4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Loans and advances past due but not impaired loans

Loans where the contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the bank are classified as past due but not impaired. These exposures are graded internally as category 4-5 that is watch accounts in the bank's internal credit risk grading system, in line with CBK guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Loans whose terms have been renegotiated are no longer treated as past due but are reclassified as performing loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered past due.

Allowances for impairment

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

The internal credit risk grading system which is in line with CBK prudential guidelines focus on expected credit losses – that is taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the statement of comprehensive income is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

Write-off policy

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit or loss.

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

Settlement risk

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

Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from bank Risk.

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Concentration of risk

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

i)	Advances to customers				
		2011		2010	
		Sh'000	%	Sh'000	%
	Manufacturing	309,106	2	12,561	
	Wholesale and retail	5,549,327	32	5,780,327	53
	Transport and communication	925,540 397.079	5	910,851 305,029	8
	Agricultural Business services	254,650	2 1	330,009	3
	Other	10,027,302	57	3,685,985	33
	Other	10,027,302	37	3,003,703	33
		17,463,044	100	11,024,762	100
		=======	=====	=======	====
ii)	Customer deposits				
	Central and local Government	99,486	1	81,154	1
	Co-operative societies	142,066	1	88,229	1
	Insurance companies	76,514	-	37,701	-
	Private enterprises& individuals	21,079,528	98	15,496,550	98
	Non-profit institutions	46,333	-	27,613	-
		21,443,927	100	15.731.247	100
		=======	=====	=======	====
	Off balance sheet items				
	(letters of credit and guarantees)				
	Trading	419,719	100%	391,445	100%
		=======	=======	=======	=====

(b) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments or other cash outflows.

Management of liquidity risk

The bank's liquidity risk management is carried out within the bank and monitored by the Asset Liability committee (ALCO).

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (continued)

Management of liquidity risk (continued)

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements
- Day to day funding is managed by monitoring future cash flows to ensure that
 requirements can be met. This includes replenishment of funds as they mature or are
 borrowed by customers.
- The bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- The bank enters into lending contracts subject to availability of funds.
- The bank has an aggressive strategy aimed at increasing the customer deposit base.
- The bank borrows from the market through inter bank transactions with other banks and The Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the bank has sufficient cash flows.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the board. Daily reports covering the liquidity position of the bank are regularly submitted to Asset and Liability Committee.

Exposure to liquidity risk

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	3122	3121
At 31 December Average for the year Maximum for the year Minimum for the year	28% 34% 43% 26%	45% 38% 47% 30%
Willimum for the year	===	===

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (continued)

Liquidity risk based on undiscounted cash flows

The table below analyses the cash flows payable by the bank under non-derivative financial liabilities by remaining contractual maturities and non-derivative financial assets by expected maturity dates as at the date of the statement of financial position.

Total Sh'000 1,109,236 725,792 90,032 4,936,216	293,310	168,900 21,671,232 551,887 253,728	22,645,747	5,701,629	17,905,263 16,351,603	1,553,660
Over 5 years Sh'000 1,809 4,668,893	2,341,400 212,060	120,008	120,008	7,104,154	6,698,786	6,032,848
1 – 5 years Sh'000	14,675,774 581,614 - - 15,453,103	962,888	1,210,853	14,242,250	6,070,169	40,148
4 - 12 months Sh'000	2,127,177	3,510,180 122,930 253,728	3,886,838	(1,759,661)	1,512,831 2,585,098	(1,072,267)
1 – 3 months Sh'000 	494,736	1,589,151	1,649,666	(1,083,322)	431,741 2,181,210	(1,749,469)
Up to 1 month Sh'000 1,109,236 725,792 88,223	760,029 293,310 2,976,590	15,609,013 469	15,778,382	(12,801,792)	3,191,735 4,889,334	(1,697,599)
42!Efdfn cfs!3122 Gjobodjbmlbttfut Cash in hand Balances with Central Bank of Kenya Balances due from banking institutions Government securities	Loans and advances to customers Corporate bonds Other assets Total financial assets	Gjobodjbmlmjbcjmjuj fit Balances due to banking institutions Customer deposits Borrowings Other payables	Total financial liabilities	Ofulnjrvjejuz!hbq BT!bu!42!Efdfn.cfs!3121	Total financial assets Total financial liabilities	Net liquidity gap

(Continued)

The above table shows the undiscounted cash flows on the bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

(c) Market risks

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, equity prices, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the bank acts as principal with clients or with the market. Non-trading portfolios mainly arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

Management of market risks

Overall responsibility of managing market risk rests with the Asset and Liability Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities.

The table below summarises the bank's exposures to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items.

(Continued)

Total Sh'000	1,109,236	88,008	4,485,023 16,332,359	705,990	23,446,408	150,000	21,443,926 527,265	22,121,191	1,325,217
Non-interest bearing Sh'000	1,109,236 725,792	86,240			1,921,268		13,528,329	13,528,329	(11,607,061)
Over 5 years Sh'000		1,768	4,242,134 1,874,620	188,632	6,307,154		-114,655	114,655	6,192,499
1-5 years Sh'000			177,826 11,750,019	517,358	12,445,203		529,576 236,902	766,477	11,678,726
4 – 12 months Sh'000	•		-1,703,104	ı	1,703,104		7,386,022 117,445	7,503,467	(5,800,363)
1 – 3 months Sh'000		•	65,063 396,106	ı	461,169	ı	57,815	57,815	403,354 (
Up to 1 month Sh'000		1	- 608,510	ı	608,510	150,000	- 448	150,448	458,062
42!Efdfn cfs!3122	Gjobodjb⊪lbttfut Cash in hand Balances with Central Bank of Kenya	Balances due from bank-	Government securities Loans and advances to	Corporate bonds		Gjobodjbmmjbcjmjujft Balance due to banking institutions	Customer deposits Borrowings		Interest sensitivity gap

(Continued)

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

Interest rate risk (Continued)

(i) interest	. rate risk (Coi	ittiliaca)					
	Up to 1 month Sh'000	1 – 3 months Sh'000	4 - 12 months Sh'000	1 - 5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Tot Sh'00
Asat 31 December 2010							
Total financial assets	10,364,492	20,000	107,060	-	5,657,668	2,010,920	18,160,14
Total financial liabilities	4,889,334	2,181,210	2,585,098	5,882,637	665,941		16,204,22
Interest rate sensitivity gap	5,475,158 ======	(2,161,210)	(2,478,038)	(5,882,637)	4,991,727	2,010,920	1,955,9°

Currency Risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cashflows. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily.

As at 31 December 2011	KSH Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	TOTAL Sh'000
Financial assets Deposits and balances due					
from banking institutions	778,129	555	5,698	29,417	813,799
Financial liabilities	-	-	-	-	-
Sensitivity gap	778,129 =====	555 =====	5,698 =====	29,417 =====	813,799
As at 31 December 2010 Financial assets					
Deposits and balances due from banking institutions	160,807	28,743	-	73,500	263,050
Financial liabilities Deposits and balances due					
to banking institutions	-	(26,118)	-	-	(26,118)
Sensitivity gap	160,807	2,624	-	73,500	236,932

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

Market Risks - Sensitivity Analysis

A principal part of the bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Family Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

For simulation modelling, the bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the bank's earnings and capital.

Interest Rate Risks - Increase / Decrease of 10% in Net Interest Margin

The Interest Rate Risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in Market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to Net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2011.

	Amount	Scenario 1	Scenario 2
	31 December 2011	10% appreciation	10% Depreciation
	Sh'000	Sh'000	Sh'000
Profit Before Tax	522,565	574,822	470,309
Adjusted Core Capital	3,161,738	3,477,912	2,845,564
Adjusted Total Capital	3,170,570	3,487,627	2,853,513
Risk Weighted Assets (RWA)	18,596,505	20,456,156	16,736,855
Adjusted Core Capital to RWA	17%	22%	22%
Adjusted total Capital to RWA	17%	23%	23%

Assuming no management actions, a series of such appreciation would increase net interest income by Sh 235,438(2010 - Sh 167,039), while a series of such falls would decrease net interest income by Sh235,438(2010 - Sh 167,039).

(Continued)

4 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

Foreign Exchange Risks – Appreciation/Depreciation of Kshs against other currencies by 10%

The Foreign Exchange Risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The Currency Risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which Family Bank's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2011.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount 31 December 2011 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax Adjusted Core Capital Adjusted Total Capital Risk Weighted Assets (RWA) Adjusted Core Capital to RWA Adjusted total Capital to RWA	522,565 3,161,738 3,170,570 18,596,505 17%	574,822 3,477,912 3,487,627 20,456,156 17% 23%	470,309 2,845,564 2,853,513 16,736,855 17% 23%

Assuming no management actions, a series of such appreciation would increase earnings by Sh 16,456,000 (2010 -Sh 20,248,000), while a series of such falls would decrease net interest income by Sh 16,456,000 (2010 - Sh 20,248,000).

(d) Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

Disclosures of fair value of financial instruments not measured at fair value have not been made because the financial instruments carrying amounts is a reasonable approximation of their fair values.

(ii) Fair Value hierarchy

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices);and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Continued)

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial assets and liabilities (Continued)

Fair Value hierarchy (Continued) (ii)

()	•				
	Note	Level	Level 2	Level	Total
31 December 2011		Shs'000	Shs'000	Shs'000	Shs'000
Available for sale financial assets Investment in quoted shares		283	-	-	283
		=====	=====	=====	=====
31 December 2010 Available for sale financial assets					
Investment in quoted shares		569	-	-	569
		=====	=====		=====

There were no transfers between levels 1, 2 and 3 in the year.

CAPITAL MANAGEMENT

Regulatory capital

The banks objectives when managing capital are:

- 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.
- To maintain a strong capital base to support the current and future development needs of the business.
- To comply with the capital requirements set by the Central Bank of Kenya.

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to:

- a) Hold the minimum level of regulatory capital of Kshs700million. This minimum level will be increased gradually to Sh 1billion by end of 2012;
- Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;
- c) Maintain a core capital of not less than 8% of total deposit liabilities and
- d) Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(Continued)

5 CAPITAL MANAGEMENT (Continued)

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, non cumulative irredeemable non convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by

The bank's regulatory capital position at 31 December 2011 was as follows:

	2011 Sh'000	2010 Sh'000
Tier 1 capital Share capital Share premium Retained earnings	484,185 1,644,429 965,131	484,185 1,644,429 760,064
Total	3,093,745	2,888,678
Tier 2 capital Revaluation reserves (25%) General loan loss provision (statutory reserve) Total	21,329 144,659 165,988	7,576 90,655 98,231
Total regulatory capital	3,259,733	2,986,909
Risk-weighted assets	====== 18,621,841 ======	====== 12,757,599 ======
Capital ratios Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 12%) Total tier 1 capital expressed as a percentage of	2011 17.50%	2010 23.41%
risk-weighted assets (CBK minimum 8%)	16.61% ====== 2011 Sh'000	22.64% ====== 2010 Sh'000
INTEREST INCOME		
Interest on loans and advances Interest on bank placements Interest on government securities - held to maturity Interest on corporate bonds - held to maturity	2,366,232 6,181 391,846 80,203	1,588,280 13,075 235,047 59,712
	2,844,462	1,896,114

(Continued)

	31	December 2011 Sh'000	31 December 2010 Sh'000
7	INTEREST EXPENSE		
	Interest on customer deposits Interest on balances due to banks Interest on borrowings	377,907 80,411 31,762 	193,585 2,530 29,611
8	FEE AND COMMISSION INCOME		
	Transaction related fees Credit related fees and commissions Ledger related fees and commissions	791,730 484,445 55,743 ————————————————————————————————————	1,031,697 360,538 47,351 ————————————————————————————————————
9	OPERATING EXPENSES		
	Directors' emoluments - Fees - Other Depreciation – property, plant and equipmer Amortisation of intangible assets Contribution to Deposit Protection Fund Auditors' remuneration - current year Amortisation of operating lease Marketing expenses Occupancy expenses Other operating expenses	1,112,935 21,198 59,519 at 282,453 74,793 19,181 2,500 1,509 146,828 462,651 722,736 2,906,303 =======	888,612 16,638 59,126 246,116 34,004 13,492 1,714 163 151,832 340,175 523,422 2,275,294 ======
10	STAFF COSTS		
	Salaries and wages Training, recruitment and staff welfare costs Contributions to defined contribution pension scheme Medical expenses Leave pay provision NSSF contributions	955,895 51,939 40,638 61,847 - 2,616 1,112,935 ======	753,401 22,647 31,524 51,156 27,714 2,170 888,612 ======

(Continued)

31 December	31 December
2011	2010
Sh'000	Sh'000

11 TAXATION

a) Taxation charge

Current tax based on the taxable profit for the year at 30% Deferred tax (credit)/charge-current year	187,736 (19,775)	152,360 10,909
	167,961	163,269

b) Reconciliation of expected tax based on accounting profit to tax charge

Profit before taxation	522	,565	517,958
Tax calculated at a tax rate of 30% Tax effect of expenses not deducti		-=== 5,770	===== 155,387
for tax purposes		,196	42,059
Tax effect of income not taxable	(53	,005)	(34,187)
	167	7,961	163,269
	===	===	=====
	31 December 2011	31 December 2010	1 January 2010
	Sh'000	Sh'000	Sh'000
Taxation payable/(recoverable)			
At beginning of the year Charge for the year	17,916 187,736	(20,992) 152,360	30,163 119,283
Prior year under provision Tax paid during the year	(188,801)	(113,452)	639 (171,077)
At end of the year	16,851 =====	17,916 =====	(20,992) =====

12 EARNINGS PER SHARE

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

3	5 3	
	2011	2010
Profit (Sh'000)	354,604	354,226
	=====	======
Number of ordinary shares (Sh'000)	242,092	242,092
Earnings per share	=====	======
Basic and diluted (Sh)	1.46	1.46

There were no potential dilutive shares outstanding at 31 December 2011 and 31 December 2010.

(Continued)

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
Cash in hand Balances with Central bank of Kenya:	1,109,236	834,292	593,739
Cash ratio reserveOther balances (available	725,792 for use	692,246	452,684
by the bank)	-	222,615	45,630
	1,835,028	1,749,153	1,092,053

Cash in hand and balances with Central Bank of Kenya are non-interest bearing. The cash ratio reserve is based on the value of customer deposits as adjusted by the Central bank of Kenya requirements. As at 31 December 2011 the cash ratio reserve requirement was 5.25% (2010 – 4.50%) of all customer deposits held by the bank. These funds are not available to finance the bank's day to day operations.

14 DEPOSITS AND BALANCES WITH BANKING INSTITUTIONS

31 December	31 December	1 January
2011	2010	2010
Sh'000	Sh'000	Sh'000

a) Balances due from banking institutions maturing within 90 days:

Overnight lending and placemen with other banks Balances due from local banking	1,768	91,750	484,314
institutions Balances due from foreign banking	64,108	99,302	90,614
institutions	22,132	45,880	50,493
	88,008	236,932	625,421
	=====	======	======

b) Balances due to banking institutions maturing within 90 days:

Deposits with/from local banks as at 31 December 2011 represent overnight lending. The effective interest rate on deposits due from local banking institutions was 2.3% (2010 - 1.5%). The effective interest rate on deposits due to local banking institutions was 26% (2010 - Nil).

15 GOVERNMENT SECURITIES - HELD TO MATURITY

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
Treasury bonds –at amortised cost		5,104,411	1,836,000
Treasury bills – face value Less: unearned discount	-	110,000 (3,265)	
	4,485,023	106,735 5,211,146	

(Continued)

15 GOVERNMENT SECURITIES - HELD TO MATURITY (Continued)

3	1 December	31 December	1 January
	2011	2010	2010
	Sh'000	Sh'000	Sh'000
The maturity profile of government			
Maturing within one year	65,063	209,027	145,821
Maturing between 2 to 5 years	177,826	711,696	431,892
Maturing after 5 years	4,242,134	4,290,423	1,258,287
	4,485,023	5,211,146 =====	1,836,000

The weighted average effective interest rate on treasury bonds was 10.06% (2010 - 10.48%). The weighted average effective interest rate on treasury bills was Nil % (2010 - 6.15%).

As of 31 December 2011, treasury bonds (2010: treasury bills) with a carrying amount of Sh 7,000,000 (2010 – Sh 450,000) were pledged as collateral under repurchase agreements with the Central Bank of Kenya.

16 LOANS AND ADVANCES TO CUSTOMERS

		31 December 2011	31 December 2010	1 January 2010
			(Restated)	(Restated)
		Sh'000	Sh'000	Sh'000
(a)	Commercial loans	14,189,109	8,784,058	6,334,079
	Overdrafts	1,512,774	974,395	1,081,143
	Asset finance loans	1,165,843	957,580	470,266
	Staff loans	595,318	308,728	230,539
	Gross loans and adva			
	to customers		11 024 741	0 114 027
Locali		17,463,044	11,024,761	8,116,027
(note	mpairment losses	(1 120 405)	(725.070)	(270 742)
(HOTE	17)	(1,130,685)	(725,970)	(370,742)
Net loa	ans and advances to			
custon	ners	16,332,359	10,298,791	7,745,285
		=======	======	======
(b)	Analysis of gross loar	ns and advances by r	naturity	
Matur	ina:			
	1 year	2,895,173	3,121,886	2,372,221
	en 1 and 3 years	6,528,276	2,972,644	1,995,710
	B years	8,039,595	4,930,231	3,748,096
	J. C. C.			
Loans	and advances to custor	mers 17,463,044	11,024,761	8,116,027
		======	======	=======

The related party transactions and balances are covered under note 33 and concentration of advances to customers is covered under note 4.

The weighted average effective interest rate on advances to customers was 24.70% (2010 – 17.00%).

Included in gross advances of Sh 17,463,044,000 (2010 – Sh 11,024,761,000) are loans and advances amounting to Sh. 733,191,000 (2010 – Sh 302,982,000), net of specific provisions, which have been classified as non-performing (impaired).

(Continued)

17 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
At 1 January	725,970	370,742	319,908
Increase in impairment allowances	337,173	325,574	108,461
Increase in interest in suspense	67,584	42,123	6,343
Amounts written off during the year as uncollectible	(42)	(12,469)	(63,970)
At 31 December	1,130,685	725,970	370,742
	=======	=======	=======

18 CORPORATE BONDS - HELD TO MATURITY

Corporate bonds –at amortised cost			
Safaricom Limited Kenya Electricity Generating	305,957	308,968	303,026
Company Limited Shelter Afrique	188,632 211,401	190,357 -	186,563
	705,990	499,325	489,590
The maturity profile of corporate bonds is as follows:	=====	=====	======
Maturing 1 to 5 years Maturing after 5 years	517,358 188,632	308,968 190,357	303,026 186,563
	705,990 =====	499,325	489,590

The weighted average effective interest rate on corporate bonds was 12.42% (2010 - 12%).

19 QUOTED INVESTMENT – AVAILABLE FOR SALE

At fair value: At beginning of the year Fair value (loss)/gain	569 (286)	388 181	530 (143)
At end of the year	283	569	387
	=====	=====	=====

The investment consists of 33,466 shares of Kenya Electricity Generating Company Limited.

20 OTHER ASSETS

Un-cleared items in the course of collection Prepayments	293,310	456,074	135,671
	61,878	64,021	47,505
Deposits for services Other	43,904 37,224 436,316 =====	38,674 295,472 ———— 854,241 ======	30,426 145,135 ————————————————————————————————————

(Continued)

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
21 INVESTMENT PROPERTIES	;		
COST			
At start of year	27,670	27,670	24,500
Transfers from propert	y and		
equipment	-	-	3,170
Gain on revaluation	43,730	-	-
At end of year	71,400	27,670	27,670

Investment properties relate to; leasehold land acquired at a cost of Shs 24,500,000 was previously meant for bank expansion plans and lease hold land acquired at a cost of Shs 3,170,000 for national customer promotion raffle. The two properties are now held for capital appreciation.

The properties were re-valued as at 30 November 2011 by Ebony Estate Valuers Limited, Registered valuers. Valuations for the properties were made on the basis of the open market value. The book values of the re-valued items were adjusted to the re-valued amounts and the resultant surplus was credited to profit and loss.

22 PROPERTY AND EQUIPMENT

						Fixtures,	
	Freehold land and buildings	Buildings		Computer	Motor vehicles	fittings and equipment	Total
COST/VALUATION	Sh'000	Sh'000	ments Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2010	2,400	106,465	730,682	511,529	42,754	277,837	1,671,667
Additions	-	39,693	121,571	42,941	4,769	49,065	258,039
Disposal	-	-	-	-	(11,368)	-	(11,368)
At 31 Dec ember 2010	2,400	146,158	852,253	554,470	36,155	326,899	1,918,338
At 1 January 2011 Additions Disposal	2,400	146,158 156,982				60,240	1,918,338 713,731 (3,330)
Gain on revalua-	2,600	55,080	-	-	-	-	57,680
Transfer to operating lease rentals		(33,220)		<u> </u>		<u> </u>	(33,220)
At 31 December 2011	5,000	325,000	1,044,721	825,847	65,489	387,142	2,653,199
Comprising: At cost At valuation	5,000	325,000	1,044,721	825,847 -	65,489	387,142	2,323,199 330,000
At 31 December 2011	5,000	325,000	1,044,721	825,847	65,489	387,142	2,653,199

(Continued)

22 PROPERTY AND EQUIPMENT (Continued)

DEPRECIATION	Freehold land and buildings Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and equipment Sh'000	Total Sh'000
At 1 January 2010	_	23,114	212,165	303,574	25,223	80,674	644,750
Charge for the year	_	2,662	98,399	99,692	7,618	37,747	246,118
Eliminated on disposals		-	-	-	(7,055)	-	(7,055)
At 31 December 2010		25,776	310,564	403,266	25,786	118,421	883,813
At 1 January 2011	_	25,776	310,564	403,266	25,786	118,421	883,813
Charge for the year	-	-	121,323	109,641	7,032	44,457	282,453
Write-back on revaluation	-	(25,776)	-	-	-	-	(25,776)
Eliminated on disposals	-	-	-	-	(3,330)	-	(3,330)
At 31 December 2011	-	-	431,887	512,907	29,488	162,878	1,137,160
NET BOOK VALUE - VALUATION BASIS							
At 31 December 2011	5,000	325,000	612,834	312,940	36,001	224,264	1,516,039
	=====	======	=====	=====	=====	======	======
At 31 December 2010	2,400	120,382	541,689 =====	151,204	10,369	208,481	1,034,525
At 31 December 2009	2,400	83,351	518,517 =====	207,955	17,531	197,163	1,026,917
NET BOOK VALUE - COST BASIS							
At 31 December 2011	2,400	204,807	612,834	312,940	36,001		1,393,246
At 31 December 2010	2,400	76,307	===== 541,689	===== 151,204	10,369	208,481	990,450
At 31 December 2009	2,400	50,067	518,517	207,955	17,531	197,163	985,540

Buildings were re-valued as at 30 November 2011 by Ebony Estate Limited, Registered valuers.

Valuations for buildings were made on the basis of the open market value. The book values of the re-valued items were adjusted to the re-valued amounts and the resultant surplus was credited to the revaluation surplus.

(Continued)

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
INTANGIBLE ASSETS – COMPU	TER SOFTWARE		
COST			
At 1 January Additions	211,122 272,062	152,665 58,457	31,64 121,02
At 31 December	483,184	211,122	152,66
AMORTISATION At 1 January Charge for the year	53,494 74,793	19,490 34,004	9,03 10,45
At 31 December	128,287	53,494	19,49
NET BOOK VALUE			
At 31 December	354,897 =====	173,584 =====	149,13
PREPAID OPERATING LEASE I	RENTALS (LAND)		
COST			
At beginning of the year	8,600	8,600	8,60

COST			
At beginning of the year Additions Transfer from property and	8,600 138,515	8,600 -	8,600
equipment	33,220	-	-
	180,335	8,600	8,600
AMORTISATION			
At 1 January Charge for the year	2,416 1,509	2,253 163	2,087 166
At 31 December	3,925	2,416	2,253
NET BOOK VALUE			
At 31 December	176,410 =====	6,184 =====	6,347

(Continued)

	31 December 2011 Sh'000	31 December 2010 Sh'000	1 January 2010 Sh'000
	311 000	311 000	311 000
25 CUSTOMER DEPOSITS			
Current and demand account	s 13,528,329	12,688,042	7,588,484
Savings accounts	529,576	526,500	415,747
o o			
Fixed deposit accounts	7,386,022	2,516,705	2,486,062
	21,443,927	15,731,247	10,490,293
	=======	======	=======
MATURITY ANALYSIS OF CUS	STOMER DEPOSITS		
Repayable:	TOWER BEI GOITG		
On demand	13,528,329	12,688,042	8,392,234
Within one year	7,915,598	3,043,205	2,098,059
,	21 442 027	15 721 247	10,400,000
	21,443,927	15,731,247	10,490,293
	=======	=======	=======

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2011 was1.06% (31 December 2010 – 1.48%). The related party transactions and balances are covered under note33 and concentration of customers' deposits is covered under note 4.

	31 December 2011	31 December 2010	1 January 2010
	Sh'000	Sh'000	Sh'000
26 BORROWINGS			
(a) Analysis			
Youth Fund	120,317	90,284	160,184
PTA Loan	176,161	287,422	398,682
Women Fund	116,131	89,107	120,162
Practical Action Fund	6,159	6,159	6,159
KICTB – Pasha loan	108,496	-	-
	527,264 =====	472,972 =====	685,187
(b) Movement:			
At beginning of theyear	472,972	685,187	712,142
Received in the year	198,944	32,000	84,000
Repaid in the year	(144,652)	(244,215)	(110,955)
At end of theyear	527,264	472,972 =====	685,187

The Youth fund is a Government granted facility for onward lending to the youth. The fund is a revolving fund disbursed in tranches. 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 loanis secured by an all asset debenture

in favour of PTA Bank. The loan was received in August 2007 and matures in July 2013.

The Women fund is a Government granted facility for onward lending to women. The fund is a revolving fund disbursed in tranches. 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. The loan is interest free and all the customers are referred directly by practical Action Fund.

(Continued)

26 BORROWINGS (Continued)

The KICTB Pasha loan is a credit from the International Development Authourity advanced to the Kenya Information and Communication Technology for the purposes of developing the digital villages program. Family Bank is charged with managing the disbursements of the loans.

The effective interest rates for the various loans are as follows:

		31 December 2011	31 December 2010	1 January 2010
		%	%	%
	Youth Fund PTA Loan Women Fund Practical Action Fund KICT – Pasha loan	2.5 11 1 - 1 ====== Sh'000	2 8 1 - - ====== Sh'000	2 7 1 - - ====== Sh'000
27	OTHER LIABILITIES	311 000	311 000	311 000
_,	Provisions and accruals Leave pay provision Cheques for collection Other payables	23,510 17,796 253,728 218,101 	18,850 28,537 243,405 546,028 836,820	26,996 18,654 129,441 247,964 — 423,055
28	UNCLAIMED DIVIDENDS			
	At start of year Declared Paid during the year	2,134 96,837 (97,988)	4 92,055 (89,925)	103,754 (103,750)
	At end of year	983	2,134	4
20	DEFENDED TAY ASSET	=====	======	======

29 DEFERRED TAX ASSET

3	21 December 2011 Sh'000	31 December 2010 (Restated) Sh'000	1 January 2010 (Restated) Sh'000				
The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:							
Deferred tax assets: General bad debts provision	11,786	8,275	3,747				
Deferred tax liabilities: Accelerated capital allowances Revaluation surplus	(182) (37,479)	(16,445) (13,223)	(1,008) (13,223)				
	(37,661)	(29,668)	(14,231)				
Net deferred tax asset	(25,875) =====	(21,393) =====	(10,484)				

(Continued)

29` DEFERRED TAX (Continued)

		31 Decembe 201	1	31 December 2010 (Restated)	1 January 2010 (Restated)
	Movement in deferred to	Sh'00		Sh'000	Sh'000
	Movement in deferred tax				
	At 1 January – as previous Overprovision in prior yea			(33,839) 44,323	(36,268)
	At 1 January – as restated Charge/(credit) to profit of Other comprehensive incomprehensive incomprehensive	r loss (19,7	75)	10,484 10,909 -	(36,268) 46,752 -
	At 31 December	25,8	75 ==	21,393 =====	10,484
30 SH	IARE CAPITAL				
	Authorised: 500,000,000ordinary sha Sh 2 each	res of 1,000,0 =====		1,000,000	1,000,000
	Issued and fully paid: 242,092,716 ordinary sha Sh 2 each	ares of 484,1 =====		484,185 =====	368,219 ======
	Movement in issued and				
		Number of shares	Share Capital Sh '000	Share Premium Sh '000	Total Sh'000
	As at 1 January 2010 Issued in the year	184,109,716 57,982,726	368,219 115,966	782,747 861,682	1,150,966 977,648 ———
	As at 31 December 2010	242,092,442	484,185	1,644,429	2,128,614
	As at 1 January 2011 Issued in the year	242,092,442	484,185	1,644,429	2,128,614
	As at 31 December 2011	242,092,442	484,185 =====	1,644,429	2,128,614 ======

In 2010, the bank increased its share capital by 115,966,000 through the issue 57,982,726 ordinary shares of Sh 2 each at a premium of Sh. 861,682,000 or Sh. 14.86 per share. The total capital raised was Sh. 977,648,000.

(Continued)

31 December	31 December
2011	2010
Sh'000	Sh'000

31 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash used in operations		
Profitbefore taxation Adjustments for:	522,565	517,958
Depreciation of property and equipment	282,453	246,118
Amortisation of intangible assets	74,793	34,004
Amortisation of leasehold land	1,509	163
Gain/(loss)disposal of equipment	(1,578)	2,244
Surplus on revaluation of investment property	(43,730)	
Profit before working capital changes	836,012	800,487
Changes in working capital items:		
Cash ratio balance	(33,546)	(239,562)
Loans and advances to customers	(6,033,568)	(2,553,506)
Other assets	414,425	(509,740)
Customer deposits	5,712,680	5,240,954
Other liabilities	(323,685)	415,615
Government securities	632,745	(3,256,358)
Corporate bonds	(206,665)	(9,735)
Cashgenerated from/(used in) operations	1,001,898 =====	(111,845)

(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

Cash in hand	1,109,236	834,291
Balances with Central Bank of Kenya -other	-	222,615
Treasury bills (maturing within 90 days)	-	106,735
Balances with other banking institutions	88,008	236,932
Balances due to other banking institutions	(150,000)	-
	1,047,244	1,400,573
	======	=======

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or below, less advances from banks repayable within three months from the dates of the advances.

(Continued)

32 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other financial institutions, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	31 December 2011 Sh'000	31 December 2010 Sh'000
Acceptances and letters of credit Guarantees	419,719	391,445
Litigations against the bank	299,065	59,692 =====
Nature of contingent liabilities:		

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

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

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

Concentrations of contingent liabilities are covered under note 5.

Litigations against the bank relate to civil suits lodged against the bank by customers and employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The directors, however, do not anticipate that any liability will accrue from the pending suits.

	31 December 2011	31 December 2010
	Sh'000	Sh'000
b) Commitments to extend credit		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,739,392	580,046 =====

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

	31 December 2011 Sh'000	31 December 2010 Sh'000
c) Capital commitments Authorised and contracted for Authorised but not contracted for	108,921 176,000 =====	176,738 16,379 =====

(Continued)

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placings are made in the bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2011 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2011 include guarantees and letters of credit for companies associated with the directors.

Director

	31 December 2011	31 December 2010
	Sh'000	Sh'000
Movement in related party balances was as follows:		
Loans and advances:		
At 1 January	479,025	479,582
Advanced during the year	547,854	390,883
Interest earned	23,007	20,023
Repaid during the year	(479,293)	(411,463)
At 31 December	570,593	479,025
	======	=======

As at 31 December 2011 loans and advances to staff amounted to Sh 526,650 (31 December 2010 – Sh 266,037).

The loans and advances to related parties are performing and adequately secured.

	31 December 2011 Sh'000	31 December 2010 Sh'000
Key management compensation		
The remuneration of directors and other members of key management during the year were as follows:		
Salaries and other benefits Directors' emoluments	25,108 80,717	22,075 75,764
	105,825 =====	97,839 =====

(Continued)

34 PRIOR YEAR ADJUSTMENTS

In compiling the financial information included herein, the following adjustments were made to make all the financial statements compliant with International Financial Reporting Standards (IFRSs) applicable for the financial period ended 31 December 2011.

a) Restatement of Audited Statement of Comprehensive Income for the year ended 31 December 2010

	As previously reported 2010 Shs'000	Prior year adjustment 2010 Shs'000	Restated 2010 Shs'000	Note
Profit before tax	500,662	16,833	517,495	(i)
Taxation	(109,663)	(53,606)	(163,269)	(ii)
Net impact on profit for the year	390,999	(36,773)	354,226	
Other comprehensive income		(150)	(150)	(iii)
Net impact on total comprehensive income	390,999	(36,923)	354,076	

⁽i) Reversal of general provisions on loans and advances from profit and loss to equity through the statutory reserve.

⁽ii) Reduction in deferred tax charge after reversal of deferred tax that had been overstated (note 29).

⁽iii) Reclassification of items of other comprehensive income previously passed through profit and loss

(Continued)

b) Restatement of audited statement of financial position as at 31 December 201

reported 2010	Prior year adjustment	Restated 2010	Note
Shs'000	Shs'000	Shs'000	
10,208,136	90,655	10,298,791	(iv)
964,618	(110,377)	854,241	(v)
76,535	(97,928)	(21,393)	(vi)
(44,075)	13,771 (90,655)	(30,304) 90,655	(vii) (iv)
(96,837)	96,837		(viii)
(857,762)	97,697	(760,065)	
	76,535 (44,075) (96,837)	2010 Shs'000 Shs'000 10,208,136 90,655 964,618 (110,377) 76,535 (97,928) (44,075) (90,655) (96,837) 96,837	2010 adjustment 2010 Shs'000 Shs'000 Shs'000 10,208,136 90,655 10,298,791 964,618 (110,377) 854,241 76,535 (97,928) (21,393) (44,075) 13,771 (30,304) - (90,655) 90,655 (96,837) 96,837 - - - -

(Continued)

34 PRIOR YEAR ADJUSTMENTS

Restatement of audited statement of financial position as at 1 January 2010

As previously reported 2009	Prior year adjustment Shs(000	Restated 2009 Shs/000	Note	
7,675,806	69,479	7,745,285	(iv)	
467,264	(108,527)	358,737	(v)	
33,839	(97,928)	(10,484)	(vi)	
(44,406)	13,322	(31,084)	(vii)	
- (92,055)	(69,479) 92,055	69,479 -	(iv) (viii)	
(565,450)	47,473	(517,977)		
	reported 2009 Shs'000 7,675,806 467,264 ————————————————————————————————————	reported 2009 adjustment Shs'000 Shs'000 7,675,806 69,479 467,264 (108,527) 33,839 (97,928) (44,406) 13,322 - (69,479) (92,055) 92,055	reported 2009 adjustment 2009 Shs'000 Shs'000 7,675,806 69,479 7,745,285 467,264 (108,527) 358,737 33,839 (97,928) (10,484) (44,406) 13,322 (31,084) (92,055) 92,055	reported 2009 adjustment 2009 Note Shs'000 Shs

- (iv) Reversal of general provisions charge on loans and advances from profit and loss to equity through the statutory reserves (Note 16).
- (v) Restatement of invalid balances relating to inter-branch accounts that were un-reconciled during systems migration (Note 20).
- (vi) Deferred tax overprovision in prior years (Note 29).
- (vii) Deferred tax liability on revaluation surplus in prior years previously not provided (Note 29).
- (viii) Reversal of proposed dividends that are payable after approval at the Annual General Meeting after the reporting period.

35 INCORPORATION

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

36 CURRENCY

These financial statements are prepared in Kenya shillings thousands (Sh'000) which is the bank's functional and presentation currency.

Branch Details

HEAD OFFICE

Family Bank Towers,

Muindi Mbingu Street P. O. Box 74145. 00200 Nairobi.

Tel: 318173, 318940, 318942, 318947

Fax: 318174

BRANCHES

Family Bank Towers - Retail

Tel: 2240639 Fax: 318174

Family Bank Towers - Corporate

3rd Floor Tel: 2240639, 2214894, 2243392

Fax: 2250507

Sonalux

Tel: 341229, 341230, 341231

Fax: 318845

Kenyatta Avenue

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

Cargen House

Tel: 2213872, 2213801,

2213853 Fax: 2213918

KTDA Retail

Tel: 2241852, 2242059

Fax: 2242267

KTDA Corporate

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

Gikomba

Tel: 6763922, 6763925, 6763941, 6763963

Fax: 6763989

Githurai Tel: 8710255/6, 8030102

Fax: 8710247

Kariobangi

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Fax: 2370401

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Fax: 745507

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Fax: 30262

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P. O. Box 196 Tel: 06044244 Fax: 44244

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Fax: 52198

Kerugova

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Fax: 2216002

Nakuru Nioro

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Fax: 22165002

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Fax: 2030745

P. O Box 1927

Tel: 054 30046, 31794, 30048, 31796, 31795

Fax: 30048

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Tel: 057 2026211/2/3

Fax: 202615

Kisii

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

Fax: 31469

Bungoma

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

Fax: 30935

Machakos

Fax: 2317633

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Fax: 30611

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Tel: 020785372/787936/783528 Fax: 8016104

Nveri

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Fax: 2401030

Nyamira

P.O. Box 932

Tel: 020-8090269

Fax: 2401030

Kakamega

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

Fax: 30557

Kilimani

P.O. Box 76348-052

Tel: 020-3864600/1/2 Fax: 3864609

Tom Mboya

P.O. Box 74145-00200

Tel: 020-342561/2/5 Fax: 342563

Kayole

P.O Box 74145- 00200

Tel.020-2515431/2 Fax 2515433

Gikomba Sokoni

P.o. Box 74145-00200

Ngara

Tel. 020-6768541/2/3

Kitengela

P.O Box 401-00242 Tel.045- 22883/5

Industrial Area

P.O. Box 18602-00500 Tel. 020-558104/6

Naivasha

P.O. Box 1614-20117

Tel.050-2030253/4/5

Kitui

P.O Box 1033-90200

Tel.044.4422382/3

Dagoretti

P.O.Box 2177-00505 Tel. 020-2321282/2050495

P.O.Box 207 Githunguri Tel. 057-2506840/2

Westlands P.O Box 669-00606

Tel. 0204442307/08

Kericho

P.O.Box- 703-20200 Tel.052-20460

Kisumu Al-Imrani P.o Box -3628

Tel.057-2026215

Kikuyu

P.O. Box-1936-Kikuyu Tel.066-310901/2/3

Karatina

P.O. Box 458-10101 Karatina

Gikomba Area 42 P.O. Box 74145 -0200 Tel. 0707391858

Ngara P.O. Box 74145-00200

Tel: 6768541/2/3 0719 397046

Nkubu

P.O. 757-60202 Tel: 51155/35 0715 363814

P.O. Box 962-Karuri

Tel: 020-2648536/7 0715 363817

River Road P.O. Box 74145

Tel: 2225320/1 0715 363817

Notes

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Shareholder's Account No	
The Company Secretary	
Family Bank Limited	
Family Bank Towers, 6th Floor, Muindi Mbingu St.	
P O Box 74145-00200	
Nairobi	
PROXY FORM	
I/We	
of P. O. Boxbeing a shareholder of Family Bank Limited, appoint	
P. O. Boxand failing him/her, the Chairman of the my / our proxy, to vote on my / our behalf at the Annual General Meeting of the b	meeting to be ank to be held
on Thursday, 31st May 2012 at 10.00 a.m. at K.I.C.C. and at any adjournment there to be used to vote in favour or against the resolutions tabled at the Meeting and uninstructed the proxy will vote as he / she deems fit.	
As witnessed by my / our hand thisday of2012	
Signed	
NOTES:	
1. A member who is unable to attend the meeting is entitled to appoint a proxy to a on his or her behalf,	ttend and vote
 A proxy need not be a member, In the case of a corporate body the proxy must be under its common seal or under an officer or attorney duly authorised in writing, 	er the hand of
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 on Tuesday, 29th May 2012, failing which it will be invalid.	a.m.
Shareholder's Admission Form Please complete this form and note that it must be produced at the Annual General I	Meeting by you
or your proxy for admission.	
Name:Signature:	
Shareholder's Account No.:	

AFFIX POSTAGE
STAMP HERE

The Company Secretary Family Bank Limited Family Bank Towers, 6th Floor,

Family Bank Towers, 6th Floor Muindi Mbingu St. P O Box 74145-00200 Nairobi, Kenya.

FOLD HERE







Family Bank 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

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