2016 ANNUAL REPORT & FINANCIAL STATEMENTS

Family Bank
With you, for life

VISION

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

MISSION

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

OUR CORE VALUES

- *Winning Together*

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

- *Self Belief*

In ourselves and our customers' ability to change the world.

- *Transparency*

Our customers will trust and reward us for it.

- *Humility*

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

FAMILY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2016

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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. Lazarus Muema	- Appointed by the board to fill a casual vacancy on 14th November 2016.
Mr. Julius Brian Muyah	- Alternate to Titus K. Muya

Executive

Dr. David Thuku	- Appointed as Managing Director & CEO on 25th April 2016.
Mr. Njung'e Kamau	- Director Finance and Strategy

COMPANY SECRETARY

Rebecca Mbithi
Certified Public Secretary (Kenya)
8th 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
Nairobi

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	
	Mr. Francis Mungai	
	Mr. Njung'e Kamau	
	Dr. David Thuku	
	Dr. Wilfred D. Kiboro	
Audit Committee	Mr. David Kimani	- Chairman
	Dr. Ruth Waweru	
	Mr. Lerionka S. Tiampati	
Risk Management Committee	Mr. David Kimani	- Chairman
	Mrs. Ruth Waweru	
	Mr. Lerionka S. Tiampati	
Human Resource Committee	Dr. Ruth Waweru	- Chairman
	Prof. David Kimutai arap Some	
	Mr. T. K. Muya	
	Dr. Wilfred D. Kiboro	
	Dr. David Thuku	
	Mr. Francis Mungai	
Strategy Committee	Dr. Ruth Waweru	- Chairman
	Mr. T. K. Muya	
	Mr. Lerionka S. Tiampati	
	Dr. David Thuku	
	Mr. Njung'e Kamau	
	Dr. Wilfred D. Kiboro	
Nomination Committee	Dr. Ruth Waweru	- Chairman
	Dr. Wilfred D. Kiboro	
	Mr. T.K. Muya	

THE COMPANIES ACT 2015

FAMILY BANK LIMITED

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **10th ANNUAL GENERAL MEETING** of the Shareholders will be held at **KENYATTA INTERNATIONAL CONFERENCE CENTRE AMPHITHEATRE** on Thursday 29th June 2017 at 10:00 a.m to transact the following business:

Ordinary Business:

1. To receive the Audited Accounts for the year ended 31st December 2016, the Report of the Directors and the Report of the Auditors thereon.
2. To approve the recommendation of the Board that there shall be no dividend paid for the year ended 31st December 2016.
3. Resignation, Rotation and Election of Directors in accordance with Article 112 of the Articles of Association:
   - 3.1 To consider and, if deemed fit, approve the appointment of Mr. L. Muema as a Director who having been appointed to the Board after the last AGM, being eligible, offers himself for election.
   - 3.2 To note that Prof. D.K. Some who retires by rotation, although being eligible, does not offer himself for re-election.
   - 3.3 To note that Mr. D.K. Kimani who retires by rotation, although being eligible, does not offer himself for re-election
4. To approve the Directors' remuneration for the year ending 31st December 2016.
5. **Special Business:**
   To consider and, if deemed fit, pass the following resolution:
   - 5.1 To consider and, if deemed fit, approve the recommendation of the Directors for the appointment of Messrs PriceWaterhouse Coopers as the Company's External Auditors and to authorise the Directors to fix the Auditors' remuneration. Messrs Deloitte and Touché cease to hold office under section 723(i) of the Companies Act 2015 at the conclusion of the AGM.

By order of the Board
Rebecca Mbithi
Company Secretary
Nairobi
30th May, 2017

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's office on 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 2016 is available at the Company's registered office at Family Bank Towers 8th Floor or can be downloaded from the website **www.familybank.co.ke**

BOARD OF DIRECTORS

Left to Right seated: Dr. Ruth Waweru, Dr. Wilfred Kiboro (Chairman), Dr. David Thuku (MD & CEO), Rebecca Mbithi (Company Secretary)
Left to Right standing: Njunge Kamau (Finance Director), Julius Brian Muyah, Prof. David Kimutai arap Some, Francis Mungai, Lerionka Tiampati, David Kimani, T.K Muya, Mr. Lazarus Muema

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 function. 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).

Dr. David Thuku
Managing Director &
Chief Executive Officer

A career banker with 26 years of experience. He started off as a management trainee at Standard Chartered in 1990 and navigating through senior management roles in marketing, investment management, project management, product and sales innovation, risk management, branch management, training & competency development and business re-engineering. His last role at Barclays Bank included serving as the Head of Secured Lending, Head of Business Banking and Retail Director at Barclays Bank Seychelles.

He joined Family Bank in January 2013, taking on the role of Director, Retail Banking. He is credited with introducing and refining structures that championed the bank's drive towards customer centric initiatives. David, has a Doctorate in Business Administration (DBA) from the University of Liverpool, UK. David also holds an MBA (Finance) from the University of Nairobi, a Bachelor of Education, B.Ed (Sciences), a Post Graduate Diploma in Marketing from the Marketing Institute of Singapore and a Practitioner Diploma in Executive Coaching from the Academy of Executive Coaching (UK).

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 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. He is the former Chief Executive Officer of the Commission on University Education, and the former Vice Chancellor of Moi University, Eldoret. 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.

Mr. 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 focuses 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 (KETEPA), and he previously worked as the Head of Marketing at the Standard Chartered Bank, Marketing Development Manager at Magadi Soda Company and Head of Marketing at the Agricultural Development Corporation. Mr. Tiampati sits on the board of the East Africa Tea Trade Association, The Standard Newspapers Group and a number of KTDA subsidiary companies. He also holds the national distinction, Moran of the Order of the Burning Spear.

Mr. 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.

Mr. David Kimani
Director

Mr. Muema is a pensions expert spanning 30 years – most of which was in different capacities and countries at Shell International rising to being the Pensions Investment and Policy Advisor for Africa by the time he left in 2011. He is a Consultant with Penplan Services Limited, a Pensions Consultancy firm founded in 2011. His expertise is in designing end of Service Benefit Schemes, negotiating end of service packages and formulating Investment Strategies for Pension Schemes.

Lazarus holds a Bachelor of Commerce Degree from the University of Nairobi and a Certified Public Accountant (CPAK). He is a board member in various companies including Kenya Orient Insurance Company and East African Gasoil Company. He is also a former Chairman of the Association of Retirement Benefits Schemes of Kenya, Bright Computers Limited and Nanga Investments Ltd.

Mr. Lazarus Muema
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.

Dr. Ruth Waweru
Director

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 Unites States and Kenya. He has extensive knowledge in business development, service delivery management, product development, strategy implementation and staff training, development and motivation.

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

Mr. Julius Brian Muyah
(Alternate to Mr. Titus K. Muya)

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 benvironments. 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.

Mr. Njung'e Kamau
Director Finance & Strategy

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 Havard 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 possess strong leadership, interpersonal, multi-tasking, communication, negotiating, numerical, financial and analyticaland 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 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 (CPS) and a Certified Public Accountant (CPA-K) and a member of the Law Society of Kenya. She has over seventeen years' experience in legal and Company Secretarial practice at top management level in 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.
She is also a certified executive leadership coach.

Rebecca Mbithi
Company Secretary

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the Annual Report and Financial Statements for the year ended 31st December, 2016. The Bank registered commendable performance having weathered an unprecedented stormy year. Though the performance may not be what we expected, nevertheless, it signified the resilience and the potential of our company. The unstinting support and great encouragement by our customers, employees and shareholders during a particularly tough year clearly demonstrates the confidence in the Bank.
I'm under no illusion the immense support you gave the Bank at its hour of need. Despite all the shortcomings – our ambition to become a big Bank addressing diverse needs of our customers is very much alive.

Key Financial Performance Highlights

- Profit before Tax decreased to Ksh 664Million for the year ended 31st December 2016 compared to Ksh 2.96 Billion for the year ended 31st December 2015.
- Total assets reduced by 15% from Ksh 81.3Billion as at December 2015 to Ksh 69.5Billion as at December 2016.
- Total Shareholders' funds grew by 6% from Ksh 12Billion as at December 2015 to Ksh 12.7Billion as at December 2016.
- Deposits declined by 34% from Ksh 62.7Billion as at December 2015 to Ksh41.4Billion as at December 2016.
- Loans stood at Ksh 50.1Billion as at December 2016 compared to Ksh 55.9Billion as at December 2015.
- The Bank now has over 1.9 Million customers.

Review of the macroeconomic environment

Global Economy

There were epic moments in the global arena in 2016. From the US elections that ushered in the reign of business mogul Donald Trump to China's GDP recording a single digit growth after years of accelerated growth to Brexit vote that ended the reign of David Cameron as UK Prime Minister.

With these developments including heightened policy uncertainty, diminished global trade and weak investment the world economic activity was depressed. As such global growth is estimated to have fallen to 2.3 percent in 2016— the weakest performance since the global financial crisis.

Whereas global growth is expected to rise to 2.7 percent in 2017, mainly reflecting a recovery in emerging markets and developing economies, the advanced economies continue to struggle with subdued growth and low inflation in a context of increased uncertainty about policy direction, tepid investment, and sluggish productivity growth.
Advanced-economy growth is expected to recover somewhat, to an average pace of 1.8 percent throughout the forecast period.

Local Economy

The Kenyan economy was seemingly in good health, with growth having been robust and rather well balanced over the first three quarters of last year. However, there is mounting evidence the interest rate cap introduced in September 2016 dampened growth in Q4 hence closing the year with a flat growth of 5.8% in 2016 compared to the 5.7% registered in 2015. The smaller sectors of the economy including food services, accommodation, ICT, real estate and transport among other non-mainstream sectors boosted Kenya's economic growth albeit marginally.

The government has struggled with maintaining fiscal and monetary discipline with increased pressure from the devolution process and rising public sector wage bill. Total public debt has increased to unprecedented levels but the Government is optimistic about its sustainability. The enactment of the new interest rates caps law heralded a new dawn in the industry. The effects of that law are being felt in ways never anticipated. The securities market 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. The high spending on infrastructure by the government and the low global oil prices 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 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.

Domestic credit slowed from a growth of 20.8% in 2015 to 6.4% in 2016 mainly on account of a decline in credit to the private sector.

Banking Sector Developments

Interest rates

It was a tough year for the banking sector. The new banking law delivered a reduction in lending rates in a magnitude way higher than the CBR reduction that came immediately after. The Banking (Amendment) Act, 2016 which came into force on 14 September 2016 set the maximum interest rate chargeable for a credit facility in Kenya at no more than 4% above the base rate (i.e. the CBR) published by CBK. In addition, the Act also set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70% of the base rate. The implementation of this Act led to the growth in the average savings rates given by commercial banks by 262% between August 2016 and October 2016 and a decrease in the average lending rates offered by commercial banks by 23% in the same period. However, the interest rate capping appears not to have had the desired effect as lending to the private sector has declined. The President is on record saying that the Government is looking at ways of addressing this unintended consequence of the law.

Banks adopted cautionary measures especially on the lending side. Whereas the intention of the capping of interest rates was to spur credit growth there have been renewed calls for a review or reversal of the law. Whereas the full impact of the new law should be felt in 2017, already, there are indicative trends, going by the 2016 results. Banks have either reported losses or significant reduced earnings as per the published financial statements.

Bank lending to the real economy has slowed down, as banks restrict lending to smaller, riskier businesses. This in turn has caused bank profitability to fall, dragging bank share prices down. The government has had to postpone several bond issuances because investors drove interest rates above the cap. Should this situation persist, there is a risk that government investment projects could be delayed this year. Various local and global stakeholders have advised the government to scrap the policy to avoid lowering the country's growth potential. According to the IMF, interest rate caps in Kenya pose a great risk to Kenya's financial stability and this will slow the country's ambitions of being the regional leader in financial inclusion. The cited effects of the interest rate caps include:

• Inaccessibility to credit as many lenders opt to invest in safer Government securities, rather than lend to small and micro sized enterprises.

• Increased illiquidity in the economy as money backed investment schemes continuously seek other investment alternatives and

• Contraction of the economy as businesses and individuals continue to find it hard to access credit, making them unable to participate in economic activities. This will in the long run affect the country's productivity.

To manage costs, banks have adopted measures to enhance operational efficiency and protect the Net Interest Margins (NIMS). There has been an accelerated adoption of Alternative Business Channels involving use of mobile, internet and agency banking as a way of diversifying income lines.

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.

Going forward, we expect banks to come under greater scrutiny by CBK. The regulator is keen to ensure financial institutions 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

Governance and prudent management forms a key plank of our operations. 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.
We are reinforcing the risk management framework premised on best practices and local and international regulatory guidelines. There is a Board Risk Committee; a Risk and Compliance departments – all of whom are tasked with close monitoring of the 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.

Cabinet Secretary for Education - Dr. Fred Matiang'i presides over the commissioning of students supported by The Family Group Foundation at KICC.

Corporate Social Responsibility (CSR)

In 2016, Family Bank's quest to positively impact lives was reaffirmed. The committment to support worthy causes and projects from various sectors in the areas of sports, education, healthcare and community empowerment as follows:

Sports

Family Bank continues with its signature Marathon event - 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 on to win international marathons. In the year 2016 the Bank doubled its investment to Ksh 20 Million towards this initiative. The Bank also doubled prize money and the winners in the men and women's categories received Ksh 500,000 each. Hundreds of budding and experienced athletes participated in the 10th edition of the Eldoret Marathon which was preceded by the annual corporate event at the Eldoret Golf Club.

The MD and CEO Dr. David Thuku crosses the finish line during the tenth edition of the Family Bank Half Marathon in Eldoret.

The Iten-based athlete - Jorum Lumbasi crosses the finish line to emerge the winner in the men's category during the Family Bank Half Marathon in Eldoret.

Family Bank Chairman – Dr. Wilfred D. Kiboro awards Kshs. 500,000 to Peris Chepchirchir who won in the women's category during the Family Bank Half Marathon in Eldoret.

Family Bank MD and CEO – Dr. David Thuku, Founder – T.K. Muya, AK President – Gen. Jack Tuwei and Chairman – Dr. Wilfred D. Kiboro during the Marathon event.

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. In 2016, the scholarship and mentorship program was launched by Cabinet Secretary for Education – Dr. Fred Matiang'i in which the Bank, its sister companies – Kenya Orient Insurance and Daykio plantations – committed to spending more than Ksh 50Million to roll-out the education scholarship program countrywide. The program's objectives include helping the students make better career choices, enhance their academic performance and equip them with requisite skills to succeed in life. There was also commissioning of 100 students who joined secondary schools in all the 47 counties and to celebrate the first cohort of 37 students who finished form four and performed extremely well in their 2015 KCSE. The number of beneficiaries since the Foundation's inception in 2012 – has surpassed the 400 mark. The Foundation is the philanthropic arm formed in partnership with Family Bank, Kenya Orient Insurance Ltd and Daykio Plantations Ltd.

Community Empowerment

The Bank's Managing Director & Chief Executive Officer Dr. David Thuku and other bank officials visited the St. Thomas Barnados Children's Home along Langata Road. The team made a cash donation besides giving foodstuff and engaged in a Christmas jig with the children. Elsewhere, the Bank's Chairman Dr. Wilfred Kiboro and Founder Titus Muya gave a donation of Ksh 300,000 tothe Robert Ouko's community initiatives in Koru, Kisumu County. Participation in various community welfare events have over the years profiled the Bank as a responsible corporate partner in the communities we serve and cultivated mutually beneficial business relationships.

The Christmas cheer: Family Bank staff members led by the MD and CEO – Dr. David Thuku when they donated foodstuff at the St. Thomas Barnardo Children's Home.

Family Bank MD and CEO – Dr. David Thuku feeds six months old Baby Nimrod during a visit to the St. Thomas Barnardo Children's Home where the Bank donated foodstuff and spent time with the children. The home caters for orphaned, abandoned and destitute children.

Family Bank Chairman – Dr. Wilfred D. Kiboro flanked by Founder T.K Muya and Mama Christabel Ouko dance with school officials and pupils from Dr. Robert Ouko Primary School after the Bank donated Ksh 300,000 for the school's infrastructure in Koru, Muhoroni Constituency, Kisumu County.

Outlook for 2017

Being an election year the projections are that the country's GDP growth may decline largely due to a slowdown in investments. Reduced lending to the private sector, the result of the enactment of the Banking (Amendment) Act that caps lending rates, will also contribute to a decline in GDP. This pinpoints the cautionary lending that will persist as the effects of that law become more pronounced.

The persistent drought affecting various African countries, including Kenya is certainly going to affect growth projections. Farming and agro-pastoral communities in the northwest, northeastern and coastal strip of Kenya continue to be affected by widespread crop failure and falling terms of trade for pastoralists.

Kenya is generally a highly drought prone nation with only 20 percent of the country receiving high and regular rainfall, with the remaining 80 percent being arid or semi-arid. While drought is known to affect the agricultural sector, which contributes about 23percent to the Kenyan economy, as a result of crop failure and in turn reduced food security, poor rainfall has the potential effects of hampering hydro-electric power generation which results in power rationing.

It has also led to reduced water supply and in the process water rationing which ends up affecting households and industries heavily dependent on the resource. This has impacted production and hence putting a strain on the economy. In such tough times, companies find it hard to sustain production and in turn lead to lay-offs as was witnessed six years ago.

Family Bank is realigning its business model to be able to adapt the dynamic business environment while ensuring the fulfillment of its mandate to the customers is upheld. The Bank is carrying out the largest transformation program– by size and scale – geared to building a bank to last for generations to come. We are reviewing our business model to ensure its aligned and we are able to efficiently deploy our resources for better business growth. To achieve these goals, the support and goodwill of all our stakeholders including shareholders, employees and customers is paramount.

The realignment of our business model is informed by the need to be compliant and ready to seize opportunities that come with the changes in the operating environment. Our transformation journey is focused on positively transforming peoples' lives through the provision of quality financial services and efficient customer service through leveraging Information and Communications Technology.

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.

New Managing Director & Chief Executive Officer

I would like to formally introduce to you our Managing Director and CEO – Dr. David Thuku who took over a year ago after the expiry of the predecessor's contract. Mr. Thuku had previously served at the Bank as the Director of Retail Banking since 2013 and brings on board over 25 years' experience in banking. Prior to joining Family Bank, Mr. Thuku held several senior positions at Standard Chartered Bank and Barclays Bank including Investment Management, Project Management, Product and Sales Innovation, Secured Lending and Business Banking, among others. As the Board of Directors, we are confident that Dr. Thuku will drive the Bank's growth agenda as we seek to position the lender as a one-stop shop for financial services.

Conclusion

Our ability and commitment to build a sustainable and impactful business in Kenya is very much intact. We will leverage on the vast opportunities to drive our growth agenda and build a big bank that will last for generations to come.

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 highly 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 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

MANAGING DIRECTOR AND CEO'S STATEMENT

Dear Shareholders,

I am delighted to present the Bank's Annual Report and Financial Statements for the year ended 31st December 2016. The year 2016 was undoubtedly a very challenging year not just for Family Bank but the banking industry as a whole. Despite these challenges we managed to realize commendable gains which I will enumerate later in this report. I hasten to add that our performance demonstrated that we have a resilient and strong Bank that has navigated a rough terrain in pursuit of its commitment - positively transforming lives and businesses.

This success is earned. Our staff were committed and dedicated as they have always been to ensure that despite all the odds we faced as Family Bank – we remained focused and charged to deliver the promise to our customers. This has paid off and we have a bright future ahead as an organization. I thank our staff for the zeal and their unshakeable loyalty that enabled us to realize those gains. I also thank our customers for the unwavering support and loyalty to Family Bank.

As alluded earlier, the Bank overcame increasing pressure from the operating environment. We witnessed increased legislation coupled with changes in the macroeconomic environment. The capping of interest rates did elicit a review of our business model as was the case industrywide. It is in this context that we embarked on our transformation program that is geared to building a great bank that will last for generations to come.

Our transformation program is premised on key pillars that focus on the customer, the employee and the shareholder. We seek to enhance our operational efficiencies to better serve our customers; ensure our employees are well equipped and skilled to deliver the promise to our customers and deliver returns to our shareholders.

Financial Performance

As mentioned earlier, we had arguably one of the toughest years ever witnessed by not just the Bank but the industry as a whole. But amidst the turbulence experienced our resilience was well demonstrated by our performance. We posted profit before tax (PBT) of Ksh 664million compared to Ksh 2.96Billion in 2015. This was a significant drop from the previous year greatly impacted by a slowdown in lending. Nevertheless, the performance shows our resilience and affirms we are managing a formidable business whose potential is huge.

Total assets closed at Ksh 69.5Billion as at 31st December 2016 from Ksh 81.3Bllion as at 31st December 2015. Net loans and advances stood at Ksh 50.2Billion as at 31st December 2016 compared to Ksh 55.9billion as at 31st December 2015.The reduction in the loan book was due to tighter liquidity and slow business volume growth occasioned by the tough business environment as highlighted earlier.

The shareholders' funds grew by 6% to Ksh 12.7Billion as at 31st December 2016 from Ksh 12Billion as at 31st December 2015. The decline in our customer deposits by 34% to Ksh 41.4Billion as at December 2016 from Ksh 62.7 Billion as at 31st December 2015 is attributed to flight of wholesale deposits to Tier I banks witnessed in the 2nd half of 2016.
The Bank continued to grow sustainably for most of the year. That growth trajectory was unfortunately interrupted by the false rumors in November 2016 which dented the liquidity ratio closing the year at 14.4% down from 30.8% a year earlier.

Branch Expansion and Alternative Business Channels

The Bank rolled out 2 additional branches to our network in the year 2016 to close with 93 branches. The Bank also has more than 200 ATMs installed to date and is also a member bank of the Kenswitch and PesaPoint ATM networks with nearly 2000 ATM points. In our endeavor to provide excellent customer service beyond normal working hours we have continued to expand our Alternative Business Channels (ABCs) to enable customers access our services at all times 24 hours a day, 7 days a week.

Agency Banking remains top on our agenda as a key driver of customer numbers and non-funded income lines. Currently we have over 4000 active Agents in the market. The main advantage of ABCs is their convenience; cost effectiveness, greater outreach and longer access hours for our customers. Moving forward, we remain committed to these collaborations to grow our business lines in a sustainable way.

Family Bank MD and CEO Dr. David Thuku does a transaction during the launch of the new mobile based payment service called mVisa.

Family Bank MD and CEO Dr. David Thuku awards a winner during a golf tournament that the bank held for its customers at the Mombasa Golf Club.

Products, Services and Partnerships overview

- **Improved branch model:** Part of our transformation program is optimal use of resources including human capital within our branches and ABCs. This has necessitated a relook of our branch model to enhance the look and feel of our outlets. We started with two pilot branches (FBT Retail and Kenyatta Avenue) geared to enhancing customer experience in the branches. We have also enhanced the segmentation of our service outlets having retail, corporate, Pesapap agents, internet banking, ATMS offering a wide choice of services to our customers. The interconnectivity of our various channels empowers our customers to choose what serves them best.
- **A 24 Hour Call Centre:** we now have a 24-hour call centre with dedicated staff to enhance our customer engagement at any time of day or night.
- **Retail Banking Business:** – We have revamped our business model driven by the need to offer value propositions that are aligned to the diverse customer needs and the changing operating environment. These needs are informed by the different customer segments which include the SME, Micro, Agribusiness and Consumer markets. This focus premised on a robust cross selling approach has empowered our sales team a holistic pursuit of business acquisition and retention. The SME segment remains our strategic segment of focus and we have improved our relationship management capability for this segment as well as continued to revamp our customers' value proposition targeted to our SME clients.

Family Bank MD and CEO – Dr. David Thuku speaks during the launch of the partnership with the Embu County Government and Jomo Kenyatta University of Science and Technology in the presence of the Embu Governor – Hon. Martin Wambora and JKUAT Vice Chancellor – Dr. Mabel Imbuga.

• Family Bank Business Club: Our Business Club continues to offer exposure to our business customers through various international business and networking trips, seminars and local networking events. In 2016 the Club facilitated business trips to Germany, Netherlands, Belgium, France, Dubai, Malaysia, Singapore and Thailand.

• Partnerships: We continue to explore strategic partnerships with viable entities in the areas of education, health and community empowerment. We are currently engaged in a partnership with the County Government of Embu, Jomo Kenyatta University and the Embu Chapter of the Kenya Private Schools Association to facilitate acquisition of locally manufactured laptops to equip school-going children with modern learning tools and skills to transform society. Other partnerships include the Kenya School of Monetary Studies (KSMS) in facilitation of the Regional Certificate in Agricultural Finance (CAF) that builds capacity of financial institutions to improve skills in agricultural finance.

Family Bank MD and CEO Dr. David Thuku having a chat with the Central Bank of Kenya Governor – Dr. Patrick Njoroge during the launch of the Certificate in Agricultural Finance program at the Kenya School of Monetary Studies.

Family Bank Chaiman Dr. Wilfred D. Kiboro, MD and CEO Dr. David Thuku, and Kenya Orient Insurance MD Muema Muindi during a customers' dinner held at the Sarova Whitesands Hotel, Mombasa County.

• Corporate, Institutional Banking and Diaspora Banking: We are aligning the Corporate, Institutional and Diaspora Banking business lines to ensure we maximise on the opportunities through tailor-made solutions that include invoice discounting, LPO Financing, bid bonds, performance bonds, advance payment guarantees, Letters of Credit (LCs), Standby LCs and import duty financing. We have enhanced our internet banking platform to allow customers access banking services remotely and conveniently without the need to physically visit the bank. We have also enhanced business relationships with corporates and private individuals, quasi-government organizations as well as driven a comprehensive strategy for the County Governments. As a result, we have developed good relationships with universities, colleges, counties, parastatals as well as Fund Managers. We have also 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.

• 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 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 ATMs by migrating the ATM interface from a Microsoft Windows environment to an AIX (IBM) environment. This offers more stability and convenience to our customers.

• Risk Management: We revamped our risk management infrastructure by making investments in building automated capability to monitor and manage our KYC and AML obligations. We also reviewed our AML operating procedures and are continually training our staff to ensure that we maintain AML vigil and guard against any possible lapses.

Staff

The staff are our greatest asset. Without them, the Bank is not. We continue to develop our staff through local and overseas training to enhance their skills and leadership qualities. We also support our staff to commit themselves to continuous learning in both professional and personal endeavors. 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 members undergo thorough and comprehensive leadership development programmes to ensure that they offer World Class leadership to their teams.

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 Shareholder's year on year.

Outlook for 2017

Though forecasts and performance indicators project a challenging macro-economic environment in 2017; we are confident that Family Bank has built the right bench - strength to withstand the anticipated turbulence in the year and continue to excel. We are alive to all the opportunities and the challenges ahead and we have inbuilt specific strategies to navigate through these challenges and optimize the opportunities ahead. The business has grown over the years through the support of our customers, shareholders and staff. With the Bank's proven impressive track record we will continuously strive to be a top player Bank in this country. Customer-centrism remains the key to unlock our full potential and prepare the ground for our future growth. We will continue to embrace this shared mind set –a customer focused, agile, can-do mentality as we forge ahead in our vision "to be the financial institution that leads in the positive transformation of people's lives in Africa."

Top of the business agenda in 2017 is to ensure we are well positioned to withstand the shocks and able to operate a viable business that addresses the customers' needs effectively, where staff are proud to work and our shareholders are able to get returns for their investments. Our business model will be aligned on the need to remain relevant to our customers in addressing their needs conveniently and doing so profitably for the shareholders.

As a team, we will strive to achieve the Bank's strategic agenda and sustain the business momentum. Through our transformation program we aim to strengthen the foundation of the Bank to compete effectively, grow capacity and deliver on our set targets. We are fully aware of the challenging business environment hence we are repositioning the business to withstand whilst exploring the potential that the Bank holds.

Conclusion

Family Bank is a great, admirable local brand. The unstinting support from our shareholders, customers and the public is unparalleled. We remain confident in our chosen strategic direction and would like to reassure our shareholders and customers that as a Bank we are 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. I thank the Board for their steer and support since I assumed the leadership of this great Bank.

Our customers continue to show strong loyalty to the Bank. The trust and confidence in us is really inspiring and I invite and welcome new customers to our bank. The owners of this great Bank have offered a strong support pillar. As Management our resolve to grow this great Bank is unwavering. We are keen to grow a Bank that will serve generations to come long after us.

We seek God's favour as we strive to unlock the potential and grow the business.

Thank You and God Bless You

Dr. David Thuku
Managing Director & Chief Executive Officer

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 recognises 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 (Family Bank Limited and its subsidiary, Family Bank Insurance Agency Limited together referred to as 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.

The Board is in the process of ensuring full compliance with the code of corporate governance for issuers of securities to the public 2015.

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 Bank'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.

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

4. 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 and 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 Bank's strategic objectives, and its roadmap to achieving the agreed objectives,
   b) Review and approve the Bank's annual budget,
   c) Review the Bank's performance against approved budget,
   d) Review the Bank'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.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

6. BOARD ACTIVITIES 2016

6.1 Board attendance

The Board convened 10 board meetings during the year. All the meetings convened had sufficient quorum.

The attendance of the individual directors was as follows:

Directors	Total Attendance
Wilfred D Kiboro (Chairman)	**100%**
Titus K Muya	**100%**
David Some	**50%**
David Kimani	**100%**
Ruth Waweru	**100%**
Francis Mungai	**75%**
Lerionka Tiampati	**100%**
Njung'e Kamau	**100%**

6.2 Board Training and Continuous Professional Development 2016

During the year, the Board members attended training on Anti-money Laundering laws and legislation 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 & Touche 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.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

7. COMMITTEES OF THE BOARD (CONTINUED)

7.1 Board Audit Committee (Continued)

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 four times during the year under review. The members of the Committee in the year under review were: Prof. David Some (Chairman), Mr. Francis Mungai, Dr. W.D. Kiboro, Mr. T.K. Muya, Dr. David Thuku, Mr. Njung'e Kamau. The Head of 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 organisational structure supports the business strategy and growth.

The Committee met five times during the year under review. The members of the Committee are Mr. T.K. Muya, Mr. Francis Mungai, Dr. W.D. Kiboro, Prof. David Some and Dr. David Thuku. The Director Human Resources attended all the Committee meetings.

7.5 Board Strategy Committee

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

The Committee met four 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, Dr. David Thuku and Mr. Njung'e Kamau. The Head of strategy and other members of management attend the meetings of the Committee.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

7. COMMITTEES OF THE BOARD (CONTINUED)

7.6 Board Nomination Committee

The Committee regularly reviews the structure, size and composition of the board and make recommendations on any adjustments deemed necessary. It identifies, nominates and recommends for the approval of the board, candidates to fill board vacancies as and when they arise. The Committee members are Dr. Ruth Waweru, Dr. W.D. Kiboro and Mr. T.K. Muya. This committee held one meeting in 2016.

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

b) Top Ten Shareholders as at 31 December 2016

No	Shareholder	No. of Shares
1	Kenya Tea Development Agency Holding ltd	212,184,905
2	Rachael Muya	167,143,948
3	Daykio Plantations Limited	158,460,364
4	Titus Kiondo Muya	67,163,768
5	Standard Chartered Kenya Nominees ltd a/c 9660b	46,617,000
6	PA securities	44,444,445
7	Kenya Orient Insurance Limited	35,600,936
8	Julius Brian Muyah	33,448,788
9	Ann Muya	33,428,788
10	Mark Keriri	33,428,788
	Top 10 Shareholders	831,921,730
	Others	455,385,812
	Total Issued Shares	1,287,107,542

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

9. CAPITAL STRUCTURE

c) Distribution of Shareholders as at 31 December 2016

	No of Shareholders	No of Shares	%
10,000,000 - Above	17	991,751,802	77.05
50,000 - 9,999,999	595	239,817,262	18.63
10,000 - 49,999	2,094	38,169,917	2.97
1 - 9,999	3,177	17,368,561	1.35
Total	5,883	1,287,107,542	100.00

d) Directors Holding Shares as at 31 December 2016

Name	No. of shares	%
Wilfred D. Kiboro	11,896,968	0.92
Titus K. Muya	67,163,768	5.22
David Some	324,414	0.03
Ruth Waweru	190,000	0.01
David Kimani	140,089	0.01
Julius Brian Muyah	33,448,788	2.60
Francis Mungai	1,620,404	0.13
David Thuku	205,600	0.02
Njung'e Kamau	10,000	0.00
Total	115,000,031	8.94

Chairman

28th March 2017

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 2016, 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 2016:

	Group 2016 Sh'000	Bank 2016 Sh'000
Profit before taxation	664,642	633,419
Taxation	(312,363)	(302,125)
Profit for the year	352,279	331,294
	========	========

DIVIDEND

The directors do not recommend payment of a dividend in respect of the year ended 31 December 2016. In 2015, a dividend of Sh 0.50 per share for the year amounting to Sh 622,593,598 was approved and paid to the shareholders.

DIRECTORS

The present members of the Board of Directors are shown on page 2. Mr. Peter Munyiri ceased to be a director and Chief Executive Officer on 11 June 2016 and Dr. David Thuku was appointed as Managing Director and Chief Executive Officer on 25 April 2016.

AUDITORS

Deloitte & Touche, having expressed their willingness to continue in office in accordance with the provisions of the Kenyan Companies Act, 2015 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

28th March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank and its subsidiary as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the Bank and its subsidiary maintains proper accounting records that are sufficient to show and explain the transactions of the Group and Bank and disclose, with reasonable accuracy, the financial position of the Group. The directors are also responsible for safeguarding the assets of the bank and its subsidiary, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the preparation and presentation of these consolidated and Bank financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and the Banking Act. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Bank and its subsidiary's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Bank and its subsidiary's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 28th March 2017 and signed on its behalf by

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Chairman	Managing Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAMILY BANK LIMITED

Report on the audit of the Consolidated and Bank Financial Statements

OPINION

We have audited the accompanying financial statements of Family Bank Limited (the "Bank") and its subsidiary (the "Group"), set out on pages 33 to 97, which comprise the consolidated and Bank statements of financial position as at 31 December 2016, and the consolidated and Bank statements of profit or loss and other comprehensive income, consolidated and Bank statements of changes in equity and consolidated and Bank statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 and of their consolidated and Bank financial performance 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of this report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAMILY BANK LIMITED (CONTINUED)

KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and Bank financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matter

Provision for impaired loans and advances:

Significant judgement is required by the Directors in assessing the impairment losses on the Bank's loans and advances.

Impairment against loans and advances amounting to Sh 2,380,809 against gross loans and advances balance of Sh 52,544,364, described in notes 16 and 17, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the loans and advances that exhibit indicators of impairment.

The significant judgements applied in determining the impairment include:

- the expected future cash flows including realisable value of the collateral securing the advances; and
- the probability that an advance will result in loss.

These judgements have inherent uncertainties and, accordingly, the provisions for impaired loans and advances is considered a key audit matter.

Refer to note 3 of the financial statements for critical accounting judgements and key sources of estimation uncertainty and notes 16 and 17 of the consolidated and Bank financial statements for loans and receivables and provision for impairment disclosures.

How Our Audit Addressed the key audit matter

We assessed the operating effectiveness of controls in respect of the recognition of impairment losses on loans and advances, specifically over impairment data and calculations. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.

We assessed the adequacy of the provisions by focusing our audit on the following procedures:

- We tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner.
- Where impairment had been identified, we examined the forecasts of future cash flows prepared by the Directors to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available.
- We tested the validity and valuation of collateral held on a sample basis.
- We tested the historical accuracy of the provisions and the assumptions and judgements made by management in arriving at the provisions recorded.

In the case of some impairment provisions and loan classifications, we formed a different view from that of the Directors, but in our view the differences were within a reasonable range of outcomes in the context of the overall loans and advances disclosed in the Bank financial statements.

We validated the appropriateness of the related disclosures in notes 3, 16 and 17 of the consolidated and Bank financial statements.

OTHER INFORMATION

The Directors are responsible for the other information, which comprises the Corporate Governance Statement and the Report of the Directors as required by the Kenyan Companies Act which we obtained prior to the date of this report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAMILY BANK LIMITED (CONTINUED)

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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.

In preparing the financial statements, the Directors are responsible for assessing the Group and Bank's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and Bank or to cease operations, or have no realistic alternative but to do so. The Board Audit Committee is responsible for overseeing the Group and Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and Bank financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Bank 's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Bank's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Bank to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audits. We remain solely responsible for our audit opinion.

We communicate with the Board Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAMILY BANK LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We also provide the Board Audit Committee with a statement that we have complied with relevant official requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extreme circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Fredrick Okwiri P/No - 1699.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

28th March 2017

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group 2016 Sh'000	Group 2015 Sh'000	Bank 2016 Sh'000	Bank 2015 Sh'000
INTEREST INCOME	6	10,810,919	10,032,314	10,810,919	10,032,314
INTEREST EXPENSE	7	(4,098,037)	(3,632,385)	(4,111,868)	(3,639,883)
NET INTEREST INCOME		6,712,882	6,399,929	6,699,051	6,392,431
Foreign exchange gains		235,681	298,484	235,681	298,484
Fee and commission income	8(a)	2,027,451	2,472,113	2,027,451	2,472,113
Other income	8(b)	149,948	206,432	36,000	43,521
OPERATING INCOME		9,125,962	9,376,958	8,998,183	9,206,549
Operating expenses	9	(7,613,950)	(6,207,955)	(7,517,394)	(6,111,188)
Impairment charge on loans and advances	17	(847,370)	(211,875)	(847,370)	(211,875)
PROFIT BEFORE TAXATION		664,642	2,957,128	633,419	2,883,486
INCOME TAX EXPENSE	11	(312,363)	(974,182)	(302,125)	(946,828)
PROFIT FOR THE YEAR		352,279	1,982,946	331,294	1,936,658
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of property and equipment	22	150,748	-	150,748	-
Deferred tax liability arising on revaluation surplus	29	(29,203)	-	(29,203)	-
		121,545	-	121,545	-
Items that may be reclassified subsequently to profit or loss:					
Fair value gain/(loss) on available for sale financial assets	15(b)	8,792	(6,778)	8,792	(6,778)
Cummulative gain reclassified from equity on disposal of available for sale treasury bills		(1,007)	-	(1,007)	-
		7,785	(6,778)	(7,785)	(6,778)
Total other comprehensive income		129,330	(6,778)	129,330	(6,778)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		481,609	1,976,168	460,624	1,929,880
		========	========	========	========
EARNINGS PER SHARE		Sh	Sh	Sh	Sh
Basic and diluted	12	0.28	1.59	0.27	1.55
		========	========	========	========

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Group		Bank	
		2016	2015	2016	2015
	Notes	Sh'000	Sh'000	Sh'000	Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	5,492,415	6,167,092	5,492,415	6,167,092
Balances due from banking institutions	14(a)	186,792	4,892,358	186,792	4,892,358
Government securities held to maturity	15(a)	4,754,137	7,246,561	4,754,137	7,183,394
Government securities available for sale	15(b)	251,007	443,222	251,007	443,222
Loans and advances to customers	16	50,163,555	55,853,882	50,163,555	55,853,882
Corporate bonds held to maturity	18(a)	842,389	936,410	842,389	936,410
Commercial paper held to maturity	18(b)	-	631,916	-	631,916
Other assets	19	2,234,038	1,346,593	2,226,946	1,325,075
Investment in subsidiary	20	-	-	1,000	1,000
Investment properties	21(a)	18,200	18,200	18,200	18,200
Property and equipment	22	4,167,845	3,175,595	4,158,968	3,169,489
Intangible assets	23	451,121	318,801	445,469	317,625
Prepaid operating lease rentals	24	153,359	157,969	153,359	157,969
Deferred tax asset	29	-	2,767	-	2,582
Current tax assets	11	776,826	-	738,137	-
		69,491,684	81,191,366	69,432,374	81,100,214
Non-Current Assets Held For Sale	21(b)	-	90,000	-	90,000
TOTAL ASSETS		69,491,684	81,281,366	69,432,374	81,190,214
		=========	========	=========	=========
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Short-term borrowings – Central Bank of Kenya	14(c)	4,393,608	-	4,393,608	-
Customer deposits	25	41,395,232	62,710,859	41,473,321	62,730,867
Balances due to banking institutions	14(b)	922,654	131,643	922,654	131,643
Current tax liability	11(c)	-	30,441	-	36,951
Borrowings	26	8,933,191	5,587,720	8,933,191	5,587,720
Provisions	27(a)	111,638	69,875	110,953	69,875
Other liabilities	27(b)	950,738	680,260	950,167	677,787
Unclaimed dividends	28(a)	4,720	28,589	4,720	28,589
Deferred tax liability	29	24,844	-	24,883	-
TOTAL LIABILITIES		56,736,625	69,239,387	56,813,497	69,263,432
SHAREHOLDERS' FUNDS					
Share capital	30	1,287,108	1,245,186	1,287,108	1,245,186
Share premium	30	5,874,662	5,062,519	5,874,662	5,062,519
Revaluation surplus		195,888	76,823	195,888	76,823
Fair value reserve		1,007	(6,778)	1,007	(6,778)
Retained earnings		4,954,665	5,136,745	4,818,483	5,021,548
Statutory reserve		441,729	527,484	441,729	527,484
TOTAL SHAREHOLDERS' FUNDS		12,755,059	12,041,979	12,618,877	11,926,782
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		69,491,684	81,281,366	69,432,374	81,190,214
		=========	=========	=========	========

The financial statements on pages 33 to 97 were approved and authorised for issue by the Board of Directors on 28th March 2017 and were signed on its behalf by:

Chairman

Managing Director

Director

Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

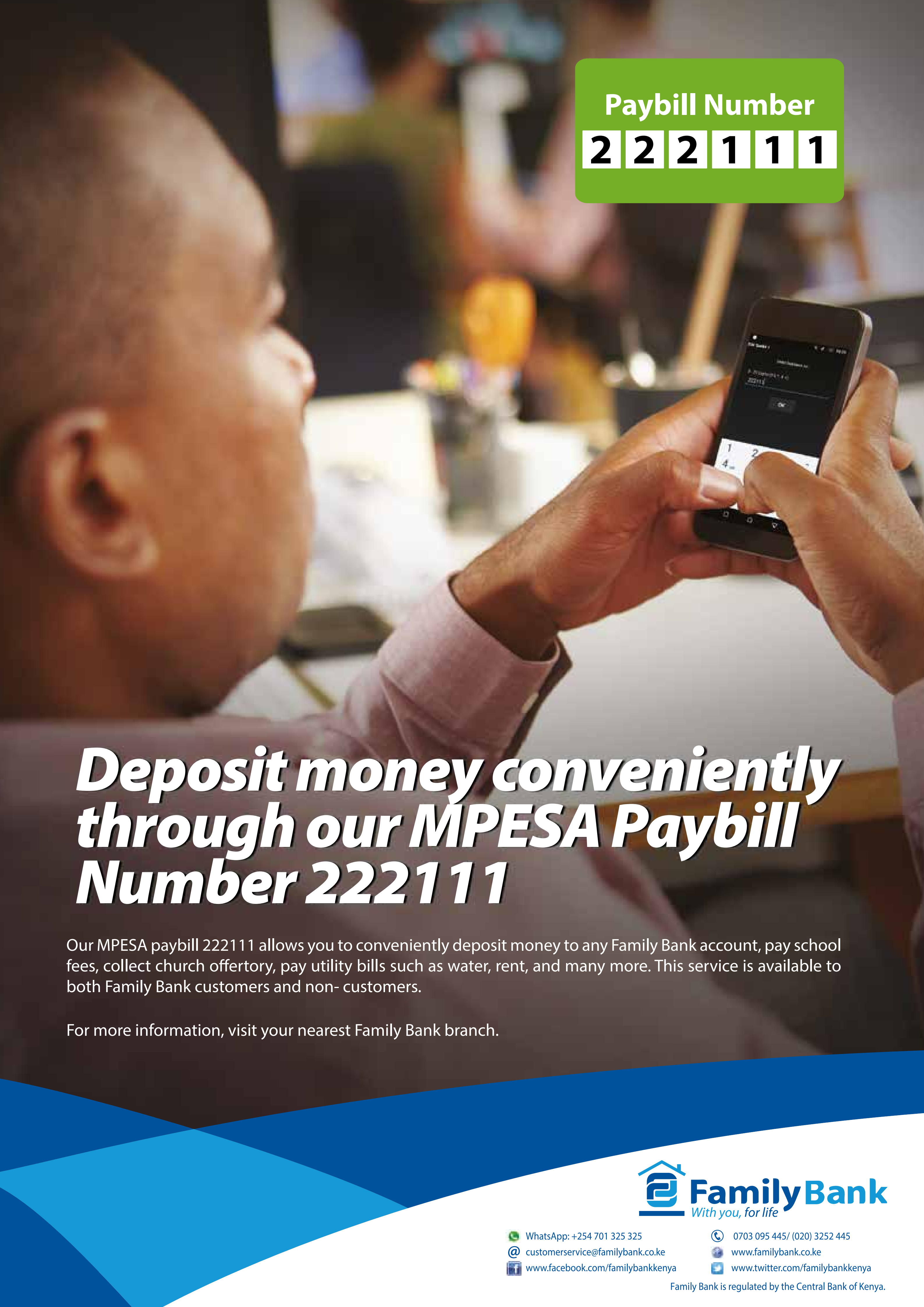
	Share capital Sh'000	Share premium Sh'000	Revaluation surplus Sh'000	Fair value reserves Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2015	1,245,186	5,063,676	78,956	-	3,944,241	357,503	10,689,562
Total comprehensive income	-	-	-	(6,778)	1,982,946	-	1,976,168
Rights 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)	5,136,745	527,484	12,041,979
At 1 January 2016	1,245,186	5,062,519	76,823	(6,778)	5,136,745	527,484	12,041,979
Total comprehensive income	-	-	121,545	7,785	352,279	-	481,609
Rights issue (note 30)	41,922	880,327	-	-	-	-	922,248
Rights issue costs (Note 30)	-	(68,184)	-	-	-	-	(68,184)
Dividend paid – 2015	-	-	-	-	(622,594)	-	(622,594)
Transfer to statutory reserve	-	-	-	-	85,755	(85,755)	-
Transfer of excess depreciation	-	-	(4,338)	-	4,338	-	-
Deferred tax on excess depreciation	-	-	1,858	-	(1,858)	-	-
At 31 December 2016	1,287,108	5,874,662	195,888	1,007	4,954,665	441,729	12,755,059

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2015	1,245,186	5,063,676	78,956	-	3,875,332	357,503	10,620,653
Total comprehensive income	-	-	-	(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
	=======	=======	======	======	=======	======	========
At 1 January 2016	1,245,186	5,062,519	76,823	(6,778)	5,021,548	527,484	11,926,782
Total comprehensive income	-	-	121,545	7,785	331,294	-	460,624
Rights issue (note 30)	41,922	880,327	-	-	-	-	922,248
Rights issue costs (note 30)	-	(68,184)	-	-	-	-	(68,184)
Dividend paid – 2015	-	-	-	-	(622,594)	-	(622,594)
Transfer to statutory reserve	-	-	-	-	85,755	(85,755)	-
Transfer of excess depreciation	-	-	(4,338)	-	4,338	-	-
Deferred tax on excess depreciation	-	-	1,858	-	(1,858)	-	-
At 31 December 2016	1,287,108	5,874,662	195,888	1,007	4,818,483	441,729	12,618,877
	=======	========	======	=======	========	======	========

CONSOLIDATED AND BANK STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group 2016 Sh'000	Group 2015 Sh'000	Bank 2016 Sh'000	Bank 2015 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash used in operations	31(a)	(9,815,829)	(1,470,852)	(9,868,510)	(1,510,963)
Taxation paid	11(c)	(1,121,222)	(1,174,543)	(1,078,951)	(1,140,012)
Net cash used in operating activities		(10,937,051)	(2,645,395)	(10,947,461)	(2,650,975)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	22	(1,533,781)	(1,718,335)	(1,528,883)	(1,713,180)
Proceeds on sale of property and equipment		-	22,632	-	22,632
Purchase of intangible assets	23	(248,421)	(97,466)	(242,909)	(97,041)
Proceeds from sale of non-current assets held for sale	21(b)	105,000	-	105,000	-
Net cash used in investing activities		(1,677,202)	(1,793,169)	(1,666,792)	(1,787,589)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	26	3,457,200	3,018,800	3,457,200	3,018,800
Short-term borrowings – Central Bank of Kenya	14(c)	4,393,608	-	4,393,608	-
Repayment of borrowings	26	(455,772)	(511,827)	(455,772)	(511,827)
Dividends paid	28	(646,463)	(606,592)	(646,463)	(606,592)
Proceeds from rights issue of shares	30	922,249	-	922,249	-
Rights issue costs	30	(68,184)	(1,157)	(68,184)	(1,157)
Net cash generated from financing activities		7,602,638	1,899,224	7,602,638	1,899,224
NET DECREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR		(5,011,615)	(2,539,340)	(5,011,615)	(2,539,340)
CASH AND CASH EQUIVALENTS AT BEGINNINGOF THE YEAR		7,667,639	10,206,979	7,667,639	10,206,979
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	31(b)	2,656,024	7,667,639	2,656,024	7,667,639


Paybill Number
222111
Deposit money conveniently through our MPESA Paybill Number 222111
Our MPESA paybill 222111 allows you to conveniently deposit money to any Family Bank account, pay school fees, collect church offertory, pay utility bills such as water, rent, and many more. This service is available to both Family Bank customers and non- customers.
For more information, visit your nearest Family Bank branch.
Family Bank
With you, for life
WhatsApp: +254 701 325 325
0703 095 445/ (020) 3252 445
customerservice@familybank.co.ke
www.familybank.co.ke
www.facebook.com/familybankkenya
www.twitter.com/familybankkenya
Family Bank is regulated by the Central Bank of Kenya.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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.

2 ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Kenyan Companies Act and the Banking Act.

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

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

i) Amendments to IFRS that are mandatorily effective for the year ended 31 December 2016

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

Amendments to IFRS 10, IFRS 12 ans IAS 28 Investment Entities: Applying the Consolidation Exemption

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the consolidated financial statements as the Group is not an investment entity and does not have any holding company company, subsidiary, associate or joint venture that qualifies for designation as an investment entity.

Amendments to IFRS 11 Accounting for Acquistions of interest in joint operations

The amendments provide guidance on how to account for the acquistion of a joint operation that 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 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 required to disclose relevant information required by IFRS 3 and other standards for business combinations.

The amendment had no impact on the consolidated financial statements as the Group did not have any such transactions in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

(b) Adoption of revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

i) Standards and amendments to published standards effective for the year ended 31 December 2016 (Continued)

IAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group and Bank.

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.

As the Group already uses the straight-line method for depreciation and amortisation of its property and equipment, and intangible assets respectively, the application of these amendments has had no impact on the consolidated and Bank financial statements.

Amendments to IAS 16 & IAS 41- Bearer Plants

The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.
The application of these amendments has had no impact on the consolidated financial statements as the Group is not engaged in agricultural activities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

(b) Adoption of revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

ii) Standards and amendments to published standards effective for the year ended 31 December 2016 (Continued)

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

- IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued.
- IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

iii) New and amended standards in issue but not yet effective in the year ended 31 December 2016

The application of these amendments has had no effect on the Company's financial statements.

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 Disclosure Initiative	1 January 2017
IFRS 16 Leases	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

(b) Adoption of revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

iv) Impact of new and amended standards in issue but not yet effective for the year ended 31 December 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 derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Directors of the Bank are assessing the impact of the application of IFRS 9. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

(b) Adoption of revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

iv) Impact of new and amended standards in issue but not yet effective for the year ended 31 December 2016

IFRS 15 Revenue from Contracts with Customers (Continued)

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. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee 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, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Directors of the Bank do not anticipate that the application of IFRS 16 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 practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose finanicing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The Directors of the Bank do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

(iv) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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 consolidated financial statements (the "Group") have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:-

- Level 1 inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement dated.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power over the investee, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements for subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to the transactions between the members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non- controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest.

All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39: Financial Instruments: Recognition and Measurement, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment in subsidiary

Investment in subsidiary companies are stated at cost less impairment loss where applicable.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Interest income and expense (Continued)

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.

The Group's policy is to professionally revalue property at least once every five years. The last valuation was done on 31 December 2011 and the current one performed as at 31 December 2016. 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 estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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 judgement. 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 tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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 in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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.

Investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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.

Current taxation

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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred taxation

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 Group 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.

i) Loans and receivables

Loans and receivables and balances due from banks are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

a) Classification and measurement (Continued)

ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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.

iii) Available-for-sale financial assets

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

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

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

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

b) Derecognition of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

b) Derecognition of financial assets (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

c) Impairment and uncollectability of financial assets (Continued)

i) Assets carried at amortised cost (Continued)

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.

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.

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 (Continued)

Financial liabilities (Continued)

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: Revenue, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight line basis over the life of the guarantee.

b) Derecognition of financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

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.

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.

Statutory reserve

IAS 39 requires the group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, the 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)

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.

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, the Directors are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

Impairment losses on loans and receivables

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Directors use 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 judgement 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 judgement. In making this judgement, 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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the carrying value of recognised tax losses at 31 December 2016 are provided in Note 29 to the consolidated and Bank 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)

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

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

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

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

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

(ii) Key sources of estimation uncertainty

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

Property, equipment and intangible assets

Estimates are made by management in determining depreciation rates and residual values for property, equipment and intangible assets.

Fair value measurement and valuation process

Some of the Group's assets (freehold land and buildings) and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. Where level 1 inputs are not available, the Group engages inhouse or third party qualified valuers to perform the valuation. Information about determinants of fair values and other valuation techniques is disclosed in various notes to the financial statements.

4 FINANCIAL 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The most important type of risks to which the Group and the Bank are exposed to are financial risks which include:

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

Risk management framework

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

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

Financial Risk Management disclosures

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

(a) Credit risk

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

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

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

The board of directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three non-executive directors and two executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its credit committee comprising of three non-executive directors and two executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management.

The committee assisted by the credit department is responsible for the management of the group's credit risk including:

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

Credit risk measurement

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

Risk limit control and mitigation policies

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

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

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

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

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

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

Maximum exposure to credit risk before collateral held

	2016		2015	
	Sh'000	%	Sh'000	%
Credit exposures On – balance sheet items				
Balances with Central Bank of Kenya	2,100,529	3	3,387,458	5
Balances due from other banking institutions	186,792	0	4,892,358	6
Government securities	5,005,144	8	7,689,783	10
Loans and advances to customers	50,163,555	82	55,853,882	74
Corporate bonds	842,389	1	936,410	1
Commercial paper	-	-	631,916	1
	58,298,409	95	73,391,807	97
Off-balance sheet items				
Guarantees	3,045,782	5	2,324,101	3
	61,344,191	100	75,715,908	100

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 2016 and 31 December 2015, 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 82% (2015 - 74%) 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	
	2016 Sh'000	2015 Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard)	1,458,240	749,416
Grade 7: Impaired (doubtful)	3,001,910	1,147,330
Grade 8: Impaired (loss)	1,542,689	982,479
Gross amount	6,002,839	2,879,225
Allowance for impairment	(2,309,749)	(1,486,206)
Carrying amount	3,693,090	1,393,019
Collectively impaired (Past due but not impaired)		
Grade 4-5: Watch list	2,368,660	1,765,454
Allowance for impairment	(71,060)	(52,964)
Carrying amount	2,297,600	1,712,490
Neither past due nor impaired		
Grade 1-3: Normal	44,172,865	52,748,373
Total carrying amount	50,163,555	55,853,882

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 the Central Bank of Kenya (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

	2016		2015	
	Sh'000	%	Sh'000	%
Manufacturing	160,021	0	163,447	1
Wholesale and retail	17,683,527	34	18,008,603	31
Transport and communication	7,929,738	15	9,250,352	16
Agricultural	2,405,485	5	2,374,658	4
Business services	517,158	1	431,637	1
Building and construction	3,543,792	7	8,365,533	14
Other	20,304,643	38	18,798,822	33
	52,544,364	100	57,393,052	100

ii) Customer deposits

	2016 Sh'000	%	2015 Sh'000	%
Central and local Government	199,094	0	259,947	-
Co-operative societies	319,877	1	405,224	1
Insurance companies	183,778	0	279,941	1
Private enterprises & individuals	40,588,408	98	61,649,740	98
Non-profit institutions	104,075	0	116,007	-
	41,395,232	100	62,710,859	100

iii) Off balance sheet items (letters of credit and guarantees)

	2016 Sh'000	%	2015 Sh'000	%
Trading	3,045,782	100	2,324,101	100

(b) Liquidity risk

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

Management of liquidity risk

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

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

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 ALCO.

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 from customers at the reporting date and during the reporting period were as follows:

	2016	2015
At 31 December	14%	31%
Average for the year	23%	36%
Maximum for the year	30%	42%
Minimum for the year	9%	31%
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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 2016	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	3,391,886	-	-	-	-	3,391,886
Balances with CBK	2,100,529	-	-	-	-	2,100,529
Balances due from banks	186,792	-	-	-	-	186,792
Government securities	250,000	1,195,332	292,809	268,211	2,979,064	5,005,144
Loans and advances to customers	3,299,095	1,391,925	3,853,103	26,749,303	14,870,129	50,163,555
Corporate bonds and commercial Paper	-	-	-	842,389	-	842,389
Other assets	171,135	-	-	-	-	171,135
Total financial assets	9,399,437	2,587,257	4,145,912	27,859,903	17,849,193	61,861,430
Financial liabilities						
Borrowing from CBK	4,393,608	-	-	-	-	4,393,608
Balances due to banks	922,654	-	-	-	-	922,654
Customer deposits	27,321,527	4,956,567	5,752,376	3,364,761	-	41,395,232
Borrowings	-	-	140,994	6,773,435	2,018,762	8,933,191
Other liabilities	139,967	-	-	-	-	139,967
Total financial liabilities	32,777,756	4,956,567	5,893,370	10,138,196	2,018,762	55,784,652
Net liquidity gap	(23,378,319)	(2,369,310)	(1,747,458)	17,721,707	15,830,431	6,076,778
As at 31 December 2015						
Total financial assets	15,095,864	4,811,525	8,290,288	30,725,527	17,299,630	76,222,834
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

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 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 ALCO. The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities. The table below summarises the group's exposures to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates. The group does not bear an interest rate risk on off balance sheet items.

31 December 2016	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	-	-	-	-	-	3,391,886	3,391,886
Balances with CBK	-	-	-	-	-	2,100,529	2,100,529
Balances due from banks	-	1,816	-	-	-	184,976	186,792
Government securities	250,000	1,195,332	292,809	268,211	2,979,064	-	5,005,144
Loans and advances to customers	50,163,555	-	-	-	-	-	50,163,555
Corporate bonds	-	-	-	842,389	-	-	842,389
	50,413,555	1,197,148	292,809	1,110,600	2,979,064	5,677,391	61,690,295
Financial liabilities							
Balances due to banks	922,654	-	-	-	-	-	922,654
Customer deposits	4,956,567	-	5,752,376	3,364,761	-	27,321,527	41,395,232
Borrowings	-	-	140,994	6,773,435	2,018,762	-	8,933,191
	5,879,221	-	5,893,371	10,138,196	2,018,762	27,321,527	51,251,077
Interest sensitivity gap	44,534,334	1,197,148	(5,600,562)	(9,027,596)	970,302	(21,644,136)	10,439,218

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 2016	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	50,413,555	1,197,148	292,809	1,110,599	2,988,928	5,677,391	61,680,430
Total financial liabilities	5,879,221	-	5,893,371	10,138,196	2,018,762	27,321,527	51,251,077
Interest rate sensitivity gap	44,534,334	1,197,148	(5,600,562)	(9,027,597)	970,166	(21,644,136)	10,429,357
	========	========	========	========	========	=========	========

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.

As at 31 December 2016	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
Financial assets				
Deposits and balances due from banking institutions	87,814	27,447	41,994	157,255
	=======	======	======	=======
As at 31 December 2015				
Financial assets				
Deposits and balances due from banking institutions	310,724	30,342	43,383	384,449
Financial liabilities				
Borrowings	-	-	-	-
Sensitivity gap	87,814	27,447	41,994	157,255
	=======	======	======	=======

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)

iii) Interest Rate Risks – increase/decrease of 10% in net interest margin

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

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

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2016.

	Amount 31 December 2016 Sh'000	Scenario 1 10% Appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	664,642	731,106	598,177
Adjusted Core Capital	11,980,252	13,178,277	10,782,227
Adjusted Total Capital	14,449,613	15,894,547	13,004,651
Risk Weighted Assets (RWA)	69,533,673	69,533,673	69,533,673
Adjusted Core Capital to RWA	17.2%	19%	16%
Adjusted total Capital to RWA	20.8%	23%	19%
	========	=========	========

Assuming no management actions, a series of such appreciation would increase net interest income by Sh 671,288,240 (2015 – Sh 639,992,913), while a series of such falls would decrease net interest income by Sh 671,288,240 (2015 – Sh 639,992,913).

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 2016.

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 2016 Sh'000	Scenario 1 10% Appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	664,642	731,106	598,177
Adjusted Core Capital	11,980,252	13,178,277	10,782,227
Adjusted Total Capital	14,449,613	15,894,547	13,004,651
Risk Weighted Assets (RWA)	69,533,673	69,533,673	69,533,673
Adjusted Core Capital to RWA	17.4%	19%	16%
Adjusted total Capital to RWA	20.8%	23%	19%
	=========	=========	========

Assuming no management actions, a series of such appreciation would increase earnings by Sh 23,567,966 (2015 - Sh 29,848,418), while a series of such falls would decrease net interest income by Sh 23,567,966 (2015 - Sh 29,848,418).

(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 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 2016 was as follows:

	2016 Sh'000	2015 Sh'000
Tier 1 capital		
Share capital	1,287,108	1,245,186
Share premium	5,874,662	5,062,519
Retained earnings	4,818,483	5,021,548
Total	11,980,253	11,329,253

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

	2016 Sh'000	2015 Sh'000
Tier 2 capital		
Revaluation reserves (25%)	48,972	18,044
Term subordinated debt	2,018,800	2,018,800
General loan loss provision (statutory reserve)	441,729	527,484
Total	2,509,501	2,564,328
Total regulatory capital	14,489,754	13,893,581
Risk-weighted assets	69,533,673	73,765,213

Capital ratios

	2016	2015
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	20.84%	18.83%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	17.23%	15.36%

	Group 2016 Sh'000	Group 2015 Sh'000	Bank 2016 Sh'000	Bank 2015 Sh'000
6 INTEREST INCOME				
Interest on loans and advances	9,758,719	8,258,102	9,758,719	8,258,102
Interest on bank placements	211,708	764,346	211,708	764,346
Interest on held to maturity assets:				
- government securities	657,751	742,962	657,751	742,962
- corporate bonds and commercial paper	182,741	222,218	182,741	222,218
Interest on available for sale assets				
- government securities	-	44,686	-	44,686
	10,810,919	10,032,314	10,810,919	10,032,314
7 INTEREST EXPENSE				
Interest on customer deposits	2,853,750	3,261,998	2,867,582	3,269,496
Interest on balances due to banks	219,245	45,908	219,245	45,908
Interest on borrowings	1,025,042	324,479	1,025,041	324,479
	4,098,037	3,632,385	4,111,868	3,639,883

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group 2016 Sh'000	Group 2015 Sh'000	Bank 2016 Sh'000	Bank 2015 Sh'000
8 (a) FEE AND COMMISSION INCOME				
Transaction related fees	1,436,700	1,498,220	1,436,700	1,498,220
Credit related fees and commissions	479,650	878,115	479,650	878,115
Ledger related fees and commissions	111,101	95,778	111,101	95,778
	2,027,451	2,472,113	2,027,451	2,472,113
(b) OTHER INCOME				
Brokerage commissions	113,948	127,941	-	-
Gain/(loss) on disposal of non-current assets held for sale (note 21 (b)	15,000	(15,000)	15,000	(15,000)
Other incomes	21,000	93,491	21,000	58,521
	149,948	206,432	36,000	43,521
9 OPERATING EXPENSES				
Staff costs (note 10)	2,936,936	2,640,640	2,870,912	2,590,411
Directors' emoluments - Fees	70,950	70,793	66,930	64,530
- Other	84,086	158,860	84,086	158,860
Depreciation – property and equipment	692,429	556,229	690,270	555,007
Amortisation of intangible assets	116,101	96,286	115,065	95,946
Contribution to Deposit Protection Fund	84,579	62,746	84,579	62,746
Auditors' remuneration	4,856	4,343	4,385	3,915
Amortisation of prepaid operating lease	4,610	4,611	4,610	4,611
Marketing expenses	245,329	168,898	243,544	167,430
Occupancy expenses	1,196,271	1,013,360	1,194,684	1,012,658
Other operating expenses	2,178,163	1,431,189	2,158,329	1,395,237
	7,613,950	6,207,955	7,517,394	6,111,188
10 STAFF COSTS				
Salaries and wages	2,505,598	2,242,210	2,448,238	2,196,188
Training, recruitment and staff welfare costs	91,663	95,108	91,663	95,108
Contributions to defined contribution pension scheme	143,980	132,151	141,420	132,151
Medical expenses	185,211	156,256	179,327	152,049
Leave pay provision	6,034	10,670	5,946	10,670
NSSF contributions	4,450	4,245	4,318	4,245
	2,936,936	2,640,640	2,870,912	2,590,411

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2016	2015	2016	2015
	Sh'000	Sh'000	Sh'000	Sh'000
11 TAXATION				
a)Taxation charge				
Current tax based on the taxable profit at 30%	313,955	982,376	303,863	954,992
Deferred tax charge (note 29)	(1,592)	(8,194)	(1,738)	(8,164)
	312,363	974,182	302,125	946,828
b) Reconciliation of expected tax based on accounting profit to tax charge				
Profit before taxation	664,642	2,957,128	633,419	2,883,486
Tax calculated at a tax rate of 30%	199,393	887,138	190,026	865,046
Tax effect of expenses not deductible for tax purposes	154,250	126,833	153,379	121,136
Tax effect of income not taxable	(41,280)	(39,789)	(41,280)	(39,354)
	312,363	974,182	302,125	946,828
c) Corporate tax (recoverable)/payable				
At beginning of the year	30,441	222,608	36,951	221,971
Charge for the year	313,955	982,376	303,863	954,992
Tax paid during the year	(1,121,222)	(1,174,543)	(1,078,951)	(1,140,012)
At end of the year	(776,826)	30,441	(738,137)	36,951

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	
	2016	2015	2016	2015
Profit (Sh'000)	352,279	1,982,946	331,294	1,936,658
Weighted average number of shares during the year (000)	1,245,187	1,245,187	1,245,187	1,245,186
Earnings per share				
Basic and diluted (Sh)	0.28	1.59	0.27	1.55

There were no potential dilutive shares outstanding at 31 December 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2016 Sh'000	2015 Sh'000
Cash in hand	3,391,886	2,779,634
Balances with Central Bank of Kenya - cash ratio	2,100,529	3,260,168
- other balances	-	127,290
	5,492,415	6,167,092
	=========	========

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 2016, the cash ratio reserve requirement was 5.25% (2015 – 5.25%) of all customer deposits held by the group. These funds are not available to finance the group's day to day operations.

14 BALANCES DUE FROM BANKING INSTITUTIONS – Group & Bank

	2016 Sh'000	2015 Sh'000
a) Balances due from banking institutions maturing within 90 days:		
Overnight lending and placement with other banks	1,816	4,687,834
Balances due from local banking institutions	525	525
Balances due from foreign banking institutions	184,451	203,999
	186,792	4,892,358
	========	========
b) Balances due to banking institutions maturing within 90 days:		
Balances with local banking institutions	922,654	131,643
	=======	========

Deposits with/from local banks as at 31 December 2016 represent overnight lending. The effective interest rate on deposits due from local banking institutions at 31 December 2016 was 6% (2015 – 8.97%). The effective interest rate on deposits due to local banking institutions at 31 December 2016 was 8.5% (2015 – 7.59%).

	2016 Sh'000	2015 Sh'000
c) Short term borrowings - Central Bank of Kenya:		
Short term borrowings from the Central Bank of Kenya	4,393,608	-
	=======	=======

The short-term borrowing comprises placements from the CBK to cover the cash short-fall the bank experienced at the end of the year. As at 31 December 2016, the effective interest rate was 10% with a tenor of 17 days.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2016	2015	2016	2015
	Sh'000	Sh'000	Sh'000	Sh'000
15 a) GOVERNMENT SECURITIES - HELD TO MATURITY				
Treasury bonds –at amortised cost	3,577,670	3,831,972	3,577,670	3,831,972
Treasury bills-face value less unearned discount	1,176,467	3,414,589	1,176,467	3,351,422
	4,754,137	7,246,561	4,754,137	7,183,394
The maturity profile of government securities is as follows:				
Maturing within one year	1,369,820	3,705,423	1,369,820	3,642,256
Maturing between 2 to 5 years	1,273,098	-	1,273,098	-
Maturing after 5 years	2,111,219	3,541,138	2,111,219	3,541,138
	4,754,137	7,246,561	4,754,137	7,183,394

The weighted average effective interest rate on treasury bonds at 31 December 2016 was 10.59% (2015 - 11.69%).The effective interest rate on treasury bills at 31 December 2016 was 13.12% (2015 - 8.66%).

As of 31 December 2016, all treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya (2015 – Nil).

	2016	2015
b) GOVERNMENT SECURITIES – AVAILABLE FOR SALE – Group & Bank	Sh'000	Sh'000
At 1 January	443,222	150,000
Disposals	(201,007)	-
Additions	-	300,000
Fair value gain/(loss)	8,792	(6,778)
At 31 December	251,007	443,222
16 LOANS AND ADVANCES TO CUSTOMERS - Group & Bank		
a) Commercial loans	39,728,934	43,764,715
Overdrafts	2,688,334	2,420,763
Asset finance loans	8,566,266	9,393,251
Staff loans	1,560,830	1,814,323
Gross loans and advances to customers	52,544,364	57,393,052
Less: Impairment losses (note 17)	(2,380,809)	(1,539,170)
Net loans and advances to customers	50,163,555	55,853,882

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
16 LOANS AND ADVANCES TO CUSTOMERS - Group & Bank (Continued)		
b) Analysis of gross loans and advances by maturity		
Maturing:		
Within 1 year	23,456,151	13,813,088
Between 1 and 3 years	14,218,084	13,153,250
After 3 years	14,870,129	30,426,714
Loans and advances to customers	52,544,364	57,393,052

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 2016 was 18.41% (2015 – 17.61%). Included in gross advances of Sh 52,544,366,000 (2015 – Sh 57,393,052,000) are loans and advances amounting to Sh 7,014,631,195 (2015 – Sh 4,335,186,360), which have been classified as non-performing (impaired).

	Group & Bank	
	2016 Sh'000	2015 Sh'000
17 IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
At 1 January	1,539,170	1,331,947
Increase in impairment allowances	847,370	211,875
Amounts written off during the year as uncollectible	(5,731)	(4,652)
At 31 December	2,380,809	1,539,170
18 (a) CORPORATE BONDS - HELD TO MATURITY – Group & Bank		
At amortised cost:		
(a) Corporate Bonds		
Kenya Electricity Generating Company Limited	-	95,522
Shelter Afrique	406,533	424,499
Britam Holdings Limited	435,856	416,389
	842,389	936,410
The maturity profile of corporate bonds is as follows:		
Within 1 year	-	95,522
Maturing 1 to 5 years	842,389	840,888
Maturing after 5 years	-	-
	842,389	936,410

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
18 (b) COMMERCIAL PAPER - HELD TO MATURITY – Group & Bank		
Nakumatt Holdings Limited	-	100,000
ARM Cement Limited	-	531,916
	-	631,916
	========	========
The maturity profile of commercial papers is as follows:		
Within 1 year	-	631,916
	========	========

The weighted average effective interest rate on corporate bonds at 31 December 2016 was 13.7% (2015 – 13.7%).

19 OTHER ASSETS	Group 2016 Sh'000	Group 2015 Sh'000	Bank 2016 Sh'000	Bank 2015 Sh'000
Un-cleared items in the course of collection	178,109	51,393	178,109	51,393
Prepayments	597,300	853,633	597,300	853,633
Deposits for services	140,538	133,373	140,538	133,373
Other*	1,318,091	308,194	1,310,999	286,676
	2,234,038	1,346,593	2,226,946	1,325,075
	========	========	=========	========

*Included in other assets is Sh 975 million held in Chase Bank Limited which is under administration by the Central Bank of Kenya.

20 INVESTMENT IN SUBSIDIARY – Bank

	No. of shares	Holding	2016 Sh'000	2015 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. The company was previous named Dhamana Insurance Agency Limited and was incorporated on 22 May 2015. 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 that of an 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:

	2016 Sh'000	2015 Sh'000
Summarised statement of financial position		
Total assets	138,437	119,491
Total liabilities	1,225	3,641
Net assets	137,212	115,850
Summarised statement of profit and loss and other comprehensive income		
Brokerage commission	113,947	146,644
Profit before income tax	31,570	83,111
Taxation	(10,237)	(27,204)
Profit for the year	21,333	55,907
Summarised statement of cash flows		
Net cash generated from operating activities	5,322	44,847
Net generated from/(used in) investing activities	42,780	(64,805)
Net decrease in cash and cash equivalents	48,102	(19,958)
Cash and cash equivalents at beginning of year	29,987	49,945
Cash and cash equivalents at end of year	78,089	29,987

21 a) INVESTMENT PROPERTIES – Group & Bank
At cost

	2016	2015
At start of year	18,200	127,400
Disposal	-	(4,200)
Reclassified to non-current assets held for sale	-	(105,000)
At end of year	18,200	18,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Sh'000	2015 Sh'000
21 b) NON-CURRENT ASSETS HELD FOR SALE – Group & Bank		
At start of year	90,000	-
Reclassified from Investment properties	-	105,000
Fair value gain/(loss)	15,000	(15,000)
Disposal	(105,000)	-
At end of year	-	90,000
	=======	=======

Investment property relate to Leasehold land acquired at a cost of Sh 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 Sh7,200,000 was given out in the "Kunacha Mili na Acre," promotion to the various winners.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT – GROUP

	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 2015	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
At 1 January 2016	122,412	357,288	2,321,252	1,907,741	142,634	927,163	5,778,490
Additions	382,501	-	593,454	220,218	28,887	308,721	1,533,781
Gain on revaluation	64,088	86,660	-	-	-	-	150,748
At 31 December 2016	569,001	443,948	2,914,706	2,127,959	171,521	1,235,884	7,463,019
Comprising:							
At cost	499,913	32,288	2,914,706	2,127,959	171,521	1,235,884	6,982,270
At valuation	69,088	411,660	-	-	-	-	480,789
At 31 December 2016	569,001	443,948	2,914,706	2,127,959	171,521	1,235,884	7,463,019
DEPRECIATION							
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
At 1 January 2016	-	34,181	1,085,193	1,018,034	72,055	393,432	2,602,895
Charge for the year	-	10,015	245,510	301,826	25,663	109,415	692,429
Adjustments/corrections	-	-	-	(150)	-	-	(150)
At 31 December 2016	-	44,196	1,330,703	1,319,710	97,718	502,847	3,295,174
NET BOOK VALUE – VALUATION BASIS							
At 31 December 2016	569,001	399,752	1,584,003	808,249	73,803	733,037	4,167,845
At 31 December 2015	122,412	323,107	1,236,059	889,707	70,579	533,731	3,175,595
NET BOOK VALUE – COST BASIS							
At 31 December 2016	499,913	180,810	1,584,003	808,249	73,803	733,038	3,879,815
At 31 December 2015	119,812	214,991	1,236,059	889,707	70,579	533,731	3,064,879

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 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
At 1 January 2016	122,412	357,288	2,321,253	1,904,652	137,740	926,208	5,769,553
Additions	382,501	-	589,869	218,905	28,887	308,721	1,528,883
Gain on revaluation	64,088	86,660	-	-	-	-	150,748
At 31 December 2016	569,001	443,948	2,911,122	2,123,557	166,627	1,234,929	7,449,184
Comprising:							
At cost	499,913	32,288	2,911,122	2,123,557	166,627	1,234,929	6,968,436
At valuation	69,088	411,660	-	-	-	-	480,748
At 31 December 2016	569,001	443,948	2,911,122	2,123,557	166,627	1,234,929	7,449,184
DEPRECIATION							
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	1,094,169	1,016,820	70,731	393,138	2,600,064
At 1 January 2016	-	25,206	1,094,169	1,016,820	70,731	393,138	2,600,064
Charge for the year	-	10,015	245,143	301,141	24,685	109,286	690,270
Adjustment/corrections	-	-	-	(118)	-	-	(118)
At 31 December 2016	-	35,221	1,339,312	1,317,843	95,416	502,424	3,290,216
NET BOOK VALUE– VALUATION BASIS							
At 31 December 2016	569,001	408,727	1,571,810	805,714	71,211	732,505	4,158,968
At 31 December 2015	122,412	332,082	1,227,083	887,832	67,009	533,070	3,169,489
NET BOOK VALUE – COST BASIS							
At 31 December 2016	499,913	188,659	1,571,808	805,714	71,211	732,505	3,869,813
At 31 December 2015	119,812	223,880	1,227,083	887,832	67,009	533,070	3,058,687

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROPERTY AND EQUIPMENT – BANK (Continued)

The properties were re-valued as at 30 June 2016 by Ebony Estate Valuers Limited, Registered Valuers who are independent of the Group. 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 freehold land and 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	
	2016	2015	2016	2015
	Sh'000	Sh'000	Sh'000	Sh'000
COST				
At 1 January	832,669	735,203	830,898	733,857
Additions	248,421	97,466	242,909	97,041
At 31 December	1,081,090	832,669	1,073,807	830,898
AMORTISATION				
At 1 January	513,868	417,582	513,273	417,327
Charge for the year	116,101	96,286	115,065	95,946
At 31 December	629,969	513,868	628,338	513,273
NET BOOK VALUE				
At 31 December	451,121	318,801	445,469	317,625

24 PREPAID OPERATING LEASE RENTALS – Group & Bank

	2016	2015
	Sh'000	Sh'000
Leasehold land:		
COST		
At 1 January and 31 December	180,335	180,335
AMORTISATION		
At 1 January	22,366	17,755
Charge for the year	4,610	4,611
At 31 December	26,976	22,366
NET BOOK VALUE		
At 31 December	153,359	157,969

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Bank	
		2016	2015	2016	2015
		Sh'000	Sh'000	Sh'000	Sh'000
25	CUSTOMER DEPOSITS				
	Current and demand accounts	27,393,527	31,218,004	27,399,616	31,219,555
	Savings accounts	2,628,113	2,782,404	2,628,113	2,782,404
	Fixed deposit accounts	11,373,592	28,710,451	11,445,592	28,728,908
		41,395,232	62,710,859	41,473,321	62,730,867
	MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
	Repayable:				
	On demand	27,393,527	31,218,004	27,399,616	31,219,555
	Within one year	14,001,705	31,492,855	14,073,705	31,511,312
		41,395,232	62,710,859	41,473,321	62,730,867

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2016 was 9% (2015 – 9%). The related party transactions and balances are covered under note 35 and concentration of customers' deposits is covered under note 4.

		2016	2015
26	BORROWINGS – Group & Bank	Sh'000	Sh'000
	a) Analysis		
	European Investment Bank (EIB)	5,926,330	2,425,990
	OIKO Credit	847,105	1,016,526
	Kenya ICT Board – Pasha loan	127,191	124,420
	Waste Finish Ink	10,864	10,864
	Water Credit Alternative Channels	2,340	-
		6,913,380	3,577,800
	Subordinated Corporate Bond	2,074,768	2,073,945
	Upfront Fees	(54,957)	(64,025)
		8,933,191	5,587,720
	b) Movement:		
	At beginning of the year	5,587,720	2,900,335
	Received in the year	3,457,200	3,018,800
	Accrued interest	344,043	180,412
	Repaid in the year	(455,772)	(511,827)
	At end of the year	8,933,191	5,587,720

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 the 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%
	====

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 11.47% (2015: 10.4%) on a reducing balance basis it will be repaid in 6 annual instalments of Shs 166,666,667.

Waste Finish Ink Loan is a fund delegated to Family Bank Limited 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 Water Credit Alternative Channels loan is a fund delegated to Family Bank Limited by Water.org 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 10 of July and 10 of January of every year. The repayments of the principal commenced 10 July 2016.

In 2015, Family Bank issued a multicurrency medium term note and listed it on the Nairobi Securities Exchange , Fixed Income Segment on 26 October 2015.The par value accepted by the Bank from investors was Shs 2 billion while the amount received was Shs 1.895 billion.The fixed rate portion was issued at a discount of Shs 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:

	2016 %	2015 %
EIB	9	9
OIKO Credit	10.4	10.4
PTA Loan 2(USD)	8	8
Kenya ICT Board – Pasha loan	4	4
Waste Finish ink	-	-
Corporate Bond	15	15
	====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Bank	
	2016	2015	2016	2015
27 (a) PROVISIONS	Sh'000	Sh'000	Sh'000	Sh'000
Provisions and accruals	64,150	29,018	64,150	29,018
Leave pay accrual	47,488	40,857	46,803	40,857
	111,638	69,875	110,953	69,875
(b) OTHER LIABILITIES				
Cheques for collection	139,867	158,676	139,367	158,676
Other payables	810,871	521,584	810,800	519,111
	950,738	680,260	950,167	677,787

	2016	2015
28 DIVIDENDS – Group & Bank	Sh'000	Sh'000
a) Unclaimed dividends		
At 1 January	28,589	12,587
Declared	622,594	622,594
Paid during the year	(646,463)	(606,592)
At 31 December	4,720	28,589

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 do not recommend payment of a dividend in respect of the year ended 31 December 2016. In 2015, a dividend of Sh 0.50 per share for the year amounting to Sh 622,593,598 was approved and paid to the shareholders.

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

	Group		Bank	
29 DEFERRED TAX LIABILITY	2016	2015	2016	2015
	Sh'000	Sh'000	Sh'000	Sh'000
The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:				
Deferred tax assets:				
General bad debts provision	(21,318)	(15,889)	(21,318)	(15,889)
Excess depreciation over capital allowances	983	(8,513)	816	(8,328)
Leave pay provision	(14,246)	(12,257)	(14,040)	(12,257)
	(34,581)	(36,659)	(34,542)	(36,474)
Deferred tax liabilities:				
Revaluation surplus	59,425	33,892	59,425	33,892
Net deferred tax liability/(asset)	24,844	(2,767)	24,883	(2,582)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Bank	
		2016	2015	2016	2015
		Sh'000	Sh'000	Sh'000	Sh'000
29	DEFERRED TAX LIABILITY - Group & Bank (Continued)				
	Movement in deferred tax liability is as follows:				
	At 1 January	(2,767)	5,427	(2,582)	5,582
	Credit to profit or loss (note 11)	(1,592)	(8,194)	(1,738)	(8,164)
	Other comprehensive income charge	29,203	-	29,203	-
	At 31 December	24,844	(2,767)	24,883	(2,582)
		=======	=======	=======	=======

		2016	2015
		Sh'000	Sh'000
30	SHARE CAPITAL		
	Authorised:		
	1,500,000,000 ordinary shares of Sh 1 each (2015:750,000,000 ordinary shares of Sh 2 each)	1,500,000	1,500,000
		========	========
	Issued and fully paid:		
	1,287,107,542 (2015: 1,245,186,196) ordinary shares of Sh 2 each	1,287,108	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 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
	==========	=======	=======	=======
At 1 January 2016	1,245,187,196	1,245,186	5,062,519	6,307,705
Rights issue	41,920,346	41,922	880,327	922,249
Rights issue costs	-	-	(68,184)	(68,184)
At 31 December 2016	1,287,107,542	1,287,108	5,874,662	7,161,770
	==========	=======	=======	=======

In 2016, the Bank increased its share capital and premium by Sh 854,064,000 net, through the rights issue of 41,920,000 shares at Sh 21.The share premium is net off rights issue costs of Sh 68,184,000 plus an additional Sh 1,157,427 recorded in 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 NOTES TO THE STATEMENT OF CASH FLOWS

	Group		Bank	
	2016	2015	2016	2015
	Sh '000	Sh '000	Sh '000	Sh '000
(a) Reconciliation of profit before taxation to cash flow from operations				
Profit before taxation	664,642	2,957,128	633,419	2,883,486
Adjustments for: Depreciation of property and equipment	692,429	556,229	690,270	555,007
Amortisation - intangible assets	116,101	96,286	115,065	95,946
Amortisation – leasehold land	4,610	4,611	4,610	4,611
Loss on disposal of equipment	-	44,398	-	44,398
Fair value adjustment on investment property	-	15,000	-	15,000
Gain on disposal of non-current assets held for sale	(15,000)	-	(15,000)	-
Accrued interests on borrowings	344,043	180,412	344,043	180,412
Changes in working capital items: Cash ratio balance	1,159,639	(765,776)	1,159,639	(765,776)
Loans and advances to customers	5,690,327	(17,928,406)	5,690,327	(17,928,406)
Other assets	(887,445)	(345,039)	(901,871)	(342,273)
Customer deposits	(21,315,627)	15,574,379	(21,257,546)	15,544,443
Provisions and other liabilities	312,241	92,022	313,458	(91,843)
Government securities	2,692,274	(1,638,601)	2,629,139	(1,576,157)
Corporate bonds and commercial papers	725,937	(313,497)	725,937	(313,497)
Cash used in operations	(9,815,829)	(1,470,852)	(9,868,510)	(1,510,963)

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

	Group		Bank	
	2016	2015	2016	2015
	Sh '000	Sh '000	Sh '000	Sh '000
Cash on hand (note 13)	3,391,886	2,779,634	3,391,886	2,779,634
Balances with the Central Bank of Kenya (note 13)	-	127,290	-	127,290
Balances with other banking institutions	186,792	4,892,358	186,792	4,892,358
Balances due to other banking institutions	(922,654)	(131,643)	(922,654)	(131,643)
	2,656,024	7,667,639	2,656,024	7,667,639

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 2016 or 2015.

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 2016	Whole sale banking Sh'000	Retail banking Sh'000	Other Sh'000	Total Sh'000
Interest income	4,324,368	6,486,551	-	10,810,919
Interest expense	(1,639,215)	(2,458,822)	-	(4,098,037)
Net interest income	2,685,153	4,027,729	-	6,712,882
Other income	919,651	1,379,479	113,949	2,413,079
Operating income	3,604,804	5,407,208	113,949	9,125,962
Depreciation and amortisation	(329,979)	(485,968)	(3,194)	(813,141)
Operating expenses	(2,706,035)	(4,047,161)	(79,184)	(6,832,380)
Impairment charge on loans and advances	(339,545)	(507,825)	-	(847,370)
Share of profit subsidiary	-	-	31,570	31,570
Profit before tax	229,246	366,254	63,141	664,642
Tax expense	(123,715)	(185,028)	(3,620)	(312,363)
Profit after tax	105,531	181,226	59,521	352,279
	========	=========	========	=======

Profit or loss for the year ended 31 December 2015	Whole sale banking Sh'000	Retail banking Sh'000	Other Sh'000	Total Sh'000
Interest income	4,012,926	6,019,398	-	10,032,314
Interest expense	(1,452,953)	(2,179,432)	-	(3,632,385)
Net interest income	2,556,973	3,839,966	-	6,399,929
Other income	1,122,819	1,684,229	169,981	2,977,029
Operating income	3,679,792	5,524,195	169,981	9,376,958
Depreciation and amortisation	(222,003)	(333,005)	(1,560)	(556,568)
Other operating expenses	(2,171,952)	(3,266,560)	(295,986)	(5,734,498)
Impairment charge on loans and advances	(84,616)	(127,259)	-	(211,875)
Share of profit subsidiary	-	-	83,111	83,111
Profit before tax	1,201,221	1,797,371	(44,454)	2,957,128
Tax expense	(368,974)	(554,926)	(50,282)	(974,182)
Profit after tax	835,075	1,242,445	(94,736)	1,982,946
	========	========	========	=======

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. OPERATING SEGMENTS (Continued)

Statement of financial position
as at 31 December 2016

Assets	Whole sale banking Sh' 000	Retail banking Sh' 000	Other Sh' 000	Total Sh' 000
Segment assets	27,772,950	41,614,149	-	69,387,099
Un-allocated assets	-	-	104,585	104,585
Total assets	27,772,950	41,614,149	104,585	64,691,684
Liabilities and equity:				
Segment liabilities	27,796,674	41,726,606	-	69,523,280
Un-allocated liabilities	-	-	(31,596)	(31,596)
Inter-segment lending	(54,473)	(81,709)	136,182	-
Total liabilities and equity	27,742,201	41,644,897	104,586	69,491,684
Other disclosures				
Capital expenditure	651,857	814,844	162,969	1,629,688

	Whole sale banking Sh' 000	Retail banking Sh' 000	Other Sh' 000	Total Sh' 000
Statement of financial position as at 31 December 2015				
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

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.

	2016 Sh'000	2015 Sh'000
Year 1	563,354	516,777
Year 2 -3	1,227,384	1,107,064
Year 4-5	1,388,840	1,249,588
Above 5 year	1,632,859	1,265,903
	4,812,437	4,139,332

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.

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

	2016 Sh'000	2015 Sh'000
Year 1	7,597	7,332
Year 2 -3	16,550	15,726
Year 4-5	15,768	17,435
Above 5 year	14,538	21,292
	54,453	61,785

Operating leases relate to the freehold property. The lease terms range between 5 to 10 years, with an option to extend the period. All operating lease contracts contain market review clauses in the event that the lessor 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

	2016 Sh'000	2015 Sh'000
Guarantees	2,916,363	2,191,037
Letters of credit	129,419	133,065
	3,045,782	2,324,102
Litigations against the group	213,592	181,300

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.

	2016 Sh'000	2015 Sh'000
b) Commitments to extend credit		
Undrawn formal stand-by facilities, credit lines and other commitments to lend	3,064,395	6,504,694

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2016 Sh'000	2015 Sh'000
c) Capital commitments		
Authorised and contracted for	316,000 ======	654,399 =======
Authorised but not contracted for	465,000 ======	272,000 =======

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 2016 include advances and loans to companies associated with the directors.

	Group		Bank	
	2016 Sh '000	2015 Sh '000	2016 Sh '000	2015 Sh '000
(a) Loans and advances				
At 1 January	3,117,341	2,306,912	3,117,341	2,306,912
Additions	1,785,459	1,046,205	1,785,459	1,046,205
Interest charged	234,017	338,461	234,017	338,461
Repayments	(1,308,463)	(574,237)	(1,308,463)	(574,237)
At 31 December	3,828,354 =======	3,117,341 =======	3,828,354 =======	3,117,341 =======

As at 31 December 2016 loans and advances to staff amounted to Sh 1,715,286,000 (2015 – Sh 1,849,722,000. The loans and advances to related parties are performing and adequately secured.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY TRANSACTIONS (Continued)

	Directors	Companies associated to directors	Total
	Sh '000	Sh '000	Sh '000
(b) Deposits – Group and bank			
At 1 January 2015	38,252	370,123	408,376
Deposits	-	16,962	16,962
Interest paid	-	-	-
Withdrawals	(3,900)	-	(3,900)
At 31 December	34,352	387,085	421,438
	=======	=======	=======
At 1 January 2016	34,352	387,085	421,437
Withdrawals	(7,124)	-	(53,429)
At 31 December	27,229	387,085	368,008
	=======	=======	=======

	2016	2015
	Sh '000	Sh '000
(c) Due to related parties – Bank		
Family Bank Insurance Agency	1	12
Family Foundation (same ownership with the bank)	1,119	-
	1,120	12
	=======	=======

The above transactions are at arms length.

Key management compensation	2016 Sh '000	2015 Sh '000
The remuneration of directors and other members of key management during the year were as follows:		
Short term benefits		
Salaries and other benefits	128,992	104,350
Directors' emoluments	154,676	229,652
	283,668	334,002
	=======	=======

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.

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 Thursday, 29th June 2017 at 10.00 am at the Kenya International Conference Centre, Amphitheatre 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 **2017**

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 underthe 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 ....

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Notes

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BRANCHES

BRANCH NAME	BRANCH CODE	BRANCH NAME	BRANCH CODE
Kiambu	001	Kagwe	049
Githunguri	002	Banana	051
Sonalux	003	Ruaka	052
Gatundu	004	Naivasha	053
Thika	005	Chuka	054
Murang'a	006	Nyeri	055
Kangari	007	Karatina	056
Kiria-ini	008	Kerugoya	057
Kangema	009	Tom Mboya - Nairobi	058
JKIA	010	River Road - Nairobi	059
Othaya	011	Kayole	061
Kenyatta Avenue - Nairobi	012	Nkubu	062
Cargen	014	Meru	063
Laptrust - Nairobi	015	Nanyuki	064
City Hall - Nairobi	016	KTDA Corporate	065
Kasarani	017	Ongata Rongai	066
Nakuru Finance	018	Kajiado	067
Nakuru Market	019	Family Bank Towers Corporate	068
Kutus	020	Ngara	069
Dagoretti	021	Kitengela	071
Kericho	022	Kitui	072
Nyahururu	023	Machakos	073
Ruiru	024	Migori	074
Kisumu Reliance	025	Embu	075
Nyamira	026	Mwea	076
Kisii	027	Bungoma	077
Kisumu Express	028	Kakamega	078
Narok	029	Busia	079
Kangemi	030	Mumias	081
Industrial Area - Nairobi	031	Eldoret West	082
Makongeni - Thika	032	Molo	083
Donholm	033	Bomet	084
Utawala	034	Eldoret	085
Family Bank Towers Retail	035	Maua	086
Mlolongo	036	Litein	087
Ol-Kalou	037	Wote	088
KTDA Retail	038	Bamburi	089
Gateway Mall - Nairobi	039	Ukunda	091
Kariobangi	041	Mombasa Digo Road	092
Gikomba Area 42	042	Kitale	093
Gikomba	043	Mtwapa	094
Kahawa West	044	Mombasa Nkrumah Road	095
Githurai	045	Mombasa Kenyatta Avenue	096
Kilimani	046	Kapsabet	097
Limuru	047	Malindi	098
Westlands	048	Kikuyu	102

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STATEMENTS

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