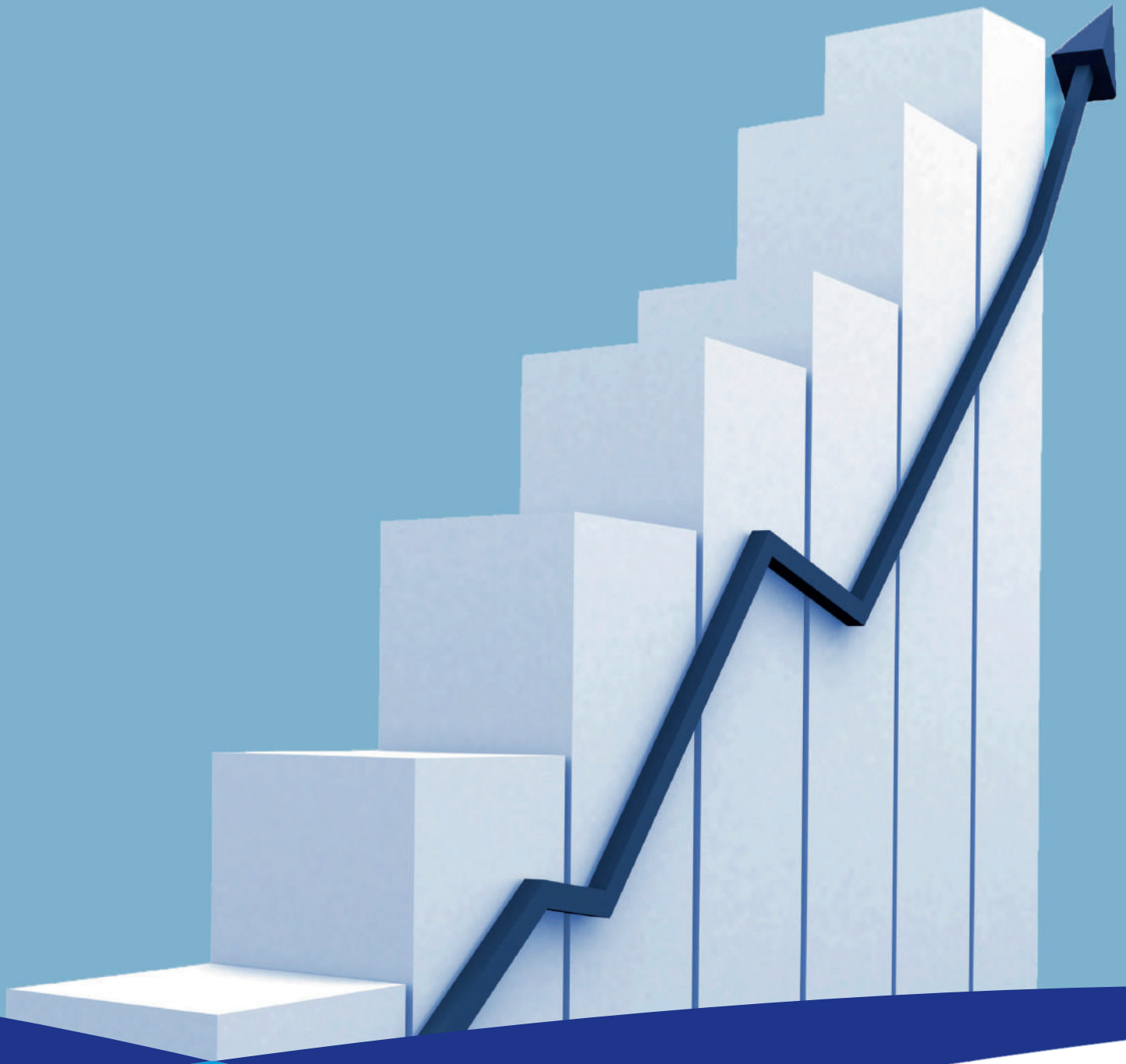


ANNUAL REPORT & Financial Statements 2013



Family Bank
With you, for life



Vision

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

Mission

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

CONTENTS

	PAGES
Corporate Information	2 - 3
Notice of Annual General Meeting	4
Board of Directors	5 - 8
Chairman's Statement	10 - 15
Managing Director's Statement	16 - 21
Report of the Directors	22
Corporate Governance Statement	23 - 26
Statement of Directors Responsibilities	27
Independent Auditors Report	28 - 29
Financial statements:	
Statement of comprehensive income	30
Statement of financial position	31
Consolidated statement of changes in equity	32
Bank statement of changes in equity	33
Consolidated statement of cash flows	34
Notes to the financial statements	35 - 87
Proxy Form	89

CORPORATE INFORMATION

DIRECTORS

Non Executive

Mr. Wilfred D Kiboro – Chairman
Dr. Kabiru Kinyanjui – Vice Chairman
Mr. Titus K. Muya
Prof. David Kimutai arap Some
Mr. David Kimani
Mrs. Ruth Waweru
Mr. Lerionka S. Tiampati
Mr. Brian Muya Kiondo – Alternate to Titus K. Muya

Executive

Mr. Peter Munyiri – Managing Director and CEO
Mr. Njung'e Kamau – Director Finance and Strategy
Mr. Mark Keriri – Director Operations and Technology

COMPANY SECRETARY

Jackie Oyuyo Githinji
Family Bank Towers, Muindi Mbingu Street
P.O. Box 74145 – 00200, Nairobi
Tel: 254-2-2244166/2240601/0728 298333/ 0733332300
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: 254-2-2244166/2240601/0728 298333/ 0733332300
Fax: 254-2-318174
Email: info@familybank.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
www.walkerkontos.com

CORPORATE INFORMATION

CORRESPONDENT BANKS

Deutsche Bank AG London
6 Bishopsgate
London
EC2P 2AT
United Kingdom

DZ Bank AG
60265 Frankfurt am Main
Internet: www.dzbank.de
Email: mail@dzbank.de

Deutsche Bank Trust Company Americas
P O Box 318, Church Street Station
New York 10008 – 0318

BOARD COMMITTEES

Credit Committee

Prof. David Kimutai arap Some – Chairman
Dr Kabiru Kinyanjui
Mr. Wilfred D. Kiboro
Mr. T. K. Muya
Mr. Brian Muyah Kiondo
Mr. Peter Munyiri
Mr. Mark Keriri

Audit Committee

Mr. David Kimani – Chairman
Mrs. Ruth Waweru
Mr. Lerionka S. Tiampati

Risk Management Committee

Mr. David Kimani – Chairman
Mrs. Ruth Waweru
Mr. Mark Keriri

Human Resource Committee

Dr. Kabiru Kinyanjui – Chairman
Mr. Wilfred D. Kiboro
Prof. David Kimutai arap Some
Mr. T. K. Muya
Mr Brian Muyah Kiondo
Mr. Peter Munyiri

Strategy Committee

Ms. Ruth Waweru – Chairman
Mr. Wilfred D. Kiboro
Mr. T. K. Muya
Mr. Lerionka S. Tiampati
Mr. Brian Muyah Kiondo
Mr. Peter Munyiri
Mr. Mark Keriri
Mr. Njung'e Kamau

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 7th ANNUAL GENERAL MEETING of the Shareholders will be held at the Hilton Hotel Nairobi on Friday 25th April, 2014 at 10:00 a.m. to transact the following business:

Ordinary Business:

1. To consider and, if thought fit, to adopt the Audited Accounts for the year ended 31st December 2013, 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 9th May 2014 to the Shareholders registered as at 25th April 2014. To facilitate payment of the dividend, the register of members will be closed on 25th April 2014.
3. To elect the following Directors who retire by rotation and, being eligible, offer themselves for re-election:
 - (a) Prof. David Kimutai arap Some
 - (b) Mr. David Kimani
4. To approve the Directors' remuneration.
5. To note that the auditors, Deloitte and Touche, will continue in office in accordance with Section 159 (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. Special Notice under Section 142 of the Companies Act

Special Notice has been received by the Company pursuant to section 142 of the Companies Act (Cap. 486 of the Laws of Kenya) that the following Resolution be proposed in accordance with section 186 (5) of the Act for consideration by the Shareholders:

"RESOLVED that Dr. Kabiru Kinyanjui who, having attained the age of seventy years, be and is hereby re-elected as a Director".

By order of the Board

J L Oyuyo Githinji
Company Secretary
Nairobi
14th March, 2014

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.

BOARD OF DIRECTORS



From Left to Right Seated: Prof. Kabiru Kinyanjui (Vice Chairman), Ruth Waweru, Wilfred Kiboro (Chairman), Jackie Oyuyo Githinji (Company Secretary),

Peter Muniyiri (Managing Director and Chief Executive Officer)

From Left to Right Standing: Brian Muyah Kiondo, Lerionka Tiampati, Mark Keriri (Director Operations & Technology), Njunge Kamau (Director Finance & Strategy),

Prof. David Kimutai Some, T. K Muya and David Kimani

BOARD OF DIRECTORS



Mr. Wilfred D Kiboro - Chairman

Committees: Board Credit Committee; Board Human Resource Committee; Board Strategy Committee

Mr. Kiboro holds a Bachelor of Science (Civil Engineering) from the University of Nairobi and he began his engineering career with Shell and Esso where he rose through the ranks to head the Sales and Marketing functions. He was later appointed as Managing Director of Rank Xerox, and he is the immediate former Chief Executive Officer of the Nation Media Group where still serves as Chairman.

Mr. Kiboro is also a member of the Board of Air Uganda Limited, and is the Chancellor of Riara University and a Trustee of the Rhino Ark, a charitable trust founded in 1988 to support conservation in Kenya.

Mr. Kiboro has received various accolades including being a Member of International Who's Who of Professionals, and he is a past Chairman of several organisations including the Media Owners Association, the East African Business Council, the International Press Institute Board, the Federation of Kenyan Employers, and the Standard Chartered Bank, Kenya. He has also served on the Boards of the Kenya Association of Manufacturers, and the National Environmental Management Authority (NEMA).



Dr. Kabiru Kinyanjui - (Vice Chairman)

Committees: Board Credit Committee; Board Human Resource Committee (Chair)

Dr. Kinyanjui is the chairman of the Kenya National Examination Council, is a member of the Governing Board of UNESCO International Institute for Capacity Building in Africa (IICBA) and a former chairman of the Public Universities Inspection Board. He holds Masters and Doctorate degrees from Harvard University, and has authored several distinguished publications.

Dr. Kinyanjui previously worked as a social science researcher and eventually as the Director at Institute for Development Studies (IDS) at the University of Nairobi. He later worked at the International Development Research Centre (IDRC), a Canadian research corporation as a Principal Program Specialist. In 1993 Dr. Kinyanjui was appointed MUCIA Distinguished Visiting Professor at Michigan State University, USA, and in 2003 to 2004, he was appointed the first African Esau Distinguished Visiting Professor at Menno Simons College, an affiliate of the University of Winnipeg, Manitoba, Canada. Between the years of 2004 to 2006, he chaired the Public Universities Inspection Board, and in 2013 he was appointed as the first Chancellor of Chuka University.

He is founder member and past Chairperson of the Nairobi Peace Initiative-Africa, an African resource organisation engaged in conflict resolution and peace building in Africa, and he is a founder of the K-Rep Development Agency (KDA) a pioneer microfinance institution, and currently chairs the K-Rep Group of companies.



Mr. Titus K. Muya

Committees: Board Credit Committee; Board Human Resource Committee; Board Strategy Committee

TK Muya founded Family Bank in 1984 and he served as the institution's Chief Executive Officer from 1984 to June 2006 after which he chaired the Bank until December 2012. He is one of Kenya's leading visionary entrepreneurs associated with various companies including Kenya Orient Insurance Limited, Daykio Plantations Limited and Alpha Africa Asset Managers Limited on whose Boards he sits or is represented in different capacities.

In recognition of his entrepreneurship and, more specifically, his contribution to the banking industry, TK was awarded the national accolade, Elder of the Order of the Burning Spear, in December 2011



Prof. David Kimutai arap Some

Committees: Board Credit Committee (Chair); Board Human Resource Committee;

Prof. Some is the Chief Executive Officer of the Commission on University Education, and is a former Vice Chancellor of Moi University, Eldoret. He holds a Doctorate degree in Agricultural Engineering from the University of Newcastle upon Tyne in the United Kingdom, and has a wealth of experience in leadership and management. Prof. Some serves on several boards and advisory committees.

BOARD OF DIRECTORS



Mr. David Kimani

Committees: Board Audit Committee (Chair); Board Risk Management Committee (Chair)

Mr. Kimani holds a B.Sc. Degree in International Business from USIU-Africa 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 a Higher Diploma in HR from the Institute of Human Resource Management.

He has a wealth of experience in auditing, financial management, treasury and general management, and he held various senior management positions for over 20 years. He served as the 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, and as a consulting Director of KTDA. He is currently a lead consultant / Director with Superior Concepts Management Consultants. He is also a director of Kenya Orient Insurance Limited.



Mrs. Ruth Waweru

Committees: Board Audit Committee; Board Risk Management Committee; Board Strategy Committee (Chair)

Ruth holds a Bachelor of Education from Kenyatta University, an MBA from University of Nairobi, and a doctorate degree in Business Administration from Nelson Mandela Metropolitan University in South Africa (formal award April 2014).

She is a professional consultant in various facets of organisational development including business strategy development, corporate governance, capacity building, human resource development, customer service training and gender mainstreaming. Ruth has provided consultancy services to Corporations, national governments and bilateral organizations including the World Bank and the European Union. She has provided services in many African countries such as South Africa and the Republic of South Sudan. 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 is also the chair of OIKO Credit Audit Committee, All Africa Conference of Churches and Partners Worldwide, and is the founder Director of Brookhurst International School.

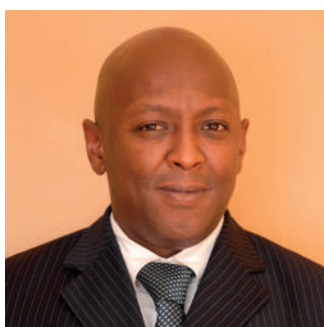


Mr. Lerionka S. Tiampati

Committees: Board Audit Committee; Board Strategy Committee

Mr. Tiampati holds a postgraduate degree (MSc.) in Marketing and Product Management from the Cranfield Institute of Technology (Cranfield University) in the United Kingdom, a diploma of the Chartered Institute of Marketing (DIPM) from the United Kingdom and undergraduate degree in Business Administration (B.Com) from the University of Nairobi.

He is the Managing Director & Chief Executive Officer of Kenya Tea Development Agency Holdings Limited. Prior to taking up his current role, he was the Chief Executive Officer of the Kenya Tea Packers Limited (KETPA), and he previously worked as the Head of Marketing at the Standard Chartered Bank, Marketing Development Manager at Magadi Soda Company and Head of Marketing at the Agricultural Development Corporation. Mr. Tiampati sits on the board of the East Africa Tea Trade Association, The Standard Newspapers Group and a number of KTDA subsidiary companies. He also holds the national distinction, Moran of the Order of the Burning Spear.



Mr. Brian Muyah Kiondo

Committees: Board Credit Committee; Board Human Resource Committee; Board Strategy Committee

Julius 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 United 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.

He is also Chairman of Kenya Orient Insurance Limited and Daykio Plantations Group, a real estate company, and is the founder Director of Ingenious Concepts - an outdoor advertising and marketing firm in Kenya.

BOARD OF DIRECTORS



Mr. Peter Munyiri, Managing Director & Chief Executive Officer

Committees: Board Credit Committee; Board Human Resource Committee; Board Strategy Committee

He has a wealth of experience in leadership spanning over several years having previously worked at executive levels with Kenya Commercial Bank, Cooperative Bank of Kenya, Standard Chartered Bank and Barclays Bank of Kenya. He had also worked for the Kenyan 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 the growth of Kenyan banking industry and transformation of small business in East Africa through financial intermediation.

Mr. Munyiri holds a BA honours degree in Economics from the University of Nairobi, and EMBA from Jomo Kenyatta University College of Agriculture and Technology.

Mr. Munyiri is an Associate Member of the Chartered Institute of Banking UK (ACIB), a Fellow of the Kenyan Institute of Banking (FKIB). He has served as a Council Member of Pan-African Christian University.

.....



Mr. Mark Keriri - Director Operations & Technology

Committees: Board Credit Committee; Board Risk Management Committee; Board Strategy Committee

Keriri has over 15 years' experience working in the Information Technology field in both Kenya and the USA. He has emerged as a key influence and policy maker in the development of ICT banking systems in Kenya and successfully managed the complete implementation of the Flexcube system into Family Bank, giving Family Bank a competitive edge. Prior to joining Family Bank, Keriri worked as a system programmer and specialist for PNC Bank in Pittsburgh, Pennsylvania, USA, beginning his now long-standing relationship with ICT banking systems. In recognition of his achievements in enterprise IT deployment, Keriri recently became a CIO100 honoree and steered Family Bank's win of ICTAK's 'Best Use of ICT' in Banking 2013. In addition, Keriri introduced and oversees mobile banking and quick and secure money transfer services. As a keen learner and to keep himself

abreast of new developments in Banking, ICT and Management, Keriri has attended numerous conferences and training programs including the International Banking Summer School in Ireland, the African Mobile and Research Conference, Oracle Executives Conference, Advanced Managers Program (AMP) at Strathmore University and AITEC Conferences on Banking Technology

.....



Mr. Njung'e Kamau - Director Finance & Strategy

Committees: Board Strategy Committee

Njung'e Kamau is the Bank's Finance and Strategy Director. He initially joined the Bank as a Finance Manager, and he has 22 years professional working experience in Strategy, Financial & Treasury Management, Audit and Business Risk Assurance. He commenced his career with Ernst & Young and also worked with Lonrho Africa Plc as a Senior Auditor covering 14 countries. He has also worked with East African Breweries Limited as Manager, Business Risk Assurance. Prior to joining Family Bank, Njung'e was the Finance Manager at Equity Bank. He holds an MBA in Finance and a B.Com degree (Accounting Option) from the University of Nairobi. He is also a Certified Public Accountant (CPA-K), Certified Public Secretary (CPS-K) & a member of ICPAK and ICPSK. He is also a Certified Financial Modeller (CFM). He has also attended several banking courses locally and in the USA and Australia.

.....



Ms. Jackie Oyuyo Githinji - Company Secretary

Jackie is an Advocate of the High Court of Kenya and a Certified Public Secretary with over 13 years' experience. She began her career at Walker Kontos Advocates and has since held various positions in diverse sectors including real estate, the non-profit sector, and financial services having served as Group Company Secretary of the Jubilee Group overseeing the Group's insurance and investment operations in Eastern Africa and Mauritius prior to joining Family Bank as Company Secretary and Head of Legal Services in 2011. In addition to her legal and corporate secretarial qualifications, she is a Fellow of the Chartered Institute of Arbitrators and holds an MBA in Global Technology Management. She is an active member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya where she has served on various committees.

**TO SIGN UP
FOR PESAMOB**

**DIAL
*325#**

AND FOLLOW THE FEW EASY STEPS

**Introducing PesaMob;
the groundbreaking
banking solution on
your mobile phone**

Changing banking as we know it.

**PesaMob gives you the freedom
to get loans, transact and save
without ever visiting the bank.**

A product of

Family Bank
With you, for life

Family Bank is licensed and regulated by the Central Bank of Kenya

For more information visit the customer care desk
or call 0703 095325 or email customerservice@familybank.co.ke

CHAIRMAN'S STATEMENT



I am delighted to present the Annual Report and Financial Statements for the year ended 31st December, 2013. Our company achieved very impressive financial performance during the year compared to the previous year. We are very proud and excited to have outperformed all the banks in Kenya growing our bottom line despite very stiff competition in the banking sector. Based on the growth trajectory achieved during the year, I am pleased to note that our ambitious strategy of becoming a Tier 1 Bank in the next three years is within our reach.

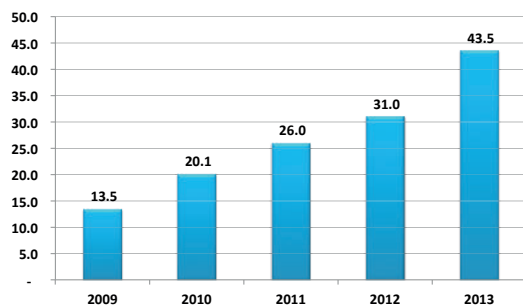
WILFRED D. KIBORO
Chairman

Key Financial Performance Highlights

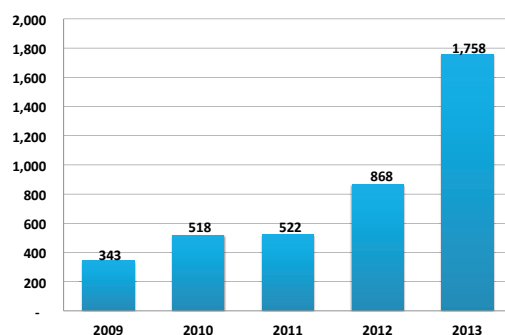
- Profit before tax increased by 108% from Ksh 868 million in 2012 to Ksh 1.79 billion in 2013.
- Total assets grew by 40% from Ksh 31 billion as at 31st December 2012 to Ksh 43.5 billion as at 31st December 2013. The growth was mainly attributed to the tremendous growth in loans by 56% from Ksh 17.9 billion to Ksh 27.9 billion and the growth in customer deposits by 41% from Ksh 24.6 billion to Ksh 34.6 billion.
- The total shareholders' funds grew by 23% to stand at Ksh 6 billion as at 31 December 2013. The growth is attributable to retained earnings only since no equity was injected during the year.

CHAIRMAN'S STATEMENT

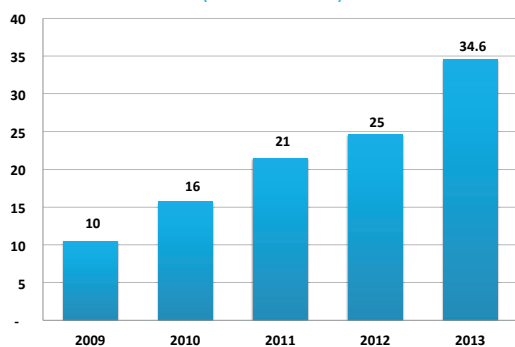
Total Assets
(In Ksh Billions)



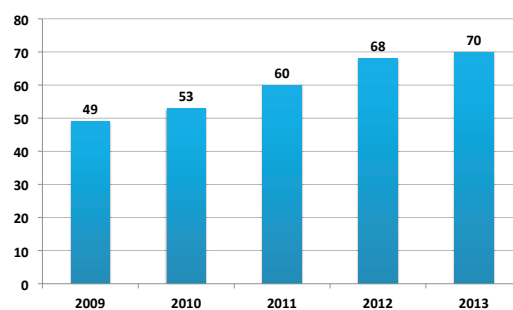
Profit Before Tax
(In Ksh Millions)



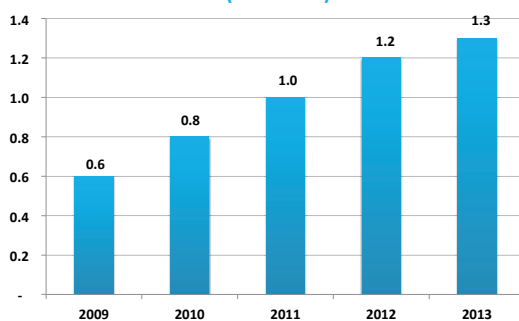
Customer Deposits
(In Ksh Billions)



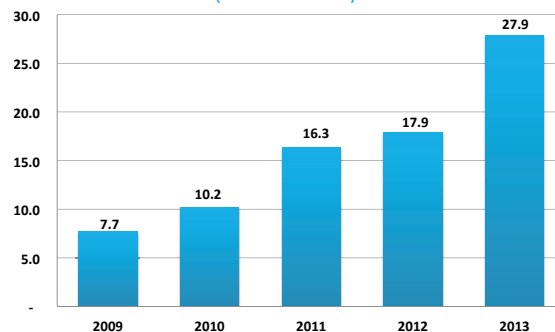
Number of Branches



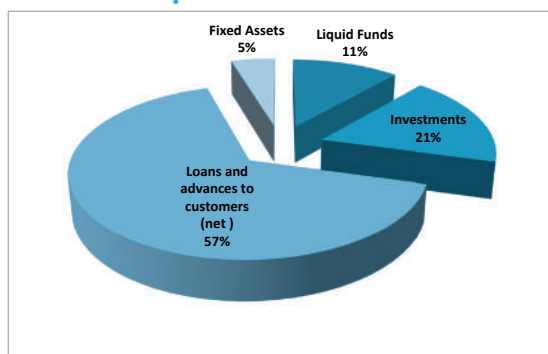
Number of Customers
(in Million)



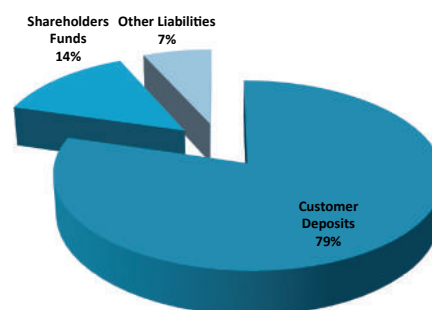
Loan Portfolio (Net)
(In Ksh Billions)



Composition of Assets



Composition of Liabilities



CHAIRMAN'S STATEMENT

Banking Sector Developments

The Central Bank of Kenya (CBK) issued revised prudential guidelines with effect from 1st January 2013, which have huge implications especially on corporate governance and stiff requirements to inject more capital to address the operational risk, market risk as well the existing credit risk. In addition to these new changes, banks are also required to maintain a capital precautionary buffer of 2.5% over and above the current statutory minimum of 12%. Several banks also engaged in capital raising ventures in line with their expansion strategies and to meet the new stringent CBK prudential guidelines.

The Kenyan banking sector has become an increasing competitive environment and during the year it was characterized with the entry of new microfinance institutions and SACCOs. There was increased interest and entry by foreign bank(s) to buy out locally owned banks to establish their foothold in the local market. The banking sector continued to see new innovations such as mobile banking and other alternative banking channels like Agency Banking. They provide convenient and flexible new channels of serving customers and extending outreach and financial inclusion to the Kenyan population. Telcos have increasingly become a major competition for banks however a number of banks are partnering with Telco's to grow their customer numbers and expand their portfolio using these platforms.

The Kenya Revenue Authority introduced a 10% Excise Duty Tax on all commissions and money transfer fees in the course of the year, which goes against the CBK's declared policy of trying to bring down interest rates on lending.

Operating Environment

Political

The year started well with very peaceful elections which brought in the new government dispensation with the most notable change being the implementation of a new devolved system of government. The year was also characterized by insecurity and acts of terrorism within the country and insecurity in neighboring countries and especially Somalia and South Sudan, which if not checked can have very adverse economic effects to the country.

Economic

In 2013, the Kenyan economy grew by 5.1% compared to 4.2% recorded in 2012. The growth was attributed to the expansion in most of the sectors of the economy which included building & construction, mining, wholesale & retail, manufacturing, transport, communication, financial as well as agriculture and forestry sectors. The Kenya Shilling and inflation remained fairly stable while the cost of funds remained high during the year. While the economy benefited from a smooth election process and sound macroeconomic conditions, much more remains to be done to achieve the annual target growth rate of 10% envisaged in the Vision 2030.

Growing government spending, a burgeoning public wage bill and the uncompetitive business environment poses serious economic challenges for Kenya as an investment destination. With Ksh 330 billion budget deficit this financial year, against total expenditure of Ksh 1.64 Trillion and with much of this expenditure going mainly for salary payments, the government is cash-strapped and will turn to domestic borrowing to meet its financial obligations. This may have very adverse effects of slowing down economic growth and especially the momentum for economic and infrastructure development.

Dividend

The bank recognizes the need to optimize shareholder value by paying dividend as well as retaining adequate reserves for re-investing back to support the ambitious growth momentum and meet statutory capital ratios. The Board therefore recommends a first and final dividend of Ksh 0.40 per share of par value of Ksh 2 each which amounts to Ksh 222,809,346. Last year, the Bank paid a dividend of Ksh 111,399,054 in addition to issuing one-for-one bonus shares during the year. In comparison with the bonus shares issued last year, the recommended dividend for this year is double what was paid in 2012.

Corporate Governance

Governance and strong management continue to be key to the Bank's operations. The various board committees continued to play a vital role supporting the board in discharging its duties. A detailed Corporate Governance Statement is included in this annual report.

CHAIRMAN'S STATEMENT

Corporate Social Responsibility (CSR)

In 2013, Family Bank made a deliberate effort to reaffirm and demonstrate leadership in CSR initiatives. The Bank attributes its success to the support that we continue to receive from our customers. The Bank is committed to supporting worthy causes and projects from various sectors in the area of sports, education, healthcare and community empowerment as follows:

Sports

During the year, the Bank sponsored golf at Eldoret Club, with the day dubbed, "Family Bank Golf Day". Over the years, the Bank has continued to sponsor the annual Family Bank Eldoret Half Marathon to nurture young upcoming athletes. Since its launch in 2007 the half marathon has produced talented world beaters who have gone to win international marathons. In the year 2013 the Bank invested Ksh 3 million towards this initiative that saw over 3000 athletes converge at Eldoret for the run. The bank also supported the Nyeri county marathon.



A contestant crosses the finish line to win the women 21km race in the Family Bank Eldoret Half Marathorn.



A golfer tees off during the Family Bank Eldoret Golf day.

CHAIRMAN'S STATEMENT

Support for Education

Family Bank appreciates the place of education in the society. The Bank launched, "The Family Bank Education Scholarship Fund" in 2012 to support bright but needy children access quality education. The fund started by sponsoring 40 students from provincial and national Schools. In 2013 the kitty was expanded and the Bank injected about Ksh. 10 million that saw another 40 students receive full scholarships. To date the Bank is paying school and boarding fees for over 200 students. Later in the year, "The Family Group Foundation" was founded as a philanthropic arm formed in partnership with Family Bank, Kenya Orient Insurance and Daykio Plantations Ltd. With the foundation, the bank hopes to positively transform more lives. We extended our support in the education sector to various schools and universities to help them achieve their initiatives. In 2013 we supported Ting'ang'a Secondary School during their fund raising for a school bus project. The Bank also supported Gitugi Girls in Murang'a for their "Save a Girl" fundraising walk.



Cabinet Secretaries Henry Rotich and Prof. Jacob Kaimenyi & CBK Governor Prof. Njuguna Ndungu together with Board Members of the Family Group Foundation and Beneficiaries of the scholarship fund posing for a group photo.

Medical Support

Towards the end of 2013, the Bank's Executive Committee members made a cash donation of Ksh. 250, 000 to the Kenyatta National Hospitals Children's Cancer ward. Other cash donations were made to individuals in support of their medical funds. Alongside these, the Bank supported the Diabetes Charity Golf Tournament – sponsoring a walk through cash donation and sponsorship. The Diabetes Walk is organized by the Kenya Diabetes Management and Information Centre and hopes to support young people living with diabetes access medication.

CHAIRMAN'S STATEMENT



The KNH Childrens' Cancer Ward receive a dummy cheque from the Family Bank MD Peter Munyiri and his Executive Team (EXCO) as part of the banks CSR activities during christmas.



The MD, Peter Munyiri reads out a story to the children in the KNH Children's Cancer Ward during the Executive Committee visit to the hospital.

Community Empowerment

Last year all the branches and departments were tasked to participate in a CSR activity within their towns. Different CSR activities that ranged from visiting and donating personal effects to the Kamiti Maximum prisoners, visit to children's homes, etc. were carried out.

Outlook for 2014

The Bank's vision is still to focus on positively transforming lives through the provision of quality financial services and efficient customer service. We will continue leveraging on technology and innovating new products and services that will support the growing population and financial needs. The Bank will also continue expanding its branch network.

With the phenomenal growth registered in 2013, we are confident that the Bank is on track with the strategic intent of becoming a Tier 1 Bank in the next 3 years. With our very ambitious targets on all key financial parameters, we are now looking at various funding options both equity and debt financing. During the year, we signed a Ksh 2 billion debt financing agreement with the European Investment Bank (EIB) and we have started drawing part of the money in 2014. In the course of the year we are likely to do another cash call to support growth.

Conclusion

Your Bank has continued to grow at a very fast pace despite the very difficult and competitive trading environment to register yet another exemplary financial performance for 2013. The Bank's very impressive performance in 2013 demonstrates very strongly our ability and commitment to build a sustainable business in Kenya.

On behalf of the Board of Directors, I wish to recognize and extend my sincere appreciation to our highly esteemed customers and shareholders for their untiring support to the Bank over the years and without whom the Bank would not have registered such phenomenal growth. May I also acknowledge and appreciate our business partners who worked with us during the year to attain our goals and objectives.

I also sincerely thank the management and staff of the Bank for their dedicated service and achievement in implementing successful and sustainable strategies in a challenging and competitive banking environment during the year. My special thanks go to my fellow Board Members for their support, diligence and commitment as we work towards achieving the Bank's objectives of realizing full potential of our business.

Finally, I want to thank the Kenya Government and our regulators, the Central Bank of Kenya for providing an enabling business environment and for their support and guidance during the year.

I am confident that with continued focus and goodwill, the great efforts will yield even higher returns to our shareholders and other stakeholders in the years to come as we truly live to our motto of, "with you, for life".

Thank you.

Mr. Wilfred D. Kiboro.
Chairman

MANAGING DIRECTOR'S STATEMENT



I am pleased to present your Bank's Annual Report and Financial Statements for the year ended 31st December 2013. This has indeed been one of the best years in the history of the Bank, during which we posted very impressive financial results amidst stiff competition from other banks, non-bank financial institutions and Mobile Network Operators. During the year, we had remarkable business growth and we ventured into new business channels such as PesaMob, our virtual banking solution, and Diaspora Banking. We also entered into strategic partnerships with key high value institutions and strengthened our IT systems. We continued to grow our market share in all the market segments. This is a strong demonstration of the strength of our brand and our commitment to continue with our vision of positively transforming lives.

PETER MUNYIRI
MD & CEO

Financial Performance

Profit before tax (PBT) increased by 108% from Ksh 868 million to Ksh 1.79 billion for the year ended 31st December 2013. This impressive financial performance placed Family Bank ahead of other banks as the fastest growing bank. We entered the Billionaire Profit rankings league and also outperformed the banking industry by more than doubling our profitability. The remarkable increase in profit before tax was mainly attributed to expansion, growth in the customer base, quality lending and cost efficiency.

Total assets grew by Ksh 12.5 billion representing a 40% increase from Ksh 31 billion as at 31st December 2012 to Ksh 43.5 billion as at 31st December 2013. This high growth in assets was primarily attributable to the growth in the number of customers, the loan book and the branch expansion. Net loans and advances stood at Ksh 27.9 billion as at 31st December 2013 compared to Ksh 17.9 billion as at 31st December 2012, representing a 56% growth.

Our customer base increased by 175,932, being 15% growth to stand at 1.33 Million as at 31st December 2013 up from 1.15 Million customers as at 31st December 2012. Consequently, our customer Deposits grew by 41% from Ksh. 24.6 Billion as at 31st December 2012 to Ksh 34.6 billion as at 31st December 2013. This was as a result of an aggressive customer growth campaign, enhanced product offering, a strong presence in the institutional banking sector and expansion of the branch network. The Shareholders' funds grew by 23% from Ksh 4.9 billion as at 31st December 2012 to Ksh 6.01 billion as at 31st December 2013 mainly due to the growth in retained earnings from the high profits earned.

The Bank's regulatory ratios remained strong and way above the statutory minimum requirements with core capital to total deposit ratio at 16.3%, core capital to total risk weighted assets 18.1%, total capital to total risk weighted assets at 18.9% and liquidity ratio at 36.5% against the statutory 20%.

MANAGING DIRECTOR'S STATEMENT

Branch Expansion and Alternative Business Channels

The Bank rolled out 3 additional branches and closed the year 2013 with 72 branches, with and additional 11 new branches at different stages of construction. Your Bank has also installed 118 ATMs to date and, being a member of the Kentswitch and PesaPoint ATM networks, gives our customers access to an additional with 1160 ATMs countrywide. In our endeavour to provide excellent customer service beyond normal working hours we have continued to expand our ATMs to enable customer access to our services 24/7.

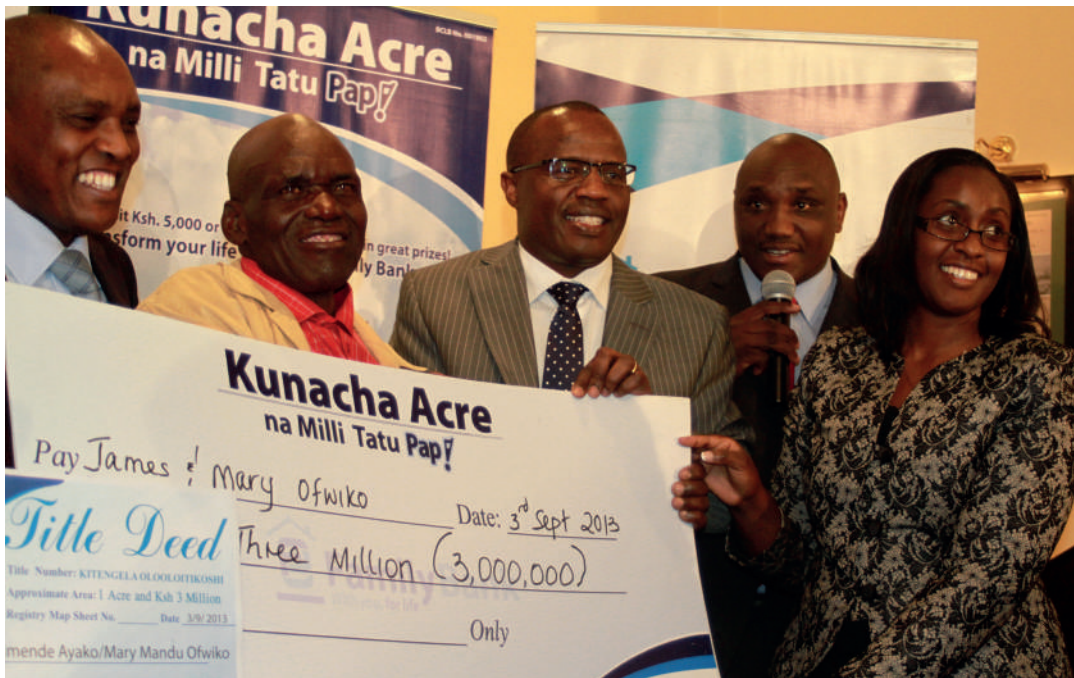
The main advantage of alternative business channels is their cost effectiveness, greater outreach, longer access hours and convenience especially for our customers. Agency banking therefore remains top on our agenda as a key driver of customer numbers and non-funded income lines. Currently we have 818 active Agents serving customers with an additional 1789 agents having received Central Bank of Kenya approval to commence business and these channels are under implementation. Moving forward, we remain committed to these collaborations to grow our business lines in a sustainable way and further deepen our Universal Banking Model.

Products and Customer Service

During the year we continued to offer innovative value-adding products and services including:

- **New branch model** – in our endeavour to further improve our customer service delivery we rolled-out a new branch model to streamline efficient processes facilitate optimal deployment of staff and other resources within our branches. This is complemented by a comprehensive staff training curriculum that is being rolled out as part of the model branch initiative. In addition, we have extended our banking hours in some of our branches which are now open from 8am to 8pm to meet our customers' growing needs.
- **Platinum Banking Centres** – we have also rolled out platinum Banking centres in selected branches across the country to address the unique service needs of our high end customers who are also being served by dedicated Relationship Managers. It is our intention to roll out more centres across the country.
- **Retail Branches, Corporate Branches and Pesapap Agents** – we have segmented our service outlets to offer a wide choice of services to our customers, so that they settle on what serves them best. These include retail branches, corporate branches and Pesapap Agents. These physical outlets are supplemented by an integrated suite of alternative business channels which include mobile banking through Pesapap and Pesamob, internet banking and ATMs.
- **Retail Banking Business** – we have further re-modelled our Retail Banking Business to ensure strategic focus on the SME, Micro, Agribusiness and Consumer market segments. This gives us scope to offer targeted customer value propositions that are aligned to the needs of the respective customer segments. Our SME strategy delivers a comprehensive one stop offering of products for business customers through dedicated Relationship Managers and officers in our branches. The micro banking strategy focuses on the needs of individuals, small businesses and groups (chamas) through our well trained officers while the Agribusiness strategy, that has earned the Bank accolades of being the most popular farmers' bank in many counties, focuses on delivering solutions to the agricultural sector through our competent field officers. The Consumer Banking strategy focuses on the salaried employees, mainly through working partnerships with employers to offer tailor made comprehensive banking solutions to their employees. We have innovative relevant products for all these key segments.
- **'Kunacha Acre na Mili Tatu' Campaign** – we held a very successful brand building campaign that was geared towards opening of more accounts and growing our retail customer deposits. At the end of the campaign, we rewarded the winners with plots of land in Kitengela as well as cash prizes to help the winners construct houses on the plots. The campaign also awarded motorcycles and many other fabulous prizes to winners in the various categories, all of which were well-received by our customers.

MANAGING DIRECTOR'S STATEMENT



From Left: Director, Retail Banking David Thuku, MD Peter Munyiri (Centre) presenting a dummy cheque and title deed to the Grand Draw Winner of Kunacha Acre na Milli Tatu pap Mr. James Imende Ayako. Looking on is Head of Marketing and Communications Ms. Cynthia Kantai and Marketing Manager Mr. Elijah King'ori .

- **PesaMob** - we launched our virtual bank dubbed "PesaMob" in December 2013 and it has received considerable customer interest. Through the virtual account, our customers are able to open accounts, deposit money and borrow loans through their mobile phones.



Product Launch: The Bank Launched its second Mobile based product PESAMOB at a colourful ceremony held at KICC in December 2013.



Product Experience: Family Bank Board MD Peter Munyiri (Left), CBK Governor Prof. Njuguna Ndungu and Board Members Prof. Kabiru and Prof. Some trying the new product from their phones during the launch of PESAMOB product.

MANAGING DIRECTOR'S STATEMENT

- **Diaspora Banking** – during the year, the Bank rolled-out a suite of products for Kenyans living overseas under the flagship name, "Mkenya Daima" Diaspora Account. The account is tailor-made to address financial needs of the over 5 million Kenyans living in the Diaspora who want safe investments, as well as versatile and convenient banking services in Kenya while away from home. We have made significant in-roads and have held successful road shows in South Africa, China and in the United Arab Emirates. We are now building on the successes registered in these markets to spread the benefits across other countries where we have significant population of Kenyans. We have also signed up a number of Diaspora agents who represent the Bank abroad. Through our high-end internet banking platform the Diaspora customers can conveniently manage their financial affairs without the need to travel to Kenya.

- **Our mortgage products** are designed to bring the best offers in housing loans. We are in discussions with potential long term debt providers to unlock more long-term funding so that we can address the huge demand of mortgage products caused by the acute housing shortages in all urban areas, County headquarters and the rural areas in Kenya.

Corporate Banking, Institutional Banking and Strategic Partnerships

In the period under review, the Bank continued to leverage on both existing and emerging strategic partnerships to support our business growth. This new business front is generating value as detailed below;

- **Corporate Banking** – the corporate banking and Institutional business has gained a lot of momentum and in the last 2 years we have been able to attract several large corporate clients across the country. We will continue to focus on all the key sectors of the economy as detailed in vision 2030 and build more strategic partnerships. We have also developed products and financial solutions which are tailored to meet the needs of these customers. Some of the products that we have introduced in the last one year include Trade Finance products such as LPO Financing, invoice discounting, bid bonds, performance bonds, advance payment guarantees, Letters of Credit (LCs), Standby LCs, import duty financing. We have a team of dedicated Relationship Managers who are experts in the various fields and are able to offer personalized services to all customers. We have recently introduced Internet banking to all our customers including these corporate, this solution allows them to access banking services remotely and conveniently without the need to travel physically to the bank.

- We have further enhanced business relationships with the Government and quasi-government institutions under the devolved Government structure.

- We also continue to create partnerships with other institutions and companies like Safaricom, Airtel, Kenswitch, Paynet, etc to enhance our mobile banking and ATM accessibility to our customers and non-customers.

Information & Communication Technology, Systems and Processes

The Bank recently received "The Best Use of ICT in Banking" Award from the Information Communication Technology Association of Kenya. In order for the Bank to continuously offer excellent customer service and remain competitive, we continued to carry out more improvements in our ICT systems including:

- Enhancement of our core banking system, Flexcube, which is now integrated with the Government's Integrated Population Registration System (IPRS). This has enabled the Bank to verify the identification of our customers including those operating via PesaMob, our virtual bank, hence enabling us comply with the regulatory 'Know-Your-Customer' guidelines.

- Kenya Revenue Authority (KRA) e-tax revenue collection system. We implemented a collection system and integrated it with the KRA Payments gateway for Online Real time Collection and for all Government Ministries and Agencies. This system enables a tax payer to pay, online and on a real time basis for their taxes at any of our branches and other alternative channels.



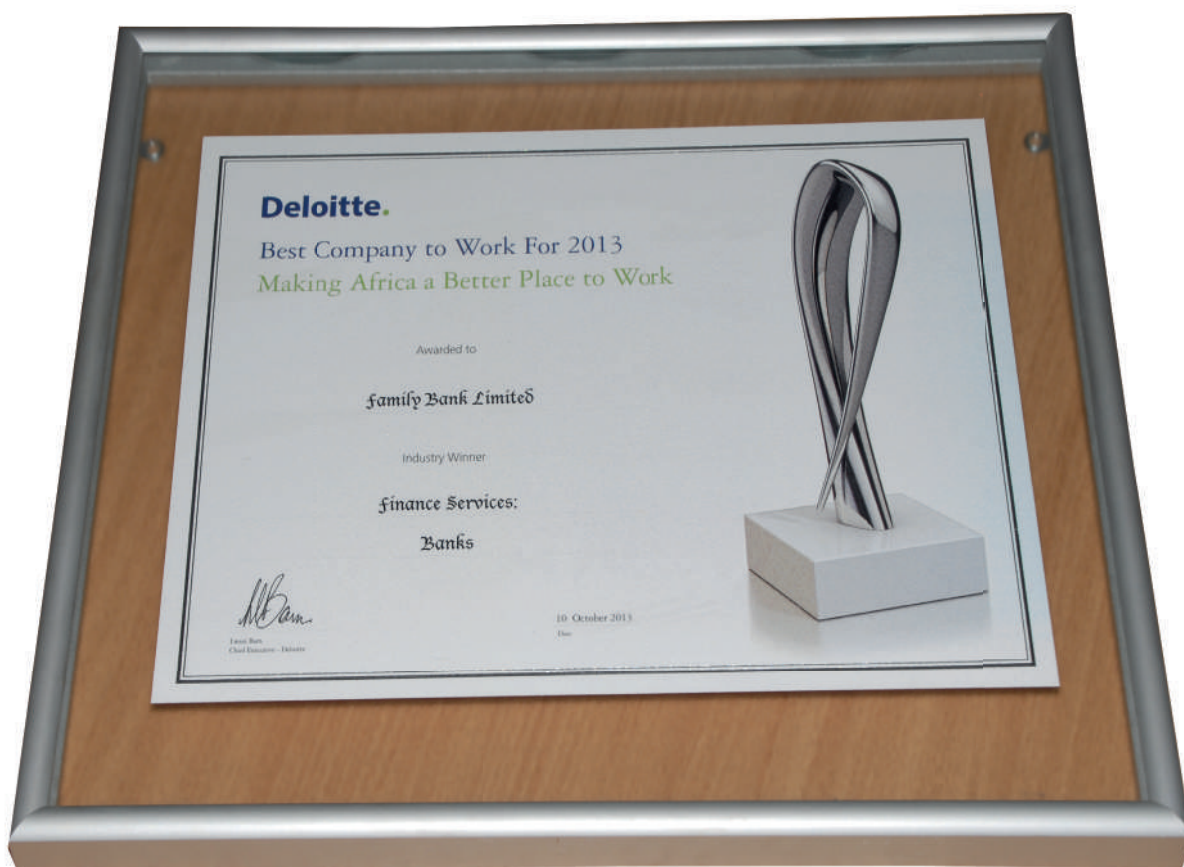
MANAGING DIRECTOR'S STATEMENT

- Multiprotocol Label Switching (MPLS) Private Cloud: We've implemented a mechanism in high-performance telecommunications networks that directs data from one network node to the next based on short path rather than long network. We have implemented full network links redundancy for the entire branch network. This also enables the Bank to efficiently connect any branch, anywhere in the world, to this private cloud.
- We have improved performance and reliability of the ATM by migrating the ATM interface from a Microsoft Windows environment to an AIX (IBM) environment. The AIX environment (which the core banking application runs from) is more stable.
- In order to comply with CBK regulations, we embarked on the Euro, MasterCard, and Visa (EMV) card compliant roll-out project in 2013 through which we will launch the various EMV compliant VISA including VISA Classic Debit Card, VISA Classic Credit Card, MkenyaDaima Classic Debit Card, VISA Gold Classic Debit Card, and VISA Gold Credit Card beginning May 2014 for all our customers.

People Talent

Our staff are the most valuable asset driving the business. Our core values of humility, integrity, team work and winning together has been fully embraced by all staff. We have embedded a high performance culture through the Balanced Score Card. We have a highly motivated workforce which voted your Bank "the best bank to work for in 2013" in the Deloitte survey.

We continue to develop our staff through local and overseas training to enhance their skills and leadership qualities. We also encourage our staff to commit themselves to continuous learning in both professional and personal endeavors. In this regard we have an e-learning platform and training remains a key performance target for each staff. As a Bank, a well-motivated and competent work force is imperative if our business is to effectively tackle the competitive environment we operate in as well as provide excellent customer service.



MANAGING DIRECTOR'S STATEMENT

2014 and beyond

The Bank's Vision is "to be the financial institution that leads in the positive transformation of peoples' lives in Africa." Our vision was driven by the need to continuously support our customers with diversified products and service, which to date has seen the Bank transform the lives of millions of people. As part of this agenda and to grow our outreach, we have opened more branches across the country and ventured into new market segments. We plan to open a total of 12 branches in 2014 and over 100 branches by 2015. We shall also expand the ATM and agency banking channels to enable the bank further compete for business and enhance customer service delivery.

Our expansion is aligned to the devolved County Government structure and we intend to reach most of the Kenyan population through our different channels. We will continue to strategically expand inside the counties with the full realization that the devolution path remains a key driver of our business going forward.

We will strive to achieve the Bank's targets in order to sustain strong capital ratios going forward to maintain the capacity to grow and compete in the market.

We have started 2014 on a strong note and we are on track to deliver the targets set for this year. We also remain on track to achieving our strategic intent to grow our business and attain Tier 1 status by 2016 and look forward to continued support from our Shareholders.

Conclusion

On behalf of the entire management and staff, I want to most sincerely thank our shareholders and customers for their unwavering support and to assure them that the future for the Bank looks even brighter. You have every assurance that the Bank is very well positioned to achieve its growth strategy whilst supporting the overall growth of the economy.

The dedication, professionalism and hard work by the Board, management and staff has helped deliver this outstanding performance. I applaud and thank all staff for embracing and living to the performance based culture. I also take this opportunity to express my gratitude and sincere thanks to our Chairman and the Board for their continued support, oversight, and guidance they have given to management and staff. They have given us invaluable support and contribution during the year.

Before I conclude let me take this opportunity to thank our existing Shareholders and customers for their loyal support over the years, and to invite new customers to our Bank. We will continue to strive to offer exemplary personalized service to meet the needs of all our customers.

We assure all our stakeholders that the years ahead look even brighter for the Bank, and we sincerely thank you and appreciate you all for the strong support and commitment to our Bank.

Thank you.

Peter Munyiri
Managing Director & Chief Executive Officer.

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Family Bank limited ("the bank") and its subsidiary (together, "the group") for the year ended 31 December 2013, which show the state of affairs of the group and the bank.

INCORPORATION

The bank and its subsidiary (Dhamana Insurance Agency Limited) are both incorporated in the Republic of Kenya under the Companies Act and are domiciled in Kenya.

ACTIVITIES

The principal activities of the bank, which is licensed under the Banking Act, are the provision of banking, financial and related services. The principal activity of the subsidiary is to provide bancassurance services through insurance agency services.

GROUP RESULTS

The following is the summary of the results for the year ended 31 December 2013:

	Sh'000
Profit before taxation	1,785,037
Taxation charge	(539,651)
	<hr/>
Profit for the year	1,245,386
	=====

DIVIDEND

The directors recommend a first and final dividend of Sh 0.40 (2012: Sh 0.40) per share for the year amounting to Sh. 222,809,346 (2012: Sh111,399,054) subject to shareholders' approval at the Annual General Meeting.

DIRECTORS

The present members of the board of directors are shown on page 2

AUDITORS

Deloitte & Touche, 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



Secretary
Nairobi
14 March 2014

CORPORATE GOVERNANCE STATEMENT

Preamble

The Group's Board of Directors, duly cognisant of its role in safeguarding shareholders' assets and ensuring a decent return on investment, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability.

The Board recognizes the fundamental role of corporate governance in enhancing the culture and business practices that are undertaken with due regard to all stakeholders, and its role in the community and the economy at large. Accordingly, the Board of Directors promotes the best practice of corporate governance as encoded in various standards and regulations including the prudential guidelines developed by Central Bank of Kenya (CBK) for the banking industry.

The Group has adequate policies and procedures in place that are reviewed regularly and which include:

- a) clearly defined responsibilities and authority of directors, the Managing Director and management
- b) established corporate objectives and strategies;
- c) recognition of the interests of various stakeholders;
- d) alignment of corporate activities and behaviour in compliance with applicable laws and regulations; and
- e) protection of the interests of depositors and other creditors

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 Group publishes the quarterly and audited annual accounts in the daily newspapers, in line with the CBK requirements, and on our website.

All shareholders are entitled to attend the Annual General Meeting and any special / extraordinary meetings of the shareholders of the Group, and the requisite Notices are published in line with our Memorandum and Articles of Association as amended from time to time by the shareholders.

Board of Directors

The Board of Directors is responsible for providing effective leadership based on an ethical foundation. This involves responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency all of which are enshrined in our core values. The Board Charter sets out the objectives which include, among others, the provision of strategic guidance and effective oversight of management and maximization of the Group's financial performance and shareholder value within the framework of appropriate risk assessment. These underlying values are:

- a) responsibility: for the assets and actions of the group and the willingness to take corrective actions to keep the group on a strategic path that is ethical and sustainable.
- b) accountability: ability to justify its decisions and actions to shareholders and other stakeholders.
- c) fairness: giving fair consideration to the legitimate interests and expectations of all stakeholders of the institution.
- d) transparency: disclosure of information in a manner that enables stakeholders to make an informed analysis of the Group's performance and sustainability.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Composition

The Group has a competent Board of Directors, bringing together diverse backgrounds and expertise. The Board comprises of seven non-executive Directors, three Executive Directors and one Alternate Director. There were no changes to the composition of the Board during the year under review. The current non-executive Directors Mr. Wilfred D. Kiboro (Chairman), Dr. Kabiru Kinyanjui (Vice Chairman), Mr. TK Muya, Prof. David Kimutai arap Some, Mr. David Kimani, Mrs. Ruth Waweru and Mr. Lerionka Tiampati. Mr. Brian Muyah Kiondo is an Alternate Director to Mr. TK Muya.

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

Responsibility of the Board

The Board provides strategic guidance to the Group and assumes primary responsibility for fostering the sustainability of the Group'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 shareholder value.

The directors are also responsible for the formulation and implementation of sound policies and procedures which enhance effective controls to safeguard the Group against fraud and 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 Group.

In addition to the Executive Directors, members of senior management of the Company attend Board Meetings by invitation to ensure informed and efficient decision-making by the Board of Directors. Further, the Board invites third party professionals to attend Meetings and provide opinions and advice when necessary to enable the Board discharge its fiduciary mandate.

Cognisant of its responsibility for defining appropriate governance practices for its own work and to have in place the means to ensure that such practices are followed and periodically reviewed for improvement, the Board meets at regular intervals to, amongst others things:

- a) Agree on the Company's strategic objectives, and its roadmap to achieving the agreed objectives
- b) Review and approve the Company's annual budget
- c) Review the Company's performance against agreed goals and strategies
- d) Review the Company's policies and procedures
- e) Consider and approve the annual and interim financial statements
- f) Recommend dividends to the shareholders;
- g) Evaluate the performance of the Managing Director; and
- h) Approve other matters of fundamental significance

Board Independence

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

The roles of the Chairman and the Managing Director are separate and distinct with express authority limits. The Chairman is a non-executive Director who provides leadership to the board and is responsible for the board's effective overall functioning. The Chairman also ensures that board decisions are taken on a sound and well-informed basis, and encourages and promotes critical discussion to ensure that dissenting views can be expressed and discussed within the decision-making process, all the while upholding the principle of collective responsibility for Board decisions.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

In order to ensure that the non-executive Directors maintain independence of thought and judgment, the non-executive Directors meet informally from time to time without the Executive Directors and other members of management being present.

Committees of the Board

The Board retains the overall accountability and has established various committees to increase efficiency and allow deeper focus in specific areas. The Managing Director holds the delegated authority to implement Board decisions and provide a clear flow of information between management and the Board. The Board committees, their composition and responsibilities are as follows:

Board Audit Committee

The committee is comprised of three non-executive directors, and the Head of Internal Audit attends all Committee meetings. The committee meets quarterly and is charged with the responsibility of reviewing the financial condition of the Group, its internal controls, and to recommend appropriate remedial action where necessary. The committee also ensures that appropriate action has been taken on the recommendations of the internal auditors and that the same are implemented. The Committee may invite the Managing Director or any other Director to attend the meetings occasionally for consultation as and when necessary. However, the committee meets at least twice in a year with the external and internal auditors without management being present, either in separate meetings or meetings held before or after a scheduled audit committee meeting. The Group's external auditors are invited to attend the Meetings from time to time, but are required to attend once a year when the audited financial statements are being reviewed by the Committee and the Board.

Board Credit Committee

This committee is made up of four non-executive directors, the Managing Director and the Operations and Technology Director and meets at least once quarterly to review the Bank's overall lending policy. It also meets at least once a month to consider and approve loan applications beyond the credit management committee approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's risk management and to ensure that the credit policy and risk lending limits of the institution are reviewed where appropriate. It also regularly reviews the credit policy of the Bank. The Head of Credit attends all Committee meetings, whilst other members of management attend Committee meetings on a needs basis.

Board Risk Management Committee

The Board Risk Management Committee comprises of two non-executive directors, the Operations and Technology Director, and the Head of Risk and Compliance attends all Committee meetings. 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 Human Resource Committee is comprised of four non-executive directors of the board and the Managing Director. The Head of Human Resources attends all the Committee meetings. The committee acts as the link between the board and management and is responsible for the review of the human resources policies and practices, particularly in relation to the operations of the various business units. The Committee also assists the Managing Director 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Strategy Committee

The Board Strategy Committee is comprised of four non-executive directors, together with the Managing Director, the Finance and Strategy Director, and the Operations and Technology Director. The Strategy Committee's roles and responsibilities include an analysis of the strategy of the Group and specifically the following:

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

Directors' Attendance of Board and Committee Meetings

The Board convened and held a total of six Board meetings in the course of year 2013 and the attendance was over 75% in compliance with the CBK prudential guidelines.

The Board Audit Committee, Board Human Resource Committee, and Board Risk Management Committee each held four meetings in the course of 2013 with an average attendance rate of 100% by the members. In the year under review, the Board Credit Committee met three times while the Board Strategy Committee met twice, each with an average attendance rate of 100%. Accordingly, all the Board and Committee meetings held in the year under review had sufficient quorum.

Overall, the Board's performance was efficient and effective, leading to the remarkable performance of the Group in all parameters during the year.

Board Performance and Effectiveness

The Board discharged its duties ably and effectively in the course of the year including strategic planning and review of the Group's strategy, review of the Group's financial performance, oversight of the Group's regulatory compliance, capital enhancement, review and implementation of internal and external audit findings and recommendations, review of the Group's Corporate Governance structures and authority limits, attendance to and oversight of the Group's Human Resource matters, and general prompt and proper advice to management.

The Board carried out peer, self and overall evaluation of the Board, its committees and the contribution of each and every director, including the Chairman, as at December 2013, thus enabling the Board's continuous improvement benchmarked against global standards.



Chairman
14 March 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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 its subsidiary and their 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 and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.



Chairman

14 March 2014



Managing Director

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Family Bank Limited and its subsidiary, set out on pages 30 to 87, which comprise the consolidated and bank statements of financial position as at 31 December 2013, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated statements of cash flows for the year then 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 entity'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 entity'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 financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiary as at 31 December 2013 and of their profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and the Banking Act.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Other Legal Requirements

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

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;

in our opinion proper books of account have been kept by the bank, so far as appears from our examination of those books; and

the bank's statement of financial position (balance sheet) and statement profit or loss and other of comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is Anne Muraya P/No: 1697.



Certified Public Accountants (Kenya)

Nairobi, Kenya

Certified Public Accountants (Kenya)

Nairobi, Kenya

14 March 2014


STATEMENT OF COMPREHENSIVE INCOME

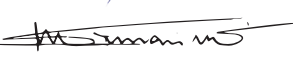
	Note	Group		Bank	
		2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
INTEREST INCOME	6	5,354,441	4,775,721	5,354,441	4,775,721
INTEREST EXPENSE	7	(903,593)	(1,484,762)	(904,040)	(1,485,375)
NET INTEREST INCOME		4,450,848	3,290,959	4,450,401	3,290,346
Foreign exchange gain		66,500	51,147	66,500	51,147
Fee and commission income	8	1,703,167	1,309,072	1,703,167	1,309,072
Other income		82,510	78,024	34,304	40,383
OPERATING INCOME		6,303,025	4,729,202	6,254,372	4,690,948
Operating expenses	9	(4,196,140)	(3,215,656)	(4,174,605)	(3,202,436)
Impairment charge on loans and advances	17	(321,848)	(645,272)	(321,848)	(645,272)
PROFIT BEFORE TAXATION		1,785,037	868,274	1,757,919	843,240
TAXATION	11	(539,651)	(306,815)	(531,516)	(302,522)
PROFIT FOR THE YEAR		1,245,386	561,459	1,226,403	540,718
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss		-	-	-	-
Items that may be reclassified subsequently to profit or loss					
Fair value gain on available for sale financial assets	19	-	12	-	12
OTHER COMPREHENSIVE INCOME		-	12	-	12
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,245,386	561,471	1,226,403	540,730
		=====	=====	=====	=====
EARNINGS PER SHARE		Sh	Sh	Sh	Sh
Basic and diluted	12	2.24	1.16	2.20	1.12
		=====	=====	=====	=====

STATEMENT OF FINANCIAL POSITION

		Group		Bank	
	Note	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	4,356,675	4,320,688	4,356,675	4,320,688
Balances due from banking institutions	14(a)	3,037,433	666,980	3,037,433	666,980
Government securities	15	4,796,459	4,343,973	4,796,459	4,343,973
Loans and advances to customers	16	27,943,360	17,868,745	27,943,360	17,868,745
Corporate bonds	18	588,412	681,452	588,412	681,452
Quoted investment	19	-	295	-	295
Other assets	20	484,540	928,621	472,224	923,390
Investment in subsidiary	21	-	-	1,000	1,000
Investment properties	22	106,000	94,000	106,000	94,000
Property and equipment	23	1,705,621	1,566,887	1,704,021	1,566,877
Intangible assets	24	328,213	345,896	328,214	345,896
Prepaid operating lease rentals	25	167,190	171,800	167,190	171,800
TOTAL ASSETS		43,513,903	30,989,337	43,500,988	30,985,096
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Balances due to banking institutions	14(b)	436,310	-	436,310	-
Customer deposits	26	34,582,587	24,613,302	34,614,686	24,630,278
Taxation payable	11(c)	221,023	93,943	215,453	94,388
Borrowings	27	1,343,811	892,145	1,343,811	892,145
Other liabilities	28	913,555	483,687	913,834	482,766
Unclaimed dividends	29	6,516	1,475	6,516	1,475
Deferred tax liability	30	2,082	24,115	2,082	24,115
TOTAL LIABILITIES		37,505,882	26,108,667	37,532,692	26,125,167
SHAREHOLDERS' FUNDS					
Share capital	31	1,114,046	556,995	1,114,046	556,995
Share premium	31	2,100,251	2,663,938	2,100,251	2,663,938
Revaluation surplus		81,089	83,222	81,089	83,222
Retained earnings		2,456,490	1,418,962	2,416,765	1,398,221
Statutory reserve		256,145	157,553	256,145	157,553
TOTAL SHAREHOLDERS' FUNDS		6,008,021	4,880,670	5,968,296	4,859,929
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		43,513,903	30,989,337	43,500,988	30,985,096

The financial statements on pages 30 to 87 were approved and authorised for issue by the Board of Directors on 14 March 2014 and were signed on its behalf by:


Chairman


Director


Managing Director


Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2012	484,185	1,644,429	85,314	965,131	144,659	3,323,718
Profit for the year	-	-	-	561,459	-	561,459
Other comprehensive income	-	-	12	-	-	12
Total comprehensive income	-	-	12	561,459	-	561,471
Rights issue proceeds	72,810	1,019,509	-	-	-	1,092,319
Dividend paid - 2012	-	-	-	(96,838)	-	(96,838)
Transfer to statutory reserve	-	-	-	(12,894)	12,894	-
Transfer of excess depreciation	-	-	(3,005)	3,005	-	-
Deferred tax on excess depreciation	-	-	901	(901)	-	-
At 31 December 2012	556,995	2,663,938	83,222	1,418,962	157,553	4,880,670
	=====	=====	=====	=====	=====	=====
At 1 January 2013	556,995	2,663,938	83,222	1,418,962	157,553	4,880,670
Profit for the year	-	-	-	1,245,386	-	1,245,386
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	1,245,386	-	1,245,386
Bonus issue of shares	557,023	(557,023)	-	-	-	-
Rights issue proceeds	28	407	-	-	-	435
Dividend paid - 2012	-	-	-	(111,399)	-	(111,399)
Transfer to statutory reserve	-	-	-	(98,592)	98,592	-
Adjustments-Rights issue costs	-	(7,071)	-	-	-	(7,071)
Transfer of excess depreciation	-	-	(3,047)	3,047	-	-
Deferred tax on excess depreciation	-	-	914	(914)	-	-
At 31 December 2013	1,114,046	2,100,251	81,089	2,456,490	256,145	6,008,021
	=====	=====	=====	=====	=====	=====

BANK'S STATEMENT OF CHANGES IN EQUITY

	Share capital Sh'000	Share premium Sh'000	Revalua- tion sur- plus Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2012	484,185	1,644,429	85,314	965,131	144,659	3,323,718
Profit for the year	-	-	-	540,718	-	540,718
Other comprehensive income	-	-	12	-	-	12
Total comprehensive income	-	-	12	540,718	-	540,730
Rights issue proceeds	72,810	1,019,509	-	-	-	1,092,319
Dividend paid – 2012	-	-	-	(96,838)	-	(96,838)
Transfer to statutory reserve	-	-	-	(12,894)	12,894	-
Transfer of excess depreciation	-	-	(3,005)	3,005	-	-
Deferred tax on excess depreciation	-	-	901	(901)	-	-
At 31 December 2012	556,995	2,663,938	83,222	1,398,221	157,553	4,859,929
	=====	=====	=====	=====	=====	=====
At 1 January 2013	556,995	2,663,938	83,222	1,398,221	157,553	4,859,929
Profit for the year	-	-	-	1,226,403	-	1,226,403
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	1,226,403	-	1,226,403
Bonus issue of shares	557,023	(557,023)	-	-	-	-
Rights issue proceeds	28	407	-	-	-	435
Dividend paid – 2012	-	-	-	(111,400)	-	(111,400)
Transfer to statutory reserve	-	-	-	(98,592)	98,592	-
Rights Issue costs	-	(7,071)	-	-	-	(7,071)
Transfer of excess depreciation	-	-	(3,047)	3,047	-	-
Deferred tax on excess depreciation	-	-	914	(914)	-	-
At 31 December 2013	1,114,046	2,100,251	81,089	2,416,765	256,145	5,968,296
	=====	=====	=====	=====	=====	=====

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2013 Sh'000	2012 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	32(a)	2,154,824	1,950,236
Taxation paid	11(c)	(434,604)	(231,483)
		<hr/>	<hr/>
Net cash generated from operating activities		1,720,220	1,718,753
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment 23		(468,147)	(348,162)
Proceeds on sale of property and equipment		-	12,217
Purchase of intangible assets	24	(76,427)	(95,907)
Proceeds from disposal of investments in quoted shares		295	-
		<hr/>	<hr/>
Net cash used in investing activities		(544,279)	(431,852)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received	27	637,500	645,748
Repayment of borrowings	27	(220,289)	(280,867)
Dividends paid	29	(106,358)	(96,766)
Cash (used in)/from issue of shares	31	(6,636)	1,092,319
		<hr/>	<hr/>
Net cash generated from financing activities		304,215	1,360,434
		<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		1,480,156	2,647,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,694,579	1,047,244
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	32(b)	5,174,735	3,694,579
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS

REPORTING ENTITY

Family Bank Limited (The "bank") together with its subsidiary ("the group") provides commercial banking services. Family bank Limited and its subsidiary Dhamana Insurance Agency Limited are both 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, Family Bank Towers, Muindi Mbingu Street
PO Box 74145, 00200 Nairobi

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)

New standards and amendments to published standards effective for the year ended 31 December 2013

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 IFRS 7
Disclosures – Offsetting
Financial Assets and
Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the group's financial statements as the group did not have any offsetting arrangements in place.

New and revised standards
on consolidation joint
arrangements, associates
and disclosures

In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

Impact of the application
of IFRS 12

Application of these standards has resulted in additional disclosures as per IFRS 12 which have been included in these financial statements

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

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

New standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The group has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income, for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminology have been adopted in these financial statements in other respects the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

Relevant new standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 – 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

The application of the amendment had no effect on the group's financial statements as the group did not restate its financial statements.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the group's financial statements as the group does not have defined benefit obligations and plan assets.

Effective for annual periods
beginning on or after

New and Amendments to standards

IFRS 9	1 January 2015
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014

NOTES TO 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 2013 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required 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 value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 presented 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 are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The directors of the Group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities (e.g. the group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

comprehensive income, with only dividend income generally recognised in profit or loss.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Group do not anticipate that the investment entities amendments will have any effect on the group's financial statements as the Group is not an investment entity.

NOTES TO 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 2013 and future annual periods (Continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the group do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements as the group does not have any financial assets and financial liabilities that qualify for offset.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

IFRS 1 – Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)

IFRS 3 – Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself

IFRS 13 – Clarify the scope of the portfolio exception in paragraph 52

IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements as the company does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the group do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the group's financial statements as the group does not have any financial assets and financial liabilities that qualify for offset.

Early adoption of standards

The group did not early-adopt new or amended standards in 2013.

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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary for the year ended 31 December, 2013. The bank's subsidiary is shown in note 21. Control is achieved where the group has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

Subsidiaries are those entities in which the group has power to exercise control over their operations. Subsidiaries are included in the consolidated financial statements from the date the group gains effective control. The acquisition method of accounting is used when subsidiaries are acquired by the group. The cost of an acquisition in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the consideration transferred by the group, liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Entities controlled by the group are consolidated until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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 group 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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Fees and commission income(Continued)

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 group's policy is to professionally revalue property at least once every five years. The last valuation was done on 31 December 2011. The basis of valuation is as follows:

Freehold land and buildings – open market value
Other assets – depreciated replacement cost

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. When a lease includes land and buildings elements, the group assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 3 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

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 group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

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

Foreign currencies

Functional and presentation currency

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

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 reporting date, 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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

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 group becomes party to the contractual provisions of the instrument.

Financial assets

a) Classification and measurement

The group 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.

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 profit or loss. The losses arising from impairment are recognised in profit or loss.

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 group 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 group would be prohibited from classifying any financial asset as held to maturity during the following two years.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (continued)

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 group's right to receive the dividends is established.

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 group 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 group has transferred substantially all the risks and rewards of the asset, or
- the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group 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 group's continuing involvement in the asset. In that case, the group 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 group 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 group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

c) Impairment and uncollectability of financial assets

The group 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 group 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 group 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.

i) *Assets carried at amortised cost*

The group 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 group 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 in profit 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 group'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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

c) Impairment and uncollectability of financial assets (Continued)

i) *Assets carried at amortised cost (continued)*

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 as gains in the profit and loss.

ii) *Renegotiated loans*

Where possible, the group 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.

Financial liabilities and equity instruments issued by the group

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 group 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

a) Classification and measurement (continued)

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 group'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.

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 group derecognises financial liabilities when, and only when, the group'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.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised if, as a result of a past event, the group 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 group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central Bank of Kenya prudential guidelines require the bank to set aside amounts for 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 group as lessor

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

The group 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 group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the group to support performance by a customer to third parties. The group 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 group acts in a fiduciary capacity such as nominee, trustee or agent.

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES (Continued)

Employee benefit costs

The group 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 group and employees.

The group also contributes to the statutory National Social Security Fund (NSSF). 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 group'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 the 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 group's accounting policies, which are described in note 2, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying the group's accounting policies (Continued)

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

Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the group considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

The lease transfers ownership of the asset to the lessee by the end of the lease term;

The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

The lease term is for the major part of the economic life of the asset even if title is not transferred;

At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

NOTES TO THE FINANCIAL STATEMENTS

CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying the group's accounting policies (continued)

The group also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee; gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, 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.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

A. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The most important type of risks to which the group 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 group'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 group 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. With the exception of the ALCO which is a Management Committee, these committees comprise of both non-executive and 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 group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best market practices. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Financial Risk Management disclosures

The Risk and Compliance Committee is responsible for monitoring compliance with the group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group. 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 group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the group'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 group is also exposed to other credit risks arising from its trading activities including derivatives.

Credit risk is the single largest risk for the group's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the group 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.

The board of directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three non-executive directors and two 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.

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 two 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 group's credit risk including:

- 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 and advances.
- Developing and maintaining the group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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 the group credit committee on the credit quality of local portfolios and appropriate corrective action is taken.

Providing advice, guidance and specialist skills to branches to promote best practice throughout the group in the management of credit risk.

Credit risk measurement

In measuring credit risk of loans and advances to customers, the group 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 group derives the exposure at default

Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral

The group 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 group takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the group'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 group'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 group 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.

The group takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the group 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 group on behalf of a customer authorising a third party to draw drafts on the group 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

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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 group 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 group 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

	2013		2012	
	Sh'000	%	Sh'000	%
Credit Exposures				
On – balance sheet items				
Balances with Central Bank of Kenya	2,177,700	6	2,555,566	10
Balances due from other banking institutions	3,037,433	8	666,980	2
Government securities	4,796,459	12	4,343,973	16
Loans and advances to customers	27,943,360	71	17,868,745	67
Corporate bonds	588,412	1	681,452	3
	<hr/>	<hr/>	<hr/>	<hr/>
	38,543,364	98	26,116,716	98
	<hr/>	<hr/>	<hr/>	<hr/>
Off-balance sheet items				
Guarantees	980,470	2	648,659	2
	<hr/>	<hr/>	<hr/>	<hr/>
	39,523,834	100	26,765,375	100
	=====	=====	=====	=====

The table represents the worst case scenario of credit exposure for 31 December 2013 and 31 December 2012, 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 71% (2012 – 67 %) of the total maximum exposure.

While collateral is an important mitigant to credit risk, the group's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The group 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 group is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table overleaf.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure to credit risk before collateral held (Continued)

Classification of loans and advances

Loans and advances to customers

	2013	2012
	Sh'000	Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard)	416,908	570,573
Grade 7: Impaired (doubtful)	976,768	848,017
Grade 8: Impaired (loss)	620,030	1,027,301
Gross amount	2,013,706	2,445,891
Allowance for impairment	(949,661)	(1,558,250)
Carrying amount	1,064,045	887,641
Collectively impaired (Past due but not impaired)		
Grade 4-5: Watch list	1,303,934	1,263,733
Allowance for impairment	(39,118)	(37,912)
Carrying amount	1,264,816	1,225,821
Neither past due nor impaired		
Grade 1-3: Normal	25,614,499	15,755,282
Total carrying amount	27,943,360	17,868,745
	=====	=====

Loans and advances neither past due nor impaired

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

The group 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.

Loans and advances past due but not impaired loans

Loans where the contractual interest or principal payments are past due but the group 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 group are classified as past due but not impaired. These exposures are graded internally as category 4-5 that is watch accounts in the group's internal credit risk grading system, in line with CBK guidelines.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Allowances for impairment

The group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for 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 group 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 group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a bank 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.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Concentration of risk

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

(i) Advances to customers

	2013	%	2012	%
	Sh'000		Sh'000	
Manufacturing	171,205	<1	161,755	1
Wholesale and retail	7,794,401	27	5,959,926	30
Transport and communication	1,828,991	6	1,045,503	5
Agricultural	1,196,655	4	527,379	3
Business services	457,196	2	739,206	4
Building and construction	3,516,269	12	2,005,646	10
Other	13,967,422	48	11,210,122	47
	<u>28,932,139</u>	<u>100</u>	<u>19,643,891</u>	<u>100</u>
	=====	=====	=====	=====

(ii) Customer deposits

Central and local Government	159,845	<1	119,252	<1
Co-operative societies	246,355	<1	181,122	1
Insurance companies	143,947	<1	95,720	<1
Private enterprises & individuals	33,952,643	98	24,172,932	98
Non-profit institutions	79,797	<1	61,252	<1
	<u>34,582,587</u>	<u>100</u>	<u>24,630,278</u>	<u>100</u>
	=====	=====	=====	=====

(iii) Off balance sheet items

(letters of credit and guarantees)

Trading	980,470	100	648,659	100
	<u>980,470</u>	<u>100</u>	<u>648,659</u>	<u>100</u>
	=====	=====	=====	=====

(b) Liquidity risk

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

The group'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 group's reputation

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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 group invests in short term liquid instruments which can easily be sold in the market when the need arises

- The group enters into lending contracts subject to availability of funds.
- The group has an aggressive strategy aimed at increasing the customer deposit base.
- The group 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 group 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 group are regularly submitted to Asset and Liability Committee.

Exposure to liquidity risk

The key measure used by the group 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 group ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2013	2012
At 31 December	37%	39%
Average for the year	37%	34%
Maximum for the year	41%	40%
Minimum for the year	31%	28%

NOTES TO THE FINANCIAL STATEMENTS

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 group 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.

31 December 2013	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	Total Sh'000
Financial assets						
Cash in hand	2,178,975	-	-	-	-	2,178,975
Balances with Central Bank of Kenya – cash ratio	1,239,388	131,583	287,750	124,341	-	1,783,062
Balances due from banking institutions	3,452,690	-	-	-	-	3,452,690
Other balances with CBK	394,637	-	-	-	-	394,637
Government securities	482,846	62,296	37,263	438,034	3,766,552	4,786,991
Loans and advances to customers	1,479,789	314,506	2,687,657	13,249,882	11,503,269	29,235,103
Corporate bonds	-	-	451,359	-	142,937	594,296
Other assets	121,440	-	-	-	-	121,440
Total financial assets	9,349,765	508,385	3,464,029	13,812,257	15,412,758	42,547,193
Financial liabilities						
Balances due to banking institutions	440,547	-	-	-	-	440,547
Customer deposits	24,181,671	2,565,784	5,610,920	2,424,570	-	34,782,945
Borrowings	-	86,864	90,578	585,590	580,779	1,343,811
Other payables	-	-	189,022	-	-	189,022
Total financial liabilities	24,622,218	2,652,648	5,890,520	3,010,160	580,779	36,756,325
Net liquidity gap	(15,272,453)	(2,144,263)	(2,426,491)	10,802,097	14,831,970	5,790,869
As at 31 December 2012						
Total financial assets	7,600,932	756,818	3,320,854	10,693,554	10,162,651	32,534,810
Total financial liabilities	17,968,337	3,435,166	3,614,635	2,280,869	122,842	27,421,850
Net liquidity gap	(10,367,405)	(2,678,348)	(293,781)	8,412,685	10,039,809	5,112,960

The above table shows the undiscounted cash flows on the group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The group's expected cash flows on these instruments vary significantly from this analysis.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 group separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the group 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 group's exposures to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The group does not bear an interest rate risk on off balance sheet items

31 December 2013	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	Total Sh'000
Financial assets							
Cash in hand	-	-	-	-	-	2,178,975	2,178,975
Balances with Central Bank of Kenya	-	160,706	351,436	151,861	-	1,513,696	2,177,699
Balances due from banking institutions	-	1,933,858	-	-	-	1,103,575	3,037,433
Government securities	482,846	-	-	438,034	3,732,060	-	4,652,940
Loans and advances to customers	27,943,360	-	-	-	-	-	27,943,360
Corporate bonds	-	-	433,400	-	160,836	-	594,236
	28,426,206	2,094,564	784,836	589,895	3,892,896	4,796,246	40,584,643
Financial liabilities							
Balances due to Banks	440,547						440,547
Customer deposits	-	2,565,784	5,610,920	2,224,212	-	24,181,671	34,582,587
Borrowings	33,955	86,864	90,578	1,131,914	-	-	1,343,811
	474,502	2,652,648	5,701,498	3,356,126	-	24,181,671	36,366,945
Interest sensitivity gap	27,951,704	(558,084)	(4,916,662)	(2,766,231)	3,892,896	(19,385,425)	4,361,218

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) interest rate risks (continued)

	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	Total Sh'000
31 December 2012							
Total financial assets	2,268,162	462,003	2,582,206	8,843,148	8,728,323	4,960,008	27,843,908
Total financial liabilities	-	3,211,215	3,252,028	2,148,224	118,118	16,792,838	25,522,423
Interest rate sensitivity gap	2,268,162	(2,749,212)	(669,822)	6,694,924	8,610,205	(11,832,830)	2,321,485
	=====	=====	=====	=====	=====	=====	=====

(ii) Currency Risk

The group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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.

	USD Sh'000	GBP Sh'000	EURO Sh'000	TOTAL Sh'000
As at 31 December 2013				
Financial assets				
Deposits and balances due from banking institutions	861,863	(5,352)	5,551	862,062
	=====	=====	=====	=====
Financial liabilities				
Borrowings	(485,932)	-	-	(485,932)
	=====	=====	=====	=====
Sensitivity gap	375,931	(5,352)	5,551	376,130
	=====	=====	=====	=====
As at 31 December 2012				
Financial assets				
Deposits and balances due from banking institutions	21,893	38,952	25,977	86,822
	=====	=====	=====	=====
Financial liabilities	-	-	-	-
Borrowings	(590,588)			(590,588)
	=====	=====	=====	=====
Sensitivity gap	(568,695)	38,952	25,977	(503,766)
	=====	=====	=====	=====

Market Risks - Sensitivity Analysis

A principal part of the group'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.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

The group 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 group uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the group'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 2013.

	Amount 31 December 2013 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	1,785,037	2,230,122	1,339,952
Adjusted Core Capital	5,606,700	6,051,785	5,161,615
Adjusted Total Capital	5,871,677	6,316,751	5,426,592
Risk Weighted Assets (RWA)	31,126,625	31,126,625	31,126,625
Adjusted Core Capital to RWA	18%	20%	16%
Adjusted total Capital to RWA	19%	21%	17%

Assuming no management actions, a series of such appreciation would increase net interest income by Sh 445,084,814 (2012 - Sh 329,096,000), while a series of such falls would decrease net interest income by Sh.445,084,814 (2012 - Sh 329,096,000).

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 the group's business is transacted is Kenya Shillings.
-

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

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 2013.

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 2013 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	1,785,037	1,791,687	1,778,387
Adjusted Core Capital	5,606,700	5,613,350	5,600,050
Adjusted Total Capital	5,871,677	5,878,327	5,865,027
Risk Weighted Assets (RWA)	31,126,625	31,126,625	31,126,625
Adjusted Core Capital to RWA	18%	20%	16%
Adjusted total Capital to RWA	19%	21%	17%

Assuming no management actions, a series of such appreciation would increase earnings by Sh 6,649,978 (2012 – Sh 5,114,700), while a series of such falls would decrease net interest income by Sh 6,649,978 (2012 – Sh 5,114,700)

NOTES TO THE FINANCIAL STATEMENTS

MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) OTHER RISKS

i) Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Group's environment, or from lack of adequate responsiveness to changes in the business environment.

The Group faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.
-

Who manages strategic risk?

The Board of Directors is responsible for the overall generation and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Managing Director and the Senior Management team who execute strategy.

The bank has a strategy office reporting directly to the Managing Director with a mandate of co-ordinating strategy development, monitoring implementation of the strategic objectives and performing evaluation and control.

How we manage strategic risk

The Managing Director supported by the Head of Strategy and other Senior Management executes the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews.

The business carries out business performance reviews on a monthly basis against pre-determined milestones and key performance indicators. The reviews which cover branch and head office departments are supported by the Board of Directors through the board chairman.

The Managing Director co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks

Each business head unit is responsible for directing strategies in their respective units and ensure such strategies are aligned to the overall strategy of the Bank. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

MANAGEMENT OBJECTIVES AND POLICIES (Continued)

ii) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Group include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems and processes changes related to the drive to meet our clients' needs.

Who manages operational risk

The Risk & Compliance department is tasked with the responsibility designing and maintaining an operational risk framework that emphasises a strong risk management and internal control culture throughout the Bank.

The department continuously assesses the continued applicability of policies and procedures in place to identify assess report, monitor, and control or mitigate operational risks.

The Head of Risk & Compliance reports to the Board Risk Management Committee (BRMC) in line with good governance practices and on quarterly basis presents a risk assessment report to the committee covering all the risks including operational risk.

How we manage operational risk

Our operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

1. Governance and Policy: Management as well as Committee reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk Management Committee and Senior Management's expectations are set out via enterprise-wide policies.
2. Risk and Control Self Assessment: Through quarterly comprehensive assessments of our key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks
3. Operational Risk Event Monitoring: Our policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.
4. Risk Reporting: Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.
5. Insurance: A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.
6. Technology and Information: The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems / infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.
7. Business Continuity Management: Business Continuity Management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Group are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

iii) Compliance risk

Compliance risk refers to the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices / standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a return but occurs in the normal course of our business operations.

The Group meets high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation we are exposed to regulatory and legal risks in virtually all our activities. Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Bank's earnings.

Who manages regulatory and legal risk

The various departments have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance and oversight from Legal and Risk & Compliance Departments.

Risk & Compliance Department identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and

How we manage regulatory and legal risks

External legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Bank's exposures.

Senior Management and the Board Risk Management Committee receive the Risk & Compliance Department's reports on the status of the Bank's Compliance

Senior Management and the Board Risk Management Committee receive the Risk & Compliance Department's reports on the status of the Bank's Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

The Board of Directors and Senior Management sets the "tone at the top" for a compliance culture beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions.

NOTES TO THE FINANCIAL STATEMENTS

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Compliance risk(Continued)

How we manage regulatory and legal risks

Business unit heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal & Compliance departments assist them by:

- Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.
-
- Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.
-
- Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.
-
- Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

We have developed robust policies and procedures designed to manage Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act. Our account opening requirements and customer transaction screening procedures meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. We carry out appropriate periodic due diligence on correspondent banking counterparties, and meet KYC / AML obligations to them continuously. All staff are trained when they join the Bank.

iv) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The Family Bank's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Bank's good reputation is always maintained or enhanced

The Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. They are assisted in this aspect by the Marketing & Corporate Communications Department

Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Bank has a responsibility to contribute positively to our reputation

Senior Management and the BRMC receive periodic reports from Risk & Compliance Department on the assessment of the Bank's reputational risk exposures that arise from its business activities.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Reputational risk(Continued)

How we manage reputational risk

Every employee and representative of the Bank has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations

Reputational risk is most effectively managed when every individual works continuously to protect and enhance our reputation. In addition our customer service department maintain a log of all incidences emanating from negative media publicity and customer complaints touching on the reputation of the bank.

5. CAPITAL MANAGEMENT

Regulatory capital

The group's objectives when managing capital are:

- To safeguard the groups 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.

It is expected that with the introduction additional capital requirements which require the bank to have higher ratios of total capital to risk weighted assets the capital requirements are going to be more stringent with expectation of adoption of the additional capital requirements for market and operational risks. The bank has until December 2014 to comply with the new capital requirements

The Central Bank of Kenya requires each bank to:

- Hold the minimum level of regulatory capital of Shs 1 billion.
- Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;
- Maintain a core capital of not less than 8% of total deposit liabilities and
- Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

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

NOTES TO THE FINANCIAL STATEMENTS

CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The group'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 CBK.

The group's regulatory capital position at 31 December 2013 was as follows:

	2013 Sh'000	2012 Sh'000
Tier 1 capital		
Share capital	1,114,046	566,995
Share premium	2,100,251	2,663,938
Retained earnings	2,456,490	1,418,962
	<hr/>	<hr/>
Total	5,670,787	4,649,895
	<hr/>	<hr/>
Tier 2 capital		
Revaluation reserves (25%)	20,272	21,332
General loan loss provision (statutory reserve)	256,145	157,553
	<hr/>	<hr/>
Total	276,417	178,885
	<hr/>	<hr/>
Total regulatory capital	5,947,204	4,828,780
	=====	=====
Risk-weighted assets	31,126,625	21,363,243
	=====	=====

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 risk-weighted assets (CBK minimum 8%)

	2013	2012
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 12%)	19.12%	22.60%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 8%)	18.22%	21.77%
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

	Group		Bank	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
6 INTEREST INCOME				
Interest on loans and advances	4,686,232	4,213,735	4,686,232	4,213,735
Interest on bank placements	166,319	65,473	166,319	65,473
Interest on held to maturity assets:				
- government securities	426,501	413,885	426,501	413,885
- corporate bonds	75,389	82,628	75,389	82,628
	<hr/>	<hr/>	<hr/>	<hr/>
	5,354,441	4,775,721	5,354,441	4,775,721
	=====	=====	=====	=====
7 INTEREST EXPENSE				
Interest on customer deposits	837,202	1,336,647	837,649	1,337,260
Interest on balances due to banks	6,490	77,691	6,490	77,691
Interest on borrowings	59,901	70,424	59,901	70,424
	<hr/>	<hr/>	<hr/>	<hr/>
	903,593	1,484,762	904,040	1,485,375
	=====	=====	=====	=====
8 FEE AND COMMISSION INCOME				
Transaction related fees	961,958	893,322	961,958	893,322
Credit related fees and commissions	671,894	342,125	671,894	342,125
Ledger related fees and commissions	69,315	73,625	69,315	73,625
	<hr/>	<hr/>	<hr/>	<hr/>
	1,703,167	1,309,072	1,703,167	1,309,072
	=====	=====	=====	=====
9 OPERATING EXPENSES				
Staff costs (note 10)	1,761,713	1,357,854	1,742,685	1,346,083
Directors' emoluments - Fees	46,860	22,250	46,860	22,250
- Other	328,800	66,500	328,090	66,500
Depreciation - property, plant and equipment	324,747	284,339	324,441	284,130
Amortisation of intangible assets	94,110	104,908	94,110	104,908
Contribution to Deposit Protection Fund	34,799	27,531	34,799	27,531
Auditors' remuneration - current year	3,561	2,790	3,561	2,750
Amortisation of prepaid operating lease	4,610	4,610	4,610	4,610
Marketing expenses	189,983	105,653	189,540	105,563
Occupancy expenses	548,930	496,312	548,576	495,971
Other operating expenses	858,027	742,909	857,333	742,140
	<hr/>	<hr/>	<hr/>	<hr/>
	4,196,140	3,215,656	4,174,605	3,202,436
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

		Group		Bank	
		2013	2012	2013	2012
		Sh'000	Sh'000	Sh'000	Sh'000
10	STAFF COSTS				
	Salaries and wages	1,516,262	1,172,003	1,499,246	1,160,788
	Training, recruitment and staff welfare costs	77,001	59,167	74,988	58,609
	Contributions to defined contribution pension scheme	54,660	47,340	54,660	47,340
	Medical expenses	97,125	80,104	97,125	80,104
	Leave pay provision	13,629	(3,574)	13,629	(3,574)
	NSSF contributions	3,036	2,815	3,037	2,816
		-----	-----	-----	-----
		1,761,713	1,357,855	1,742,685	1,346,083
		=====	=====	=====	=====
11	TAXATION				
(a)	Taxation charge				
	Current tax based on the taxable profit at 30%	561,684	308,575	553,549	304,282
	Deferred tax credit (note 30)	(22,033)	(1,760)	(22,033)	(1,760)
		-----	-----	-----	-----
		539,651	306,815	531,516	302,522
		=====	=====	=====	=====
(b)	Reconciliation of expected tax based on accounting profit to tax charge				
	Profit before taxation	1,785,037	868,274	1,757,919	843,240
		=====	=====	=====	=====
	Tax calculated at a tax rate of 30%	535,511	260,482	527,376	252,972
	Tax effect of expenses not deductible for tax purposes	70,540	101,429	70,540	97,135
	Tax effect of income not taxable	(66,400)	(55,096)	(66,400)	(47,585)
		-----	-----	-----	-----
		539,651	306,815	531,516	302,522
		=====	=====	=====	=====
(c)	Taxation payable				
	At beginning of the year	93,943	16,851	94,388	16,851
	Charge for the year	561,684	308,575	553,549	304,282
	Tax paid during the year	(434,604)	(231,483)	(432,484)	(226,745)
		-----	-----	-----	-----
	At end of the year	221,023	93,943	215,453	94,388
		=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

12 EARNINGS PER SHARE – Group & Bank

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

	Group		Bank	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Profit (Sh'000)	1,245,386	561,471	1,226,403	540,718
	=====	=====	=====	=====
Weighted average number of shares during the year (Sh'000)	557,023	484,690	557,023	484,690
	=====	=====	=====	=====
Earnings per share				
Basic and diluted (Sh)	2.24	1.16	2.20	1.12
	=====	=====	=====	=====

There were no potential dilutive shares outstanding at 31 December 2013 and 31 December 2012.

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA – Group & Bank

	2013 Sh'000	2012 Sh'000
Cash in hand	2,178,975	1,765,122
Balances with Central Bank of Kenya – cash ratio reserve	1,783,063	1,293,089
- other balances	394,637	1,262,477
	=====	=====
	4,356,675	4,320,688
	=====	=====

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 2013 the cash ratio reserve requirement was 5.25 % (2012 – 5.25%) of all customer deposits held by the group. These funds are not available to finance the group's day to day operations.

14 BALANCES DUE FROM BANKING

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

Overnight lending and placement with other banks	2,201,121	27,660
Balances due from local banking institutions	144	4,346
Balances due from foreign banking institutions	836,168	634,974
	=====	=====
	3,037,433	666,980
	=====	=====

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

Balances with local banks	436,310	-
	=====	=====

Deposits with/from local banks as at 31 December 2012 represent overnight lending. The effective interest rate on deposits due from local banking institutions at 31 December 2013 was 7.21 % (2012 – 4.75%). The effective interest rate on deposits due to local banking institutions at 31 December 2013 was 9.04% (2012 – Nil).

NOTES TO THE FINANCIAL STATEMENTS

15 GOVERNMENT SECURITIES - HELD TO MATURITY - Group & Bank

Treasury bonds –at amortised cost
Treasury bills–face value less unearned discount

2013 Sh'000	2012 Sh'000
4,313,613	4,343,973
482,846	-
<hr/> 4,796,459	<hr/> 4,343,973
=====	=====
The maturity profile of government securities is as follows:	
Maturing within one year	68,159
Maturing between 2 to 5 years	189,739
Maturing after 5 years	4,086,075
<hr/> 4,796,459	<hr/> 4,343,973
=====	=====

The weighted average effective interest rate on treasury bonds at 31 December 2013 was 11.09% (2012 – 11.09%). The effective interest rate on treasury bills at 31-December 2013 was 12.3%(2012–Nil)

As of 31 December 2013, treasury bonds with a carrying amount of Sh760, 000 (2012 – Sh 760,000) were pledged as collateral under repurchase agreements with the Central Bank of Kenya.

16 LOANS AND ADVANCES TO CUSTOMERS - Group & Bank

(a) Commercial loans

Overdrafts

Asset finance loans

Staff loans

2013 Sh'000	2012 Sh'000
23,807,522	15,806,080
1,499,002	1,318,542
2,198,190	1,266,918
1,427,425	1,252,351
<hr/> 28,932,139	<hr/> 19,643,891
(988,779)	(1,775,146)
<hr/> 27,943,360	<hr/> 17,868,745
=====	=====
(b) Analysis of gross loans and advances by maturity	
Maturing:	
Within 1 year	5,720,879
Between 1 and 3 years	5,804,395
After 3 years	8,118,617
<hr/> 28,932,140	<hr/> 19,643,891
=====	=====

Gross loans and advances to customers

Less: Impairment losses (note 17)

Net loans and advances to customers

(b) Analysis of gross loans and advances by maturity

Maturing:

Within 1 year

Between 1 and 3 years

After 3 years

Loans and advances to customers

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 at 31 December 2013 was 17 % (2012 – 21%). Included in gross advances of Sh 29,235,102,484 (2012 – Sh 19,791,908,090) are loans and advances amounting to Sh 1,064,044,894 (2012 – Sh 899,806,686), net of specific provisions, which have been classified as non-performing (impaired).

NOTES TO THE FINANCIAL STATEMENTS

17 IMPAIRMENT LOSSES ON LOANS AND ADVANCES – Group & Bank

At 1 January
Increase in impairment allowances
Amounts written off during the year as uncollectible

2013 Sh'000	2012 Sh'000
1,775,146	1,130,685
321,848	645,272
(1,108,215)	(811)
<hr/> 988,779	<hr/> 1,775,146
=====	=====
306,058	305,940
141,522	164,989
140,832	210,523
<hr/> 588,412	<hr/> 681,452
=====	=====
446,890	-
-	519,840
141,522	161,612
<hr/> 588,412	<hr/> 681,452
=====	=====

18 CORPORATE BONDS - HELD TO MATURITY – Group & Bank

At amortised cost:

Safaricom Limited
Kenya Electricity Generating Company Limited
Shelter Afrique

The maturity profile of corporate bonds is as follows:

Within 1 year
Maturing 1 to 5 years
Maturing after 5 years

The weighted average effective interest rate on corporate bonds at 31 December 2013 was 12.21 % (2012 – 12.42%).

19 QUOTED INVESTMENT – AVAILABLE FOR SALE – Group & Bank

At fair value:
At 1 January
Fair value (loss)/gain
Sale

At 31 December

2013 Sh'000	2012 Sh'000
295	283
-	12
(295)	-
<hr/> -	<hr/> 295
=====	=====

20 OTHER ASSETS

Un-cleared items in the course of collection
Prepayments
Deposits for services
Other

Group		Bank	
2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
121,440	280,253	121,440	280,253
227,816	111,677	227,816	111,677
73,911	58,027	73,911	54,120
61,373	478,664	49,057	477,340
<hr/> 484,540	<hr/> 928,621	<hr/> 472,224	<hr/> 923,390
=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

21 INVESTMENT IN SUBSIDIARY - Bank

	No. of shares	Holding	2013 Sh'000	2012 Sh'000
Dhamana Insurance Agency Limited	1,000	100%	1,000	1,000
			=====	=====

The subsidiary is wholly owned Limited Liability Company incorporated and domiciled in Kenya. Dhamana Insurance Agency Limited was incorporated on 22nd May 2012.

The company received its licence to operate Insurance Agency/brokerage business on 30th Dec 2010 and started trading in 2010. The principal activity of the company is insurance agency business.

Set out below is the summarised financial information for the subsidiary

	2013 Sh'000	2012 Sh'000
Summarised statement of financial position		
Current		
Total assets	46,291	22,491
Total liabilities	5,867	750
	=====	=====
Net assets	40,424	21,741
	=====	=====
Summarised statement of profit and loss and other comprehensive income		
Brokerage Commission	48,206	26,984
	=====	=====
Profit before income tax	26,690	14,370
Income tax expense	(8,007)	(4,293)
	=====	=====
Total comprehensive income	18,683	10,078
	=====	=====
Summarised statement of cash flows		
Net cash generated from/(used in) operating activities	16,183	(732)
Net cash used in from investing activities	(781)	(318)
Net cash generated from financing activities	-	1000
	=====	=====
Net decrease in cash and cash equivalents	15,402	(50)
	=====	=====
Cash and cash equivalents at beginning of year	16,976	17,025
	=====	=====
Cash and cash equivalents at end of year	32,378	16,975
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

22 INVESTMENT PROPERTIES – Group & Bank

COST

At start of year

Gain on revaluation

At end of year

2013 Sh'000	2012 Sh'000
94,000	71,400
12,000	22,600
<hr/>	<hr/>
106,000	94,000
=====	=====

Investment properties relate to; leasehold land acquired at a cost of Shs 24,500,000 was previously meant for the group's expansion plans and lease hold land acquired at a cost of Shs 3,170,000 for national customer promotion raffle. The two properties are currently held for sale.

The properties were re-valued as at 31 December 2013 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.

The investment properties have been disposed of in 2014

The accordance with IFRS 13, the fair value ranking of the Investment Property is at Level 3 as the fair value measurement is derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

23 PROPERTY AND EQUIPMENT – GROUP

	Freehold Land	Buildings	Leasehold improve- ments	Computer	Motor vehicles	Fixtures, fittings and equipment	Total
COST/VALUATION	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2012	5,000	325,000	1,044,721	825,847	65,489	387,142	2,653,199
Additions	-	-	223,462	76,543	-	48,157	348,162
Disposal	-	-	-	-	(1,608)	-	(1,608)
Write offs	-	-	(8,906)	(774)	-	(3,268)	(12,948)
At 31 December 2012	5,000	325,000	1,259,277	901,616	63,881	432,031	2,986,805
At 1 January 2013	5,000	325,000	1,259,277	901,616	63,881	432,031	2,986,805
Additions	117,412	32,288	161,827	43,517	37,086	76,017	468,147
Disposal	-	-	(2,271)	-	-	(2,395)	(4,666)
At 31 December 2013	122,412	357,288	1,418,833	945,133	100,967	505,653	3,450,286
Comprising:							
At cost	117,412	32,288	1,418,833	945,133	100,967	505,653	3,120,286
At valuation	5,000	325,000	-	-	-	-	330,000
At 31 December 2013	122,412	357,288	1,418,833	945,133	100,967	505,653	3,450,286
	=====	=====	=====	=====	=====	=====	

NOTES TO THE FINANCIAL STATEMENTS

23

PROPERTY AND EQUIPMENT - GROUP (Continued)

	Freehold land Sh'000	Buildings Sh'000	Leasehold improve- ments Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and equipment Sh'000	Total Sh'000
DEPRECIATION							
At 1 January 2012	-	-	431,887	512,907	29,488	162,878	1,137,160
Charge for the year	-	8,125	125,359	96,408	9,421	45,026	284,339
Eliminated on disposals	-	-	-	-	(1,581)	-	(1,581)
At 31 December 2012	-	8,125	557,246	609,315	37,328	207,904	1,419,918
At 1 January 2013	-	8,125	557,246	609,315	37,328	207,904	1,419,918
Charge for the year	-	8,192	152,915	100,096	12,540	51,004	324,747
At 31 December 2013	-	16,317	710,161	709,411	49,868	258,908	1,744,665
NET BOOK VALUE – VALUATION BASIS							
At 31 December 2013	122,412	340,971	708,672	235,722	51,099	246,745	1,705,621
At 31 December 2012	5,000	316,875	702,031	292,301	26,553	224,127	1,566,887
NET BOOK VALUE – COST BASIS							
At 31 December 2013	119,812	226,830	708,672	235,722	51,099	246,745	1,588,880
At 31 December 2012	2,400	199,687	702,031	292,301	26,553	224,127	1,447,099

NOTES TO THE FINANCIAL STATEMENTS

23 PROPERTY AND EQUIPMENT - BANK

COST/VALUATION	Freehold land 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 2012	5,000	325,000	1,044,721	825,847	65,489	387,142	2,653,199
Additions	-	-	223,462	75,624	-	47,953	347,039
Disposal	-	-	-	-	(1,608)	-	(1,608)
Write offs	-	-	(8,906)	(774)	-	(3,268)	(12,948)
At 31 December 2012	5,000	325,000	1,259,277	900,697	63,881	431,827	2,985,682
At 1 January 2013	5,000	325,000	1,259,277	900,697	63,881	431,827	2,985,682
Additions	117,412	32,288	161,827	43,007	37,086	75,745	467,365
Reversal	-	-	(2,271)	-	-	(2,395)	(4,666)
At 31 December 2013	122,412	357,288	1,418,833	943,704	100,967	505,177	3,448,381
Comprising:							
At cost	117,412	32,288	1,418,833	943,704	100,967	505,177	3,448,381
At valuation	5,000	325,000	-	-	-	-	330,000
At 31 December 2013	122,412	357,288	1,418,833	943,704	100,967	505,177	3,778,381
DEPRECIATION							
At 1 January 2012	-	-	431,887	512,907	29,488	162,878	1,137,160
Charge for the year	-	8,125	125,359	96,408	9,421	45,026	284,339
Eliminated on disposals	-	-	-	-	(1,581)	-	(1,581)
At 31 December 2012	-	8,125	557,246	609,315	37,328	207,904	1,419,918
At 1 January 2013	-	8,125	557,246	609,315	37,328	207,904	1,419,918
Charge for the year	-	8,192	152,915	99,847	12,540	50,948	324,442
At 31 December 2013	-	16,317	710,161	709,162	49,868	258,852	1,744,359

NOTES TO THE FINANCIAL STATEMENTS

23 PROPERTY AND EQUIPMENT - BANK

	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and equipment	Total
NET BOOK VALUE	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
- VALUATION BASIS							
At 31 December 2013	122,412	340,971	708,672	234,542	51,099	246,325	1,704,021
	=====	=====	=====	=====	=====	=====	=====
At 31 December 2012	5,000	316,875	702,031	291,382	26,553	223,923	1,565,764
	=====	=====	=====	=====	=====	=====	=====
NET BOOK VALUE - COST BASIS							
At 31 December 2013	119,812	225,707	708,672	235,461	51,099	246,529	1,587,280
	=====	=====	=====	=====	=====	=====	=====
At 31 December 2012	2,400	199,687	702,031	292,301	26,553	224,127	1,447,099
	=====	=====	=====	=====	=====	=====	=====

The properties were re-valued as at 31 December 2011 by Ebony Estate Valuers Limited, Registered valuers. Valuations for the properties were made on the basis of the open market value.

The accordance with IFRS 13, the fair value ranking of the Investment Property is at Level 3 as the fair value measurement is derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24 INTANGIBLE ASSETS – COMPUTER SOFTWARE – Group & Bank

COST

At 1 January	579,091	483,184
Additions	76,427	95,907
At 31 December	655,518	579,091

AMORTISATION

At 1 January	233,195	128,287
Charge for the year	94,110	104,908
At 31 December	327,305	233,195

NET BOOK VALUE

At 31 December	328,213	345,896
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

	2013 Sh'000	2012 Sh'000
25 PREPAID OPERATING LEASE RENTALS – Group & Bank		
Leasehold land:		
COST		
At 1 January and 31 December	180,335	180,335
AMORTISATION		
At 1 January	8,535	3,925
Charge for the year	4,610	4,610
At 31 December	13,145	8,535
NET BOOK VALUE		
At 31 December	167,190	171,800

26	CUSTOMER DEPOSITS	Group		Bank	
		2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
	Current and demand accounts	21,623,201	16,783,388	21,631,826	16,792,838
	Savings accounts	1,685,864	1,154,502	1,685,864	1,154,502
	Fixed deposit accounts	11,273,522	6,675,412	11,296,996	6,682,938
		<u>34,582,587</u>	<u>24,613,302</u>	<u>34,614,686</u>	<u>24,630,278</u>
		=====	=====	=====	=====
	MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
	Repayable:				
	On demand	21,623,201	16,783,388	21,631,826	16,792,838
	Within one year	12,959,386	7,829,914	12,982,860	7,837,440
		<u>34,582,587</u>	<u>24,613,302</u>	<u>34,614,686</u>	<u>24,630,278</u>
		=====	=====	=====	=====

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2013 was 6.45% (2012 – 4.77%). The related party transactions and balances are covered under note 33 and concentration of customers' deposits is covered under note 4.

NOTES TO THE FINANCIAL STATEMENTS

27	BORROWINGS – Group & Bank	2013 Sh'000	2012 Sh'000
(a)	Analysis		
	Youth Fund	30,000	60,000
	PTA Loan 1	-	64,902
	PTA Loan 2(USD)	485,350	590,588
	PTA Loan 2(Sh)	650,781	-
	Women Fund	60,000	62,000
	Practical Action Fund	-	6,159
	Kenya ICT Board – Pasha loan	117,680	108,496
		<hr/>	<hr/>
		1,343,811	892,145
		=====	=====
(b)	Movement:		
	At beginning of the year	892,145	527,264
	Received in the year	637,500	645,748
	Accrued Interest	34,455	-
	Repaid in the year	(220,289)	(280,867)
		<hr/>	<hr/>
		1,343,811	892,145
		=====	=====

Facilities:

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 1 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 loan is secured by an all asset debenture in favour of PTA Bank. The loan was received in August 2007 and matured in July 2013.

PTA loan 2 Sh loan is a long term facility, repayable within 5 years . The interest rate charged is 12.5% p.a. The loan was received in November 2013 and matures in 2018.

PTA loan 2(USD) is a long term facility, repayable within 5 years. The interest rate charged is based on margin of 5% plus market risk premium plus 6 month libor repayable on half yearly basis. The loan was received in March 2013 and matures in September 2017.

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.

The Kenya ICT Board – Pasha loan is a credit from the International Development Authority 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.

NOTES TO THE FINANCIAL STATEMENTS

27 BORROWINGS – Group & Bank (Continued)

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

	2013 %	2012 %
Youth Fund	2	2
PTA Loan 1	-	17
PTA Loan 2(USD)	7.7	7.7
PTA Loan 2(SH)	12.5	-
Women Fund	1	1
Practical Action Fund	-	-
Kenya ICT Board – Pasha loan	4	4
	=====	=====

	Group		Bank	
28 OTHER LIABILITIES	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Provisions and accruals	135,307	160,520	135,307	160,520
Leave pay provision	27,851	14,223	27,851	14,223
Cheques for collection	189,022	139,622	189,022	139,622
Other payables	561,375	169,322	561,654	168,401
	=====	=====	=====	=====
	913,555	483,687	913,834	482,766
	=====	=====	=====	=====

29 DIVIDENDS – Group & Bank

a) Unclaimed Dividends

	2013 Sh'000	2012 Sh'000
At 1 January	1,475	983
Declared	111,399	97,258
Paid during the year	(106,360)	(96,766)
	=====	=====
At 31 December	6,514	1,475
	=====	=====

Unclaimed dividends relates to dividends declared in the past years by the group but not collected by the shareholders or their representatives.

b) Proposed Dividends

The directors recommend a first and final dividend of Sh 0.40 (2012: Sh 0.40) per share for the year amounting to Sh. 222,809,346 (2012: Sh111,399,054) subject to shareholders' approval at the Annual General Meeting.

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS

30 DEFERRED TAX ASSET

The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:

Deferred tax assets:

General bad debts provision

Excess depreciation over capital allowances

Leave pay provision

Deferred tax liabilities:

Revaluation surplus

Net deferred tax liability

Movement in deferred tax asset is as follows:

At 1 January – as restated

Credit to profit or loss (note 11)

At 31 December

31 SHARE CAPITAL

Authorised:

750,000,000 ordinary shares of Sh 2 each

Issued and fully paid:

557,023,364 (2012: 278,497,634) ordinary shares of Sh 2 each

	2013 Sh'000	2012 Sh'000
	(12,755)	(12,393)
	(16,726)	(58)
	(4,089)	-
	<u>(33,570)</u>	<u>(12,451)</u>
	=====	=====
	35,652	36,566
	<u>2,082</u>	<u>24,115</u>
	=====	=====
	24,115	25,875
	(22,033)	(1,760)
	<u>2,082</u>	<u>24,115</u>
	=====	=====
	1,500,000	1,000,000
	=====	=====
	1,114,046	556,995
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

Movement in issued and fully paid shares

	Number of shares	Share Capital Sh '000	Share Premium Sh '000	Total Sh'000
At 1 January 2012	242,092,442	484,185	1,644,429	2,128,614
Issued in the year	36,405,192	72,810	1,019,509	1,092,319
	=====	=====	=====	=====
At 31 December 2012	278,497,634	556,995	2,663,938	3,220,933
	=====	=====	=====	=====
At 1 January 2013	278,497,634	556,995	2,663,938	3,220,933
Bonus shares	278,511,682	557,023	(557,023)	-
Rights issue	14,048	28	407	435
Rights issue costs	-	-	(7,071)	(7,071)
	=====	=====	=====	=====
At 31 December 2013	557,023,364	1,114,046	2,100,251	3,214,297
	=====	=====	=====	=====

In 2013, the group increased its capital by Sh 557,051,461 through the issue 278,511,682 ordinary shares of Sh 2 each by issuing one bonus share for every one share held from the share premium.

* Rights issue costs relate to the costs incurred issue rights in 2012 that have been paid in 2013.

NOTES TO THE FINANCIAL STATEMENTS

32 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of profit before taxation to cash used in operations

Profit before taxation
Adjustments for:
Depreciation of property and equipment
Amortisation of intangible assets
Amortisation of leasehold land
Gain disposal of equipment
Surplus on revaluation of investment property
Accrued interests on borrowings

Profit before working capital changes

Changes in working capital items:

Cash ratio balance

Loans and advances to customers

Other assets

Customer deposits

Other liabilities

Government securities

Corporate bonds

Cash generated from operations

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

Cash in hand

Balances with the Central Bank of Kenya

Balances with other banking institutions

Balances due to other banking institutions

2013 Sh'000	2012 Sh'000
1,785,037	868,274
324,747	284,339
94,110	104,908
4,610	4,610
4,666	(850)
(12,000)	(22,600)
34,455	-
2,235,625	1,238,681
(489,974)	(567,297)
(10,074,615)	(1,536,386)
444,081	(492,305)
9,969,285	3,169,375
429,868	(29,449)
(452,486)	143,079
93,040	24,538
2,154,824	1,950,236
2,178,975	1,765,122
394,637	1,262,477
3,037,433	666,980
(436,310)	-
5,174,735	3,694,579

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.

NOTES TO THE FINANCIAL STATEMENTS

33 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other financial institutions, the group 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.

	2013 Sh'000	2012 Sh'000
Acceptances and letters of credit	980,470	648,659
Guarantees	=====	=====
Litigations against the group	274,823	280,542
	=====	=====

Nature of contingent liabilities:

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

Letters of credit commit the group 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 group 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 group 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.

	2013 Sh'000	2012 Sh'000
b) Commitments to extend credit		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,511,339	1,100,691
	=====	=====

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 group may withdraw from its contractual obligation to extend credit by giving reasonable notice to the customer.

	2013 Sh'000	2012 Sh'000
c) Capital commitments		
Authorised and contracted for	112,656	111,827
Authorised but not contracted for	202,500	39,750
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

34 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 group by directors, their associates and companies associated to directors. Advances to customers at 31 December 2013 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2013 include guarantees and letters of credit for companies associated with the directors.

Movement in related party balances was as follows:

Loans and advances:

At 1 January

Advanced during the year

Interest earned

Repaid during the year

At 31 December

2013 Sh'000	2012 Sh'000
1,498,687	570,593
707,556	1,073,686
166,506	55,336
(596,762)	(200,929)
<hr/>	<hr/>
1,775,987	1,498,686
=====	=====

As at 31 December 2013 loans and advances to staff amounted to Sh 1,393,093,822 (2012 – Sh 1,258,764,000). The loans and advances to related parties are performing and adequately secured.

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

2013 Sh'000	2012 Sh'000
73,358	60,511
374,664	88,750
<hr/>	<hr/>
448,022	149,261
=====	=====

35 INCORPORATION

The group 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 group'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

Tel: 2370422, 2364257
Fax: 2370401

Kiambu

P. O. Box 974, Kiambu
Tel: 066-22888, 22749
Fax: 22749

Githunguri

P. O. Box 207, Githunguri
Tel: 066-65124, 020 2043082
Fax: 65264

Gatundu

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

Thika

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

Kangare

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

Muranga

P. O. Box 82
Tel: 060 30318, 30340
Fax: 30318

Kangema

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

Kiriaini

P. O. Box 82
Tel: 060 51434,
Fax: 51428

Othaya

P. O. Box 763
Tel: 061 52242, 52516, 52301
Fax: 52198

Kerugoya

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

Embu

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

Limuru

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

Nakuru Finance

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

Nakuru Njoro

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

Molo

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

Eldoret

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

Kitale

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

Kisumu

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

Kisii

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

Bungoma

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

Machakos

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

Mombasa Nkurumah Road

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

Mombasa Jomo Kenyatta Avenue

P. O. Box 97268 – 80112
Tel: 041 2495816/20 Fax: 81630
Kapsabet
P. O. Box 217
Tel: 053 52323/448/8
Fax: 52443

Nyahururu

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

Busia

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

Ruiru

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

Meru

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

Fax: 30611

Donholm

P.O. Box 74145-00200
Tel: 020785372/787936/783528
Fax: 8016104

Nyeri

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

Nyamira

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

Kakamega

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

Kagwe

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

Banana

P.O. Box 962-Karuri
Tel: 020-2648536/7 0715 363817

River Road

P.O. Box 74145
Tel: 2225320/1 0715 363817

Mumias Branch

Family Bank Bldg/Musanda Rd
P.O. Box 1107 - 50102 Mumias

Mtwapa Branch

Mombasa/Malindi Rd
P.O. Box 14 - 80109 Mtwapa
Tel: (041) 2324216, 2324218

Digo Road Branch

Mombasa.
Tel: 0702830985, 0702830987
digo@familybank.co.ke

Narok Branch.

Osupuko Building.
Tel: 0723431627, 0711170064
narok@familybank.co.ke

Eldoret West Branch

Uganda Road.
eldoretwest@familybank.co.ke

Nanyuki Branch

Nyeri /Nanyuki Rd.
nanyuki@familybank.co.ke

Ongata Rongai Branch.

Prisma Building.
rongai@familybank.co.ke

Ol Kalou

Email:olkalou@familybank.co.ke
Cell: 0708569533

Kasarani

Email:kasarani@familybank.co.ke
Cell: 0708086235

Laptrust House

Email:laptrusthouse@familybank.
co.ke
Cell: 0707818153

Kajiado

Email:kajiado@familybank.co.ke

FAMILY BANK LIMITED PROXY FORM

Shareholder Account No.

The Shares Registry
Family Bank Limited
Family Bank Towers, 8th Floor, Muindi Mbingu Street
P O Box 74145-00200
NAIROBI

I/We
of P. O. Box being a shareholder
of Family Bank Limited, appoint of P. O. Box
..... and failing him/her, the Chairman of the meeting to be my / our
proxy, to vote on my / our behalf at the Annual General Meeting of the Family Bank Limited to be held on
Friday 25th April 2014 at 10.00 a.m. at the Hilton Hotel Nairobi and at any adjournment thereof. This form
is to be used to vote in favour of or against the resolutions tabled at the Meeting and unless otherwise
instructed the proxy will vote as he / she deems fit.

As witness my hand this day _____ of _____ 2014.

Signature _____

Important notes:

1. A member who is unable to attend the meeting is entitled to appoint a proxy to attend and vote on his or her behalf
2. A proxy need not be a member
3. In the case of a corporate body, the proxy must be given under its common seal or under the hand of an officer or attorney duly authorised in writing
4. Joint account holders must state their joint names and sign according to the signing mandates
5. This proxy must be delivered to the bank's registered office not later than 10.00 a.m. on Wednesday, 23rd April 2014, failing which it will be invalid.

Shareholder's Admission Form:

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

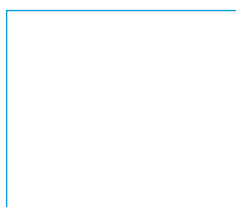
Name:

ID/PP No:

Signature:

Shareholder Account No.:

FOLD HERE



AFFIX POSTAGE
STAMP HERE

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

FOLD HERE

Notes

Lined area for notes.



EXTENDED Banking Hours

EXTENDED Convenience

EXTENDED Access



We have extended our business hours:

MON TO FRI: 8.00 a.m – 8.00 p.m

SATURDAYS: 8.00 a.m – 4.00 p.m

**...Visit our Mtwapa, Kilimani,
Kenyatta Avenue (Nairobi) and
Family Bank Towers Branches.**



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
Email: info@familybank.co.ke Website: www.familybank.co.ke