ANNUAL REPORT & FINANCIAL STATEMENTS 2014

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.

CORE VALUES

- *Winning Together*

Within ourselves and with our customers, we work together and we win together.

- *Self Belief*

In us and our customers' ability to change the world

- *Humility*

It's not about us, it's about our customers.

CONTENTS

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
Dr. 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 – Finance & Strategy Director
Mr. Mark Keriri– Operations & Technology Director

COMPANY SECRETARY

Rebecca Mbithi
8th Floor, Family Bank Towers, Muindi Mbingu Street
P.O. Box 74145 -00200 Nairobi
Tel: 254- 020 3 252 000//0703 095 000
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: 254-2-020 3 252 000/0703 095 000
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 ADVISERS

Walker Kontos Advocates
Hakika House, Bishops Road
P. O. Box 60680 - 00200
Nairobi
Tel: 020 2713023/020
www.walkerkontos.com

CORPORATE INFORMATION (CONTINUED)

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, New York 10008 – 0318	
	National Bank of Canada P.O.Box 600 rue de la GauchetièreOuest Montréal, Québec, Canada	
	Standard Bank of South Africa Limited P.O.Box 20016 Simmonds Street Johannesburg, South Africa	

BOARD COMMITTEES

Credit Committee	Prof. David Kimutai arap Some Dr. Kabiru Kinyanjui Mr. T. K. Muya Mr. Peter Munyiri Mr. Mark Keriri Mr. Wilfred Kiboro	- Chairman
Audit Committee	Mr. David Kimani Mrs. Ruth Waweru Mr. Lerionka S. Tiampati	- Chairman
Risk Management Committee	Mr. David Kimani Mrs. Ruth Waweru Mr. Mark Keriri	- Chairman
Human Resource Committee	Dr. Kabiru Kinyanjui Prof. David Kimutai arap Some Mr. T. K. Muya Mr. Wilfred D. Kiboro Mr. Peter Munyiri	- Chairman
Strategy Committee	Mrs. Ruth Waweru Mr. T. K. Muya Mr. Lerionka S. Tiampati Mr. Peter Munyiri Mr. Mark Keriri Mr. Njung'e Kamau Mr. Wilfred D. Kiboro	- Chairman

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **8th ANNUAL GENERAL MEETING** of the Shareholders will be held at Kenyatta International Convention Centre (KICC) Amphitheatre NAIROBI on Friday 15th May, 2015 at 10:00 a.m. to transact the following business:

Ordinary Business:

1. To receive the Audited Accounts for the year ended 31st December 2014, the Report of the Directors and the Report of the Auditors thereon.

2. To approve the payment of a first and final dividend of Kshs. 0.50 per share, subject to withholding tax where applicable, on the issued and paid up capital of the Company and payable to the shareholders registered as at 15th May 2015. To facilitate payment of the Dividend, the register of members will be closed on 15th May 2015.

3. Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:

a) Dr Ruth Waweru who retires by rotation and, being eligible, offers herself for re-election.
b) Dr Kabiru Kinyanjui who retires by rotation does not offer himself for re-election.

4. To approve the Directors' remuneration for the year ending 31st December 2014.

5. To confirm that the auditors, Deloitte and Touché, 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 Mr. W. D Kiboro who, having attained the age of seventy years, be and is hereby re-elected as a Director".

By order of the Board

Rebecca Mbithi
Company Secretary
Nairobi
15th April, 2015

Notes: 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 shall be required to be deposited at the Company Secretary office 8th Floor at Family Bank Towers Muindi Mbingu Street Nairobi not less than Forty-eight hours before the time for holding the meeting failure to which it shall be invalid. In the case of a corporate body the proxy must be under its common seal. The proxy form is available on the Company's website www.familybank.co.ke.

The full set of audited accounts for the year ended 31st December 2014 is available at the Company's registered office at Family bank Towers 6th Floor or can be downloaded at the website www.familybank.co.ke

FamilyBank
With you, for life

BOARD OF DIRECTORS

From Left to Right Seated: Dr. Kabiru Kinyanjui (Vice Chairman), Ruth Waweru, Wilfred Kiboro (Chairman), Rebecca Mbithi (Company Secretary), Peter Munyiri (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 he 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 chairman of Wilfey Investment Limited, a Family business involved in Horticulture and Agri business.

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 a 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 insitution, 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, in the United Kingdom, and has a wealth of experience in leadership and management. Prof. Some serves on several boards and advisory committees.

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 form the Insitute 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.

Dr. 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.

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 bilateral organizations including the World 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 (KETEPA), 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 (Alternate to Mr. TK Muya)

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 Unites States and Kenya. He has extensive knowledge in business development, service delivery management, product development, strategy implementation and staff training, development and motivation. Julius headed the sales and marketing department during the conversion of Family Finance Building Society into a commercial bank during which time he spearheaded the development of new products and services. 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. Peter previously also led successful corporate change transformation projects in banking together with Mckinsey - the global management consulting firm. He holds a Head of State Commendation (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) and an alumni of Oxford University, INSEAD (France) and Strathmore Business School. He also trained in the World Bank Headquarters (Washington DC). He has also served in Board of schools and University council.

Mr. Mark Keriri – Director Operations & Technology

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

A key influencer 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 33 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 (CPA-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 and Advaced Management programme (AMP) from Strathmore University, Langos Business school of IESE-Barcelon, Spain University.

Rebecca Mbithi – Company Secretary

Rebecca Mbithi holds a Bachelor of Laws Degree from the University of Nairobi and a Masters in Business Administration from United States International University. She is a Certified Public Secretary and a Certified Public Accountant.

She has over fourteen years' experience in legal and Company Secretarial practice both as an advocate and also at top management level in two large organizations. She served as Head of Legal and Regulatory Affairs in Kenya Tea Development Agency Ltd for four years before joining Rift Valley Railways as the Company Secretary and Legal Counsel for five years. She has vast experience in corporate governance and has served in the Corporate Governance and Standards Committee of the Institute of Certified Public Secretaries Kenya.

VISA

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Family Bank Limited is Regulated by Central bank of Kenya

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customerservice@familybank.co.ke
www.familybank.co.ke
www.twitter.com/familybankkenya
www.facebook.com/familybankkenya

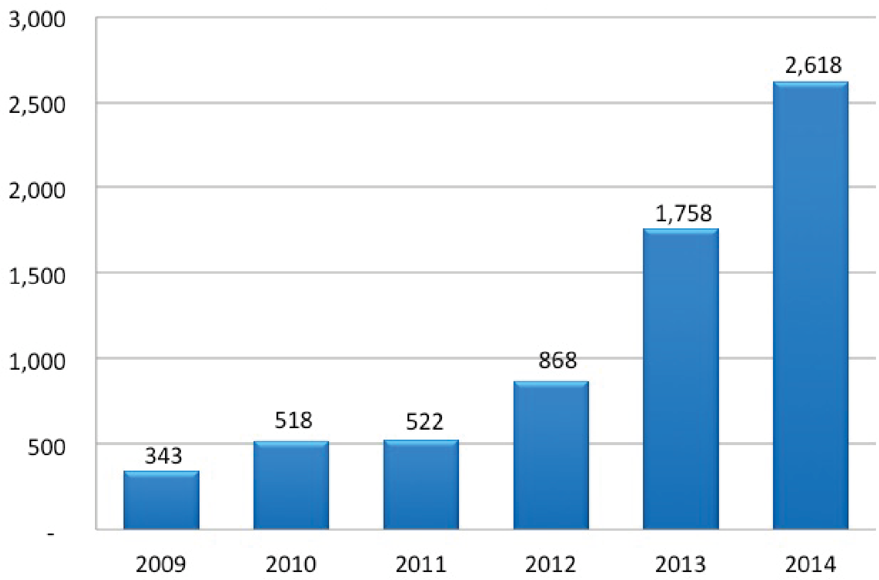
Dear Shareholders,

I am pleased to present the Annual Report and Financial Statements for the year ended 31st December, 2014. The Bank has been growing at a very fast pace and posted very impressive financial results over the last few years. This growth is mainly attributed to the unwavering support and clear demonstration of the confidence our highly esteemed shareholders and customers have in the Bank and which in turn has made the "Family Bank Brand" grow from strength to strength over the years. The growth is also due to the aggressive drive and commitment by our Board, management and staff.

Once again, we are excited to have outperformed all the banks in Kenya including the listed ones. The Bank's profit has grown tremendously despite operating in a very dynamic and challenging macro economic environment. Our strategy and universal banking model has and continues to serve us well. With this remarkable financial performance, we are indeed on course to achieve our ambitious growth strategy of becoming a Tier 1 Bank in the next few years.

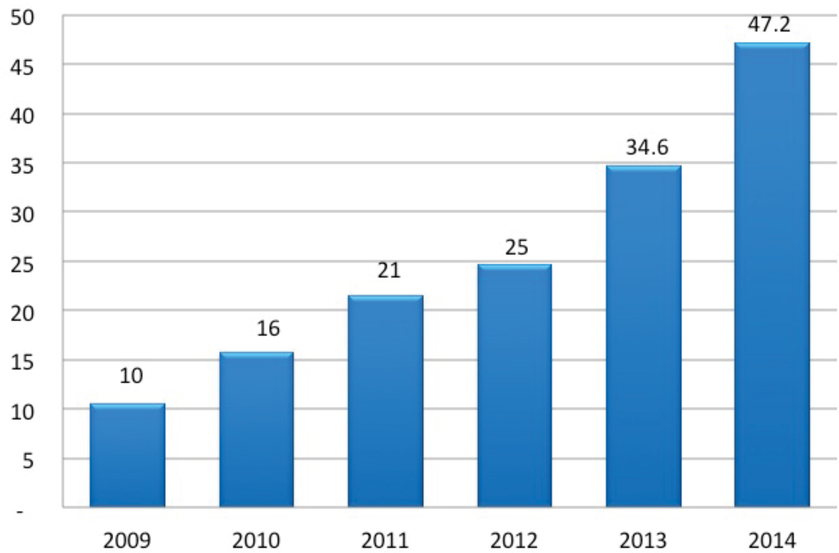
Key Financial Performance Highlights

- Profit before Tax increased by 49% from Ksh 1.76 Billion for the year ended 31st December 2013 compared to Ksh 2.62 Billion for the year ended 31st December 2014.
- Total assets grew by 42% from Ksh 43.5 Billion as at December 2013 to Ksh 61.8 Billion as at December 2014.
- Total Shareholders' funds grew by 78% from Ksh 5.97 Billion as at December 2013 to Ksh 10.62 Billion as at December 2014.
- Deposits grew by 36% from Ksh 34.6 Billion as at December 2013 to Ksh 47.2 Billion as at December 2014.
- Loans grew by 36% from Ksh 27.9 Billion as at December 2013 to Ksh 37.9 Billion as at December 2014.
- The Bank now has over 1.6 Million customers.



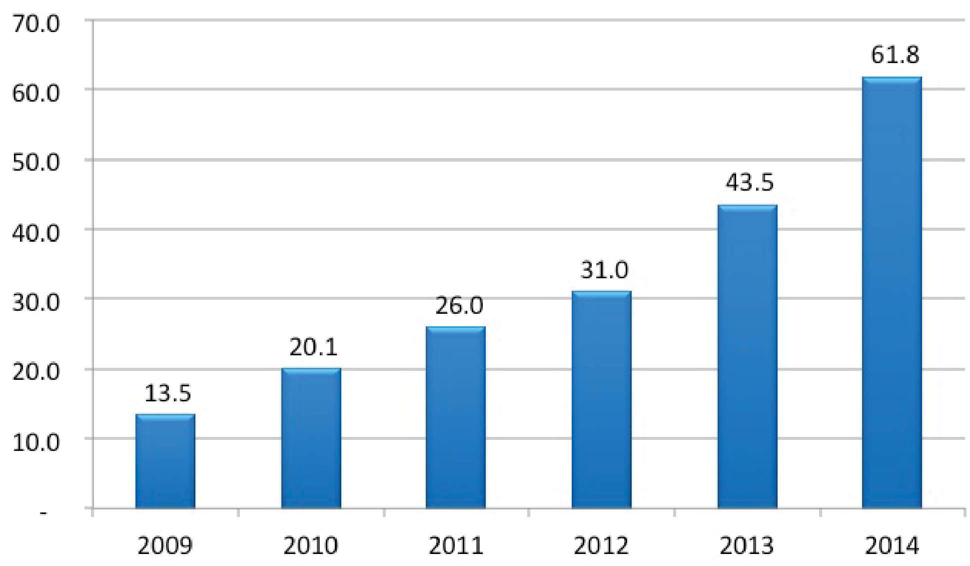
Profit Before Tax
(In Ksh Billions)

Profit before Tax increased by 49% from Ksh 1.76 Billion for the year ended 31st December 2013 to Ksh 2.62 Billion for the year ended 31st December 2014.



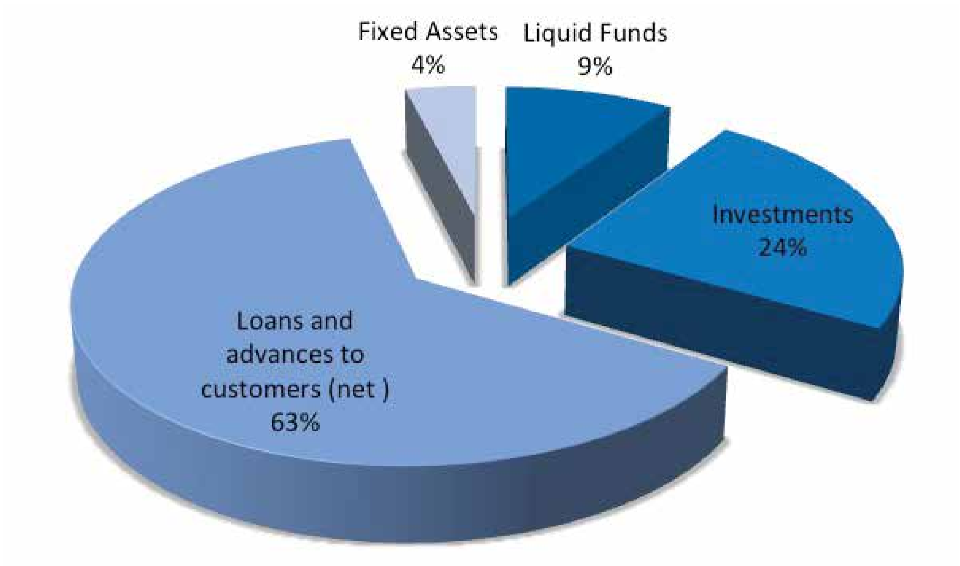
Customer Deposits
(In Ksh Billions)

Deposits grew by 36% from Ksh 34.6 Billion as at 31st December 2013 to Ksh 47.2 Billion as at 31st December 2014.

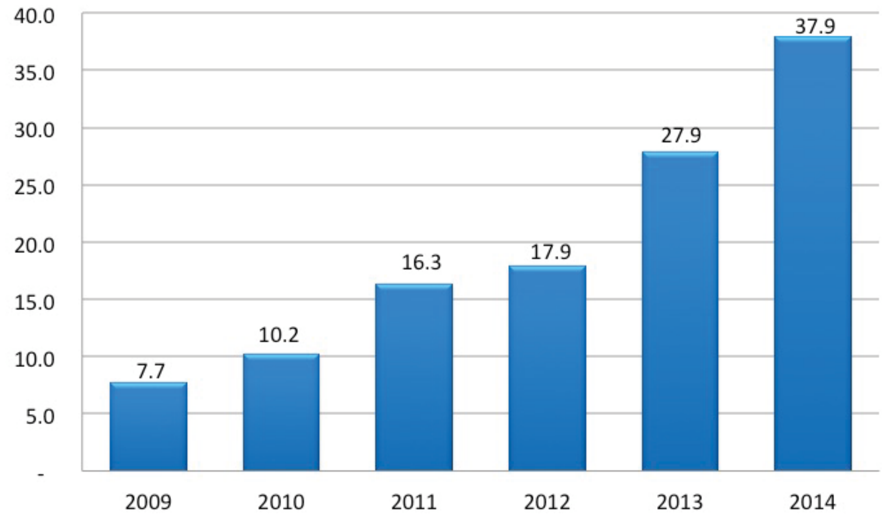


Total Assets
(In Ksh Billions)

Total assets grew by 42% from Ksh 43.5 Billion as at 31st December 2013 to Ksh 61.8 Billion as at 31st December 2014.

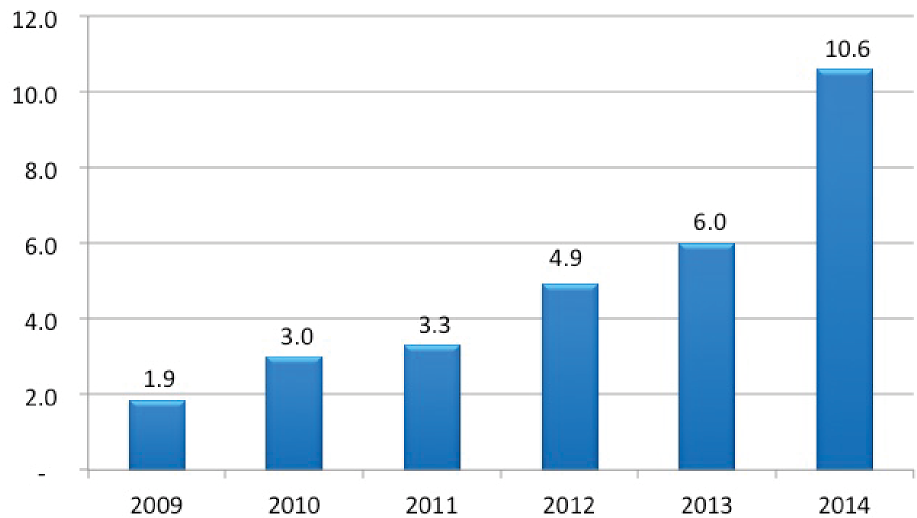


Composition of Assets



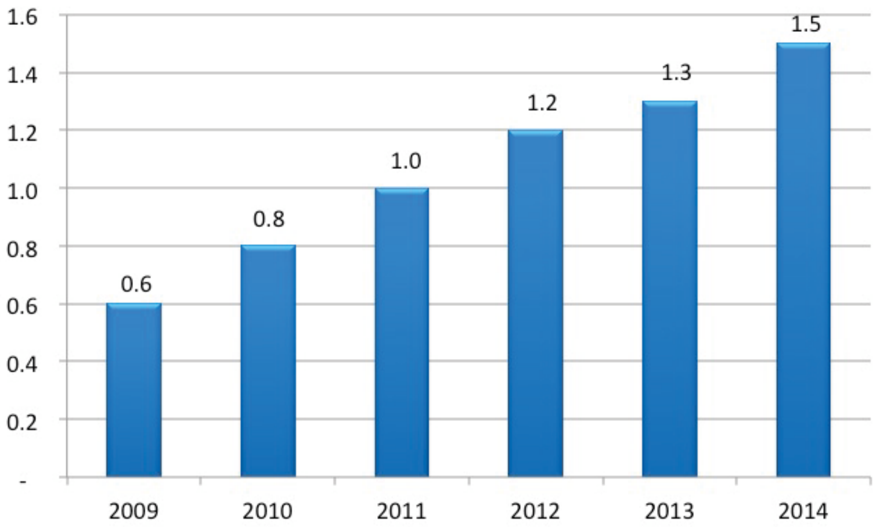
Loan Portfolio (Net)
(In Ksh Billions)

Loans grew by 36% from Ksh 27.9 Billion as at 31st December 2013 to Ksh 37.9 Billion as at 31st December 2014.



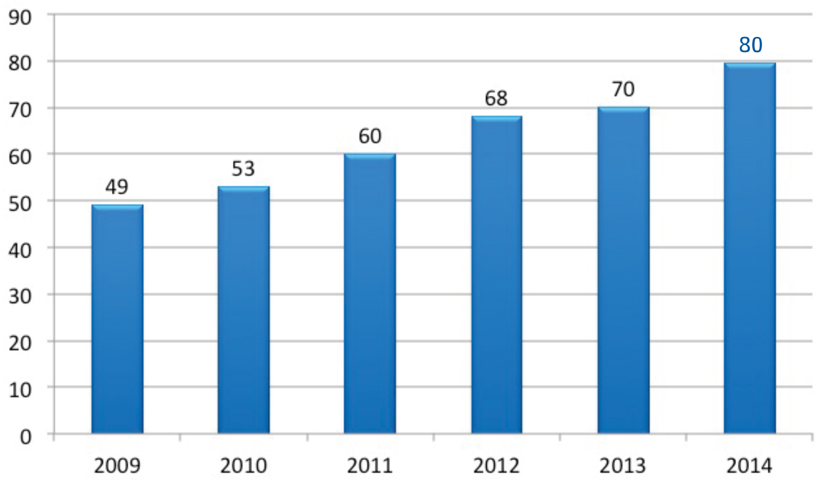
Shareholders' Funds
(In Ksh Billions)

Total Shareholders' funds grew by 78% from Ksh 5.97 Billion as at 31st December 2013 to Ksh 10.62 Billion as at 31st December 2014.



Number of Customers

The Bank has over 1.5 Million customers



Number of Branches

Operating Environment

The year 2014 started well after peaceful elections in March 2013.The Jubilee Government embarked on major infrastructure and development projects and building closer ties with the East African community neighbors. However incidences of terrorism in Lamu, Mandera, Garissa and Mombasa by Al-Shabab were a reminder that insecurity is still a big challenge in the region and if not checked will have serious political and economic repercussions.

Economic

In 2014, the Kenyan economy GDP grew by 5.3% compared to 5.1% recorded in 2013 and based on this trend, the targeted growth for 2015 was revised to 6%. The growth was attributed to 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. The economy continues to leverage on the ongoing heavy investment in infrastructure in the areas of road, power, rail and administrative projects. The adoption of sound macroeconomic conditions and the attainment of medium term plans of Vision 2030 remains the key focus of the government through the planned flagship projects to move the country to a middle income Economy and attain annual target growth rate of 10%. Kenya was ranked first in Africa as an investment destination.

However, the growing government spending, a burgeoning public wage bill and the uncompetitive business environment and growing insecurity poses serious economic challenges for Kenya.

Banking Sector Developments

The Central Bank of Kenya (CBK) revised the prudential guidelines effective 1st January 2014, which required Banks to inject more capital to address the operational risk, market risk as well as the existing credit risk. Additionally banks are also required to maintain a capital buffer of 2.5% over and above the current statutory minimum of 12% with effect from 1st January 2015. Several banks engaged in capital raising ventures during the year to meet the new CBK prudential guidelines.

The Kenyan banking sector continues to be very competitive. During the year we saw entry of new deposit taking microfinance institutions (DTMs) and SACCOs. These new institutions will offer some competition to banks especially in the micro and retail mass market business sector.

The banking sector continued to see increased innovations such as mobile banking and other alternative banking channels like Agency Banking and Cash lite 'tap and go' solutions. These platforms provide convenient, affordable and flexible new channels for serving customers and extending outreach and financial inclusion to the Kenyan population.

Telcos have increasingly become major competitors for banks. However a number of banks are partnering with Telco's to grow their customer numbers and expand their portfolio beyond Brick and Mortar Branches. This renewed focus on growing non-funded income lines is motivated by the relentless compression of the margins being enjoyed by banks driven mainly by the introduction of Kenya Bankers Reference Rate (KBRR) as a basis for pricing of credit facilities by the Central Bank.

Corporate Governance

Corporate governance continues to be an important focus area for us as changes in regulations and best practice continues to evolve. Our Board Charter is dynamic as is our approach to the board composition, board independence and composition of the various board committees. Having a strong management team continues to be key to the Bank's operations. Management and the various board committees continue to play a vital role in supporting the Main Board in discharging its mandate and meet stakeholders' expectations.

Risk management framework founded on local and international regulatory guidelines was also reinforced. The risk framework covers all risks across all functional levels of the Bank. In additionto the Board credit, and the Board H.R Commitees. There is also a Board Risk Committee and a Risk & Compliance Department at management level tasked to closely monitor the various types of identified risks and the mitigants that should be in place.

Corporate Social Responsibility (CSR)

In 2014, 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 shareholders and customers. The Bank is committed to supporting worthy causes and projects from various sectors in the areas of sports, education, healthcare and community empowerment as follows:

Sports

- 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 athletes who have gone to win international marathons. In the year 2014 the Bank doubled its athletic investment to Ksh 6 Million towards this initiative that saw over 3000 athletes participate in the Eldoret Marathon. During the year, the Bank also sponsored golf at Eldoret Club, with the day dubbed, "Family Bank Golf Day".

The Managing Director Family Bank - Mr. Peter Munyiri presents a sponsorship cheque for 2014 Family Bank Eldoret Half Marathon to the Athletics Kenya President Mr. Isaiah Kiplagat. With him is Mr. Moses Tanui and Abraham Mutai.

Athletes race through the streets of Eldoret during the Bank's annual Eldoret Half- marathon.

A golfer tees off during during a golf tournament sponsored by Family Bank at Eldoret Sports Club.

Family Bank Chairman WD Kiboro toasts with founder Chairman Emeritus TK Muya during a Bank's corporate function. Looking on is Dr. Kabiru Kinyanjui, a director in the Bank.

Support for Education

- Family Bank appreciates the role played by education in the society and the Kenyan Economy at large. "The Education Scholarship Fund" launched in 2012 continues to support bright but very needy children access quality education. The fund is currently sponsoring over 200 students in paying school and boarding fees. Early in the year the "The Family Group Foundation" was officially launched at a colorful ceremony presided over by the Cabinet Secretary for Finance, Henry Rotich accompanied by other senior government officials.

  The Foundation is the philanthropic arm formed in partnership with Family Bank, Kenya Orient Insurance Ltd and Daykio Plantations Ltd. Through 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 2014 we also supported Starehe Girls Centre during their fund-raising initiatives which included a Charity Golf event at Windsor Country Club and Dinner hosted by the Botswana High Commission.

Ms. Anne Njeri, the Executive Director - The Family Group Foundation takes sponsored students through a mentorship session during the August holiday.

Medical Support

- Towards the end of 2014, the Bank's Executive Committee members visited the children's Cancer Ward at Kenyatta National Hospital to encourage the children and made a cash donation to the Ward. We are optimistic that this partnership will continue to provide comfort and alleviate some of the challenges facing the Health Sector in Kenya.

Family Bank Senior Management team extends a helping hand to Kenyatta National Hospital's children cancer ward during Christmas 2014.

Chairman Emeritus, Mr. TK Muya and other officials from The Family Group Foundation present a sponsorship cheque to the First Lady, Mrs. Margaret Kenyatta in support of the Beyond Zero Campaign.

Community Empowerment

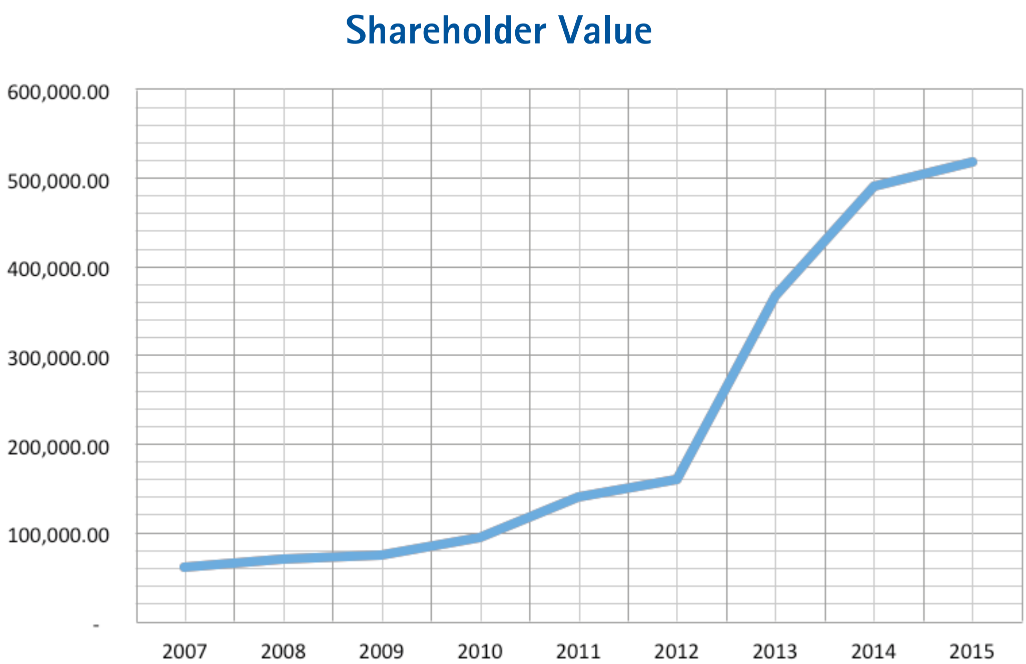
In 2014, as has happened in previous years all the branches and departments were tasked to participate in a CSR activity within their localities. The Bank also participated in the World Disability Day and sponsored people living with disability empowerment program held at CITAM - Valley Road.

Rights Issue and Growth in Shareholder Value

The success of the Bank in the last eight years has translated into tremendous growth in Shareholder value, increasing the wealth of its shareholders by paying dividends and an increase in share price. For a shareholder who purchased 1,000 shares in 2006, through a series of rights issues and share splits undertaken in 2009, rights issue and bonus in 2012, share split and rights issues in 2014, the total holding should now be 17,239 shares representing a growth in value of more than 750%.

I am pleased to once more announce the 100% successful uptake of the rights issue approved in September 2014 resulted in additional capital of Ksh 3 Billion. The rights issue coupled with the retained profits earned during the year resulted in the shareholders' funds growing by 78% from Ksh 5.97 Billion as at 31st December 2013 to Ksh 10.62 Billion as at 31st December 2014. This will go a long way in ensuring the Bank meets its growth strategy funding needs and achieve its Vision of becoming a Tier 1 Bank in the next few years. Additionally the capital injection will help the Bank to meet the statutory CBK Capital Requirements.

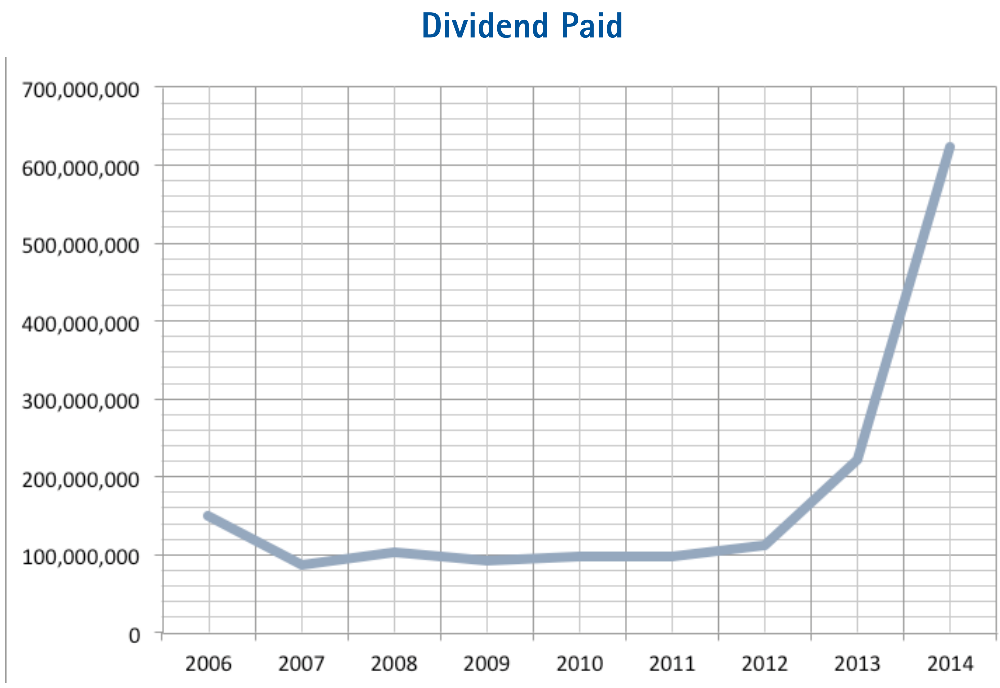
Our existing and new potential customers (including from new emerging sub-sectors of the economy), require more products and services as well as increased lending and higher borrowing limits. Our single borrower limit has improved significantly to over Ksh 2Billion to take on the larger corporate business.



Dividend

The Bank recognizes the need to maximize shareholder value by paying dividend as well as retaining adequate reserves for re-investing back to support the ambitious growth strategy as well as meeting the statutory capital ratios. With the sterling performance recorded by the Bank in 2014 the Board recommends a first and final dividend of Ksh 0.50 per share of par value of Ksh 1 each.

Shareholders will recall that last year, the Bank paid a dividend of Ksh 222.8 Million in addition to issuing one-for-one bonus shares to existing shareholders during the year. In comparison, the recommended dividend by the Board for this year is almost 3 times that paid out last year and if approved will be the highest ever dividend paid to shareholders.



Dividend Paid (the dividend for 2014 it's proposed by the board for approval by the shareholders in the AGM)

1. 2006 – 2.50 (Kshs – 150,000,000)
2. 2007 – 1.25 (Kshs - 86,461,586)
3. 2008 – 1.50 (Kshs – 103,753,904)
4. 2009 – 0.50 (Kshs - 92,054,858)
5. 2010 – 0.40 (Kshs – 96,836,977)
6. 2011 – 0.40 (Kshs – 96,836,977)
7. 2012 – 0.40 (Kshs – 111,399,054)
8. 2013 – 0.40 (Kshs – 222,809,346)
9. 2014 – 0.50 (Kshs – 622,593,598)

Outlook for 2015

As a Bank we shall continue to rely on the support and goodwill of all our stakeholders and our customers in particular. We have set some very stretching targets but given the focus, energy, dedication and commitment of our Board, management and staff we are optimistic of achieving great results in 2015.

We will continue to focus on positively transforming peoples' lives through the provision of quality financial services and efficient customer service. We will leverage on technology and innovating new products and services to support the growing financial needs of our customers. In this regard, the bank will invest substantial amount in capital to upgrade its IT infrastructure. The Bank will also continue expanding its branch network.

With the phenomenal growth that we continue to experience as a bank and to ensure we uphold the growth momentum and meet the statutory ratios, the Board will continue to explore various funding options both in equity and debt financing.

In 2013 we signed a Ksh 2 billion debt financing agreement with the European Investment Bank (EIB) and exhausted the facility in 2014. We are currently in discussions with other international partners like OIKO Credit, Proparco, Responsability and AFDB for more funding to support our growth strategy. We started discussions with OIKO Credit in 2014 and the loan disbursement is to take place in 2015.

Conclusion

We are growing at a very fast pace despite the challenging operating environment. We are registering exemplary financial performance; outperforming the industry now for the second year in a row. This growth is a clear demonstration of our ability and commitment to build a sustainable business in Kenya. We seek to leverage the vast opportunities locally to maintain our winning formula.

On behalf of your Board of Directors, I take this opportunity to thank our shareholders for their confidence in the bank and supporting it fully, our customers for your tireless support and clear demonstration of your faith in the Bank and its growth strategies. We are deeply indebted.

I also sincerely thank 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 also 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 and other stakeholders for providing an enabling business environment and for supporting us in our activities to help us grow, and serve our customers better.

My colleagues in the Board who have always provided me and the Bank invaluable support and guidance to whom I owe my utmost gratitude. I am confident that with continued focus and goodwill, the great efforts will yield even higher returns to our shareholders next year.

Thank you

Mr. Wilfred D. Kiboro
Chairman

MANAGING DIRECTOR'S STATEMENT

Dear Shareholders,

I am delighted to present the Bank's Annual Report and Financial Statements for the year 2014. This has been a very good year for the Bank, during which we posted impressive results despite stiff competition from Banks, Non-bank Financial institutions and Mobile Network Operators (MNOs). During the year we posted very robust growth and enhanced our Alternative Business

Channels (ABC) including Pesa-Pap Agents, VISA Debit Card, Diaspora Banking and money transmission Services. We have continuously improved our ICT channels and consolidated gains in new business areas like Treasury, Trade Finance, Institutional Banking and Corporate Banking business. We continued to leverage on the strategic partnerships with key high value institutions.

Our market share grew in all the business segments which is a clear manifestation of our strong brand and commitment to our vision of positively transforming peoples' lives.

Financial Performance

The year under review is the third year in which we have been able to drive our redefined growth strategy and we again defied the difficult macro-economic environment to register tremendous growth in all key financial performance indicators.

Profit Before Tax (PBT) increased by 49% from Ksh 1.79 billion to Ksh 2.6 billion for the year ended 31st December 2014. This commendable financial performance strengthened the Bank's position as the fastest growing bank in the industry further entrenching the company in the Billionaire Profit rankings league.

For the second year in a row, the bank outperformed the banking industry. The remarkable increase in profit before tax was mainly attributed to expansion, growth in the customer base, lending and cost efficiency. Total assets grew by Ksh 18 billion representing a 42% increase from Ksh 43.5 billion as at 31st December 2013 to Ksh 61.8 billion as at 31st December 2014. This high growth in assets was primarily attributable to the growth in the number of customers, the loan book and branch expansion. Net loans and advances stood at Ksh 37.9 billion as at 31st December 2014 compared to Ksh 27.9 billion as at 31st December 2013, representing a 36% growth.

The customer base stood at Ksh 1.5 million as at 31st December 2014 up from Ksh 1.3 million customers as at 31st December 2013. Consequently, our customer Deposits grew by 36% from Ksh 34.6 billion as at 31st December 2013 to Ksh 47.2 billion as at 31st December 2014. This was as a result of an aggressive customer growth campaign, a strong presence in the institutional banking sector and expansion of the branch network.

The shareholders' funds grew by 78% from Ksh 5.97 billion as at 31st December 2013 to Ksh 10.62 billion as at 31st December 2014 mainly due to the growth in retained earnings from the high profits earned and a successful capital injection in the last quarter of the year. Reflecting our confidence in our plans to step up profitability and free cash flow through organic growth and operational excellence, we launched a successful cash call in the last quarter of 2014. This will not only improve the efficiency of our balance sheet but bolster our expansion efforts and ICT investments.

The Bank's CBK Statutory Ratios remained strong and way above the statutory minimum with the core capital to total deposit ratio at 21.6%, core capital to total risk weighted assets 19.6%, total capital to total risk weighted assets at 20.3% and liquidity ratio at 40.8% against the statutory minimum of 20%.

Growing our outreach

The Bank continues to strengthen its universal banking business model in line with our five year growth Strategy, aimed at propelling us into a Tier 1 bank in the next few years. This will be attained through a well-coordinated effort of expansion and continued operational efficiency.

Branch Expansion and Alternative Business Channels (ABC)

We rolled out 9 additional branches to our network in the year 2014 to close with 80 branches. In addition, we are expanding the Bank in the counties we are not yet represented to position our business in the devolved government structures and simultaneously broaden our customer base.

The Bank also has 146 ATMs installed to date and is also a member bank of Kenswitch and PesaPoint ATM networks with 1150 and 65 ATMs respectively. In our endeavor to provide excellent customer service beyond normal working hours we have continued to expand our Pesa Pap agents and our ATMs to enable customers access our services 24/7. This has tremendously increased the number of transactions to our business.

Agency banking remains top on our agenda as a key driver of customer numbers and growing non-funded income lines. Currently we have 2178 active Agents in the market serving customers. We project to close the year with over 3000 agents. The main advantage of alternative business channels is their cost-effectiveness, greater outreach, longer access hours and convenience especially for our customers. 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 be innovative in the following more value-adding products and service offering:

- **VISA Debit Card Campaign –** we held a very successful brand building campaign that was geared towards opening of more accounts and growing our retail deposits. We target to maintain media presence as well as below the line communications and local community activations to ensure that our strong brand and presence continues to be felt even much more.

- **Retail Banking Business –** we have further continued to re-model our Retail Banking Business to enable strategic focus on the SME, Micro, Agribusiness and Consumer Banking market segments. This gives us wider 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. The Agribusiness strategy that has earned the Bank accolades of being the most popular farmers' bank in many counties, focuses on the agricultural sector through our competent field officers.
  The Consumer Banking strategy focuses on the salaried employees, mainly though working partnerships with employers to offer tailor made comprehensive banking solutions to their employees. We have innovative relevant products for all these key segments.

- **New Branch Model –** in our endeavor to further improve on our customer service delivery we continued with our new branch model. This branch concept with streamlined, efficient processes was adopted because it facilitates optimal utilization of staff and other resources within our branches and other distribution channels. This is complemented by a comprehensive staff training curriculum that is being rolled out as part of the model branch initiative

- **Platinum Banking Centres –**. We have also continued to roll-out platinum Banking centres in selected Branches across the country to address the unique service needs of some of our high end customers who are also being served by dedicated Relationship Managers. More such centres are being rolled out going forward. These centres have come in at a time when we have extended banking hours in some of our branches from 8am to 8pm.

- 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 alternate channels including mobile banking through Pesapap, internet banking and ATMs.

- **Expand Branch network; Enhance product offering through ABC channels**

  To grow our outreach, we have opened more branches across the country and ventured into new market segments. We further plan to open a total of 12 branches in 2015 and we have so far opened an additional 9 branches in 2014. We thus have 80 operational branches. We envisage to close the year with 92 branches. We shall also expand the ATM and agency banking channels to enable the bank further compete for business and enhance customer service delivery.

- **Visa Card payment systems**

  To comply with CBK regulations, we completed the (Euro, MasterCard, Visa cards), EMV VISA Card compliance project in 2014. We continue to roll-out the various EM compliant VISA cards which include: VISA Classic Debit Card, Mkenya Daima Classic Debit Card-Diaspora and VISA Gold Classic Debit Card. We also launched our VISA Classic Credit Card and VISA Gold Credit Card in March 2015 for all our customers.

Corporate Banking, Institutional Banking and Strategic Partnerships

In the period under review, the Bank continued to optimize on the 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 momentum and in the last 3 years we have been able to bag a sizeable number of large corporate clients across the entire 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 ofCredit (LCs), Standby LCs, import duty financing. We have a team of dedicated Relationship Managers who areexperts 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 those corporates, this solution allows them to access banking services remotely and conveniently without the need to travel physically to the bank.

- We have further enhanced our business relationships with the Government and quasi-government organizations as well as driven a full blown marketing strategy for the county Governments.

- Paynet Group: To provide and optimize on the Visa platform and open the bank to transactions on any Visa branded pay points we partnered with the Paynet Group.

- Sacco: Family Bank entered into a partnership with Stima Sacco Society and Kingdom Sacco to act as their agent whereby customers can deposit and withdraw cash through our branches. In addition , they can clear their cheques through our Bank further enhancing this relationship.

- We also continue to create partnerships with other institutions and companies to deploy mobile banking platforms for enhanced transaction income and fee based revenue streams.

The Managing Director Mr. Peter munyiri presents a cheque to the Tajirika na Mamilioni promotion Grand winner Ms. Winnie Mueni.

Information Technology, Systems and Processes

In order for the Bank to continuously offer excellent customer service and remain competitive, we continued to make more investments in our ICT systems. Some of the key enhancements to our infrastructure include:

- **Infrastructure upgrade**

  We embarked on a project to upgrade our branch network infrastructure and data center to efficiently process high volume transactions.

- **Call Centre & Help Desk Setup**

  We have introduced a modern 24/7 Call Center with technologies that are able to measure turnaround time on issue resolution.

- **New Mobile Platform**

  A better robust mobile platform with more functionality will be rolled out in 2nd quarter. It will support mobile applications together with USSD

- **Revamped Internet Banking platform**

  We have introduced a new look and feel on our internet platform. We have upgraded it to support both SME and corporate customers.

- **Biometric Implementation & Linkage with government database (IPRS)**

  We have started implementing biometric system to enhance our system security. We will have covered all branches by close of year.

- **Cashlite Implementation**

  Cashlite POS acquiring. We have rolled out over 2,000 POS terminals for the transport sector. This will support the use of POS Machines as Acquiring devices for the Kenyan PSV Industry which will further develop efficiencies around the transport industry in the country.

Conclusion

The Bank's management and staff are cognisant of the challenges and opportunities that are ahead of us but we are excited about the growth prospects these present to our business. Our commitment to you is to drive the Bank's growth strategy and gain a bigger market share. We will also continue to pursue excellence in service delivery as we grow our customer base.

We thank you, our Shareholders for being a part of this journey and look forward to celebrating more success with you. My sincere gratitude to our customers for all the support they have given our bank over the years. I take this opportunity to invite and welcome new customers to our bank. I also register my appreciation to the Board of Directors for their continued support, oversight, and guidance. I also most sincerely thank the management and staff for their selfless effort, drive and determination in this journey. We sincerely value all key stakeholders who have helped us accelerate and unlock our potential and steer the business to greater heights.

Thank you and God bless

Peter Munyiri
Managing Director & Chief Executive Officer

A wholly owned subsidiary of Family Bank Limited which was incorporated in 2008. The company was licensed in May 2010 and is regulated by the Insurance Regulatory Authority.

The company offers a variety of insurance products as follows:

Motor Insurance

It is a legal requirement in Kenya to have a motor insurance (Chapter 405, Laws of Kenya). This insurance gives protection in the event that the vehicle is involved in an accident, ,stolen or set on fire. It also covers third parties. The insurance package is determined by the type of motor vehicle being insured and the number of risks to be covered.

Motor Insurance Classes

- Private Car
- Commercial vehicles
- Lorries
- Specified trailers
- Articulated vehicles
- Public Service vehicles
- Motor Cycles

Private Motor insurance

No Excess for material damage over Kshs. 20,000/-
Courtesy Car (after 3 days of accident)
Personal Accident Cover for insured & spouse
24 Hours Rescue Service
Commercial Motor Insurance
No Excess for material damage over Kshs. 20,000/-

Marine Insurance: this covers the risk of loss, destruction or damage to the goods transported by sea, air or land. The cover is meant for importers of raw materials or finished products. The cover begins from the time the goods leave the warehouse or place of storage and continues during the course of transit and terminates on delivery to the consignee or final storage at the destination.

Education Plan

This provides insurance for the life of the child for a specific period of time. It may also include an early payment feature allowing the recipients a specific percentage of the insured amount each year with the remainder of the sum assured plus interest paid at the end of the policy term. The policy may also guarantee the payment of partial maturity benefits upon the death of the insurance holder or the remainder of sum assured plus bonus upon the death of the child or at the maturity of the insurance

Funeral Covers

Our funeral expense package will go along to protect the financial security of you and loved ones in case of such a misfortune.

Life Covers

We offer various kinds of life covers to suit you and family needs.

- Personal Accident Insurance: Accidents can happen anywhere anytime and may deprive the person the ability to earn an income due to hospitalization. Worst still death. This cover will protect you and your loved ones in case of such a misfortune.
- Endowment Plans: it gives a combination of death protection and investment for a stated period of time. If the insured survives the time period, the insurance amount is paid to the insured.
- Term Life: it protects the insured for a stated period or term on a limited budget. It is advisable to take this cover if for example, when paying for school fees, paying for a bank loan or mortgage
- Whole Life: This is a policy that provides life assurance to the value of the face amount if the assured happen to die. The cover may also provide other benefits such as bonuses and loans based on cash value of the policy
- Group Life: A Group Life policy is a renewable life assurance scheme set up by the employer, to insure the employees against the risk of death from illness or accident during employment

Fire & Burglary

Fire

It covers loss or damage to property caused by fire, lightning, explosion, earthquake, bush fire, riot and strike, floods, and related perils. The risk may involve commercial, private dwelling premises, goods in trade, domestic or property held by a business enterprise

Burglary

It buildings and contents against theft that is by means of forceful entry or exit.

Goods in transit

It gives protection against loss or damage to various types of goods while in transit by road, rail or any inland waterway within the geographical area as stipulated in the policy

Individual Medical Insurance

Designed to provide peace of mind for you and your family in case of hospitalization
The cover provides a comprehensive and flexible hospitalization inpatient cover and outpatient cover

Home Insurance

Affordable insurance that protects your residential property and assets such as buildings, furniture & fixtures and all household equipment and personal items in the event of fire or theft.

BANCASSURANCE TEAM

From Left standing – Barrack Onyango ,David Kinyanjue, Dipesh Shah(General Manager), Raphael Muema, Edmond Ochola.

From Left seated – Beatrice Macharia, Mercy Munene, Maureen Muriuki, Carol Mutegi, Catherine Kamanu

1. STATEMENT OF COMPLIANCE

The Board and management of the Bank continue to comply with the Corporate Governance guidelines and Code of Conduct prescribed by Central Bank of Kenya (CBK) Prudential Guidelines for the banking industry. The Board recognizes the fundamental role of corporate governance in enhancing the culture and business performance and that high standards of corporate governance are a key contributor to the long term success of a company, creating trust and engagement between the company and its stakeholders.

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.

2. RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report is used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Kenyan Companies Act and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit the website familybank.co.ke and click on investor relations for general information on the Company as well as annual reports. In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Company's performance in general meetings.

3. BOARD COMPOSITION

The Group has a competent Board of Directors bringing together diverse backgrounds and expertise necessary to provide leadership to the bank. The Board comprises of seven non-executive Directors (five of whom are Independent Non-Executive Directors), three executive directors and one alternate Director. Dr Kabiru Kinyanjui resigned from the board with effect from 31 March 2015 after serving the Bank for Fourteen years.

4. BOARD INDEPENDENCE AND CONFLICT OF INTEREST

The Prudential Guideline No 2 prescribes the criteria for independence and minimum ratio of independent directors to the total Board of Directors as one- third. The Bank is in compliance with these requirements. The Board has set 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 Directors are required to disclose their areas of conflict.

Directors are required to refrain from contributing to or voting on matters in which they have such conflict. As a board we encourage independence by objectively challenging management; challenging each other's assumptions, debating constructively and deciding dispassionately. Our decisions are aimed at supporting the ultimate good of the organisation.

As the Chairman, I have ensured that board decisions are taken on a sound and well-informed basis while encouraging 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.

The role of Chairman and the Managing Director are separate and distinct. The Board maintains a good working relationship with the Managing Director, Executive Directors and management without detracting from the Governance Principles of Accountability and Independence that must exist to ensure sustainable performance. In addition to the Managing Director, 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.

5. BOARD LEADERSHIP AND RESPONSIBILITY OF THE BOARD

As a Board we recognise our responsibility to provide 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 responsibilities of the Board which include:

1. 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.
2. The provision of the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.
3. Cognisant of our responsibility for defining appropriate governance practices and to ensure that such practices are followed and periodically reviewed for improvement, the Board has met 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 approved budget.
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

6. BOARD ACTIVITIES 2014

6.1 Board attendance

The Board convened Seven (7) board meetings during the year. All the meetings convened had sufficient quorum. The attendance of all directors was over 75% and therefore in compliance with the CBK prudential guidelines.

The attendance of the individual directors was as follows:

Directors	Total Attendance
Wilfred D Kiboro (Chairman)	86%
Kabiru Kinyanjui (Vice Chairman)	100%
TK Muya	100%
David Some	86%
David Kimani	86%
Ruth Waweru	100%
Lerionka Tiampati	100%
Peter Munyiri	86%
Njung'e Kamau	86%
Mark Keriri	100%

6.2 Board Training and Continuous Professional Development 2014

During the year, the board members attended training on Risk Management as part of Continuous Professional Development and in line with CBK Prudential Guideline on Corporate Governance. The training covered enterprise risk management, risk governance, risk assessment, risk response, risk monitoring, risk reporting and capital management.

6.3 Board Evaluation

The annual Board evaluation was conducted in March 2015 in a process led by the Chairman to the Board and supported by the Company Secretary. The Board engaged an independent advisor Deloitte & Touché to analyse the results of the evaluation and table the findings before the Board.

The evaluation entailed an evaluation of the board, peer evaluation for each director, evaluation of the Chair to the Board. It covered overall Board interactions, conduct of board meetings and scope of control exercised by the directors. Following the exercise, the directors identified areas that required further consideration by the Board and these issues have been captured in the rolling agenda.

7.0 COMMITTEES OF THE BOARD

The Board has six Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk management Committee, the Board Credit Committee, the Board Nomination Committee, Board Strategy Committee and the Human Resources Committee. Three of the five committees are mandatory from a regulatory perspective while three have been established to provide dedicated oversight on specific key functions of the bank. Board Committee members are appointed by the Board which also reviews the composition of each Committee regularly.

7.1 Board Audit Committee

The Committee reviews the integrity of the financial statements of the Company and its subsidiaries and recommends the statements for approval to the Board, the effectiveness of the Company's system of internal control and receives reports on the findings of the internal and external audits and tracks the actions on audit findings. The Committee also reviews the proposed work plans for the Internal Audit and Compliance functions at the beginning of each year

The Committee held three meetings during the year under review. The members of this committee during the year under review were Mr David Kimani (Chairman) Dr Ruth Waweru and Mr Lerionka Tiampati. The Head of Internal Audit attended all Committee meetings.

7.2 Board Credit Committee

The Credit Committee plays a critical role in the formulation and review of lending policies and ensures that such policies are in compliance with regulatory requirements. It assesses the credit quality and risk profile of the Bank's lending book by sector and by product and makes recommendations to the Board on remedial actions or on matters that may enhance the quality of the lending book.

The committee met three times during the year under review. The members of the committee in the year under review were: Prof. David Some (Chairman) Mr Kabiru Kinyanjui, Mr W.D Kiboro, Mr T.K Muya, Mr Peter Munyiri, Mr Njung'e Kamau. The Director Credit attended all Committee meetings.

7.3 Board Risk Management Committee

The Committee oversees the group's preparedness and mitigation for the major risks faced by the Group across the business including operational risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk. The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing the risks.

The Committee met four times during the year and recorded a quorum during all its meetings. The members of the Committee in the year under review were Mr. David Kimani (Chairman), Dr Ruth Waweru, Mr. Peter Munyiri and Mr. Keriri Muya. The Head of Risk and Compliance attended all Committee meetings.

7.4 Board Human Resource Committee

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 in Human Resources Management and act as a medium of key management staff and new Board members' recruitment and ensures that the organizational structure supports the business strategy and growth.

The Committee met five times during the year under review. The members of the Committee are Dr Kabiru Kinyanjui (Chairman) Mr T.K Muya, Mr W. D Kiboro, Prof. David Some and Mr. Peter Munyiri. The Director Human Resources attended all the Committee meetings.

7.5 Board Strategy Committee

The Committee analyses the strategy of the Group and provides oversight over the implementation of the strategy approved by the Board by reviewing progress on a regular basis. They review the budget and strategic plan of the Group prior to submission to the Board.

The Committee met five times during the year and achieved sufficient quorum in all its meetings. The members of the Committee are Dr Ruth Waweru, Mr W.D Kiboro, Mr T. K Muya, Mr Lerionka Tiampati, Mr Peter Munyiri, Mr Njunge Kamau and Mr. Mark Keriri. The Head of strategy and other members of management attend the meetings of the Committee.

7.6 Board Nomination Committee

The Committee regularly reviews the structure, size and composition of the board and make recommendations on any adjustments deemed necessary. It identifies, nominates and recommends for the approval of the board, candidates to fill board vacancies as and when they arise.

The Committee was set up in March 2014. The Committee members are Dr Ruth Waweru, Mr WD Kiboro and Mr T K Muya.

8. BOARD PERFORMANCE

The Board had full access to corporate information and sufficient detail to enable a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard. Overall, the Board's performance was efficient and effective, leading to the remarkable performance of the Group in all parameters during the year.

Chairman
2015

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual 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 2014, which show the state of affairs of the group and of 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 banc assurance services through insurance agency services.

GROUP RESULTS

The following is the summary of the results for the year ended 31 December 2014:

	Group Sh'000	Bank Sh'000
Profit before taxation	2,665,060	2,618,359
Taxation charge	(855,275)	(837,757)
Profit for the year	1,809,785	1,780,602
	=======	=======

DIVIDEND

The directors recommend a first and final dividend of Sh0.50 (2013: Sh0.40) per share for the year amounting to Sh 622,593,598 (2013: Sh222,809,346) subject to shareholders' approval at the Annual General Meeting.

DIRECTORS

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

COMPANY SECRETARY

Jacqueline Oyuyo Githinji resigned as the company secretary on 31 December 2014. Rebecca Mbithi was appointed as the company secretary on 15 January 2015.

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 2015

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 and its subsidiary 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 of 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.

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Chairman Managing Director

2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAMILY BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Family Bank Limited and its subsidiary, set out on pages 12 to 70, which comprise the consolidated and bank statements of financial position as at 31 December 2014, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated statement 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 about 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 2014 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.

Report on Other Legal Requirements

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

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

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

iii) the bank's statement of financial position(balance sheet) and statement 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 CPA Anne Muraya P/No - 1697.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

2015

CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

		Group		Bank	
	Note	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
INTEREST INCOME	6	7,121,576	5,354,441	7,121,576	5,354,441
INTEREST EXPENSE	7	(1,748,220)	(903,593)	(1,750,857)	(904,040)
NET INTEREST INCOME		5,373,356	4,450,848	5,370,719	4,450,401
Foreign exchange gain		111,444	66,500	111,444	66,500
Fee and commission income	8	2,359,721	1,703,167	2,359,721	1,703,167
Other income		167,950	82,510	83,619	34,304
OPERATING INCOME		8,012,471	6,303,025	7,925,503	6,254,372
Operating expenses	9	(4,957,467)	(4,196,140)	(4,917,200)	(4,174,605)
Impairment charge on loans and advances	17	(389,944)	(321,848)	(389,944)	(321,848)
PROFIT BEFORE TAXATION		**2,665,060**	**1,785,037**	**2,618,359**	**1,757,919**
TAXATION	11	(855,275)	(539,651)	(837,757)	(531,516)
PROFIT FOR THE YEAR		**1,809,785**	**1,245,386**	**1,780,602**	**1,226,403**
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,809,785	1,245,386	1,780,602	1,226,403
		========	========	========	========
EARNINGS PER SHARE		Sh	Sh	Sh	Sh
Basic and diluted	12	1.61	1.11	1.58	1.09
		========	========	========	========

CONSOLIDATED AND BANK STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

		Group		Bank	
	Note	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
ASSETS					
Cash and bank balances with Central Bank of Kenya	13	5,532,611	4,356,675	5,532,611	4,356,675
Balances due from banking institutions	14(a)	7,378,051	3,037,433	7,378,051	3,037,433
Government securities	15	6,051,181	4,796,459	6,051,181	4,796,459
Loans and advances to customers	16	37,925,476	27,943,360	37,925,476	27,943,360
Corporate bonds	18(a)	554,830	588,412	554,830	588,412
Commercial paper	18(b)	700,000	-	700,000	-
Other assets	19	1,001,555	484,540	982,802	472,225
Investment in subsidiary	20	-	-	1,000	1,000
Investment properties	21	127,400	106,000	127,400	106,000
Property and equipment	22	2,083,099	1,705,621	2,080,202	1,704,021
Intangible assets	23	317,620	328,213	316,530	328,213
Prepaid operating lease rentals	24	162,580	167,190	162,580	167,190
TOTAL ASSETS		**61,834,403**	**43,513,903**	**61,812,663**	**43,500,988**
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Balances due to banking institutions	14(b)	209,291	436,310	209,291	436,310
Customer deposits	25	47,136,480	34,582,587	47,186,425	34,614,686
Taxation payable	11(c)	222,608	221,023	221,971	215,453
Borrowings	26	2,900,335	1,343,811	2,900,335	1,343,811
Other liabilities	27	658,113	913,555	655,819	913,836
Unclaimed dividends	28(a)	12,587	6,514	12,587	6,514
Deferred tax liability	29	5,427	2,082	5,582	2,082
TOTAL LIABILITIES		**51,144,841**	**37,505,882**	**51,192,010**	**37,532,692**
SHAREHOLDERS' FUNDS					
Share capital	30	1,245,186	1,114,046	1,245,186	1,114,046
Share premium	30	5,063,676	2,100,251	5,063,676	2,100,251
Revaluation surplus		78,956	81,089	78,956	81,089
Retained earnings		3,944,241	2,456,490	3,875,332	2,416,765
Statutory reserve		357,503	256,145	357,503	256,145
TOTAL SHAREHOLDERS' FUNDS		**10,689,562**	**6,008,021**	**10,620,653**	**5,968,296**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**61,834,403**	**43,513,903**	**61,812,663**	**43,500,988**

The financial statements on pages 43 to 101 were approved and authorised for issue by the Board of Directors on 2015 and were signed on its behalf by:

Chairman

Managing Director

Director

Company Secretary

FamilyBank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	556,995	2,663,938	83,222	1,418,962	157,553	4,880,670
Total comprehensive income for the year	-	-	-	1,245,386	-	1,245,386
Bonus issue of shares (Note 30)	557,023	(557,023)	-	-	-	-
Rights issue proceeds	28	407	-	-	-	435
Rights issue costs (Note 30)		(7,071)	-	-	-	(7,071)
Dividend paid - 2013	-	-	-	(111,399)	-	(111,399)
Transfer to statutory reserve	-	-	-	(98,592)	98,592	-
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**
	========	=======	=====	=======	======	=======
At 1 January 2014	1,114,046	2,100,251	81,089	2,456,490	256,145	6,008,021
Total comprehensive income for the year	-	-	-	1,809,785	-	1,809,785
New issue ofshares (Note 30)	11,140*	111,406				122,546
Rights issue proceeds (Note 30)	120,000	2,880,000	-	-	-	3,000,000
Rights issue costs		(27,981)				(27,981)
Dividend paid - 2014	-	-	-	(222,809)	-	(222,809)
Transfer to statutory reserve	-	-	-	(101,358)	101,358	-
Transfer of excess depreciation			(3,047)	3,047	-	-
Deferred tax on excess depreciation	-	-	914	(914)	-	-
At 31 December 2014	**1,245,186**	**5,063,676**	**78,956**	**3,944,241**	**357,503**	**10,689,562**
	=======	=======	======	========	======	========

*The new issue of shares relates to new shares issued to the chairman.

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	556,995	2,663,938	83,222	1,398,221	157,553	4,859,929
Total comprehensive income for the year	-	-	-	1,226,403	-	1,226,403
Rights issue proceeds	557,023	(557,023)	-	-	-	-
Dividend paid – 2013	-	-	-	(111,400)	-	(111,400)
Rights issue proceeds (Note 30)	28	407	-	-	-	435
Rights issue costs (Note 30)	-	(7,071)	-	-	-	(7,071)
Transfer to statutory reserve	-	-	-	(98,592)	98,592	-
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**
	=======	=======	======	=======	======	========
At 1 January 2014	1,114,046	2,100,251	81,089	2,416,765	256,145	5,968,296
Total comprehensive income for the year	-	-	1,780,602	-	1,780,602	
New issue of shares (Note 30)	11,140	111,406	-	-	-	122,546
Rights issue proceeds (Note 30)	120,000	2,880,000	-	-	-	3,000,000
Rights issue costs (Note 30)	-	(27,981)	-	-	-	(27,981)
Dividend paid – 2013	-	-	-	(222,810)	-	(222,810)
Transfer to statutory reserve	-	-	-	(101,358)	101,358	-
Transfer of excess depreciation	-	-	(3,047)	3,047	-	-
Deferred tax on excess depreciation	-	-	914	(914)	-	-
At 31 December 2014	**1,245,186**	**5,063,676**	**78,956**	**3,875,332**	**357,503**	**10,620,653**
	=======	========	======	=======	======	========

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	31(a)	2,379,422	2,154,824
Taxation paid	11(c)	(848,298)	(434,604)
Net cash generated from operating activities		1,531,124	1,720,220
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(770,439)	(468,147)
Proceeds on sale of property and equipment		954	-
Purchase of intangible assets	23	(86,030)	(76,427)
Proceeds from disposal of investments in quoted shares		-	295
Net cash used in investing activities		(855,515)	(544,279)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received	26	2,331,920	637,500
Repayment of borrowings	26	(853,114)	(220,289)
Dividends paid	28	(216,736)	(106,360)
Proceeds from issue of shares	30	3,122,546	-
Rights issue costs		(27,981)	(6,636)
Net cash generated from financing activities		4,356,635	304,215
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR		5,032,244	1,480,156
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		5,174,735	3,694,579
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	31(b)	10,206,979	5,174,735
		========	========

1 REPORTING ENTITY

Family Bank Limited (The "bank") together with its subsidiary (together "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

2 ACCOUNTING POLICIES

Statement of compliance

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

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

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

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

i) New standards and amendments to published standards effective for the year ended 31 December 2014

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 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; and
- 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.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014).

2 ACCOUNTING POLICIES (Continued)

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

(i) New standards and amendments to published standards effective for the year ended 31 December 2014 (Continued)

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 amendments have been applied retrospectively.

The application of the amendments had no effect on the group's financial statements.

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

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU.

Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application.

The application of the amendments had no effect on the group's financial statements.

IFRIC 21 Levies

This addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation.

The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. IFRIC 21 requires retrospective application.

The application of the amendments had no effect on the group's financial statements.

2 ACCOUNTING POLICIES (Continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014 (continued)

New and Amendments to the standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (as revised in 2014)	1 January 2018
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010 - 2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011 - 2013 Cycle	1 July 2014

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 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 comprehensive income, with only dividend income generally recognised in profit or loss.

- 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 However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the group.

2 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the group anticipate that the application of IFRS 15 in the future will not have a significant impact on amounts reported in respect of the group's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the group uses the straight-line method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

2 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Continued)

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the group do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the group's financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The application of these amendments to IAS 19 will not have a significant impact on the group's financial statements because the group does not have a defined benefit scheme.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below

- The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

- The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

- The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

2 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

Annual Improvements to IFRSs 2010-2012 Cycle (Continued)

- The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required..

Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

iv) Early adoption of standards

The group did not early-adopt any new or amended standards in 2014.

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary for the year ended 31 December, 2014. The bank's subsidiary is shown in note 20.

Subsidiaries are those entities in which the group has power to exercise control over their operations. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

2 ACCOUNTING POLICIES (Continued)

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.

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 valuation considered the highest and best use of the property. The basis of valuation is as follows:

Freehold land and buildings – open market value

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.

2 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

i) 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.

ii) 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.

2 ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income.

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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

a) Classification and measurement (Continued)

i) Due from banks and loans and advances to customers

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

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

iii) 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.

iv) 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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

b) Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired.
- the 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.

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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

b) Impairment and uncollectability of financial assets (Continued)

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.

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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

ii) Other financial liabilities

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

iii) 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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

b) Derecognition of financial liabilities

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

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.

2 ACCOUNTING POLICIES (Continued)

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.

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

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.

Fair value hierarchy

The bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

2 ACCOUNTING POLICIES (Continued)

Fair value hierarchy

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

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.

(i) 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.

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.

3 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

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.

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.

(ii) 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.

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.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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.
- 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.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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.

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

	2014 Sh'000	%	2013 Sh'000	%
Credit Exposures				
On – balance sheet items				
Balances with Central Bank of Kenya	3,235,391	6	2,177,700	6
Balances due from other banking institutions	7,378,051	13	3,037,433	8
Government securities	6,051,181	10	4,796,459	12
Loans and advances to customers	37,925,476	65	27,943,360	71
Corporate bonds	1,254,830	2	588,412	1
	55,844,929	96	38,543,364	98
Off-balance sheet items				
Guarantees	2,737,651	4	980,470	2
	58,582,580	100	39,523,834	100

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

The table represents the worst case scenario of credit exposure for 31 December2014 and 31 December 2013, 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 65% (2013 - 71%) 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 below.

Classification of loans and advances

	Loans and advances to customers	
	2014	**2013**
Carrying amount	**Sh'000**	**Sh'000**
Individually impaired		
Grade 6: Impaired (substandard)	553,755	416,908
Grade 7: Impaired (doubtful)	961,407	976,768
Grade 8: Impaired (loss)	874,512	620,030
Gross amount	2,389,674	2,013,706
Allowance for impairment	(1,298,423)	(949,661)
Carrying amount	1,091,251	1,064,045
Collectively impaired (Past due but not impaired)		
Grade 4–5: Watch list	1,117,466	1,303,934
Allowance for impairment	(33,524)	(39,118)
Carrying amount	1,083,942	1,264,816
Neither past due nor impaired		
Grade 1-3: Normal	35,750,283	25,614,499
Total carrying amount	37,925,476	27,943,360

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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.

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.

4 FINANCIAL 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:

		2014 Sh'000	2014 %	2013 Sh'000	2013 %
i)	Advances to customers				
	Manufacturing	102,838	<1	171,205	<1
	Wholesale and retail	10,103,102	26	7,794,401	27
	Transport and communication	4,338,913	11	1,828,991	6
	Agricultural	1,758,171	4	1,196,655	4
	Business services	350,973	1	457,196	2
	Building and construction	4,869,590	12	3,516,269	12
	Other	17,733,836	45	13,967,422	48
		39,257,423	100	28,932,139	100
ii)	Customer deposits				
	Central and local Government	207,337	<1	159,845	<1
	Co-operative societies	317,472	1	246,355	<1
	Insurance companies	202,089	<1	143,947	<1
	Private enterprises & individuals	46,309,841	98	33,952,643	98
	Non-profit institutions	99,741	-	79,797	<1
		47,136,480	100	34,582,587	100
iii)	Off balance sheet items (letters of credit and guarantees)				
	Trading	2,737,651	100	980,470	100

(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

4 FINANCIAL 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:

	2014	**2013**
At 31 December	41%	37%
Average for the year	33%	37%
Maximum for the year	41%	41%
Minimum for the year	29%	31%

4 FINANCIAL 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 2014	**Up to 1 months**	**1 – 3 months Sh'000**	**4 – 12 years Sh'000**	**1 – 5 years Sh'000**	**Over 5 years Sh'000**	**Total**
Cash in hand	2,297,220	-	-	-	-	2,297,220
Balances with Central Bank of Kenya	1,851,024	220,206	935,620	228,541	-	3,235,391
Balances due from banks	7,378,051	-	-	-	-	7,378,051
Government securities	159,746	1,721,413	43,015	438,034	3,688,973	6,051,181
Loans and advances to customers	2,335,484	453,577	3,311,178	20,950,235	10,875,002	37,925,476
Corporate bonds	-	-	1,136,895	-	117,935	1,254,830
Other assets	148,271	-	-	-	-	148,271
Total financial assets	14,169,796	2,395,196	5,426,708	21,616,810	14,681,910	58,290,420
Financial liabilities						
Balances due to banks	209,291	-	-	-	-	209,291
Customer deposits	26,967,613	3,208,179	13,631,065	3,329,623	-	47,136,480
Borrowings	-	-	121,050	2,779,284	-	2,900,334
Cheques for collection	150,715	-	-	-	-	150,715
Total financial liabilities	27,327,619	3,208,179	13,752,115	6,108,907	-	50,396,820
Net liquidity gap	(13,157,823)	(812,983)	(8,325,407)	15,507,903	14,681,910	7,893,600
As at 31 December 2013						
Total financial assets	9,349,765	508,385	3,464,029	13,812,257	15,411,343	42,545,779
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	14,830,564	5,789,454

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.

4 FINANCIAL 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. 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 2014	**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	-	-	-	-	-	2,297,220	2,297,220
Balances with CBK	-	-	-	-	-	3,235,391	3,235,391
Balances due from banks	-	7,240,426	-	-	-	137,625	7,378,051
Government securities	159,746	1,721,413	43,015	437,240	3,689,767	-	6,051,181
Loans and advances to customers	37,925,476	-	-	-	-	-	37,925,476
Corporate bonds	-	-	1,136,895	-	117,935	-	1,254,830
	38,085,222	8,961,839	1,179,910	437,240	3,807,702	5,670,236	58,142,149
Financial liabilities							
Balances due to banks	209,291	-	-	-	-	-	209,291
Customer deposits	3,208,179	4,277,319	9,353,746	3,329,623	-	26,967,613	47,136,480
Borrowings	-	-	121,050	2,779,284	-	-	2,900,334
	3,417,470	4,277,319	9,474,796	6,108,907	-	26,967,613	50,246,105
Interest sensitivity gap	34,667,752	4,684,520	(8,294,886)	(5,671,667)	3,807,702	(21,297,377)	7,896,044

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (Continued)

(i) Interest rate risks (continued)

31 December 2013	Up to1 month Sh'000	1 – 3 months Sh'000	4 – 1 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
Total financial assets	28,426,206	2,094,564	784,836	589,895	3,892,896	4,796,246	40,584,643
Total financial liabilities	474,502	2,652,648	5,701,498	3,356,126	-	24,181,671	36,366,445
Interest rate sensitivity gap	27,951,704	(558,084)	(4,916,662)	(2,766,231)	3,892,896	(19,385,425)	4,218,198

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 2014				
Financial assets				
Deposits and balances due from banking institutions	14,840	92,071	49,512	156,423
Financial liabilities				
Borrowings	(381,976)	-	-	(381,976)
Sensitivity gap	(367,136)	92,071	49,512	(225,553)
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

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.

4 FINANCIAL 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.

iii) 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 2014.

	Amount 31 December2014 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	2,665,060	2,931,566	2,398,554
Adjusted Core Capital	10,184,192	11,202,611	9,165,772
Adjusted Total Capital	10,550,527	11,605,579	9,495,474
Risk Weighted Assets (RWA)	52,067,367	52,067,367	52,067,367
Adjusted Core Capital to RWA	19.6%	22%	18%
Adjusted total Capital to RWA	20.3%	22%	18%

Assuming no management actions, a series of such appreciation would increase net interest income by Sh 537,335,571(2013 - Sh445,084,814), while a series of such falls would decrease net interest income by Sh 537,335,571(2013 -Sh 445,084,814).

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.

4 FINANCIAL 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 2014.

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 2014 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	2,665,060	2,931,566	2,398,554
Adjusted Core Capital	10,184,192	11,202,611	9,165,772
Adjusted Total Capital	10,550,527	11,605,579	9,495,474
Risk Weighted Assets (RWA)	52,067,367	52,067,367	52,067,367
Adjusted Core Capital to RWA	19.6%	22%	18%
Adjusted total Capital to RWA	20.3%	22%	18%

Assuming no management actions, a series of such appreciation would increase earnings by Sh11,144,389 (2013 - Sh6,649,978), while a series of such falls would decrease net interest income by Sh 11,144,389 (2013 - Sh6,649,978).

(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.

4 FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Other risks (Continued)

i) Strategic risk (Continued)

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.

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.

4 FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Other risks (Continued)

ii) Operational risk (Continued)

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:

- 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.

- 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.

- 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.

- 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.

- 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.

- 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.

- 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.

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.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Other risks (Continued)

iii) Compliance risk (Continued)

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.

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.

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.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Other risks (Continued)

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.

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.

5 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The Central Bank of Kenya requires each bank to:

a) Hold the minimum level of regulatory capital of Shs1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 8% of total deposit liabilities
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

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 Insurance regulatory Authority requires Dhamana Insurance Agency to maintain a minimum level of regulatory capital of Shs 1,000,000.

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.

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

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

	2014 Sh'000	2013 Sh'000
Tier 1 capital		
Share capital	1,245,186	1,114,046
Share premium	5,063,676	2,100,251
Retained earnings	3,944,241	2,456,490
Total	10,253,103	5,670,787

5 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

	2014 Sh'000	2013 Sh'000
Tier 2 capital		
Revaluation reserves (25%)	19,677	20,272
General loan loss provision (statutory reserve)	357,503	256,145
Total	377,180	276,417
Total regulatory capital	10,630,283	5,947,204
Risk-weighted assets	52,060,130	31,126,625

Capital ratios

	2014	2013
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	20.26%	19.12%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	19.56%	18.22%

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
6 INTEREST INCOME				
Interest on loans and advances	6,216,205	4,686,232	6,216,205	4,686,232
Interest on bank placements	243,377	166,319	243,377	166,319
Interest on held to maturity assets:				
- government securities	527,148	426,501	27,148	426,501
- corporate bonds	134,846	75,389	134,846	75,389
	7,121,576	5,354,441	7,121,576	5,354,441
7 INTEREST EXPENSE				
Interest on customer deposits	1,544,940	837,202	1,547,577	837,649
Interest on balances due to banks	11,213	6,490	11,213	6,490
Interest on borrowings	192,067	59,901	192,067	59,901
	1,748,220	903,593	1,750,857	904,040

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
8 FEE AND COMMISSION INCOME				
Transaction related fees	1,572,996	961,958	1,572,996	961,958
Credit related fees and commissions	703,886	671,894	703,886	671,894
Ledger related fees and commissions	82,839	69,315	82,839	69,315
	2,359,721	1,703,167	2,359,721	1,703,167
9 OPERATING EXPENSES				
Staff costs (note 10)	2,303,713	1,761,713	2,273,639	1,742,685
Directors' emoluments - Fees	56,690	46,860	54,080	46,860
– Other	134,800	328,800	134,800	328,090
Depreciation – property, plant and equipment	371,932	324,747	371,360	324,440
Amortisation of intangible assets	90,277	94,110	90,024	94,110
Contribution to Deposit Protection Fund	44,954	34,799	44,954	34,799
Auditors' remuneration	3,957	3,533	3,559	3,163
Amortisation of prepaid operating lease	4,610	4,610	4,610	4,610
Marketing expenses	144,297	189,983	143,262	189,541
Occupancy expenses	743,113	548,930	742,550	548,576
Other operating expenses	1,059,124	858,055	1,054,362	857,731
	4,957,467	4,196,140	4,917,200	4,174,605
10 STAFF COSTS				
Salaries and wages	1,967,639	1,516,262	1,940,498	1,499,246
Training, recruitment and staff welfare costs	115,832	77,001	115,798	74,988
Contributions to defined contribution pension scheme	81,901	54,660	81,727	54,660
Medical expenses	122,345	97,125	120,219	97,125
Leave pay provision	2,915	13,629	2,337	13,629
NSSF contributions	13,081	3,036	13,060	3,037
	2,303,713	1,761,713	2,273,639	1,742,685

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
11 TAXATION				
a) Taxation charge				
Current tax based on the taxable profit at 30%	849,883	561,684	834,257	553,549
Deferred tax charge/(credit) (note 30)	3,345	(22,033)	3,500	(22,033)
Prior year under provision	2,047	-	-	-
	855,275	539,651	837,757	531,516

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

	Group 2014	Group 2013	Bank 2014	Bank 2013
Profit before taxation	2,665,060	1,785,037	2,618,359	1,757,919
Tax calculated at a tax rate of 30%	799,518	535,511	785,508	527,376
Tax effect of expenses not deductible for tax purposes	98,489	70,540	97,028	70,540
Tax effect of income not taxable	(44,779)	(66,400)	(44,779)	(66,400)
Prior year under provision	2,047	-	-	-
	855,275	539,651	837,757	531,516

c) Taxation payable

	Group 2014	Group 2013	Bank 2014	Bank 2013
At beginning of the year	221,023	93,943	215,453	94,388
Charge for the year	849,883	561,684	834,257	553,548
Tax paid during the year	(848,298)	(434,604)	(827,739)	(432,483)
At end of the year	222,608	221,023	221,971	215,453

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 2014	Group 2013	Bank 2014	Bank 2013
Profit (Sh'000)	1,809,785	1,245,386	1,780,602	1,226,403
Weighted average number of shares during the year (000)	1,126,834	1,125,186	1,126,834	1,125,186
Earnings per share Basic and diluted (Sh)	1.61	1.11	1.58	1.09

There were no potential dilutive shares outstanding at 31 December2014 and 31 December 2013.

		2014 Sh'000	2013 Sh'000
13	**CASH AND BALANCES WITH CENTRAL BANK OF KENYA – Group & Bank**		
	Cash in hand	2,297,220	2,178,975
	Balances with Central Bank of Kenya - cash ratio reserve	2,494,392	1,783,063
	- other balances	740,999	394,637
		5,532,611	4,356,675

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December2014 the cash ratio reserve requirement was 5.25% (2013 – 5.25%) of all customer deposits held by the group. These funds are not available to finance the group's day to day operations.

			2014 Sh'000	2013 Sh'000
14	**BALANCES DUE FROM BANKING INSTITUTIONS – Group & Bank**			
	a)	Balances due from banking institutions maturing within 90 days:		
		Overnight lending and placement with other banks	7,240,426	2,201,121
		Balances due from local banking institutions	527	144
		Balances due from foreign banking institutions	137,098	836,168
			7,378,051	3,037,433
	b)	Balances due to banking institutions maturing within 90 days:		
		Balances with local banks	209,291	436,310

Deposits with/from local banks as at 31 December represent overnight lending. The effective interest rate on deposits due from local banking institutions at 31 December 2014 was 8.56% (2013 – 7.21%). The effective interest rate on deposits due to local banking institutions at 31 December 2014 was 6.68% (2013 – 9.04%).

15 GOVERNMENT SECURITIES – HELD TO MATURITY- Group & Bank

	2014 Sh'000	2013 Sh'000
Treasury bonds –at amortised cost	4,348,080	4,313,613
Treasury bills-face value less unearned discount	1,703,101	482,846
	6,051,181	4,796,459
The maturity profile of government securities is as follows:		
Maturing within one year	1,923,380	626,365
Maturing between 2 to 5 years	438,034	438,034
Maturing after 5 years	3,689,767	3,732,060
	6,051,181	4,796,459

The weighted average effective interest rate on treasury bonds at 31 December 2014 was 11.09% (2013 – 11.09%). The effective interest rate on treasury bills at 31-December 2014 was 10.61% (2013- 12.3%).

As of 31st December 2014, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya (2013 – Sh 760,000).

16 LOANS AND ADVANCES TO CUSTOMERS – Group & Bank

	2014 Sh'000	2013 Sh'000
a) Commercial loans	31,722,243	23,807,522
Overdrafts	1,600,885	1,499,002
Asset finance loans	4,235,077	2,198,190
Staff loans	1,699,218	1,427,425
Gross loans and advances to customers	39,257,423	28,932,139
Less: Impairment losses (note 17)	(1,331,947)	(988,779)
Net loans and advances to customers	37,925,476	27,943,360
b) Analysis of gross loans and advances by maturity		
Maturing:		
Within 1 year	7,432,187	4,435,506
Between 1 and 3 years	10,578,659	6,092,933
After 3 years	21,246,577	18,403,700
Loans and advances to customers	39,257,423	28,932,139

The related party transactions and balances are covered under note 34 and concentration of advances to customers is covered under note 4.

The weighted average effective interest rate on advances to customers at 31 December 2014 was 16.39% (2013 – 17%). Included in gross advances of Sh39,257,423,000 (2013 – Sh28,932,139,000) are loans and advances amounting to Sh 1,091,251,000 (2013 – Sh 1,064,045,000), net of specific provisions, which have been classified as non-performing (impaired).

		Group & Bank	
		2014	**2013**
17	**IMPAIRMENT LOSSES ON LOANS AND ADVANCES**	**Sh'000**	**Sh'000**
	At 1 January	988,779	1,775,146
	Increase in impairment allowances	389,944	321,848
	Amounts written off during the year as uncollectible	(46,776)	(1,108,215)
		1,331,947	988,779

		2014	2013
18 (a)	**CORPORATE BONDS – HELD TO MATURITY – Group & Bank**		
	At amortised cost:		
	(a) Corporate Bonds		
	Safaricom Limited	-	306,058
	Kenya Electricity Generating Company Limited	117,935	141,522
	Shelter Afrique	-	140,832
	Britam	436,895	-
		554,830	588,412
	The maturity profile of commercial papers is as follows:		
	Within 1 year	436,895	446,890
	Maturing after 5 years	117,935	141,522
		554,830	588,412

		2014	2013
18 (b)	**COMMERCIAL PAPER – HELD TO MATURITY – Group & Bank**		
	Nakumatt	500,000	-
	ASL credit	200,000	-
		700,000	-
	The maturity profile of commercial papers is as follows:		
	Within 1 year	700,000	-

The weighted average effective interest rate on corporate bonds at 31 December 2014 was 12.41% (2013 – 12.21%).

19 OTHER ASSETS

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
Un-cleared items in the course of collection	148,271	121,440	148,271	121,440
Prepayments	202,799	227,816	202,799	227,816
Deposits for services	97,610	73,911	97,610	73,911
Other	552,875	61,373	534,122	49,058
	1,001,555	484,540	982,802	472,225

20 INVESTMENT IN SUBSIDIARY – Bank

	No. of shares	Holding	2014 Sh'000	2013 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 22 May 2013.

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:

Summarised statement of financial position	2014 Sh'000	2013 Sh'000
Total assets	71,957	46,291
Total liabilities	12,014	5,867
Net assets	59,943	40,424

Summarised statement of profit and loss and other comprehensive income

	2014 Sh'000	2013 Sh'000
Brokerage Commission	73,848	48,206
Profit before income tax	36,218	26,690
Taxation	(14,988)	(8,007)
Profit for the year	21,230	18,683

20 INVESTMENT IN SUBSIDIARY – Bank (Continued)

	2014 Sh'000	2013 Sh'000
Summarised statement of cash flows		
Net cash generated from operating activities	19,737	16,709
Net cash used in investing activities	(2,696)	(781)
Net increase in cash and cash equivalents	17,041	15,928
Cash and cash equivalents at beginning of year	32,904	16,976
Cash and cash equivalents at end of year	49,945	32,904

21 INVESTMENT PROPERTIES – Group & Bank

	2014	2013
At start of year	106,000	94,000
Disposal	(3,000)	-
Gain on revaluation	24,400	12,000
At end of year	127,400	106,000

Investment property relate to Leasehold land acquired at a cost of Shs 24,500,000 as part of the Group's expansion plans and Lease hold land acquired at a cost of Shs 3,170,000 for national customer promotion raffle in 2014 part of the land at value of shs.3,000,000 was given out in Kunacha Acre na Mili promotion to the various winners.

The properties were re-valued as at 31 December 2014 by Ebony Estate Valuers Limited, Registered valuers. Valuations for the properties were made on the basis of the open market value and the concept of highest and best use was used. 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.

In accordance with IFRS 13, the fair value ranking of the Investment Property is at Level 2 as the fair value measurement is derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

22 PROPERTY AND EQUIPMENT – GROUP

COST / VALUATION	Freehold land Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, and equipment Sh'000	Total Sh'000
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
At 1 January 2014	122,412	357,288	1,418,833	945,133	100,967	505,653	3,450,286
Additions	-	-	394,318	129,582	8,440	238,099	770,439
Write offs	-	-	(6,373)	(24,827)	-	(27,763)	(58,963)
Disposal	-	-	-	-	(3,530)	-	(3,530)
At 31 December 2014	122,412	357,288	1,806,778	1,049,888	105,877	715,989	4,158,232
Comprising:							
At cost	117,412	32,288	1,806,778	1,049,888	105,877	715,989	3,828,232
At valuation	5,000	325,000	-	-	-	-	330,000
At 31 December 2014	122,412	357,288	1,806,778	1,049,888	105,877	715,989	4,158,232
DEPRECIATION							
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
At 1 January 2014	-	16,317	710,161	709,411	49,868	258,908	1,744,665
Charge for the year	-	8,932	171,909	107,613	16,924	66,554	371,932
Eliminated on disposal	-	-	-	-	(3,530)	-	(3,530)
Write off	-	-	-	(21,254)	-	(16,680)	(37,934)
At 31 December 2014	-	25,249	882,070	795,770	63,262	308,782	2,075,133
NET BOOK VALUE – VALUATION BASIS							
At 31 December 2014	122,412	332,039	924,708	254,118	42,615	407,207	2,083,099
At 31 December 2013	122,412	340,971	708,672	235,722	51,099	246,745	1,705,621
NET BOOK VALUE – COST BASIS							
At 31 December 2014	119,812	221,743	924,708	254,118	42,615	407,207	1,970,203
At 31 December 2013	119,812	226,830	708,672	235,722	51,099	246,745	1,588,880

22 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, and equipment Sh'000	Total Sh'000
At 1 January 2013	5,000	325,000	1,259,277	900,697	63,881	431,826	2,985,681
Additions	117,412	32,288	161,827	43,007	37,086	75,746	467,366
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
At 1 January 2014	122,412	357,288	1,418,833	943,704	100,967	505,177	3,448,381
Additions	-	-	394,318	128,102	8,440	237,698	768,558
Reversal	-	-	(6,373)	(24,827)	-	(27,763)	(58,963)
Disposal	-	-	-	-	(3,530)	-	(3,530)
At 31 December 2014	122,412	357,288	1,806,778	1,046,979	105,877	715,112	4,154,446
Comprising:							
At cost	117,412	32,288	1,806,778	1,046,979	105,877	715,112	3,824,446
At valuation	5,000	325,000					330,000
At 31 December 2014	122,412	357,288	1,806,778	1,046,979	105,877	715,112	4,154,446
DEPRECIATION							
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	1,744,360
At 1 January 2014	-	16,317	710,161	709,162	49,868	258,852	1,744,360
Charge for the year	-	8,932	171,909	107,155	16,924	66,440	371,360
Eliminated on disposals	-	-	-	(11)	(3,530)	-	(3,541)
Write offs	-	-	-	(21,254)	-	(16,681)	(37,935)
At 31 December 2014	-	25,249	882,070	795,052	63,262	308,611	2,074,244
NET BOOK VALUE– VALUATION BASIS							
At 31 December 2014	122,412	332,039	924,708	251,927	42,615	406,501	2,080,202
At 31 December 2013	122,412	340,971	708,672	234,542	51,099	246,325	1,704,021
NET BOOK VALUE – COST BASIS							
At 31 December 2014	119,812	249,063	924,708	251,927	42,615	406,501	1,994,626
At 31 December 2013	119,812	225,707	708,672	235,461	51,099	246,529	1,587,280

22 PROPERTY AND EQUIPMENT – BANK (Continued)

The properties were re-valued as at 31 December2011 by Ebony Estate ValuersLimited, Registered valuers. Valuations for the properties were made on the basis of the open market value.

In accordance with IFRS 13, the fair value ranking of the buildings is at Level 2 as the fair value measurement is derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

23 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	Group		Bank	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
COST				
At 1 January	655,518	579,091	655,518	579,091
Additions	86,030	76,427	84,715	76,427
Write offs	(6,346)	-	(6,346)	-
At 31 December	735,202	655,518	733,857	655,518
AMORTISATION				
At 1 January	327,305	233,195	327,305	233,195
Charge for the year	90,277	94,110	90,022	94,110
At 31 December	417,582	327,305	417,327	327,305
NET BOOK VALUE				
At 31 December	317,620	328,213	316,530	328,213

24 PREPAID OPERATING LEASE RENTALS – Group & Bank

	Sh'000	Sh'000
Leasehold land:		
COST		
At 1 January and 31 December	180,335	180,335
AMORTISATION		
At 1 January	13,145	8,535
Charge for the year	4,610	4,610
At 31 December	17,755	13,145
NET BOOK VALUE		
At 31 December	162,580	167,190

		Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
25	**CUSTOMER DEPOSITS**				
	Current and demand accounts	27,017,203	21,623,201	27,017,558	21,631,826
	Savings accounts	2,113,262	1,685,864	2,113,262	1,685,864
	Fixed deposit accounts	18,006,015	11,273,522	18,055,605	11,296,996
		47,136,480	34,582,587	47,186,425	34,614,686
	MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
	Repayable:				
	On demand	27,017,203	21,623,201	27,017,558	21,631,826
	Within one year	20,119,277	12,959,386	20,168,867	12,982,860
		47,136,480	34,582,587	47,186,425	34,614,686

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2014 was 7.63 % (2013 – 6.45%). The related party transactions and balances are covered under note 34 and concentration of customers' deposits is covered under note 4.

			2014 Sh'000	2013 Sh'000
26	**BORROWINGS – Group & Bank**			
	a)	**Analysis**		
		EIB	2,386,009	-
		PTA Loan 2(USD)	381,976	485,350
		Kenya ICT Board – Pasha loan	121,050	117,680
		Waste_Finish Ink	11,300	-
		Youth Fund	-	30,000
		PTA Loan 2(Sh)	-	650,781
		Women Fund	-	60,000
			2,900,335	1,343,811
	b)	**Movement:**		
		At beginning of the year	1,343,811	892,145
		Received in the year	2,331,920	637,500
		Accrued interest	77,718	34,455
		Repaid in the year	(853,114)	(220,289)
			2,900,335	1,343,811

26 BORROWINGS – Group & Bank (Continued)

Facilities:

EIB loan is a long term, unsecured floating rate and fixed arte facility which is denominated in EURO, USD and KES. The EURO and USD loans are repayable within 5 years while the KES loans are repayable within 7 years. The interest rate charged for a non KES tranche is based on margin of 1.85.
For KES Tranche a margin per annum fixed for the life of the relevant tranche, equal to 1.85% plus a currency risk premium determined in accordance with the following table is charged.

Tenor of the Tranche (years)	Currency risk premium p.a
4 years	5.5%
5 years	6.0%
6 years	6.5%
7 years	7.0%

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 2014 and matures in 2018.

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.

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.

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 effective interest rates for the various loans are as follows:

	2014	2013
	%	%
Youth Fund	2	2
PTA Loan 2(USD)	8	7.7
PTA Loan 2(SH)	13	12.5
Women Fund	1	1
EIB	9	-
Kenya ICT Board – Pasha loan	4	4
Waste Finish ink	-	-
	====	=====

27 OTHER LIABILITIES

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
Provisions and accruals	15,138	135,307	15,138	135,307
Leave pay provision	30,765	27,851	30,187	27,851
Cheques for collection	150,715	189,022	150,715	189,022
Other payables	461,495	561,375	459,779	561,656
	658,113	913,555	655,819	913,836

28 DIVIDENDS – Group & Bank

a) Unclaimed dividends

	2014 Sh'000	2013 Sh'000
At 1 January	6,514	1,475
Declared	222,809	111,399
Paid during the year	(216,736)	(106,360)
At 31 December	12,587	6,514

Unclaimed dividends relates to dividends declared in 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 0.50 (2013: Sh 0.40) per share for the year amounting to Sh 622,593,598 (2013: Sh 222,809,346) 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.

29 DEFERRED TAX LIABILITY-Group & Bank

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

	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
Deferred tax assets:				
General bad debts provision	(11,077)	(12,755)	(11,077)	(12,755)
Excess depreciation over capital allowances	(8,135)	(12,460)	(8,154)	(12,460)
Leave pay provision	(9,230)	(8,355)	(9,056)	(8,355)
	(28,442)	(33,570)	(28,287)	(33,570)
Deferred tax liabilities:				
Revaluation surplus	33,869	35,652	33,869	35,652
Net deferred tax liability	5,427	2,082	5,582	2,082

29 DEFERRED TAX LIABILITY -Group & Bank (Continued)

Movement in deferred tax liability is as follows:	Group 2014 Sh'000	Group 2013 Sh'000	Bank 2014 Sh'000	Bank 2013 Sh'000
At 1 January	2,082	24,115	2,082	24,115
Charge/(credit) to profit or loss (note 11)	3,345	(22,033)	3,500	(22,033)
At 31 December	5,427	2,082	5,582	2,082

30 SHARE CAPITAL

	2014 Sh'000	2013 Sh'000
Authorised: 1,500,000,000 ordinary shares of Sh 1 each (2013:750,000,000 ordinary shares of Sh 2 each)	1,500,000	1,500,000
Issued and fully paid: 1,245,186,196 (2013: 557,023,364) ordinary shares of Sh 2 each	1,245,186	1,114,046

Movement in issued and fully paid shares

	Number of shares Sh '000	Share Capital Sh'000	Share Premium	Total Sh'000
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 issued in the year	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
At 1 January 2014	557,023,364	1,114,046	2,100,251	3,214,297
New shares	5,570,234	11,140	111,406	122,546
	562,593,598	1,125,186	2,211,657	3,336,843
Shares split	1,125,186,196	1,125,186	2,211,657	3,336,843
Rights Issue	120,000,000	120,000	2,880,000	3,000,000
Rights issue costs	-	-	(27,981)	(27,981)
At 31 December 2014	1,245,186,196	1,245,186	5,063,676	6,308,862

30 SHARS SHARE CAPITAL (Continued)

In 2014, the Group increased its capital by 3,094,563,000 through the rights issue of 120,000,000 shares @Sh 25 and issue of 5,570,234 new shares to the chairman.

The bank did a share split of 1:1 ratio translating to 562,593,598 shares. The share premium is net off rights issue costs of Sh 27,981,000

		2014 Sh'000	2013 Sh'000
31	**NOTES TO THE STATEMENT OF CASH FLOWS**		
(a)	**Reconciliation of profit before taxation to cash used in operations**		
	Profit before taxation	2,665,060	1,785,037
	Adjustments for:		
	Depreciation of property and equipment	371,932	324,747
	Amortisation of intangible assets	90,277	94,110
	Amortisation of leasehold land	4,610	4,610
	Loss on disposal of equipment	27,375	4,666
	Surplus on revaluation of investment property	(24,400)	(12,000)
	Accrued interest on borrowings	77,718	34,455
	Working capital changes		
	Changes in working capital items:		
	Cash ratio balance	(711,329)	(489,974)
	Loans and advances to customers	(9,982,116)	(10,074,615)
	Other assets	(517,016)	444,081
	Customer deposits	12,553,893	9,969,285
	Other liabilities	(255,442)	429,868
	Government securities	(1,254,722)	(452,486)
	Corporate bonds and commercial paper	(666,418)	93,040
	Cash generated from operations	2,379,422	2,154,824
		========	========
(b)	**Analysis of the balances of cash and cash equivalentsas shown in the statement of financial position and notes**		
	Cash in hand	2,297,220	2,178,975
	Balances with the Central Bank of Kenya	740,999	394,637
	Balances with other banking institutions	7,378,051	3,037,433
	Balances due to other banking institutions	(209,291)	(436,310)
		10,206,979	5,174735
		========	========

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.

32 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.

	2014 Sh'000	2013 Sh'000
Guarantees	126,242	10,436
Letters of credit	2,611,409	970,035
	2,737,651	980,471
Litigations against the group	230,398	274,823

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 4.

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.

b) Commitments to extend credit

	2014 Sh'000	2013 Sh'000
Undrawn formal stand-by facilities, credit lines andother commitments to lend	2,932,581	2,511,339

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.

c) Capital commitments

	2014 Sh'000	2013 Sh'000
Authorised and contracted for	168,472	112,656
Authorised but not contracted for	655,000	202,500

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

c) Capital commitments (continued)

The authorised but not contracted for capital commitments relate to the branch set up costs amounting to Sh 383 million for 16 proposed branches and proposed internal works at Family Bank towers amounting to Sh 272 million.

33 RELATED PARTY TRANSACTIONS

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

Placings are made in the group by directors, their associates and companies associated to directors. Advances to customers at 31 December2014 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December2014 include guarantees and letters of credit for companies associated with the directors.

	2014	2013
Movement in related party balances was as follows:	**Sh'000**	**Sh'000**
Loans and advances:		
At 1 January	1,775,987	1,498,687
Advanced during the year	782,455	707,556
Interest earned	224,482	166,506
Repaid during the year	(476,012)	(596,762)
At 31 December	2,306,912	1,775,987

As at 31 December2014 loans and advances to staff amounted to Sh1,643,962,000 (2013 – Sh 1,393,094,000.

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

	2014	2013
Key management compensation	**Sh'000**	**Sh'000**
The remuneration of directors and other members of key management during the year were as follows:		
Salaries and other benefits	80,002	73,358
Directors' emoluments	191,490	375,660
	271,492	449,018

34 EVENTS SUBSEQUENT TO YEAR END

There were no material subsequent events after the reporting date requiring disclosure in these financial statements as at the date of the financial statements approval.

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

BRANCH NAME	NUMBERS	BRANCH NAME	NUMBERS
KIAMBU	726610434	BANANA	715363814/ 0715023829
GITHUNGURI	726610473	NAIVASHA	719233159/0719397038
SONALUX	724255733, 0728802389 ,0705951759	NYERI	0716 316 163
GATUNDU	726610469 ,0719233148	KARATINA	0737146570/0716507097
THIKA	0724255735,0727324470, ,07284110518	KERUGOYA	726610475
MURANGA	724255732	TOM MBOYA	0719397045/0734650265
KANGARI	727220045	RIVER ROAD	0714631652 /0715363817
KIRIA-INI	0726 610 439	KAYOLE	0701968696/0724329751
KANGEMA	726610476	NKUBU	0714822956/0715363850
OTHAYA	719390122	MERU	0710901406/0713600850
KENYATTA AVENUE	0752 240259, 0724 255731	NANYUKI	700753232/0719233157
CARGEN	0738544097, 0724255740	KTDA-CORP	0726610435/0726610433/0703974352
LAPTRUST	0707818153/0717129817	ONGATA RONGAI	700753234/0700753218
CITY HALL	713771906/0713771908	KAJIADO	725449447/0725449525
KASARANI	708086235/0716212650	FBT-CORP	072285672/0772251218/0726610432
NAKURU FINANCE	712202679/0724255737	NGARA	719397049
NAKURU MARKET	0724 255739/0703225095	KITENGELA	0719397046/0706614406
DAGORETTI	715363848	KITUI	0715364248/0703582299
KERICHO	715364284/0708541006	MACHAKOS	0702764022/0727531029
NYAHURURU	712076034/0705807063	UTAWALA	0702214875/0702214886
RUIRU	713026158/0700366841	EMBU	0724255736/0705948758
KISUMU RELIANCE	0726610477/0706948886	MWEA	0706669818/0706669794
NYAMIRA	727531028	BUNGOMA	726610478
KISII	0719390124 /0719233167	KAKAMEGA	702830937
KISUMU AL-MIRAN	0715363859/ 0708199839	BUSIA	712076019
NAROK	702830989/0702830890	MUMIAS	0705639525/0702282615
INDUSRIAL AREA	719397047/0713771875	ELDORET WEST	0703669366/0714027094
DONHOLM	710602290	MOLO	705375748
UTAWALA	0702214912/0702314930	BOMET	713772282/0713771916
FBT-RETAIL	726610472	ELDORET MAIN	0716 383853/0701 010851
OL-KALOU	0708569533/0708569494	LITEIN	706670075/0706669670
KTDA RETAIL	0726610435/0726610433/0703974352	UKUNDA	0718129905/0718129979
KARIOBANGI	710602292/0703759672	DIGO	0702830985/0702830987
GIKOMBA 42	707391858	KITALE	0726610467/0702282235
GIKOMBA	0727531150/0770175019	MTWAPA	716224124
GITHURAI	0711 481 036/0725 011 900	MOMBASA NKRUMAH	0726610436/0700802057
KILIMANI	717724877	MOMBASA KENYATTA AVENUE	0710602293/0737526487
LIMURU	0726610438/0714186773	KAPSABET	728607750
WESTLANDS	715363849/0736166371	MALINDI	0718129900/0718129973
KAGWE	0715-364262	KIKUYU	0707677619/0725449451

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 Family Bank Limited to be held on Friday 15th May 2015 at 10.00 a.m. at the Kenyatta International Convention Centre (KICC) Amphitheatre 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 _________________________________ 2015

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, 13th May 2015, failing which it shall not be valid.

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 to the Meeting.

Name:

ID/PP No:

Signature:

Shareholder Account No.:

FOLD HERE

AFFIX POSTAGE
STAMP HERE

The Company Secretary
Family Bank Limited
Family Bank Towers, 8th Floor,
Muindi Mbingu St.
P O Box 74145-00200
Nairobi, Kenya.

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Notes

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Family Bank
With you, for life

Family Bank Towers, 6th Floor, Muindi Mbingu Street
P.O. Box 74145 - 00200, Nairobi, Kenya
Tel: 020-3252000 / 0703-095 000
Email: shares@familybank.co.ke Website: www.familybank.co.ke