

2015

ANNUAL REPORT & FINANCIAL STATEMENTS



VISION

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

MISSION

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

OUR CORE VALUES

- *Winning Together*

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

- *Self Belief*

In ours and customers' ability to change the world

- *Transparency*

Our customers will trust and reward us for it

- *Humility*

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

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CORPORATE INFORMATION

DIRECTORS

Non Executive

Dr. Wilfred D Kiboro - Chairman
Mr. Titus K. Muya
Prof. David Kimutai arap Some
Mr. David Kimani
Dr. Ruth Waweru
Mr. Lerionka S. Tiampati
Mr. Francis Gitau Mungai
Mr. Brian Muya Kiondo - Alternate to Titus K. Muya

Executive

Mr. Peter Munyiri - Managing Director and CEO
Mr. Njung'e Kamau – Director Finance and Strategy

COMPANY SECRETARY

Rebecca Mbithi

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

REGISTERED OFFICE

Family Bank Limited

6th Floor, Family Bank Towers, Muindi Mbingu Street
P.O. Box 74145- 00200, Nairobi
Tel: 254-2-318173/318940/2/7/0720 098 300
Fax: 254-2-318174
Email: info@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

Mboya Wangong'u & Waiyaki Advocates

Lex Chamber, Maji Mazuri Road
off James Gichuru Road

CORPORATE INFORMATION (Continued)

CORRESPONDENT BANKS

Deutsche Bank AG London

6 Bishopsgate
London
EC2P 2AT
United Kingdom

DZ Bank AG
60265 Frankfurt am Main

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 Gauchetière Ouest
Montréal, Québec, Canada

BOARD COMMITTEES

Credit Committee

Prof. David Kimutai arap Some - Chairman
Mr. T. K. Muya
Dr. Wilfred D. Kiboro
Mr. Peter Munyiri
Mr. Njung'e Kamau

Audit Committee

Mr. David Kimani - Chairman
Dr. Ruth Waweru
Mr. Lerionka S. Tiampati

Risk Management Committee

Mr. David Kimani - Chairman
Mrs. Ruth Waweru

Human Resource Committee

Dr. Ruth Waweru - Chairman
Prof. David Kimutai arap Some
Mr. T. K. Muya
Dr. Wilfred D. Kiboro
Mr. Peter Munyiri
Mr. Brian Kiondo

Strategy Committee

Dr. Ruth Waweru - Chairman
Mr. T. K. Muya
Mr. Lerionka S. Tiampati
Dr. Wilfred D. Kiboro
Mr. Peter Munyiri
Mr. Njung'e Kamau

Nomination Committee

Dr Ruth Waweru
Dr. Wilfred Kiboro
Mr T.K.Muya

Companies Act 2015

Family Bank Ltd

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **9th ANNUAL GENERAL MEETING** of the Shareholders will be held at **KENYATTA INTERNATIONAL CONFERENCE CENTRE LENANA AND ABERDARE ROOMS** on Friday 22nd April 2016 at 10:00 a.m. to transact the following business:

Ordinary Business:

1. To receive the Audited Accounts for the year ended 31st December 2015, the Report of the Directors and the Report of the Auditors thereon.
2. To approve the payment of a first and final dividend of KShs0.50 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 22nd April 2016. To facilitate payment of the Dividend, the register of members will be closed on 22nd April 2016.
3. Resignation, Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:
 - a) To consider and, if deemed fit, approve the appointment of Mr F.G Mungai as a Director.
 - b) Mr T.K Muya who retires by rotation and, being eligible, offers himself for re-election.
 - c) Mr L.S Tiampati who retires by rotation and, being eligible, offers himself for re-election
 - d) To note that the Managing Director Mr P.M Munyiri will retire with effect from 11th June 2016 upon expiry of his Employment Contract with the Bank.
4. To approve the Directors' remuneration for the year ending 31st December 2015.
5. To confirm that the auditors, Deloitte and Touché, being qualified for re-appointment, will continue in office in accordance with Section 159 (2) of the Companies Act, Chapter 486 Laws of Kenya (now repealed) and to authorise the Directors to fix the Auditors' remuneration.

6. Special Business:

To consider and, if thought fit, pass the following resolutions:

6.1 ORDINARY RESOLUTIONS

- 6.1.1 **THAT** the incorporation of Family Bank (Kenya) Limited as a wholly owned subsidiary of the Company be and is hereby ratified.
- 6.1.2 **THAT** the Company be and is hereby authorized to transfer its banking business, assets and liabilities (excluding the excluded assets and liabilities) to Family Bank (Kenya) Limited subject to obtaining all required regulatory and tax approvals and/or exemptions in terms acceptable to the Directors.
- 6.1.3 **THAT** any acquisition of subsidiaries in Africa principally undertaking businesses similar to those of the Company and its subsidiaries in accordance with the business strategy of the Company, as approved by the Board from time to time, be and is hereby approved and the Board of the Company be and is hereby authorized to approve the terms of such acquisitions and enter into agreements in order to undertake such acquisitions, subject to obtaining all requisite regulatory approvals.

6.2 SPECIAL RESOLUTIONS

- 6.2.1 **THAT** subject to completion of the transfer of banking business, assets and liabilities (excluding the excluded assets and liabilities) occurring ("Completion") the Articles of Association of the Company (deemed to incorporate the objects of the Company by virtue of Section 26 of the Companies Act, 2015) be amended to include the following objects:

"To carry out the business of a non-operating holding company as defined under the Banking Act (Chapter 488, Laws of Kenya)
To co-ordinate the administration of and to provide advisory, administrative management and other services in connection with the activities of any companies which are for the time being subsidiaries of the Company"
- 6.2.2 **THAT** subject to Completion of the change of name of the Company from Family Bank Limited to Family Group Public Limited Company be and is hereby approved and confirmed to take effect from the date of Completion.
- 6.2.3 **THAT** out of the unissued ordinary shares of the company, the company issue by way of rights to the holders of ordinary shares of the company on the register of members at close of business on 22nd April 2016 upto a maximum of 105,000,000 new shares on such terms, timeline and at such price to be determined by the board following valuation of the company shares provided that fractional shares shall not be considered and the holders of ordinary shares shall not be entitled to fractional certificates or to payments in lieu of them. That this authorization shall expire on 21st April 2021.
- 6.2.4 **THAT** the board be and is hereby authorised to offer and allot any rights not taken up and paid in full by the existing shareholders within twenty one days of the close of the offer, to such interested investors by way of private placement as the Board deems fit but on no more favourable terms than those on which it offered to its members.

By order of the Board
Rebecca Mbithi
Company Secretary
Nairobi
31st March, 2016

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 failing 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 2015 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

BOARD OF DIRECTORS



Left to Right seated: Rebecca Mbithi (Company Secretary), Dr. Wilfred Kiboro (Chairman), Dr. Ruth Waweru, T.K Muya

Left to Right standing: Lerionka Tiampati, Francis Mungai, David Kimani, Brian Muya Kiondo, Njunge Kamau (Finance Director) Peter Munyiri (Managing Director and Chief Executive Officer), Prof. David Kimutai Some, Mark Keriri

Board of Directors



Dr. Wilfred D Kiboro
Chairman

Dr. 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. Dr. Kiboro is also the Chancellor of Riara University and a Trustee of the Rhino Ark, a charitable trust founded in 1988 to support conservation in Kenya and Wilfrey Investment Group. Dr. 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).



Mr. Peter Munyiri, Managing
Director & Chief Executive Officer

Mr. Munyiri holds a BA Honors degree in Economics from the University of Nairobi and an EMBA from Jomo Kenyatta University of Agriculture and Technology. Mr. Munyiri is an Associate member of the Chartered Institute of Bankers UK (ACIB), a Fellow of the Kenya Institute of Bankers (FKIB) and Alumni of Oxford University (Said Business School), INSEAD (France) and Strathmore Business Schools. He has also trained in the World Bank headquarters (Washington DC). He has a wealth of experience in banking and strategy execution spanning over many years having previously worked at Executive levels with Kenya Commercial Bank (KCB), Co-operative Bank of Kenya, Standard Chartered Bank and Barclays Bank of Kenya. His experience cuts across several Pan African markets including market entry strategies. Among key highlights in his career path is leading a major transformational project for a big bank in several markets in East Africa together with McKinsey and Company, the global management consultancy firm.

His last appointment was the Deputy Group Chief Executive Officer with the Kenya Commercial Bank where he was a member of the Boards of the several group companies. He is a member of Governing Council Kenya Bankers Association. He has also served as council Member of the Kenya Institute of Bankers and Pan African Christian University. He holds a Head of State Commendation (HSC) and in 2015 was also awarded Order of the Golden Warrior (OGW) for his contribution to the growth of the Kenyan Banking Industry and transformation of small businesses in East Africa through financial intermediation.



Mr. Titus K. Muya
Director

TK, as he is popularly known, 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
Director

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 PhD from University of Newcastle –upon Tyne, U.K., M.Sc from Cranfield University and B.Sc. (Hons) University of Newcastle-upon Tyne, UK. Prof Some is a member of a number of boards including the Higher Education Loans Board, Kenya Polytechnic Board of Governor among others.

He has also served as a member and founder chairman Board of Kenya Medical Training Colleges as well as ApproTEC, (Makers of Water pump) (Moneymaker) and oil presses. He is also the Collaborating Editor of the Journal of Agricultural Mechanization in Asia, Africa and Latin America.

Board of Directors



Francis Gitau Mungai
Director

Mr. Gitau holds a Masters Degree in Architecture and Urban Design from the University of California, Los Angeles (UCLA) and a Bachelor of Architecture degree, First Class Honours from the University of Nairobi. He is also a Fellow of the Architectural Association of Kenya (FAAK) and is registered by the Board of Registration of Architects & Quantity Surveyors (BORAQS) in Kenya. He is the founding Partner of Aaki Consultants, Architects and Urban Designer and has worked as an Architect with prominent firms like Triad Architects in Nairobi, and Urban Innovation Group (UIG) in Los Angeles.

He has vast experience spanning over 30 years and has been a Chairman of various bodies such as the Architectural Association of Kenya (AAK), Kenya Private Sector Alliance (KEPSA) where he was Director and Chairman of Building and Infrastructure Board. He is a member of the Board of Directors of NHC where he serves as the Chairman of the Technical Committee. He is also a lecturer at the University of Nairobi, Architecture and Building Sciences Department where he focus on both Architectural and Urban Design Studios, as well as Professional Practice and Management.



Mr. Lerionka S. Tiampati
Director

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 (KETEP), 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. David Kimani
Director

Mr. Kimani holds a B.Sc. Degree in International Business from USIU-Africa and an MBA in Finance from Maastricht School of Management. He is also a Certified Public Accountant (CPA-K), a Certified Public Secretary (CPS) and holds a Higher Diploma in HR from the Institute of Human Resource Management. He has a wealth of experience in auditing, financial management, treasury and general management, and he held various senior management positions for over 20 years. He served as the Finance Director of Kenya Tea Development Agency (KTDA) for 5 years and thereafter as Managing Director of Chai Trading Company Ltd for almost three years, and as a consulting Director of KTDA. He is currently a lead consultant / Director with Superior Concepts Management Consultants. He is also a director of Kenya Orient Insurance Limited.



Dr. Ruth Waweru
Director

Dr. Waweru 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 such as: strategy formulation, organizational development, human resource management and research. Ruth has provided consultancy services to corporations, private sector, 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, Ethiopia, Uganda, Tanzania 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 serves in the boards of: OIKOCREDIT, Partners Worldwide, Kenya Orient Life Insurance Limited and All Africa Conference of Churches and is Founder Director of Brookhurst International school.

Board of Directors



Mr. Julius Brian Kiondo Muyah
(Alternate to Mr. TK Muya)

Mr. Muyah holds a Bachelor's Degree in Economics from Syracuse University, New York, and is a seasoned marketer with over 15 years' experience in both the United States and Kenya. He has extensive knowledge in business development, service delivery management, product development, strategy implementation and staff training, development and motivation. Julius headed the sales and marketing department during the conversion of Family Finance Building Society into a commercial bank during which time he spearheaded the development of new products and services.

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



Mr. Njung'e Kamau -
Director Finance & Strategy

Njung'e Kamau is the Finance & Strategy Director of the Bank. He has over 24 years extensive local and international professional working experience in Advanced Global Finance, Strategy, Banking, Treasury, Company Secretarial, Procurement & Logistics, Audit and Business Risk Assurance & Compliance in Banking and other global diverse business environments. 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, Audit & Business Risk Assurance. Prior to joining Family Bank, Njung'e was the Head of Finance at Equity Bank. He holds an MBA in Finance and a B.Com Degree (Accounting Option) from The University of Nairobi. He is also a Certified Public Accountant (CPA-K), Certified Public Secretary (CPS-K) from Strathmore University and a member of ICPAK and ICPSK.

He is also a Certified Financial Modeller (CFM) from The International Academy of Financial Management from (Dubai, UAE & Hongkong). He also studied a course on Macroeconomics of Competitiveness of Nations from Harvard University Business School's Institute for Strategy & Competitiveness and The World Bank / CGAP training in the USA. He further studied at The International Banking Summer School (IBSS) in Australia and also did an Effective Director (ED) & Advanced Management Programme (AMP) from Strathmore University, Lagos University and IESE - Barcelona, Spain University. His experience of studying and working in many diverse international markets equipped him with invaluable knowledge in global corporate governance standards and best practices as well as establishing vital global business networks / contacts. In addition, he possesses strong leadership, interpersonal, multi-tasking, communication, negotiating, numerical, financial and analytical and IT skills. Njung'e has also done a lot of philanthropy work since 1980s mainly because of his poor background / roots and especially helping orphans and other disadvantaged children, women and other very needy people.



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.

CHAIRMAN'S STATEMENT

REVIEW OF THE MACROECONOMIC ENVIRONMENT



Dear Shareholders,

I am pleased to present the Annual Report and Financial Statements for the year ended 31st December, 2015. The Bank continues to post very impressive financial performance despite the challenging environment. The unstinting support by our customers and shareholders clearly demonstrates the confidence in the Bank. The Board, Management and Staff have also been instrumental in the great performance of this great Bank.

Once again, we are happy to have set the pace in the banking industry by delivering enviable results in the growth among our peers and among the listed banks. With this remarkable performance our ambition to become a Tier 1 Bank in the next few years is firmly on course.

Key Financial Performance Highlights

- Profit before Tax increased by 10% from Ksh 2.62 Billion for the year ended 31st December 2014 to Ksh 2.88Billion for the year ended 31st December 2015.
- Total assets grew by 31% from Ksh 61.8 Billion as at December 2014 to Ksh 81.2Billion as at December 2015.
- Total Shareholders' funds grew by 12% from Ksh 10.62 Billion as at December 2014 to Ksh 11.93 Billion as at December 2015.
- Deposits grew by 33% from Ksh 47.2 Billion as at December 2014 to Ksh62.7Billion as at December 2015.
- Loans grew by 47% from Ksh 37.9Billion as at December 2014 to Ksh 55.9Billion as at December 2015.
- The Bank now has over 1.7 Million customers.

Review of the macroeconomic environment

The Year 2015 commenced very well in the Country with the Government leveraging on the astute steps taken earlier to sustainably grow the Economy. Overall, the country experienced a 5.7% growth in Gross Domestic Product against the projected 6% growth. This was better than the 5.3% growth realized in 2014. The key drivers of the operating environment were security challenges and the El Nino rains that wreaked havoc and destruction in some parts of the Country.

From a Sectoral perspective, agriculture, infrastructure, financial services and ICT contributed to the growth, but manufacturing and tourism declined.

The government also maintained fiscal and monetary discipline, despite increasing pressure from the devolution process and rising public sector wage bill. Total public debt has increased but remains sustainable, according to Central Bank figures, while interest rates rose substantially over the period under review. The stock exchange weakened due to increased net foreign investor outflows, while the Kenya shilling weakened against the US dollar.

With the increased competitiveness of the manufacturing sector which will be a key driver of growth, exports and job creation, Kenya is emerging as one of Africa's key growth centers and is also poised to become one of the fastest growing economies in East Africa. This was further supported by the high spending on infrastructure by the government and globally low oil prices which boosted the manufacturing and the construction sectors since Kenya is a net oil importer.

Month on month Inflation has remained largely stable during the year and within the CBK target range of 2.5% to 7.5%. The inflation rate started the year at 5.5%, moved on to 7.1% in April eventually reaching a high of 8.01 % in December 2015.

CHAIRMAN'S STATEMENT (Continued)

On the currency, the Kenya Shilling has depreciated by 15.9% YTD on account of a strengthening Dollar globally and a widening current account deficit driven by high government spending. Additionally, there was reduced foreign exchange inflows on the back of poor revenues from tea, horticulture and tourism. As of the end of Q3, 2015, the import cover stood at 4.3 months which is marginally above the mandatory requirement of 4 months. Since June 2015, CBK has increased Central Bank Rate (CBR) by 300 bps to 11.5% in order to stabilize the currency, and eventually, the KBRR also increased by 133 basis points to 9.87% which had a spiraling effect on the interest rates and slowed down credit.

The Country is making huge investments in infrastructure development, in road, rail port and energy sectors. Notably, the \$3.6 billion standard-gauge railway from the port of Mombasa to Nairobi, with an extension to Naivasha. Additionally, the Government is on track to boost installed power-generation capacity by 5,000 megawatts by end of 2017.

Tourism, which is a key foreign exchange earner has been adversely affected by insecurity putting further pressure on the budget deficit.

On the Ease of doing business, Kenya improved 28 positions in the World Bank's ranking index helped by reforms in business and property registration, electricity connections and access to credit. The country was ranked at position 108 out of 189 countries globally compared to 136 in last year, making it the third most improved economy. This translated into increased investment in key growth areas including the Banking Sector.

Banking Sector Developments

The banking sector performed well in Year 2015 with a number of banks innovating around customer needs, convenience and efficiency through use of alternative banking channels such as mobile, internet and agency banking. In addition there has been an industry wide branch network expansion strategy both in Kenya and in the East African region. Further a resilience by banks to reduce their rates following the introduction of the KBRR through strategies of protecting their margins regardless of the rate environment has been evident.

Notably throughout 2015, Banks have adopted very austeric measures to drive their growth strategies. To manage costs, banks have adopted measures to enhance operational efficiency and protect the Net interest Margins (NIMS).

In an effort to diversify income lines, the industry has witnessed an accelerated adoption of Alternative Business Channels involving use of mobile and agency banking. This has increased their footprint and market penetration as well as enabling banks to continue providing loan products to the mass market.

There has been unprecedented growth in the retail business segment supported by the expanding middle class, which is growing faster than other countries in Africa. This has led to an inherent increase in consumption expenditure and an increase in the percentage of the population requiring banking services.

With devolution gaining momentum in Kenya, banks have expanded their footprints both regionally and domestically. Sector players have been more aggressive in trying to capture the opportunities that exist at county levels, which will increase their customer base. Banks are also looking to expand in the less penetrated markets of Tanzania, Uganda, Rwanda and South Sudan opening up new channels of revenue.

The Banking sector experienced a remarkable increase in interest rates throughout 2015. The Kenya Bankers Reference Rate

CHAIRMAN'S STATEMENT (Continued)

increased by 133 bps to 9.87% largely as a result of an increase in the CBR by 300 bps to 11.5%. This led to increase in interest on all loans pegged on the KBRR. Banks experienced their slowest year on year growth in 6 years of 8.3% during 2015 compared to 15.6% in 2014. Some Banks reported either losses or significant reduced earnings during this period as per the published financials statements.

Additionally, there was a huge jump in interest expense in Q4 2015 and the impact of flight of deposits to the big banks after the collapse of Imperial Bank, which forced the small banks in particular to take deposits at exorbitant costs. Specifically, interest on large deposits reached unprecedented levels significantly eroding bank's interest income. This negative effect has continued to be felt into 2016 which is a key focus area being addressed by Central Bank of Kenya. Banks are also under increasing pressure by Treasury and the Central Bank of Kenya to reduce interest rates and make loans more affordable to customers.

The Central Bank of Kenya announced a moratorium on the licensing of Banks with the exception of cases related to amalgamation and acquisition of Banks. With the number of Commercial Banks at 40, this high number of banks comes with advantages such as financial inclusion but also puts strains on CBK in providing thorough and effective supervision.

Going forward we expect banks' net interest margins to remain depressed, and the only way for the banks to drive revenue is by diversification to increase their non-funded income. The ability of the banks to diversify their top line helps reduce risks in uncertain and volatile economic environments.

Two banks were put under receivership during the year for what the regulator said were issues relating to poor corporate governance. Going forward, we expect the sector to come under greater scrutiny by the regulator to ensure commercial banks adopt a robust risk based analysis in lending, supported by strong management and corporate Governance structures and strict adherence to prudential guidelines and compliance.

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 success. 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 and best practices were also reinforced. The risk framework covers all risks across all functional levels of the Bank. There is a Board Risk Committee and a Risk & Compliance Department tasked to closely monitor the various types of identified risks and the mitigants that should be in place.

The Board Credit Committee oversees prudence in the lending Processes across the Bank network while the Board Strategy Committee guides the Management on overall implementation of the Growth Strategy. The Board Human Resources Committee provides leadership to our Staff who remain our greatest investment in the Bank.

CHAIRMAN'S STATEMENT (Continued)

Corporate Social Responsibility (CSR)

In 2015, Family Bank continued 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:



Family Bank MD- Peter Munyiri takes a maiden ride with KNH CEO - Lily Koros during the unveiling of the Kshs 4.3 Million Children's playground facility at the Kenyatta National Hospital.

Sports

- Family Bank continues to reassert its credentials in the sporting arena through sponsorship of the annual Family Bank Eldoret Half Marathon to nurture young upcoming athletes. Since its launch in 2007, the Half Marathon has produced talented world beaters who have gone to win international marathons. In the year 2015 the Bank upped its investment to Ksh 10 Million towards this initiative that saw over 1000 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".



Athletes starting off during the 9th edition of the Family Bank Eldoret half Marathon.

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 300 students in paying school and boarding fees. Early in the year the Bank teamed up with our associated Companies, Kenya Orient Insurance Limited and Daykio Plantations through the "The Family Bank Group Foundation" and donated Ksh20Million towards the Beyond Zero Campaign championed by the First Lady and participated in the First Lady Half Marathon. The Foundation is the philanthropic arm formed in partnership with Family Bank, Kenya Orient Insurance Ltd and Daykio Plantations Ltd.
- In 2015 we also supported Starehe Girls Centre during their fund-raising initiatives which included a Charity Golf event at Windsor Country Club.

CHAIRMAN'S STATEMENT (Continued)



Family Bank MD- Peter Munyiri with Master Abraham Andaje and Bernard Chitai, Form 1 students at Bungoma High School supported by Family Group Foundation.

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. During this visit the Bank handed over a Ksh 4.3 Million Children playground facility – a project of the Bank in support of the children suffering from Cancer - to the Kenyatta National Hospital. We are optimistic that this partnership will continue to provide comfort and alleviate some of the challenges facing the Health Sector in Kenya.



Community Empowerment

- In 2015, as has happened in previous years all the branches and departments participated in a CSR activity within their localities. All these community welfare participation events have highly profiled the Bank and has been a stepping stone for mutually beneficial business relationships.

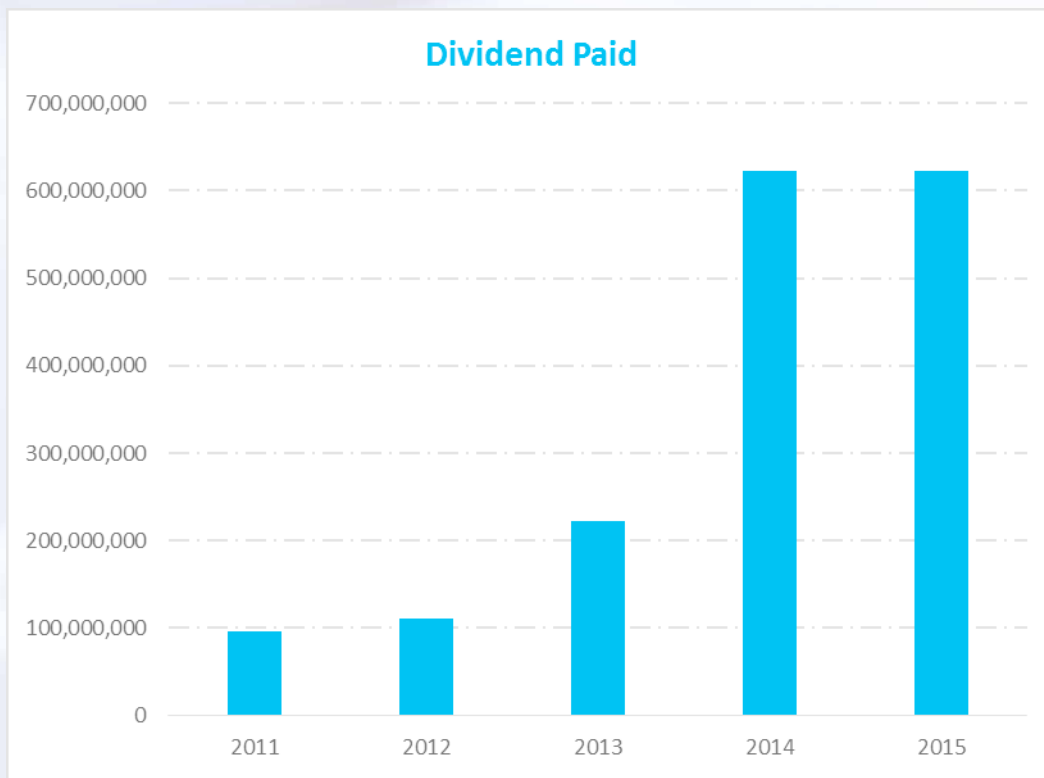
Dividend

The Bank appreciates 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.

The Board is proposing a dividend of Ksh 0.50 per share the same as in 2014. The Dividend payment in the last 5 year is as indicated below.

1. 2011 – 0.40 (Kshs – 96,836,977)
2. 2012 – 0.40 (Kshs – 111,399,054)
3. 2013 – 0.40 (Kshs – 222,809,346)
4. 2014 – 0.50 (Kshs – 622,593,598)
5. 2015 – 0.50 (Kshs – 622,593,598)

CHAIRMAN'S STATEMENT (Continued)



Outlook for 2016

The Bank shall continue to rely on the support and goodwill of all our stakeholders and specifically our shareholders and customers to drive its growth strategy. We are collectively determined to exceed our stretching targets for 2016 with renewed determination, resilience and commitment of our Board, management and staff.

Our commitment to focus on positively transforming peoples' lives through the provision of quality financial services and efficient customer service remains steadfast. We will leverage on Information and Communications Technology and innovating new products and services to support the growing financial needs of our customers. The bank will continue to invest substantial amount in capital to upgrade its IT infrastructure and architecture and also continue expanding its branch and virtual networks.

Funding

As a bank we will continue to ensure that we support the growth momentum and meet the statutory ratios with the Board continuing to explore various funding options both in equity and debt financing.

In mid-2015 we signed our second tranche of Ksh 4 billion debt financing agreement with the European Investment Bank (EIB) having successfully exhausted the first facility of Ksh2Billion in 2014. We confirm that the EIB funds have now been received in our accounts to support our growth especially in the SME sector. We also received another Ksh1Billion from Oiko Credit and are currently in advanced discussions with other international partners like Africa Development Bank (AfDB) for more funding to support our growth strategy.

The Bank remains committed to its five year capital plan as per the latest CBK Guidelines. As stated earlier, we continue to explore various equity and Debt Financing options to maintain our fast paced but sustainable growth. On the Equity side, we once more call on our shareholders to approve and participate in a Rights issue to support this noble agenda.

Family Bank Chairman Dr. Wilfred Kiboro and Managing Director & CEO Mr. Peter Muniyiri during the Corporate Bond Launch.



CHAIRMAN'S STATEMENT (Continued)

Regional Expansion

To further support our Tier one journey, the bank is actively exploring valuable options in the African Region to have a presence in at least one country in the next one year. Our options will leverage on the country profile and business risk profile through a Brown Field entry Strategy. This will also be determined by the quality of assets available in the specific country we will eventually commit our investment.

In preparation for our entry in the Region, The board is proposing to the Shareholders incorporation of a Non-operating Holding Company to manage our planned regional Strategy and Subsidiaries. This move will position Family Bank as a regional entity positively transforming lives in Africa and beyond. Family Bank projects that the new structure will increase efficiency and enable the Group's business operate more robustly and independently. We are confident as a board that the re-organization will result in operational efficiencies and better financial performance for the Bank. The new units will be able to operate independently while being supervised by the mother company to ensure that the activities are run according to the laid down practices and move towards boosting the bank's financial performance remarkably.

The structure we are proposing to form will go a long way in enhancing the Group's capacity to attract capital and also enable us to venture invest in new areas outside traditional banking. The structure will also help us achieve operational and strategic autonomy for the Group's operating entities and enhance corporate governance across the Group and oversight in management of subsidiaries.

Exit of Managing Director & Chief Executive Officer

Our Managing Director and CEO will be leaving the Bank in June 2016 after the end of his contract, during which he presided over unprecedented growth in the Bank's history. On behalf of the Board of Directors and Staff, I sincerely express the Bank's appreciation for his contribution to the Bank and wish him the best in his future plans.

Conclusion

Our business continues to thrive despite the challenging operating environment the Kenyan Financial services industry is undergoing. We are registering exemplary financial performance; outperforming the industry and sustainably grown our key business lines. This growth is a clear record of our ability and commitment to build a sustainable and impactful business in Kenya. We seek to leverage on the vast opportunities both locally, regionally and globally to maintain our winning track record.

On behalf of the 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 humbled and highly indebted for this unwavering support.

I also sincerely thank and high appreciate the management and staff of the Bank for their dedicated service and achievement in implementing successful sustainable strategies in a dynamic 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 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 provide value adding solutions to our customers and other Stakeholders.

I sincerely appreciate our very able and hardworking Board Members who have always provided me and the Bank invaluable support and guidance. I am certain that with continued focus, clarity of strategy and support of all stakeholders the years ahead will be even more promising and brighter for the Bank.

Thank you.

Dr. Wilfred D. Kiboro
Chairman- Board of Directors

MANAGING DIRECTOR & CEO'S STATEMENT

Dear Shareholders,

I am delighted to present the Bank's Annual Report and Financial Statements for the year ended 31st December 2015. It was a year of great performance set against a challenging industry wide economic backdrop. We registered impressive growth on all parameters – once again ending the year with a strong Balance Sheet and Profit position.

The Bank overcame increasing pressure from the operating environment and continued to manage various macroeconomic issues with vigor, tact and urgency. Notably, we were able to manage the industry wide challenge of increasing cost of funds and the renewed pressure by the Regulators and other lobby groups to reduce interest rates by enhancing our business volumes and operational efficiency across the bank.

The journey to become a Tier one Bank is well elaborated within our Growth strategy and Must Win Battles which has been fully embraced by the Board, Management and Staff. Our Sustained good financial performance reaffirms that the sustained push to unlock the potential for greater performance is on.

During the year we consolidated our gains in the new business areas i.e. Corporate and Institutional Banking, Treasury, Trade Finance, Diaspora, Sacco Banking and Alternative Business Channels.

One of our key achievements in 2015 was the successful roll-out of our capital raising initiatives including the Corporate Bond in which we sought to raise Ksh10Billion in tranches. This with other ongoing efforts will catapult the Bank on a growth trajectory to attain tier one Status in the next three years.

We continued leveraging on Strategic Partnerships with key high value institutions thus growing our market share in all the business segments. This is a manifestation of our brand strength and commitment to continue with our vision of positively transforming lives.

Financial Performance

Profit before tax (PBT) increased by 10% from Ksh 2.62 Billion full year 2014 to Ksh 2.88 Billion for the year ended 31st December 2015. This commendable financial performance strengthened the Bank's position as one of the leading banks in good Profit growth ranking. The Bank outperformed peers in the banking industry by registering this sustainable performance. The remarkable increase in profit before tax was mainly attributed to selective Credit acquisition, growth in the customer base and operating efficiency.

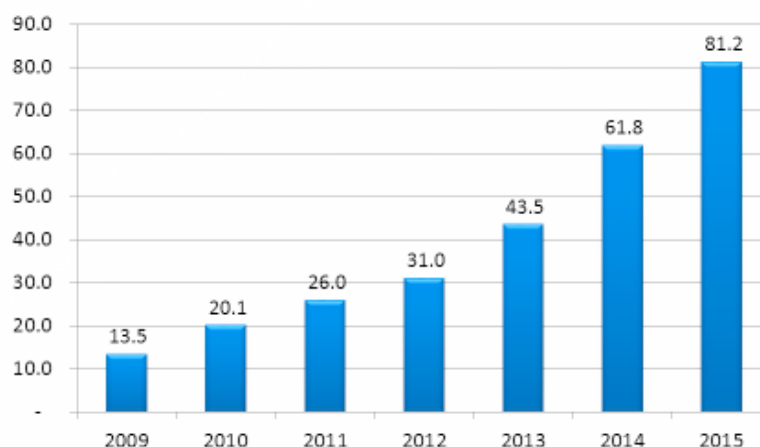
Total assets grew by Ksh 19.4 billion representing a 31% increase from Ksh 61.8billion as at 31st December 2014 to Ksh 81.2Billion as at 31st December 2015. This high growth in assets was primarily attributable to the growth in the number of customers, the loan book and the branch expansion strategy. Net loans and advances stood at Ksh 55.9billion as at 31st December 2015 compared to Ksh 37.9 billion as at 31st December 2014, representing a 47% growth.

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

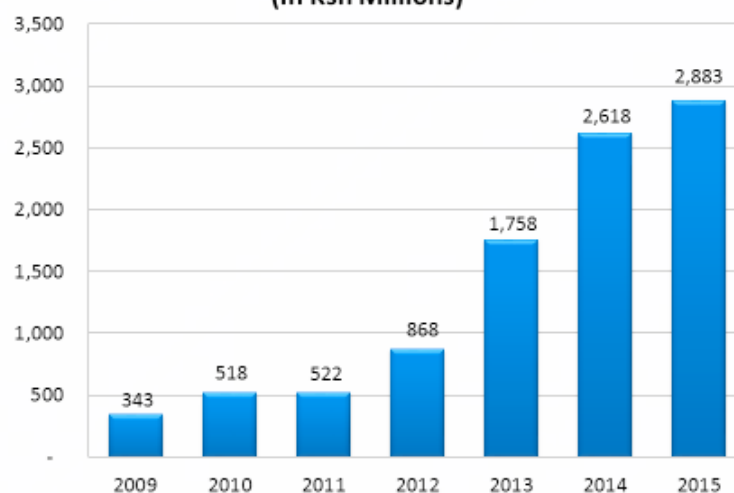
The customer base stood at 1.7 Million as at 31st December 2015 up from 1.5 Million customers as at 31st December 2014. Consequently, our customer Deposits grew by 33% from Ksh. 47.2 Billion as at 31st December 2014 to Ksh 62.7 Billion as at 31st December 2015. This was as a result of an aggressive customer growth campaign, a strong presence in the Corporate and institutional banking sector and expansion of the branch network. The shareholders' funds grew by 12% from Ksh 10.62 billion as at 31st December 2014 to Ksh 11.93 billion as at 31st December 2015 mainly due to the growth in retained earnings from the high profits earned from our business segments.

The Bank's CBK Statutory Ratios remained strong and way above the statutory minimum with core capital to total deposit Liabilities ratio at 18.1%, core capital to total risk weighted assets 15.4%, total capital to total risk weighted assets at 18.9% against minimums of 8%, 10.5% and 14.5% respectively. The Bank continued to operate sustainably with liquidity ratio at between 31% to 37% against the CBK statutory 20%.

Total Assets (In Ksh Billions)

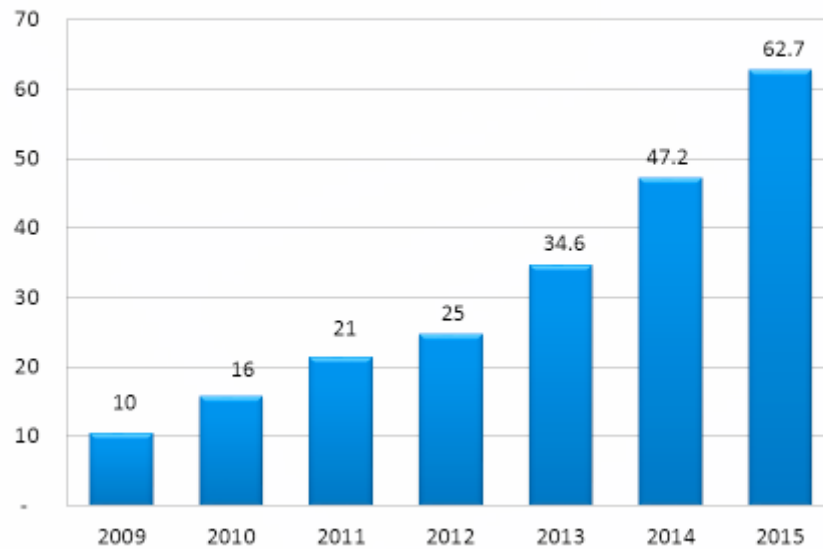


Profit Before Tax (In Ksh Millions)

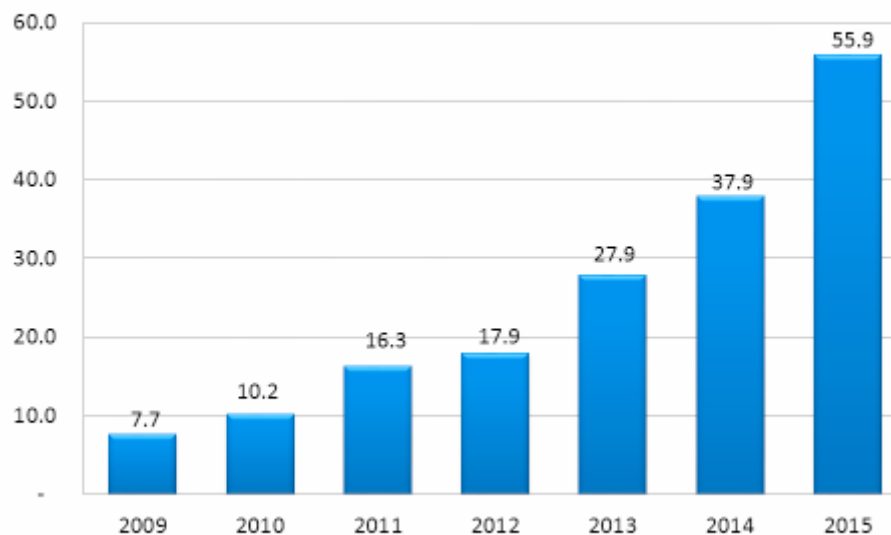


MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

Customer Deposits (In Ksh Billions)

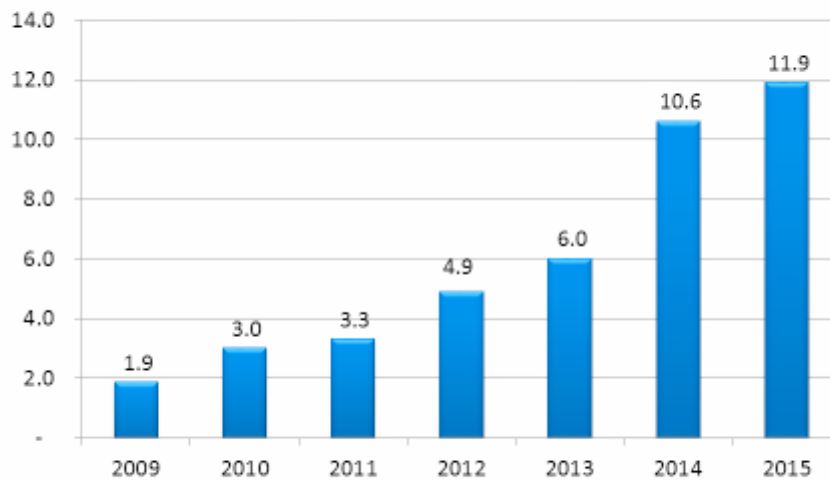


Loan Portfolio (Net) (In Ksh Billions)

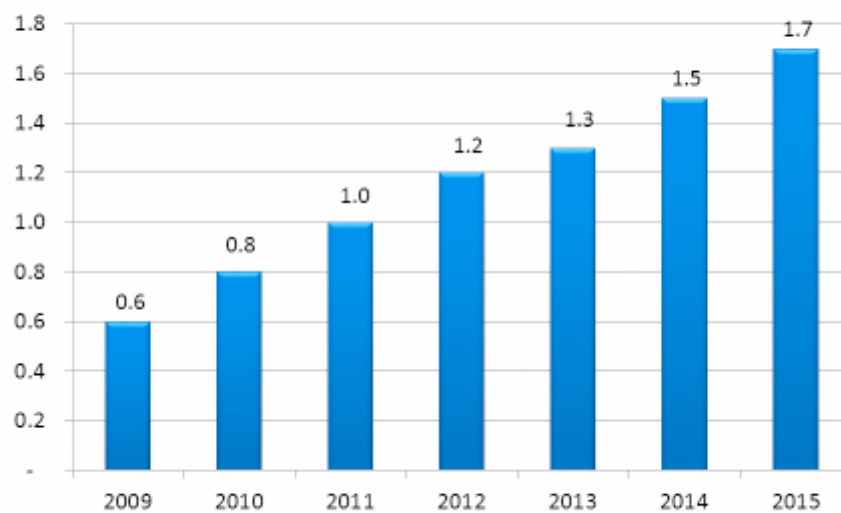


MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

Shareholders' Funds (In Ksh Billions)



Number of Customers (in Million)



MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

Branch Expansion and Alternative Business Channels



The Bank rolled out 11 additional branches to our network in the year 2015 to close with 91 branches. The Bank also has 170 ATMs installed to date and is also a member bank of the Kentswitch and PesaPoint ATM networks with 1800 ATM points. In our endeavor to provide excellent customer service beyond normal working hours we have continued to expand our Alternative business channels to enable customer access our services 24/7.

Agency banking remains top on our agenda as a key driver of customer numbers and non-funded income lines. Currently we have over 3000 active Agents in the market serving customers. 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 Services overview

During the year we continued to be innovative in the following value adding products and service-offering:

- The Bank operationalised a 24 Hour Call Centre in line with our stated objective of improving customer service. In addition all staff have successfully undergone customer centricism training to enhance the experience at all contact points throughout the Bank network. This investment has translated in enhanced business relationships and patronage of the Bank's products and Services. This exemplary service has been received well by our customers leading to better and sustained business performance.
- **Retail Banking Business** - we have further re-modelled our Retail Banking Business to enable strategic focus on the SME, Micro, Agribusiness and Consumer market segments. Through our robust Cross Selling strategy, our sales teams have adopted a multi-dimensional approach to business acquisition which highly contributed to the impressive results. This

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

gave us wider scope to offer targeted customer value propositions that are aligned to the needs of the respective customer segments. Our SME strategy continued to deliver a comprehensive one stop offering of products for business customers through dedicated relationship managers and officers in our branches. The micro banking strategy focuses on the needs of individuals, small businesses and groups (Chamas) through our well trained officers while the Agribusiness strategy, that has earned the Bank accolades of being the most popular farmers' bank in many counties, focuses on the agricultural sector through our competent field officers. The Consumer Banking strategy focuses on the salaried employees, mainly through working partnerships with employers to offer tailor made comprehensive banking solutions to their employees. We have innovative relevant products for all these key segments to adequately cater for their needs and expectations.

- **Improved branch model** – The year under review witnessed a general improvement in the brand positioning and look and feel of the branch network. This was driven by our endeavor to further improve on our customer service delivery to adequately meet the dynamic and diversified needs of our clientele. This model 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 well-trained and motivated workforce all set to manage the ambitious growth Strategy of the branches.
- **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.

Corporate, Institutional Banking and Strategic Partnerships

The Bank continued to diversify Partnerships and Strategic Alliances to optimize on business growth. This new business front is generating incremental value as detailed below;

□ **Corporate Banking**

The corporate banking and Institutional business has gained a lot of momentum and in the last 3 years we have been able to bag 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 main products that we have continued to diversify in 2015 include Trade finance products such as invoice discounting, LPO Financing, bid bonds, performance bonds, advance payment guarantees, Letters of Credit (LCs), Standby LCs and import duty financing. Our team of dedicated and highly experienced Relationship Managers in the various fields are able to offer personalized services to all customers. We continue to leverage on our robust internet banking Platform provide value to our corporates, as this solution allows them to access banking services remotely and conveniently without the need to physically visit the bank.

□ **Institutional Banking**

The Bank has become a preferred provider of banking and cash management services to key players in the industry. In this regard, we have further enhanced business relationships with, large cash rich corporates and private individuals, and quasi-government organizations as well driven a full brown marketing strategy for the county Governments. As a result we have developed relationships with universities, colleges, Counties, Parastatals and several Fund Managers. The bank has also become a preferred partner in liability management to leading players who previously banked with the competition, a testament to the success we have enjoyed to date. 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.

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

□ **Diaspora Banking**

Throughout 2015 the Bank made major inroads in growing and diversifying diaspora business and getting market share from the market pace setters. We have established a robust network of Agents to drive business in the high source areas in North America, Western Europe and Middle East. Through the Flagship M-Kenya Daima Diaspora Account our Diaspora customers have been able to invest bank home in real Estate, Mortgage Financing, Education, Stocks among others without the need to travel to Kenya. This business line has been greatly supportive of our rapidly expanding alternative business and digital channels in which the bank has committed a huge investment aimed at enhancing non funded income lines.

Sacco Business

The Bank made key successes in growing Sacco business in 2015 especially in the area of providing innovative payment solutions to their customers. The Saccos appoint the bank as their transactional Agent whereby customers deposit and withdraw cash through our banks branches. This has been very value adding to these clients but is also a revenue opportunity for the bank. In addition, they clear their cheques through our Bank further enhancing this beneficial business relationship. In 2015, The Bank managed to establish 7 new such partnerships with Saccos spread all over the Country. In addition, the Bank has developed value adding innovations like ATM Card less solution for Saccos where members can withdraw from our ATM network through their mobile platform. By leveraging on this strategy we managed to mobilize substantial additional deposits in form of Fixed Deposits and running balances from operational accounts. The above partnerships have also bolstered the bank's image. We are bank that is able to serve wide array of customers and segments across the country through bank's networks.



Family Bank Head of Corporate Banking and Murata Sacco CEO James Kimani during the Cheque Partnership Launch in Muranga.

Information Technology, Systems and Processes

In order for the Bank to continuously offer excellent customer service and remain competitive, we continued to have more investments in our ICT systems. The key result out of this approach has been systems availability and operational excellence across all functions and branches. The key investments to our ICT Systems last year include the following:

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

□ ICT infrastructure

We enhanced our Core Banking System, Flexcube and information Communications Technology Infrastructure including operationalisation of redundancy systems in the branches. This enabled the Bank to provide all round services to our customers both at the branch and at all virtual channels. We now have 24/7 support services available with fully automated notification. This also enabled us ensure that all critical systems are replicated at DR Sites and improvement of the overall customer experience throughout the Bank.

□ Business Support

The Bank continued to enhance its valuable business through various projects in 2015. The Data centre infrastructure Management system enabled staff to get a 360 degrees visibility of Data Components. This included improving the Capacity of the servers to adequately Support the needs of our fast expanding business. We also attained key network milestones like the Data centre core and security upgrade. These two projects were crucial for information security and control and aiding in developing decision models for the whole Bank.

□ Operational excellence

We continued to provide adequate capacity building to our ICT and operations Staff to drive excellence in all processes. This was supported by the roll out of the SLA monitoring system between branches and Head office to improve turnaround times. This helped the bank to Support use of Alternative Channels to ensure full availability of systems including a 24 Hour Monitoring mechanism. We have improved performance and reliability of the ATM by migrating the ATM interface from a Microsoft Windows environment to an AIX (IBM) environment. The AIX environment (which the core banking application runs from) is more stable.

People Talent

As a Bank our greatest investment and assets remains our people whose engagement continues to be very high. The bank is able to attract and retain outstanding talent to strengthen the company. Our core values of humility, integrity, team work and winning together have offered great push with the embedding of a high performance culture through the Balanced Score Card.

We continue to develop our staff through local and overseas training to enhance their skills and leadership qualities. We also encourage our staff to commit themselves to continuous learning in both professional and personal endeavors. Our Leadership and Training Centre continued to equip our Staff complement with rich and diversified skills to meet the needs of our very enlightened customers and Strategic Partnerships. We have a robust e-learning platform and training remains a key performance target for each staff. As a Bank, a well-motivated and competent work force is key to improving performance and competitiveness. All our Management team have undergone thorough and comprehensive leadership training programme to build beter teams into to the future.

Our staff complement continues to be well diversified in terms of age, gender, skills, expertise and professional standing. We continue to enhance the performance culture to ensure a sustainable return to Stakeholder's year on year. In 2015, various staff motivation programmes continued to be effected with opportunities for internal staff development and also getting high level resources from the industry to optimally support our business.

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)



Family Bank MD - Mr. Peter Munyiri with some of the staff who excelled in the Customer Centricism Campaign.

Outlook for 2016

Performance indicators focus on a challenging Macro environment but in which well-run banks like family bank will continue to excel. We are alive to all the opportunities and the challenges and these are specifically being addressed. The business has grown over the years which is the reason more shareholders support is being sought today. With the Bank's proven impressive track record we will continuously strive to be among the best banks this country has. Changing and aligning to a customer-centric company was among the first steps in our journey to unlock our full potential and prepare the ground for our future growth. Growing our company requires a new, shared mindset –a customer focused, agile, can-do mentality.

The bank will continue with the customer-centric initiative to drive new performance and growth culture premised on the Bank's Vision which is: "to be the financial institution that leads in the positive transformation of people's lives in Africa." Our vision is driven by the need to continuously support our customers with diversified products and service, which to date has seen the Bank transform the lives of millions of people.

Top of the business agenda in 2016 will be consolidation of the business in the different market segments; enhanced product offering through ABC channels expansions. We are in the forefront in terms of exploiting technology for service and product offerings.

We shall continue to roll-out the various EMV compliant VISA cards which include: VISA Classic Debit Card 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.

As a team, we will strive to achieve the Bank's targets and sustain the business momentum. We will maintain the capacity to grow and compete in the chosen profitable markets the bank is operating in.

We have started 2016 strongly despite the challenges banking and other sectors are facing. We will strive to deliver the targets set for this year and we are fully cognizant of the challenges

MANAGING DIRECTOR & CEO'S STATEMENT (Continued)

Conclusion

The potential of our Company is massive. We have unwavering support from our shareholders, customers and the public. We remain confident in our chosen strategic direction. Indeed, my assurance to you shareholders and customers is that the bank's future looks even brighter. The Bank is very well placed and actively growing as well as supporting the economy to grow.

I thank the management and staff for their hard work and professionalism. We have embraced and are living to the performance based culture. I also register my appreciation to our Chairman and the Board for the continued support, oversight, and guidance. They have given us invaluable support and oversight over the years.

I would like to thank our customers for their loyalty to Family Bank. I take this opportunity to invite and welcome new customers to our bank. And finally I would like to thank our shareholders for the continued support. We have have been on a demanding and exciting journey .More than ever before, we have as strong resolve to accelerate and unlock Family Bank's potential and grow the value of your investment.

We thank God for all these achievements.

Thank you and God Bless You

Peter Munyiri

Managing Director & Chief Executive Officer

Success needs a partner

The Family Bank visa Credit Cards will afford you the finer things in life. Enjoy the luxury and exclusivity of buying now and paying later.

Choose between the Visa Gold or Visa Classic.
Apply at any Family Bank branch today



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FAMILY BANK INSURANCE AGENCY LIMITED

Family Bank continues to leverage its Bancassurance business to meet its customer's diversified needs. The Company was rebranded to Family Bank Insurance Agency Limited (FBIA) from Dhamana Insurance Agency Limited which was licensed in May 2010 by the Insurance Regulatory Agency. This rebranding consolidated the Brand Name "Family" as a one stop shop for financial Services. With the insurance penetration in Kenya at less than 4%, there is unique opportunity to drive the business of the Company through various activities.

Launch of Family Bank Insurance Agency Limited

The Year 2015 was a milestone in the rebranding and repositioning of the Subsidiary to greater heights. Our Business was renamed Family Bank Insurance Agency Limited (FBIAL) with a new logo and corporate colours at a colourful event held on 15th December 2016 at Nairobi Serena attended by various industry executives. This continues to enhance our corporate image to scale new heights and source for more business in new frontiers. The rebranded unit forms part of the bank's strategy of serving its customers better through becoming a one-stop shop for financial services.



Areas of Competitive advantage

Strong Relationship Team

Family Bank Insurance Agency has a very proactive sales team spread out in 92 Branches and growing. Throughout 2015, our Relationship team grew the business significantly to attain leadership in areas of general and life Insurance segments. This was supported by a team of 48 well trained General insurance officers and over 100 life Agents. The performance of these teams continue to be monitored through a weekly dashboard on the business growth prospects for the month.

Strategic Partnerships and Alliances

The Company continued to strengthen strategic partnerships with Insurance Companies and expand its business model. Our Partnership as agents of 13 Insurance Companies with a countrywide footprint helped to further optimize the Banks Universal Banking business model of being a one stop shop for financial services.

Board Support

The Company continued to leverage on the guidance and advice of its highly qualified and committed Board of Directors under the Chairmanship of Professor Kabiru Kinyanjui to drive its business in 2015. We were able to reach new frontiers in business growth supported by the robust sales team throughout the year. This was supported by the intensive training programme implemented in key areas of underwriting, sales, negotiation, customer relationship management and business development.

Sustainable growth

Our business model continued to provide a one stop shop for various products and services. These range from Motor Insurance for all classes, Marine insurance, Education Plan, Funeral Covers, Life Insurance, Fire and Burglary, Goods in transit, Individual medical and home insurance. In 2015 the Subsidiary managed to realize a compounded annual Growth rated (CAGR) of over 40%.

Robust Operating Systems

We continued improving our operating systems throughout the year to attain enhanced turnaround times in customer service areas of premium collection and reconciliation, claims management and financial reporting. Currently the agency is implementing a new bancassurance operating system, a multi-million investment to enhance its insurance subsidiary interface with customers. The technology platform – Avenir, is an integrated Bancassurance portal solution that will allow Family Bank Insurance Agency to improve on service delivery through enhanced business responsiveness. The new portal which provides customer need analysis capabilities based on their requirement and will simplify the policy servicing and claims settlements thereby improving the quality of service for the customers.

The process of reengineering the entire Bancassurance process continues throughout 2016. Into the future, the System will provide tremendous business agility, time-to-market advantage, and impeccable delivery track record and unmatched domain expertise. The System will serve as a model for the Insurance industry as a whole in Africa.

I register my appreciation to our customers for their support to Family Bank Insurance Agency. I welcome you all to the new look Agency.

Dipesh Shah
General Manager

CORPORATE GOVERNANCE STATEMENT

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

The board in December 2015 updated its Board Charter so as to bring in it line with the key values of the Bank, generally accepted Principles of Good Corporate Governance and in compliance with the sound corporate governance principles under the Prudential Guidelines published by the Central Bank of Kenya as well as the Companies Act 2015. The purpose of the Board Charter is to provide

- 1. The demarcation of the roles and responsibilities, functions and powers of the Board and management.
- 2. The relevant principles of the company's limits and delegation of authority and matters reserved for the Board
- 3. The policies and practices of the Board in respect of matters such as corporate governance, conflict of interest, board meetings, composition of the Board, appointment, induction and evaluation

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 (four of whom are Independent Non-Executive Directors), two 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 and the Board appointed Mr Francis Mungai with effect from 11th June 2015 to fill in the casual vacancy. He serves this term until the next AGM.

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.

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD INDEPENDENCE AND CONFLICT OF INTEREST (CONTINUED)

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

CORPORATE GOVERNANCE STATEMENT

6. BOARD ACTIVITIES 2015

6.1 Board attendance

The Board convened 10 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)	100%
TK Muya	100%
David Some	80%
David Kimani	100%
Ruth Waweru	100%
Francis Mungai	85%
Lerionka Tiampati	80%
Peter Munyiri	100%
Njung'e Kamau	100%

6.2 Board Training and Continuous Professional Development 2015

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 Anti- money Laundering laws and the Board's role in ensuring compliance.

6.3 Board Evaluation

The annual Board evaluation was conducted in March 2016 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 and the Board Committees. 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.

CORPORATE GOVERNANCE STATEMENT

7. 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 Country Internal Audit and Compliance functions at the beginning of each year.

The Committee held six 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 once during the year under review. The members of the committee in the year under review were: Prof. David Some (Chairman) Mr Kabiru Kinyanjui, Dr. W.D Kiboro, Mr T.K Muya, Mr Peter Munyiri, Mr Njunge 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) and Dr Ruth Waweru. 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 twice during the year under review. The members of the Committee are Mr T.K Muya, Mr Brian Kiondo Dr. W. D Kiboro, Prof. David Some and Mr. Peter Munyiri. The Director Human Resources attended all the Committee meetings.

CORPORATE GOVERNANCE STATEMENT

7. COMMITTEES OF THE BOARD (CONTINUED)

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, Dr. W.D Kiboro, Mr T. K Muya, Mr Lerionka Tiampati, Mr Peter Munyiri, Mr Njunge Kamau, Mr Brian Kiondo 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 Committees 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 members are Dr Ruth Waweru, Dr. W.D Kiboro and Mr T.K Muya. This committee held one meeting in 2015.

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.

9. CAPITAL STRUCTURE

a) Share Capital

The authorized and issued share capital of Family Bank Group consists of only ordinary shares as disclosed on note 30 to the financial statements.

b) Top ten Shareholders as at 31 December 2015

No	Shareholder	No. of Shares
1	Kenya Tea Development Agency Holding Ltd	192,418,298
2	Rachael Muya	167,143,948
3	Daykio Plantations Limited	153,808,121
4	Titus Kiondo Muya	66,965,268
5	Standard Chartered Kenya Nominees Ltd a/c 9660b	46,417,000
6	PA securities	44,444,445
7	Kenya Orient Insurance Limited	35,600,936
8	Julius Muya Kiondo	33,448,788
9	Ann Muya	33,428,788
10	Mark Keriri	33,428,788
Top 10 Shareholders		807,104,380
Others		438,082,816
Total Issued Shares		1,245,187,196

CORPORATE GOVERNANCE STATEMENT

9. CAPITAL STRUCTURE

c) Distribution of Shareholders as at 31 December 2015

	No. of Shareholders	No. of Shares	%
10,000,000 - Above	17	966,977,952	77.66%
50,000 - 9,999,999	559	224,238,891	18.01%
10,000 - 49,999	2,020	36,211,983	2.90%
1 - 9,999	3,227	17,758,370	1.43%
	<hr/>	<hr/>	<hr/>
Total	5,823	1,245,187,196	100%
	=====	=====	=====

d) Directors Holding Shares as at 31 December 2015

Name	No. of shares	%
Wilfred Kiboro	11,740,468	0.94%
Titus Muya	66,965,268	5.38%
Prof David Some	279,667	0.02%
Dr Ruth Waweru	180,000	0.01%
David Kimani	128,889	0.01%
Julius Muya	33,448,788	2.69%
Francis Mungai	1,296,900	0.10%
Peter Munyiri	10,223,258	0.82%
Njung'e Kamau	10,000	0.001%
	<hr/>	<hr/>
Total	124,273,238	9.97%
	=====	=====



Chairman

29th March 2016

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 2015, which show the state of affairs of the group and of the bank.

INCORPORATION

The bank and its subsidiary, Family 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 2015:

	Group Sh'000	Bank Sh'000
Profit before taxation	2,957,128	2,883,486
Taxation charge	(974,182)	(946,828)
	<hr/>	<hr/>
Profit for the year	1,982,946	1,936,658
	=====	=====

DIVIDEND

The directors recommend a first and final dividend of Sh 0.50 (2014: Sh 0.50) per share for the year amounting to Sh 622,593,598 (2014: Sh 622,593,598) subject to shareholders' approval at the Annual General Meeting.

DIRECTORS

The present members of the board of directors are shown on page 2. Kabiru Kinyanjui and Mark Keriri resigned as directors in April 2015 and December 2015 respectively and Francis Mungai was appointed a director on 11th June 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

29th March 2016

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.



Chairman

29th March 2016



Managing Director

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 38 to 100, which comprise the consolidated and bank statements of financial position as at 31 December 2015, 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 group and of the bank as at 31 December 2015 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.

Anne Muraya

Certified Public Accountants (Kenya)

Nairobi, Kenya

29th March 2016

CONSOLIDATED AND BANK STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Group		Bank	
		2015	2014	2015	2014
		Sh'000	Sh'000	Sh'000	Sh'000
INTEREST INCOME	6	10,032,314	7,121,576	10,032,314	7,121,576
INTEREST EXPENSE	7	(3,632,385)	(1,748,220)	(3,639,883)	(1,750,857)
NET INTEREST INCOME		6,399,929	5,373,356	6,392,431	5,370,719
Foreign exchange gain		298,484	111,444	298,484	111,444
Fee and commission income	8	2,472,113	2,359,721	2,472,113	2,359,721
Other income		206,432	167,950	43,521	83,619
OPERATING INCOME		9,376,958	8,012,471	9,206,549	7,925,503
Operating expenses	9	(6,207,955)	(4,957,467)	(6,111,188)	(4,917,200)
Impairment charge on loans and advances	17	(211,875)	(389,944)	(211,875)	(389,944)
PROFIT BEFORE TAXATION		2,957,128	2,665,060	2,883,486	2,618,359
TAXATION	11	(974,182)	(855,275)	(946,828)	(837,757)
PROFIT FOR THE YEAR		1,982,946	1,809,785	1,936,658	1,780,602
OTHER COMPREHENSIVE INCOME	15(b)	(6,778)	-	(6,778)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,976,168	1,809,785	1,929,880	1,780,602
EARNINGS PER SHARE		Sh	Sh	Sh	Sh
Basic and diluted	12	1.59	1.61	1.55	1.58

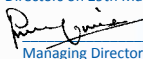
CONSOLIDATED AND BANK STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015


		Group			Bank
		2015	2014		2014
		Note	Sh'000	Sh'000	Sh'000
ASSETS					
Cash balances with Central Bank of Kenya	13	6,167,092	5,532,611	6,167,092	5,532,611
Balances due from banking institutions	14(a)	4,892,358	7,378,051	4,892,358	7,378,051
Government securities held to maturity	15(a)	7,246,561	5,901,181	7,183,394	5,901,181
Government securities available for sale	15(b)	443,222	150,000	443,222	150,000
Loans and advances to customers	16	55,853,882	37,925,476	55,853,882	37,925,476
Corporate bonds	18(a)	936,410	554,830	936,410	554,830
Commercial paper	18(b)	631,916	700,000	631,916	700,000
Other assets	19	1,346,593	1,001,555	1,325,075	982,802
Investment in subsidiary	20	-	-	1,000	1,000
Investment properties	21(a)	18,200	127,400	18,200	127,400
Non-Current Assets Held For Sale	21(b)	90,000	-	90,000	-
Property and equipment	22	3,175,595	2,083,099	3,169,489	2,080,202
Intangible assets	23	318,801	317,620	317,625	316,530
Prepaid operating lease rentals	24	157,969	162,580	157,969	162,580
Deferred tax	29	2,767	-	2,582	-
TOTAL ASSETS		81,281,366	61,834,403	81,190,214	61,812,663
		=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Balances due to banking institutions	14(b)	131,643	209,291	131,643	209,291
Customer deposits	25	62,710,859	47,136,480	62,730,867	47,186,425
Taxation payable	11(c)	30,441	222,608	36,951	221,971
Borrowings	26	5,587,720	2,900,335	5,587,720	2,900,335
Other liabilities	27	750,135	658,113	747,662	655,819
Unclaimed dividends	28(a)	28,589	12,587	28,589	12,587
Deferred tax liability	29	-	5,427	-	5,582
TOTAL LIABILITIES		69,239,387	51,144,841	69,263,432	51,192,010
		=====	=====	=====	=====
SHAREHOLDERS' FUNDS					
Share capital	30	1,245,186	1,245,186	1,245,186	1,245,186
Share premium	30	5,062,519	5,063,676	5,062,519	5,063,676
Revaluation surplus		76,823	78,956	76,823	78,956
Fair Value reserve		(6,778)	-	(6,778)	-
Retained earnings		5,136,745	3,944,241	5,021,548	3,875,332
Statutory reserve		527,484	357,503	527,484	357,503
TOTAL SHAREHOLDERS' FUNDS		12,041,979	10,689,562	11,926,782	10,620,653
		=====	=====	=====	=====
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		81,281,366	61,834,403	81,190,214	61,812,663
		=====	=====	=====	=====

The financial statements on pages 38 to 100 were approved and authorised for issue by the Board of Directors on 29th March 2016 and were signed on its behalf by:


Chairman


Director


Managing Director


Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Fair Value Reserves	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
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 shares issued (Note 30)	11,140*	111,406					122,546
Rights issue proceeds	120,000	2,880,000	-		-	-	3,000,000
Rights issue costs (Note 30)		(27,981)					(27,981)
Dividend paid - 2013	-	-	-	-	(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
At 1 January 2015	1,245,186	5,063,676	78,956	-	3,944,241	357,503	10,689,562
Total comprehensive income for the year	-	-		(6,778)	1,982,946	-	1,976,168
Rights issue costs	-	(1,157)	-	-	-	-	(1,157)
Dividend paid - 2014	-	-	-	-	(622,594)	-	(622,594)
Transfer to statutory reserve	-	-	-	-	(169,981)	169,981	-
Transfer of excess depreciation	-	-	(3,047)	-	3,047	-	-
Deferred tax on excess depreciation	-	-	914	-	(914)	-	-
At 31 December 2015	1,245,186	5,062,519	76,823	(6,778)	5,136,745	527,484	12,041,979

*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 2015

	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Fair Value Reserve Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
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 shares issued	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
At 1 January 2015	1,245,186	5,063,676	78,956	-	3,875,332	357,503	10,620,653
Total comprehensive income for the year	-	-	-	(6,778)	1,936,658	-	1,929,880
Rights issue costs (Note 30)	-	(1,157)	-	-	-	-	(1,157)
Dividend paid – 2014	-	-	-	-	(622,594)	-	(622,594)
Transfer to statutory reserve	-	-	-	-	(169,981)	169,981	-
Transfer of excess depreciation	-	-	(3,047)	-	3,047	-	-
Deferred tax on excess depreciation	-	-	914	-	(914)	-	-
At 31 December 2015	1,245,186	5,062,519	76,823	(6,778)	5,021,548	527,484	11,926,782

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Sh'000	2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash (used in)/generated from operations	31(a)	(1,470,852)	2,379,422
Taxation paid	11(c)	(1,174,543)	(848,298)
		<hr/>	<hr/>
Net cash (used in)/generated from operating activities		(2,645,395)	1,531,124
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	22	(1,718,335)	(770,439)
Proceeds on sale of property and equipment		22,632	954
Purchase of intangible assets	23	(97,466)	(86,030)
		<hr/>	<hr/>
Net cash used in investing activities		(1,793,169)	(855,515)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings received	26	3,018,800	2,331,920
Repayment of borrowings	26	(511,827)	(853,114)
Dividends paid	28	(606,592)	(216,736)
Proceeds from issue of shares	30	-	3,122,546
Rights issue costs	30	(1,157)	(27,981)
		<hr/>	<hr/>
Net cash generated from financing activities		1,899,224	4,356,635
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR		(2,539,340)	5,032,244
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		10,206,979	5,174,735
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	31(b)	7,667,639	10,206,979
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 Family 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.

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 2015

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

IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan.

According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70. The amendment requires retrospective application.
- The directors anticipate that the application of the standard will not have an impact on the Group's financial statements since the company doesn't have a defined benefit plan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015 (Continued)

Annual Improvements 2010-2012 Cycle

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

The amendment to IFRS 2 is to clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions for 'performance condition' and 'service condition' which were previously included as part of the definition of 'vesting condition'. The amendment requires prospective application.

The amendment to IFRS 3 clarifies that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognised in profit and loss. The amendment to IFRS 3 requires prospective application.

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

The amendment to IFRS 13 clarifies that the issuance 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. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.

The amendment 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 amendment to IAS 24 clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the 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 compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

- (i) New standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)

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

- i) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015

*New and Amendments to standards**Effective for annual periods beginning on or after*

IFRS 9	1 January 2018
IFRS 15	1 January 2018
IFRS 16	1 January 2019
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

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 de-recognition

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015 (continued)

IFRS 9 Financial Instruments (Continued)

- 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 will 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.

IFRS 15 Revenue from Contracts with Customers

In May 2015, 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 company do not expect the adoption of IFRS 15 to have a significant impact on the Group's financial statements.

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The directors anticipate that the adoption of IFRS 16 will not have a significant impact on the group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015 (continued)

IFRS 9 Financial Instruments (Continued)

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.

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

- iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)

Annual Improvements 2012-2014 Cycle

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015 and future annual periods (Continued)

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 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and 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. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Entities should apply the amendments prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016

The directors of the Company do not anticipate that the application of the standard 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 2015

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

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, 2015. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Interest income and expense

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

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

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

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

Fees and commission income

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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.

Non-current assets held for sale

The group classifies a non-current asset as held for sale if, and only if, its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non current assets held for sale are measured at the lower of their carrying amounts and fair values less estimated selling costs at end of reporting period date.

Impairment loss arising from any subsequent write-down of the carrying amount of an asset identified for sale to fair value less costs to make the sale is charged to profit or loss in the year in which the loss is identified.

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.

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Taxation

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (Managing Director and CEO). Management then allocates resources to and assesses the performance of the operating segments of the Group.

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the group's revenue that can be allocated to the segment on a reasonable basis.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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.

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;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

Classification of leases of land and buildings as finance or operating leases (Continued)

- ☐ 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.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

- 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 customer's financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the group's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. The impairment allowances on loans and advances computed through the group's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IAS 39.

Risk limit control and mitigation policies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Risk limit control and mitigation policies (Continued)

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

	2015		2014	
	Sh'000	%	Sh'000	%
Credit Exposures				
On – balance sheet items				
Balances with Central Bank of Kenya	3,387,458	5	3,235,391	6
Balances due from other banking institutions	4,892,358	6	7,378,051	13
Government securities	7,689,783	10	6,051,181	10
Loans and advances to customers	55,853,882	74	37,925,476	65
Corporate bonds	936,410	1	554,830	1
Commercial Paper	631,916	1	700,000	1
	<u>73,391,807</u>	<u>97</u>	<u>55,844,929</u>	<u>96</u>
Off-balance sheet items				
Guarantees	2,324,101	3	2,737,651	4
	<u>75,715,908</u>	<u>100</u>	<u>58,582,580</u>	<u>100</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

The table represents the worst case scenario of credit exposure for 31 December 2015 and 31 December 2014, 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 67% (2014 - 65%) 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	
	2015 Sh'000	2014 Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard)	749,416	553,755
Grade 7: Impaired (doubtful)	1,147,330	961,407
Grade 8: Impaired (loss)	982,479	874,512
	<hr/>	<hr/>
Gross amount	2,879,225	2,389,674
Allowance for impairment	(1,486,206)	(1,298,423)
	<hr/>	<hr/>
Carrying amount	1,393,019	1,091,251
	<hr/>	<hr/>
Collectively impaired (Past due but not impaired)		
Grade 4-5: Watch list	1,765,454	1,117,466
Allowance for impairment	(52,964)	(33,524)
	<hr/>	<hr/>
Carrying amount	1,712,490	1,083,942
	<hr/>	<hr/>
Neither past due nor impaired		
Grade 1-3: Normal	52,748,373	35,750,283
	<hr/>	<hr/>
Total carrying amount	55,853,882 =====	37,925,476 =====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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:

i) Advances to customers

	2015		2014	
	Sh'000	%	Sh'000	%
Manufacturing	163,447	1	102,838	1
Wholesale and retail	18,008,603	31	10,103,102	26
Transport and communication	9,250,352	16	4,338,913	11
Agricultural	2,374,658	4	1,758,171	4
Business services	431,637	1	350,973	1
Building and construction	8,365,533	14	4,869,590	12
Other	18,798,822	33	17,733,836	45
	<u>57,393,052</u>	<u>100</u>	<u>39,257,423</u>	<u>100</u>
	=====	=====	=====	=====
ii) Customer deposits				
Central and local Government	259,947	-	207,337	1
Co-operative societies	405,224	1	317,472	1
Insurance companies	279,941	1	202,089	-
Private enterprises & individuals	61,649,740	98	46,309,841	98
Non-profit institutions	116,007	-	99,741	-
	<u>62,710,859</u>	<u>100</u>	<u>47,136,480</u>	<u>100</u>
	=====	=====	=====	=====
iii) Off balance sheet items (letters of credit and guarantees)				
Trading	<u>2,324,101</u>	<u>100</u>	<u>2,737,651</u>	<u>100</u>
	=====	=====	=====	=====

(b) Liquidity risk

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

Management of liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 interbank 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:

At 31 December
Average for the year
Maximum for the year
Minimum for the year

2015	2014
31%	41%
36%	33%
42%	41%
31%	29%
=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015	Up to 1 month Sh'000	1 – 3 months Sh'000	4 - 12 months Sh'000	1 – 5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Financial assets						
Cash in hand	2,779,634	-	-	-	-	2,779,634
Balances with Central Bank of Kenya	3,387,458	-	-	-	-	3,387,458
Balances due from banks	4,892,358	-	-	-	-	4,892,358
Government securities	420,055	3,370,425	294,998	63,167	3,541,138	7,689,783
Loans and advances to customers	3,564,966	1,441,100	7,267,852	29,821,472	13,758,492	55,853,882
Corporate bonds and commercial paper	-	-	727,438	840,888	-	1,568,326
Other assets	51,393	-	-	-	-	51,393
Total financial assets	15,095,864	4,811,525	8,290,288	30,725,527	17,299,630	76,222,834
Financial liabilities						
Balances due to banks	131,643	-	-	-	-	131,643
Customer deposits	31,199,548	5,101,986	21,691,306	4,718,018	-	62,710,859
Borrowings	-	-	135,284	3,442,517	2,009,920	5,587,720
Other liabilities	158,676	-	-	-	-	158,676
Total financial liabilities	31,489,867	5,101,986	21,826,590	8,160,535	2,009,920	68,588,898
Net liquidity gap	(16,394,003)	(290,461)	(13,536,302)	22,564,992	15,289,710	7,633,936
	=====	=====	=====	=====	=====	=====
As at 31 December 2014						
Total financial assets	14,169,796	2,395,196	5,426,708	21,616,810	14,681,910	58,290,420
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
	=====	=====	=====	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015	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	-	-	-	-	-	2,779,634	2,779,634
Balances with CBK	-	-	-	-	-	3,387,458	3,387,458
Balances due from banks	4,687,834	-	-	-	-	204,524	4,892,358
Government securities	420,055	3,370,425	294,998	63,167	3,541,138	-	7,689,783
Loans and advances to customers	55,853,882	-	-	-	-	-	55,853,882
Corporate bonds	-	-	727,438	840,888	-	-	1,568,326
	<u>60,961,771</u>	<u>3,370,425</u>	<u>1,022,436</u>	<u>904,055</u>	<u>3,541,138</u>	<u>6,371,616</u>	<u>76,171,441</u>
Financial liabilities							
Balances due to banks	131,643	-	-	-	-	-	131,643
Customer deposits	5,101,986	6,806,558	14,884,748	4,718,018	-	31,199,548	62,710,859
Borrowings	-	-	135,284	3,442,571	2,009,920	-	5,587,720
	<u>5,233,629</u>	<u>6,806,558</u>	<u>15,020,032</u>	<u>8,160,589</u>	<u>2,009,920</u>	<u>31,199,548</u>	<u>68,430,222</u>
Interest sensitivity gap	<u>55,728,142</u>	<u>(3,436,133)</u>	<u>(13,997,596)</u>	<u>(7,256,534)</u>	<u>1,531,218</u>	<u>(24,827,932)</u>	<u>7,741,219</u>
	=====	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (Continued)

(i) Interest rate risks (continued)

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
Total financial assets	38,085,222	8,961,840	1,179,910	437,240	3,807,702	5,670,236	58,142,150
Total financial liabilities	(3,417,470)	4,277,319	(9,474,796)	(6,108,907)	-	(26,967,613)	(50,246,105)
Interest rate sensitivity gap	34,667,752	4,684,520	(8,294,886)	(5,671,667)	3,807,702	(21,297,377)	7,896,045
	=====	=====	=====	=====	=====	=====	=====

(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 2015				
Financial assets				
Deposits and balances due from banking institutions	310,724	30,342	43,383	384,449
	=====	=====	=====	=====
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)
	=====	=====	=====	=====

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risks (continued)

ii) 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 2015.

	Amount 31 December 2015 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	2,957,128	3,252,841	2,661,415
Adjusted Core Capital	11,327,120	12,459,832	10,194,408
Adjusted Total Capital	13,882,236	15,270,459	12,494,012
Risk Weighted Assets (RWA)	73,765,213	73,765,213	73,765,213
Adjusted Core Capital to RWA	15.4%	17%	14%
Adjusted total Capital to RWA	18.8%	21%	17%

Assuming no management actions, a series of such appreciation would increase net interest income by Sh 639,992,913 (2014 – Sh 537,335,571), while a series of such falls would decrease net interest income by Sh. 639,992,913 (2014 – Sh. 537,335,571).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2015.

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 2015 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	2,957,128	3,252,841	2,661,415
Adjusted Core Capital	11,327,120	12,459,832	10,194,408
Adjusted Total Capital	13,882,236	15,270,459	12,494,012
Risk Weighted Assets (RWA)	73,765,213	73,765,213	73,765,213
Adjusted Core Capital to RWA	15.4%	17%	14%
Adjusted total Capital to RWA	18.8%	21%	17%

Assuming no management actions, a series of such appreciation would increase earnings by Sh 29,848,418 (2014 - Sh 11,144,389), while a series of such falls would decrease net interest income by Sh 29,848,418 (2014 - Sh 11,144,389).

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 group's 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Shs 1 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 2015 to comply with the new capital requirements.

The Insurance Regulatory Authority requires Family Insurance Agency to maintain a minimum level of regulatory capital of Shs 1,000,000. The agency has complied with the capital requirement.

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.

The bank's regulatory capital position at 31 December 2015 was as follows:

	2015 Sh'000	2014 Sh'000
Tier 1 capital		
Share capital	1,245,186	1,245,186
Share premium	5,062,519	5,063,676
Retained earnings	5,136,745	3,944,241
	<hr/>	<hr/>
Total	11,444,451	10,253,104
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

	2015 Sh'000	2014 Sh'000
Tier 2 capital		
Revaluation reserves (25%)	18,044	19,677
Term subordinated debt	2,018,000	-
General loan loss provision (statutory reserve)	527,484	357,503
Total	2,563,528	377,180
Total regulatory capital	14,008,778	10,630,283
Risk-weighted assets	73,765,213	52,060,130
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	18.86%	20.26%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	15.5%	19.56%

6 INTEREST INCOME

	Group		Bank	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Interest on loans and advances	8,258,102	6,216,205	8,258,102	6,216,205
Interest on bank placements	764,346	243,377	764,346	243,377
Interest on held to maturity assets:				
- government securities	742,962	520,445	742,962	520,445
- corporate bonds and commercial paper	222,218	134,846	222,218	134,846
Interest on available for sale assets				
- government securities	44,686	6,703	44,686	6,703
	10,032,314	7,121,576	10,032,314	7,121,576

7 INTEREST EXPENSE

Interest on customer deposits	3,261,998	1,544,940	3,269,496	1,547,577
Interest on balances due to banks	45,908	11,213	45,908	11,213
Interest on borrowings	324,479	192,067	324,479	192,067
	3,632,385	1,748,220	3,639,883	1,750,857

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
8 FEE AND COMMISSION INCOME				
Transaction related fees	1,498,220	1,572,996	1,498,220	1,572,996
Credit related fees and commissions	878,115	703,886	878,115	703,886
Ledger related fees and commissions	95,778	82,839	95,778	82,839
	<u>2,472,113</u>	<u>2,359,721</u>	<u>2,472,113</u>	<u>2,359,721</u>
	=====	=====	=====	=====
9 OPERATING EXPENSES				
Staff costs (note 10)	2,640,640	2,303,713	2,590,411	2,273,639
Directors' emoluments - Fees	70,793	56,690	64,530	54,080
- Other	158,860	134,800	158,860	134,800
Depreciation – property and equipment	556,230	371,932	555,008	371,360
Amortisation of intangible assets	96,286	90,277	95,946	90,022
Contribution to Deposit Protection Fund	62,746	44,954	62,746	44,954
Auditors' remuneration	4,638	3,957	4,568	3,559
Amortisation of prepaid operating lease	4,610	4,610	4,610	4,610
Marketing expenses	168,898	144,297	167,430	143,262
Occupancy expenses	1,013,360	743,113	1,012,658	742,550
Other operating expenses	1,430,894	1,059,124	1,394,421	1,054,364
	<u>6,207,955</u>	<u>4,957,467</u>	<u>6,111,188</u>	<u>4,917,200</u>
	=====	=====	=====	=====
10 STAFF COSTS				
Salaries and wages	2,242,210	1,967,639	2,196,188	1,940,498
Training, recruitment and staff welfare costs	95,108	115,832	95,108	115,798
Contributions to defined contribution pension scheme	132,151	81,901	132,151	81,727
Medical expenses	156,256	122,345	152,049	120,219
Leave pay provision	10,670	2,915	10,670	2,336
NSSF contributions	4,245	13,081	4,245	13,061
	<u>2,640,640</u>	<u>2,303,713</u>	<u>2,590,411</u>	<u>2,273,639</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
11 TAXATION				
a) Taxation charge				
Current tax based on the taxable profit at 30%	982,376	849,883	954,992	834,257
Deferred tax (credit)/charge (note 29)	(8,194)	3,345	(8,164)	3,500
Prior year under provision	-	2,047	-	-
	<u>974,182</u>	<u>855,275</u>	<u>946,828</u>	<u>837,757</u>
	=====	=====	=====	=====
b) Reconciliation of expected tax based on accounting profit to tax charge				
Profit before taxation	2,957,128	2,665,060	2,883,486	2,618,359
	=====	=====	=====	=====
Tax calculated at a tax rate of 30%	887,138	799,518	865,046	785,508
Tax effect of expenses not deductible for tax purposes	126,833	98,489	121,136	97,028
Tax effect of income not taxable	(39,789)	(44,779)	(39,354)	(44,779)
Prior year under provision	-	2,047	-	-
	<u>974,182</u>	<u>855,275</u>	<u>946,828</u>	<u>837,757</u>
	=====	=====	=====	=====
c) Taxation payable				
At beginning of the year	222,608	221,023	221,971	215,453
Charge for the year	982,376	849,883	954,992	834,257
Tax paid during the year	(1,174,543)	(848,298)	(1,140,012)	(827,739)
	<u>30,441</u>	<u>222,608</u>	<u>36,951</u>	<u>221,971</u>
	=====	=====	=====	=====

12 EARNINGS PER SHARE – Group & Bank

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

	Group		Bank	
	2015	2014	2015	2014
Profit (Sh'000)	1,982,946	1,809,785	1,936,658	1,780,602
	=====	=====	=====	=====
Weighted average number of shares during the year (000)	1,245,186	1,126,834	1,245,186	1,126,834
	=====	=====	=====	=====
Earnings per share				
Basic and diluted (Sh)	1.59	1.61	1.55	1.58
	=====	=====	=====	=====

There were no potential dilutive shares outstanding at 31 December 2015 and 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh'000	2014 Sh'000
13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA – Group & Bank		
Cash in hand	2,779,634	2,297,220
Balances with Central Bank of Kenya - cash ratio reserve	3,260,168	2,494,392
- other balances	127,290	740,999
	<u>6,167,092</u>	<u>5,532,611</u>
	=====	=====

The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2015 the cash ratio reserve requirement was 5.20% (2014 – 5.29%) of all customer deposits held by the group. These funds are not available to finance the group's day to day operations.

14 BALANCES DUE FROM BANKING INSTITUTIONS – Group & Bank		
	2015 Sh'000	2014 Sh'000
a) Balances due from banking institutions maturing within 90 days:		
Overnight lending and placement with other banks	4,687,834	7,240,426
Balances due from local banking institutions	525	527
Balances due from foreign banking institutions	203,999	137,098
	<u>4,892,358</u>	<u>7,378,051</u>
	=====	=====
b) Balances due to banking institutions maturing within 90 days:		
Balances with local banks	131,643	209,291
	=====	=====

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 2015 was 8.97 % (2014 – 8.56%). The effective interest rate on deposits due to local banking institutions at 31 December 2015 was 7.59% (2014 – 6.68%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15	a) GOVERNMENT SECURITIES - HELD TO MATURITY	Group		Bank	
		2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
	Treasury bonds –at amortised cost	3,831,972	4,198,080	3,831,972	4,198,080
	Treasury bills-face value less unearned discount	3,414,589	1,703,101	3,351,422	1,703,101
		=====	=====	=====	=====
		7,246,561	5,901,181	7,183,394	5,901,181
		=====	=====	=====	=====
	The maturity profile of government securities is as follows:				
	Maturing within one year	3,705,423	1,773,380	3,642,256	1,773,380
	Maturing between 2 to 5 years	-	438,034	-	438,034
	Maturing after 5 years	3,541,138	3,689,767	3,541,138	3,689,767
		=====	=====	=====	=====
		7,246,561	5,901,181	7,183,394	5,901,181
		=====	=====	=====	=====

The weighted average effective interest rate on treasury bonds at 31 December 2015 was 11.69% (2014 – 11.09%). The effective interest rate on treasury bills at 31 December 2015 was 8.66% (2014 - 10.61%).

As of 31st December 2015, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya (2014 – Sh 760,000).

a) GOVERNMENT SECURITIES – AVAILABLE FOR SALE - Group & Bank	2015 Sh'000	2014 Sh'000
At January	150,000	-
Additions	300,000	150,000
Fair Value loss	(6,778)	-
	=====	=====
	443,222	150,000
	=====	=====

16 LOANS AND ADVANCES TO CUSTOMERS - Group & Bank	LOANS AND ADVANCES TO CUSTOMERS - Group & Bank	
	2015 Sh'000	2014 Sh'000
a) Commercial loans	43,764,715	31,722,243
Overdrafts	2,420,763	1,600,885
Asset finance loans	9,393,251	4,235,077
Staff loans	1,814,323	1,699,218
	=====	=====
Gross loans and advances to customers	57,393,052	39,257,423
Less: Impairment losses (note 17)	(1,539,170)	(1,331,947)
	=====	=====
Net loans and advances to customers	55,853,882	37,925,476
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh'000	2014 Sh'000
16 LOANS AND ADVANCES TO CUSTOMERS - Group & Bank (Continued)		
a) Analysis of gross loans and advances by maturity		
Maturing:		
Within 1 year	13,813,088	7,432,187
Between 1 and 3 years	13,153,250	10,578,659
After 3 years	30,426,714	21,246,577
Loans and advances to customers	57,393,052	39,257,423
	=====	=====

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 2015 was 17.61% (2014 – 16.39%). Included in gross advances of Sh 57,393,052,000 (2014 – Sh 39,257,423,000) are loans and advances amounting to Sh 1,393,019,000 (2014 – Sh 1,091,251,000), net of specific provisions, which have been classified as non-performing (impaired).

	Group & Bank	
	2015 Sh'000	2014 Sh'000
17 IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
At 1 January	1,331,947	988,779
Increase in impairment allowances	211,875	389,944
Amounts written off during the year as uncollectible	(4,652)	(46,776)
	1,539,170	1,331,947
	=====	=====
18 (a) CORPORATE BONDS - HELD TO MATURITY – Group & Bank		
At amortised cost:		
a) Corporate Bonds		
Kenya Electricity Generating Company Limited	95,522	117,935
Shelter Afrique	424,499	-
Britam Holdings Limited	416,389	436,895
	936,410	554,830
	=====	=====
The maturity profile of corporate bonds is as follows:		
Within 1 year	95,522	436,895
Maturing 1 to 5 years	840,888	-
Maturing after 5 years	-	117,935
	936,410	554,830
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh'000	2014 Sh'000
18 (b) COMMERCIAL PAPER - HELD TO MATURITY – Group & Bank		
Nakumatt Holdings Limited	100,000	500,000
ASL Credit Limited	-	200,000
ARM Cement Limited	531,916	-
	<u>631,916</u>	<u>700,000</u>
	=====	=====
The maturity profile of commercial papers is as follows:		
Within 1 year	631,916	700,000
	=====	=====

The weighted average effective interest rate on corporate bonds at 31 December 2015 was 13.7% (2014 – 12.41%).

	Group		Bank	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
19 OTHER ASSETS				
Un-cleared items in the course of collection	51,393	148,271	51,393	148,271
Prepayments	853,633	202,799	853,633	202,799
Deposits for services	133,373	97,610	133,373	97,610
Other	308,194	552,875	286,676	534,122
	<u>1,346,593</u>	<u>1,001,555</u>	<u>1,325,075</u>	<u>982,802</u>
	=====	=====	=====	=====

20 INVESTMENT IN SUBSIDIARY - Bank

	No. of shares	Holding	2015 Sh'000	2014 Sh'000
Family 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 2014. The company received its licence to operate Insurance Agency/brokerage business on 30 December 2010 and started trading in 2010. The subsidiary acquired Family Insurance Brokers Limited on 31 July 2015 and changed its name to Family Insurance Agency Limited.

The principal activity of the company is insurance agency business.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 INVESTMENT IN SUBSIDIARY – Bank (Continued)

Set out below is the summarised financial information for the subsidiary:

	2015	2014
	Sh'000	Sh'000
Summarised statement of financial position		
Total assets	119,491	71,957
Total liabilities	3,641	12,014
Net assets	115,850	59,943
	=====	=====
Summarised statement of profit and loss and other comprehensive income		
Brokerage Commission	146,644	73,848
Profit before income tax	83,111	36,218
Taxation	(27,204)	(14,988)
Profit for the year	55,907	21,230
	=====	=====
Summarised statement of cash flows		
Net cash generated from operating activities	44,847	19,737
Net cash used in investing activities	(64,805)	(2,696)
Net (decrease)/increase in cash and cash equivalents	(19,958)	17,041
Cash and cash equivalents at beginning of year	49,945	32,904
Cash and cash equivalents at end of year	29,987	49,945
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Sh'000	2014 Sh'000
21 a) INVESTMENT PROPERTIES – Group & Bank		
At start of year	127,400	106,000
Disposal	(4,200)	(3,000)
Gain on revaluation	-	24,400
To non-current assets held for sale	(105,000)	-
	<u>18,200</u>	<u>127,400</u>
	=====	=====
b) NON-CURRENT ASSETS HELD FOR SALE – Group & Bank		
At start of year	-	-
From Investment properties	105,000	-
Fair value loss	(15,000)	-
	<u>90,000</u>	<u>-</u>
	=====	=====

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 2015 part of the land at value of shs.7,200,000 was given out in Kunacha Mili na Acre promotion to the various winners. The properties were re-valued as at 31 December 2015 by M.S Kibui & Associates Valuers, 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 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

The industrial area property was transferred from investment property to assets held for sale as the bank had entered into a sale agreement and a deposit of Kshs 9 million had been received by the bank as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT – GROUP

	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and equipment	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST/VALUATION							
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
	122,412	357,288	1,806,778	1,049,888	105,877	715,989	4,158,232
Additions	-	-	535,790	860,603	52,406	269,536	1,718,335
Write offs	-	-	(3,690)	(195)	-	(51,694)	(55,579)
Disposal	-	-	(17,626)	(2,555)	(15,649)	(6,668)	(42,498)
At 31 December 2015	122,412	357,288	2,321,252	1,907,741	142,634	927,163	5,778,490
Comprising:							
At cost	119,812	32,288	2,321,252	1,907,741	142,634	927,163	5,450,890
At valuation	2,600	325,000	-	-	-	-	327,600
At 31 December 2015	122,412	357,288	2,321,252	1,907,741	142,634	927,163	5,778,490
DEPRECIATION							
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
At 1 January 2015	-	25,249	882,070	795,770	63,262	308,782	2,075,133
Charge for the year	-	8,932	212,099	224,374	23,648	87,176	556,229
Eliminated on disposal	-	-	(8,976)	(2,110)	(14,855)	(2,526)	(28,467)
At 31 December 2015	-	34,181	1,085,193	1,018,034	72,055	393,432	2,602,895
NET BOOK VALUE – VALUATION BASIS							
At 31 December 2015	122,412	323,106	1,236,059	889,710	70,578	533,730	3,175,595
At 31 December 2014	122,412	332,039	924,708	254,118	42,615	407,207	2,083,099
NET BOOK VALUE – COST BASIS							
At 31 December 2015	119,812	214,991	1,236,059	889,710	70,578	533,730	3,064,880
At 31 December 2014	119,812	221,743	924,708	254,118	42,615	407,207	1,970,203

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT - BANK

	Freehold land	Buildings	Leasehold improvements	Computer	Motor vehicles	Fixtures, fittings and equipment	Total
COST/VALUATION	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 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
At 1 January 2015	122,412	357,288	1,806,778	1,046,979	105,877	715,112	4,154,446
Additions	-	-	535,790	860,420	47,512	269,458	1,713,180
Write offs	-	-	(3,689)	(192)	-	(51,694)	(55,575)
Disposal	-	-	(17,626)	(2,555)	(15,649)	(6,668)	(42,498)
At 31 December 2015	122,412	357,288	2,321,253	1,904,652	137,740	926,208	5,769,553
Comprising:							
At cost	119,812	32,288	2,321,253	1,904,652	137,740	926,208	5,441,953
At valuation	2,600	325,000	-	-	-	-	327,600
At 31 December 2015	122,412	357,288	2,321,253	1,904,652	137,740	926,208	5,769,553
DEPRECIATION							
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
At 1 January 2015	-	25,249	882,070	795,052	63,262	308,611	2,074,244
Charge for the year	-	8,932	212,099	223,878	23,046	87,052	555,007
Eliminated on disposals	-	(8,975)	-	(2,110)	(15,577)	(2,525)	(29,187)
At 31 December 2015	-	25,206	1,094,170	1,016,820	70,731	393,138	2,600,064
NET BOOK VALUE- VALUATION BASIS							
At 31 December 2015	122,412	332,082	1,227,084	887,832	67,009	533,070	3,169,489
At 31 December 2014	122,412	332,039	924,708	251,927	42,615	406,501	2,080,202
NET BOOK VALUE - COST BASIS							
At 31 December 2015	119,812	223,880	1,227,082	887,834	67,009	533,070	3,058,687
At 31 December 2014	119,812	220,770	924,708	251,927	42,615	406,501	1,969,443

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT – BANK (Continued)

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

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	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
COST				
At 1 January	735,203	655,518	733,857	655,518
Additions	97,466	86,030	97,041	84,715
Write offs	-	(6,346)	-	(6,376)
At 31 December	832,669	735,202	830,898	733,857
AMORTISATION				
At 1 January	417,582	327,305	417,327	327,305
Charge for the year	96,286	90,277	95,946	90,022
At 31 December	513,868	417,582	513,273	417,327
NET BOOK VALUE				
At 31 December	318,801	317,620	317,625	316,530
	=====	=====	=====	=====

24 PREPAID OPERATING LEASE RENTALS – Group & Bank	Sh'000	Sh'000
<i>Leasehold land:</i>		
COST		
At 1 January and 31 December	180,335	180,335
AMORTISATION		
At 1 January	17,755	13,145
Charge for the year	4,611	4,610
At 31 December	22,366	17,755
NET BOOK VALUE		
At 31 December	157,969	162,580
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 CUSTOMER DEPOSITS

Current and demand accounts
Savings accounts
Fixed deposit accounts

Group		Bank	
2015	2014	2015	2014
Sh'000	Sh'000	Sh'000	Sh'000
31,218,004	27,017,203	31,219,555	27,017,558
2,782,404	2,113,262	2,782,404	2,113,262
28,710,451	18,006,015	28,728,908	18,055,605
62,710,859	47,136,480	62,730,867	47,186,425
=====	=====	=====	=====

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

Repayable:

On demand

Within one year

31,218,004	27,017,203	31,219,555	27,017,558
31,492,855	20,119,277	31,511,312	20,168,867
62,710,859	47,136,480	62,730,867	47,186,425
=====	=====	=====	=====

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2015 was 9 % (2014 – 7.63%). The related party transactions and balances are covered under note 34 and concentration of customers' deposits is covered under note 4.

26 BORROWINGS – Group & Bank

a) Analysis

EIB
OIKO Credit
PTA Loan 2(USD)
Kenya ICT Board – Pasha loan
Waste_Finish Ink

Subordinated Corporate Bond
Upfront Fees

2015	2014
Sh'000	Sh'000
2,425,990	2,386,009
1,016,526	-
-	381,976
124,420	121,050
10,864	11,300
3,577,800	2,900,335
2,073,945	-
(64,025)	-
5,587,720	2,900,335
=====	=====
2,900,335	1,343,811
3,018,800	2,331,920
180,412	77,718
(511,827)	(853,114)
5,587,720	2,900,335
=====	=====

b) Movement:

b) At beginning of the year
Received in the year
Accrued interest
Repaid in the year

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 BORROWINGS – Group & Bank (Continued)

Facilities:

EIB loan is a long term, unsecured floating rate and fixed rate 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 2015 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 Oiko loan is credit from Oiko Credit for the purpose of targeting financial intervention in sanitation and hygiene. The interest charged is 10.4% on a reducing balance basis it will be repaid in 6 annual instalments of Shs 166,666,667.

The Finish Ink Loan is a fund delegated to Family Bank Ltd by Finish Ink for the funding of various sanitation projects in Kenya. Family Bank Limited does not pay any interest on these funds. Expenses incurred in respect to this fund are offset off the fund amount.

The EIB loan is a long term facility repayable in 6.5 years. The interest rate charged is 9.78% p.a. The loan repayments are due on the 10th of July and 10th of January of every year. The principal amount of the loan is to be paid commencing 10th July 2016.

During the year, Family Bank issued a multicurrency medium term note and listed it on the Nairobi Securities Exchange, Fixed Income Segment on 26th October 2015. The par value accepted by the bank from investors was Shs 2 billion while the amount received was 1.895 billion. The fixed rate portion was issued at a discount of 122 million. The term of the bond is 5.5 years. The interest rates for the three categories available to the investors were:-

- Fixed rate bond 13.75%
- Mixed rate bond 14%
- Floating rate bond. Referenced 182 day treasury bill rate subject to a floor of 12.5% and a cap of 17.5%

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

	2015	2014
	%	%
EIB	9	9
OIKO Credit	10.4	8
PTA Loan 2(USD)	8	8
Kenya ICT Board – Pasha loan	4	4
Waste Finish ink	-	-
Subordinated Corporate Bond	15	-
	====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 OTHER LIABILITIES	Group		Bank	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Provisions and accruals	29,018	15,138	29,018	15,138
Leave pay provision	40,857	30,765	40,857	30,187
Cheques for collection	158,676	150,715	158,676	150,715
Other payables	521,584	461,495	519,111	459,779
	<u>750,135</u>	<u>658,113</u>	<u>747,662</u>	<u>655,819</u>
	=====	=====	=====	=====

28 DIVIDENDS – Group & Bank

a) Unclaimed dividends

	2015 Sh'000	2014 Sh'000
At 1 January	12,587	6,514
Declared	622,594	222,809
Paid during the year	(606,592)	(216,736)
	<u>28,589</u>	<u>12,587</u>
	=====	=====
At 31 December	28,589	12,587

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 (2014: Sh 0.50) per share for the year amounting to Sh 622,593,598 (2014: Sh 622,593,598) 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	
		2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
	The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:				
	<i>Deferred tax assets:</i>				
	General bad debts provision	(15,889)	(11,077)	(15,889)	(11,077)
	Excess depreciation over capital allowances	(8,384)	(8,135)	(8,328)	(8,154)
	Leave pay provision	(12,386)	(9,230)	(12,257)	(9,056)
		<u>(36,659)</u>	<u>(28,442)</u>	<u>(36,474)</u>	<u>(28,287)</u>
		=====	=====	=====	=====
	<i>Deferred tax liabilities:</i>				
	Revaluation surplus	33,892	33,869	33,892	33,869
		<u>33,892</u>	<u>33,869</u>	<u>33,892</u>	<u>33,869</u>
	Net deferred (asset)/tax liability	<u>(2,767)</u>	<u>5,427</u>	<u>(2,582)</u>	<u>5,582</u>
		=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29	DEFERRED TAX LIABILITY -Group & Bank (Continued)	Group		Bank	
		2015	2014	2015	2014
	Movement in deferred tax liability is as follows:	Sh'000	Sh'000	Sh'000	Sh'000
	At 1 January	5,427	2,082	5,582	2,082
	Charge/(credit) to profit or loss (note 11)	(8,194)	3,345	(8,164)	3,500
	At 31 December	(2,767)	5,427	(2,582)	5,582
		=====	=====	=====	=====
30	SHARE CAPITAL			2015	2014
				Sh'000	Sh'000
	Authorised:				
	1,500,000,000 ordinary shares of Sh 1 each			1,500,000	1,500,000
	(2014:750,000,000 ordinary shares of Sh 2 each)			=====	=====
	Issued and fully paid:				
	1,245,187,196 (2014: 1,245,187,196) ordinary shares of Sh 1 each			1,245,186	1,245,186
				=====	=====

Movement in issued and fully paid shares

	Number of shares	Share Capital Sh '000	Share Premium Sh '000	Total Sh'000
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
	=====	=====	=====	=====
Share split	1,125,187,196	1,125,186	2,211,657	3,336,843
Rights issued in the year	120,000,000	120,000	2,880,000	3,000,000
Rights issue costs*	-	-	(27,981)	(27,981)
	=====	=====	=====	=====
At 31 December 2014	1,245,187,196	1,245,186	5,063,676	6,308,862
	=====	=====	=====	=====
At 1 January 2015	1,245,187,196	1,245,186	5,063,676	6,308,862
Rights issue costs	-	-	(1,157)	(1,157)
	=====	=====	=====	=====
At 31 December 2015	1,245,187,196	1,245,186	5,062,519	6,307,705
	=====	=====	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31	NOTES TO THE STATEMENT OF CASH FLOWS	2015 Sh'000	2014 Sh'000
(a)	Reconciliation of profit before taxation to cash used in operations		
	Profit before taxation	2,957,128	2,665,060
	Adjustments for:		
	Depreciation of property and equipment	556,230	371,932
	Amortisation of intangible assets	96,286	90,277
	Amortisation of leasehold land	4,611	4,610
	Loss on disposal of equipment	44,398	27,375
	Loss/(gain) on revaluation of investment property	15,000	(24,400)
	Accrued interest on borrowings	180,412	77,718
	Working capital changes		
	Changes in working capital items:		
	Cash ratio balance	(765,776)	(711,329)
	Loans and advances to customers	(17,928,406)	(9,982,116)
	Other assets	(345,038)	(517,016)
	Customer deposits	15,574,379	12,553,893
	Other liabilities	92,022	(255,442)
	Government securities	(1,638,602)	(1,254,722)
	Corporate bonds and commercial paper	(313,496)	(666,418)
	Cash (used in)/generated from operations	(1,470,852)	2,379,422
(b)	Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes		
	Cash in hand (note 13)	2,779,634	2,297,220
	Balances with the Central Bank of Kenya (note13)	127,290	740,999
	Balances with other banking institutions	4,892,358	7,378,051
	Balances due to other banking institutions	(131,643)	(209,291)
		7,667,639	10,206,979

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. OPERATING SEGMENTS

For management purposes, the Bank is organised into two main operating segments based on products and services as follows:

- i) Retail Banking: Includes loans deposits and other transactions and balances with retail customers;
- ii) Wholesale Banking: Includes loans deposits and other transactions and balances with corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments. The Group's segment operations are all financial with a majority of revenues deriving from interest. The management relies primarily on net interest revenue to assess the performance of the segment. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not gross income and expenses. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 or 2014.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments,

Profit or loss for the year ended 31 December 2015				
	Whole sale banking	Retail banking	Other	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Net interest income	2,556,973	3,835,459	-	6,392,431
Other income	1,125,647	1,688,471	170,409	2,984,527
Operating income	3,682,620	5,523,930	170,409	9,376,958
Depreciation and amortisation	(222,003)	(333,005)	(1,560)	(556,568)
Other Operating Expenses	(2,256,569)	(3,393,819)	(295,986)	(5,946,374)
Share of Profit Subsidiary	-	-	83,111	83,111
Profit before tax	1,204,048	1,797,106	(44,026)	2,957,128
	=====	=====	=====	=====
Profit or loss for the year ended 31 December 2014				
Net interest income	2,148,287	3,222,431	-	5,370,718
Other income	1,021,914	1,532,871	86,968	2,641,753
Operating income	3,170,201	4,755,302	86,968	8,012,471
Depreciation & Amortisation	(148,544)	(222,816)	(827)	(372,186)
Other Operating Expenses	(1,834,112)	(2,751,167)	(426,163)	(5,011,443)
Share of Profit Subsidiary	-	-	36,218	36,218
Profit before tax	1,187,545	1,781,319	(303,804)	2,665,060
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. OPERATING SEGMENTS (Continued)

Statement of financial position as
at 31 December 2015

	Whole sale banking Sh'000	Retail banking Sh'000	Other Sh'000	Total Sh'000
Assets				
Segment assets	32,475,071	48,705,380	-	81,180,451
Un-allocated assets	-	-	100,915	100,915
Total Assets	32,475,071	48,705,380	100,915	81,281,366
Liabilities and equity:				
Segment Liabilities	32,521,150	48,774,498	-	81,295,648
Un-allocated Liabilities	-	-	(14,282)	(14,282)
Inter-segment lending	(46,079)	(69,118)	115,197	-
Total liabilities and equity	32,475,071	48,705,380	100,915	81,281,366
Other Disclosures				
Capital Expenditure	724,088	905,110	181,022	1,810,220

Statement of financial position as
at 31 December 2014

	Whole sale banking Sh'000	Retail banking Sh'000	Other Sh'000	Total Sh'000
Assets				
Segment assets	24,725,065	37,087,598	-	61,812,663
Un-allocated assets	-	-	21,740	21,740
Total Assets	24,725,065	37,087,598	21,740	61,834,403
Liabilities and equity:				
Segment Liabilities	24,752,629	37,128,943	-	61,881,572
Un-allocated Liabilities	-	-	(47,169)	(47,169)
Inter-segment lending	(27,564)	(41,345)	68,909	-
Total liabilities and equity	24,725,065	37,087,598	21,740	61,834,403
Other Disclosures				
Capital Expenditure	342,588	428,235	85,647	856,469

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 OPERATING LEASE ARRANGEMENTS

At the end of the reporting period, the Group had contracted with tenants for the following future lease payables.

	2015 Sh'000	2014 Sh'000
Year 1	516,777	437,775
Year 2 -3	1,107,064	933,382
Year 4-5	1,249,588	1,048,301
Above 5 year	1,265,903	1,147,831
	<hr/>	<hr/>
	4,139,332	3,567,289
	=====	=====

Operating leases relate to the leased property. The lease terms range between 1 to 10 years, with an option to extend for a further period between 1 to 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. The operating lease contracts are cancellable

34 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.

	2015 Sh'000	2014 Sh'000
Guarantees	2,191,037	2,611,409
Letters of credit	133,065	126,242
	<hr/>	<hr/>
	2,324,102	2,737,651
	=====	=====
Litigations against the group	181,300	230,398
	=====	=====

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Commitments to extend credit

Undrawn formal stand-by facilities, credit lines and other commitments to lend

2015 Sh'000	2014 Sh'000
6,504,694 =====	2,932,581 =====

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

Authorised and contracted for

Authorised but not contracted for

2015 Sh'000	2014 Sh'000
654,399 =====	168,472 =====
272,000 =====	655,000 =====

The authorised but not contracted for capital commitments relate to the branch set up costs amounting to Sh.167 million for 6 proposed branches and planned renovations/expansion of 6 already existing branches amounting to Sh.105 Million.

35 RELATED PARTY TRANSACTIONS

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

Placings are made in the group by directors, their associates and companies associated to directors. Advances to customers at 31 December 2015 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2015 include guarantees and letters of credit for companies associated with the directors.

Movement in related party balances was as follows:

Loans and advances:

At 1 January

Advanced during the year

Interest earned

Repaid during the year

At 31 December

2015 Sh'000	2014 Sh'000
2,306,912	1,775,987
1,046,205	782,455
338,461	224,482
(574,237)	(476,012)
-----	-----
3,117,341 =====	2,306,912 =====

As at 31 December 2015 loans and advances to staff amounted to Ksh 1,849,722,000 (2014 – Sh 1,643,962,000. The loans and advances to related parties are performing and adequately secured.

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

Salaries and other benefits

Directors' emoluments

2015 Sh'000	2014 Sh'000
104,350	80,002
229,652	191,490
-----	-----
334,002 =====	271,492 =====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 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.

37 INCORPORATION

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

37 CURRENCY

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

PROXY FORM

Shareholder's Share Account No.

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

PROXY FORM

I/We of P.O Box
being a shareholder(s) of Family Bank Limited, appoint
of P.O. Box and failing him/her, the chairman of the meeting to be
my/our proxy, to vote on my/our behalf at the Annual General meeting of the Bank to be held on Friday, 22nd April
2016 at 10.00 am at Kenyatta International Conference Centre, Lenana and Aberdare Rooms and at any adjournment
thereof.

This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he/she
deems fit.

As witnessed by my/our hand this day of 2016

Signed Signed

ID No ID No

NOTES

1. A member who is unable to attend the meeting is entitled to appoint a proxy to attend and vote on his or her behalf.
2. A proxy need not be a member.
3. In the case of a corporate body, the proxy must be under its common seal or under the hand of an officer or attorney duly authorized in writing.
4. Joint account holders must state their joint names and sign according to their signing mandates.
5. The proxy must be delivered to the bank's registered office not less than forty eight hours before the time for holding the meeting or adjourned meeting, failing which it will be invalid.

Shareholder's Admission Form

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

Name ID Number

Shareholder's Account No Signature

This image shows a full page of blank, lined paper. It features approximately 20 horizontal blue lines spaced evenly across the page, typical of notebook or primary writing paper. The lines are thin and light blue, set against a plain white background. There are no margins, text, or other markings on the page.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Branches

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



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