Family Bank
With you, for life

INTEGRATED
REPORT & FINANCIAL STATEMENTS
2017

FAMILY BANK LIMITED

INTEGRATED REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Family Bank
With you, for life

ABOUT THE INTEGRATED REPORT AND AUDITED FINANCIAL STATEMENTS 2017

Family Bank Limited is pleased to present its annual Integrated Report, which covers the period from 1 January 2017 to 31 December 2017. This report contains comprehensive information of our financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence our strategic initiatives. In this report, Family Bank demonstrates how we create and sustain value through our business.

This report is compiled and presented in accordance with the Corporate Governance Guidelines and Codes of Conduct prescribed by the Central Bank of Kenya, the Corporate Governance Guidelines of the Capital Markets Authority (CMA), the Continuing Listing Obligations of the CMA as required by the Nairobi Securities Exchange and the Global Reporting International (GRI).

We have implemented the framework as far as practical and our approach to integrated reporting will continue to evolve over time, in line with the framework.

Our Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2015. We received external assurance from our auditor, PWC Kenya on the fair presentation of these annual financial statements. See the Independent Auditor’s Report on pages 58 to 61.

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Family Bank Vision, Mission and Core Values

Family Bank at Glance

Our Vision

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

Our Mission

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

Our 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

Our Purpose

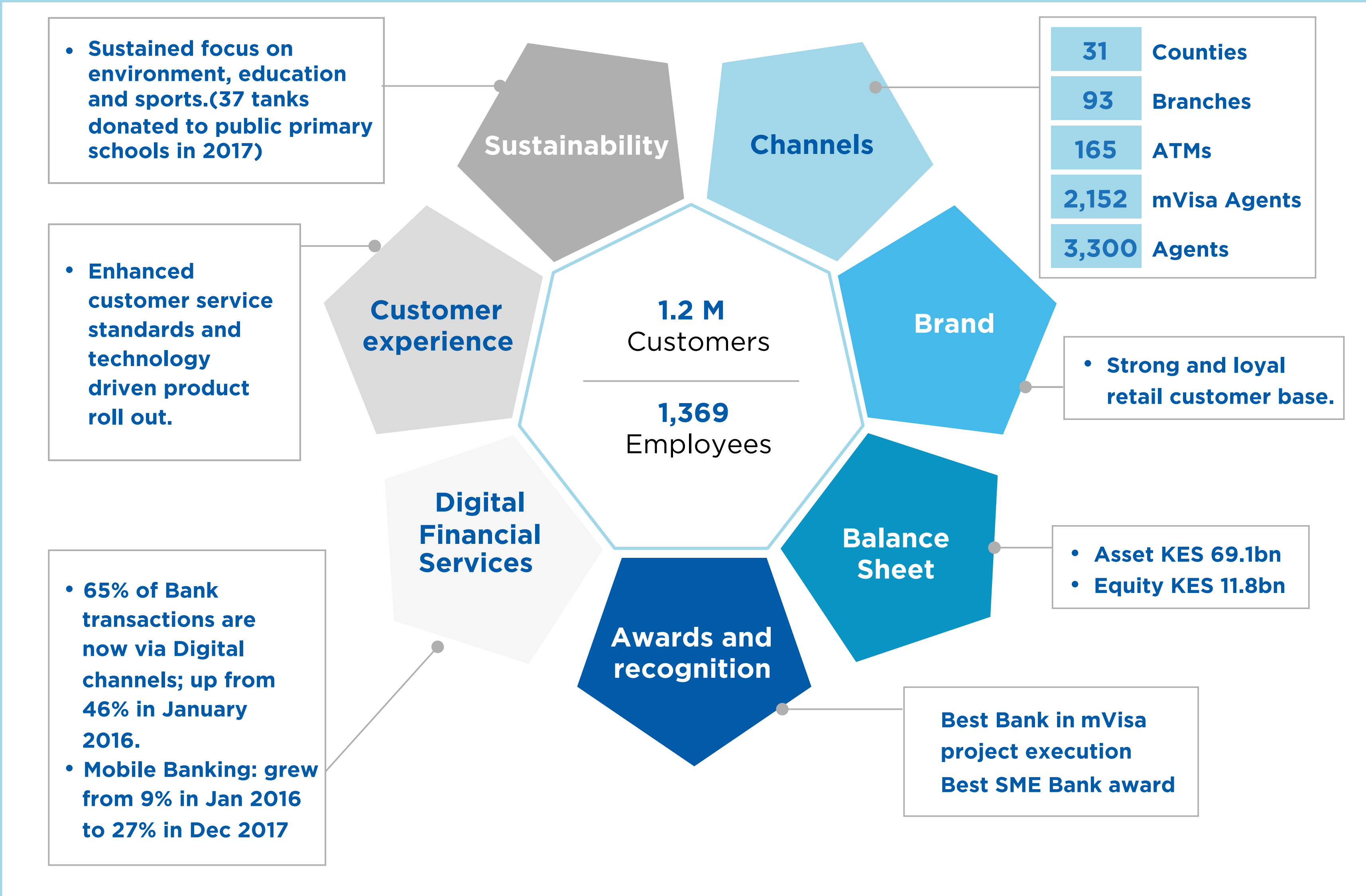
To enable people create and sustain wealth through access to flexible, affordable financial services.

Our Tagline

Our positioning is best captured in our tagline and expresses the promise to our customers in the simplest way.
"With you, for life"

KEY BANK HIGHLIGHTS

Family Bank at a Glance



ONGOING TRANSFORMATION PROGRAM

Family Bank remains focused on its transformation program to optimally gain size and scale efficiently...

Strategic pillars

2018

Family Bank Strategic Pillars

1 Profitability

- Cost Management & LEAN processes
- Refine business model
- Product optimization

2 Customer Centricity

- Roll out Customer Value Proposition exercise and track Net Performance Score
- Customer Relationship Management (CRM) roll out

3 Brand

- Roll out brand campaign
- Scale up and sustain digital brand proposition

4 Distribution Model

- Branch Transformation to sales outlets
- Drive self-service through alternative channels

5 Technology

- Systems review and rationalization
- Aggressively drive IT efficiencies

6 Risk Management

- Enhanced Risk and Compliance framework
- Rigor on Credit Risk Management

7 Human Resources

- Change management in line with the transformation program and drive an improved staff satisfaction index

2017

SUBSIDIARY

FAMILY BANK INSURANCE AGENCY

Family Bank Insurance Agency Limited (FBIA), a fully-fledged subsidiary of Family Bank Limited, was established in 2008. The Agency, then named Dhamana Insurance Agency was licensed by the Insurance Regulatory Authority (IRA) in May 2010. By December 2015, when the Agency was rebranded from Dhamana Insurance Agency to its current name. The business has steadily grown from a Gross Written Premium (GWP) of Ksh 190 Million in 2011 to a GWP of Ksh 800 Million for the year ended 31 December 2017.

FBIA is a leading provider of risk management & insurance brokerage solutions. It has more than 50 members of staff, adequately experienced and qualified to handle your insurance and risk management needs with representation in over 90 branches across the country.

The Agency's main objective is to address the insurance needs of Kenyans across the wide economic strata. Through partnerships with reputable insurance companies in the industry, FBIA offers a full bouquet of innovative insurance products and services using the Bancassurance model. Bancassurance is the provision of insurance and banking products and services, through a common distribution channel and to the same client base.

The Agency also facilitates access to professional insurance advisory services and also avails convenient and accessible insurance policies and claims service by our customers through the wide branch outreach and alternative banking channels.

OUR SERVICES

- Advisory Insurance services on General, Marine, Agriculture and Medical insurance policies
- Life Assurance products for groups and individuals
- Group and Staff medical scheme administration services
- Claims Management
- Insurance Premium Financing

All these services and products are offered through an integrated and robust Banc assurance IT system to ensure that insurance business is well served and all branches are well connected to enhance efficiency of service delivery across the country.

THE COMPANIES ACT 2015

FAMILY BANK LIMITED

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **11th ANNUAL GENERAL MEETING** of the Shareholders will be held at **KENYATTA INTERNATIONAL CONFERENCE CENTRE AMPHITHEATRE** on Wednesday 27th June 2018 at 10:00 a.m. to transact the following business:

Ordinary Business:

1. To receive, consider and if thought fit, adopt the Integrated Report, the Audited Financial Statements for the year ended 31st December, 2017, together with the Chairman's, Directors' and Auditors' reports thereon.

2. To consider and if deemed fit, approve the recommendation of the Board that there shall be no dividend paid for the year ended 31st December 2017.

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

    3.1 Dr. Ruth Waweru retires by rotation and being eligible, offers herself for appointment in accordance with section 132 of the Companies Act.

    3.2 Mr. T. K Muya, a Director, having attained the age of seventy years retires from office by rotation and, in terms of Clause 2.5 of the Capital Markets Code of Corporate Governance Practices for Issuers of Securities to the Public 2015, offers himself for re-election.

4. To receive, consider and if thought fit approve the Directors' remuneration for the year ending 31st December 2017.

5. To approve that the auditors PricewaterhouseCoopers (PwC), being eligible and having expressed their willingness, will continue in office in accordance with section 721 of the Companies Act, No. 17 of 2015 and to authorize the directors to fix their remuneration.

By order of the Board
Rebecca Mbithi
Company Secretary
Nairobi
6th June 2018

Notes: A member entitled to attend and vote at this Meeting may appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the Company. The proxy shall be required to be deposited at the Company Secretary office 8th Floor at Family Bank Towers Muindi Mbingu Street Nairobi not less than Forty-eight hours before the time for holding the meeting failing which it shall be invalid. In the case of a corporate body the proxy must be under its common seal. The proxy form is available on the Company's website **www.familybank.co.ke**

The full set of audited accounts for the year ended 31st December 2017 is available at the Company's registered office at Family Bank Towers 6th Floor, Muindi Mbingu Street Nairobi or can be downloaded at the website **www.familybank.co.ke**

CORPORATE INFORMATION

DIRECTORS

Non-Executive	Dr. Wilfred D. Kiboro- Chairman Mr. Titus K. Muya Dr. Ruth Waweru Mr. Lazarus Muema Mr. Lerionka S. Tiampati Mr. Francis Gitau Mungai
Executive	Dr. David Thuku - Managing Director and CEO
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
AUDITOR	PricewaterhouseCoopers Kenya Certified Public Accountants PWC Tower, Waiyaki Way/Chiromo Road, Westlands P.O. Box 43963-00100 Nairobi, Kenya
LEGAL ADVISERS	Mboya Wangong'u & Waiyaki Advocates Lex Chamber, Maji Mazuri Road Off James Gichuru Road Nairobi

CORPORATE INFORMATION

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	Mr. Francis Mungai - Chairman Mr. Titus K. Muya Dr. David Thuku Dr. Wilfred D. Kiboro
Audit Committee	Mr. Lazarus Muema - Chairman Dr. Ruth Waweru Mr. Lerionka S. Tiampati
Risk Management and Compliance Committee	Mr. Lazarus Muema - Chairman Dr. Ruth Waweru Mr. Lerionka S. Tiampati
Human Resource Committee	Dr. Ruth Waweru - Chairman Mr. Titus K. Muya Dr. Wilfred D. Kiboro Dr. David Thuku Mr. Francis Mungai
Strategy Committee	Dr. Ruth Waweru - Chairman Mr. Titus K. Muya Mr. Lerionka S. Tiampati Dr. David Thuku Dr. Wilfred D. Kiboro
Nomination Committee	Dr. Ruth Waweru - Chairman Dr. Wilfred D Kiboro Mr. Titus K. Muya

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 the Chairman Wilfay Investment Limited and Africa Digital Network Limited.

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) and East African Breweries Limited among others.

Dr. David Thuku
Managing Director & Chief Executive Officer

Dr. Thuku is a career banker with 28 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.

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. Mr. Gitau is the Chairman of the Board of Directors of National Housing Corporation. He is a former lecturer at the University of Nairobi, Architecture and Building Sciences Department where he focused on both Architectural and Urban Design Studios, as well as Professional Practices and management.

Mr. Francis Gitau Mungai
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). 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 Group and a number of KTDA subsidiary companies. He also holds the national distinction, Moran of the Order of the Burning Spear.

Mr. Lerionka S. Tiampati
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. Ruth Waweru
Director

Dr. Waweru holds a Bachelor of Education from Kenyatta University, an MBA from University of Nairobi and a Doctorate Degree in Business Administration from Nelson Mandela Metropolitan University in South Africa. She is a professional consultant in various facets such as: strategy formulation, organizational development, human resource management and research. Ruth has provided consultancy services to corporations, private sector, national governments and bilateral organizations including the World Bank and the European Union. She has provided services in many African countries such as South Africa, Ethiopia, Uganda, Tanzania and the Republic of South Sudan.

Ruth's experience has seen her transition from managerial roles at the Kenya Institute of Management to heading Liaison Consulting Limited where she is the Chief Executive Officer. She serves in the boards of: OIKOCREDIT, Partners Worldwide, Kenya Orient Life Insurance Limited and All Africa Conference of Churches and is Founder Director of Brookhurst International School.

Rebecca Mbithi
Company Secretary

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

SENIOR MANAGEMENT

Dr. David Thuku
Managing Director & Chief Executive Officer

Dr. Thuku is a career banker with 28 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).

Rebecca Mbithi
Company Secretary and Director Legal Services

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 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.

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Charles Kimani Njuguna
Chief Finance Officer

Charles Kimani is an experienced business leader with over 20 years work experience in the Financial Services industry spanning across the East Africa region. Prior to joining Family Bank in November 2017, Charles held various senior management positions at Old Mutual Group and GT Bank. He has been instrumental in spearheading strategic direction and the realization of sustainable long-term growth with immense expertise in mergers and acquisitions, business turnaround, strategy development, as well as financial and risk management. Mr. Njuguna holds a Master in Business Administration (Finance) and is also a CPA(K) and CPS(K) holder.

Godfrey, a seasoned banker with over 25 years' experience, joined Family Bank in September 2017 as the Chief Operations Officer. Prior to joining Family Bank, Godfrey served as the Head of Operations at Ecobank Kenya Limited for over 2 years where he is credited for leading transformations in cash management, branch management as well as trade, treasury and card operations. Godfrey has also held various senior roles at Barclays Bank in Kenya, Egypt and Seychelles including: Head of Operations, Senior Project Manager, Manager Corporate Operations and Manager Documentation and Securities Centre among others.

Godfrey holds a Master of Business Administration from the Institute of Technology, Australia and has also undertaken various training and development programs in management, leadership and banking including Managing Managers for Results, Business Lending Fundamentals Programme and Omega Performance (UK), to single out a few.

Godfrey
Kamau Kariuki
Chief Operations Officer

James Karinga joined Family Bank in October 2007 as a Credit Manager. He rose through the ranks to become the Head of Credit where he is tasked with offering departmental strategic leadership. Karinga was instrumental in the strategy formulation and development of SME banking unit from inception to the current levels where it is a strategic unit within the Bank. Prior to that, he was instrumental in the development of Asset Finance as a product, propelling its growth to a Ksh 9 billion loan book over the period that he was Head of Asset Finance.

He has also been instrumental in developing a robust and clear credit framework to support the lending function of the Bank. Karinga holds an MBA in Strategic Management from University of Nairobi and a Degree in Bachelor of Arts in Economics, from the same University. He is a Certified Public Accountant (CPA K). He is uniquely positioned to offer 16 years of progressive experience in commercial banking, with senior-management accountabilities in Asset Finance, SME, Banking and Overall Credit Management.

James Karinga
Head of Credit

John Ndugi, a seasoned banker with over 15 years' experience, was appointed the Head of Corporate and Institutional Banking in January 2017.

John started his career at Family Bank Ltd as an Operations Officer, moving up to different functions in Customer Service, Credit, Branch Operations and Branch Management. Prior to this appointment, John was a Regional Manager where he oversaw the business growth and performance in Mount Kenya Region and Nairobi North Region.

Mr. Ndugi is a holder of a Master of Banking and Finance (Micro-finance Option) from Moi University, Bachelor of Commerce (Accounting and Business Administration) from Daystar University. He is also Certified by the International Coaching Federation (IFC) as an Engagement and Productivity Coach (CEPC).

Over the course of his career he has also attended numerous trainings covering Leadership, Client Relationship Management, Credit Management, Performance Management and Marketing of Financial Services.

John Ndugi
Head of Corporate and Institutional Banking

John Wachiuri joined Family Bank as the Head of Audit in 2016 from Bank of Africa where he was the Head of Internal Audit. He has over 15 years of experience gained from an expansive career spanning from Equity Bank where he worked as an Internal Auditor, a Finance Officer at Credit Bank, a lecturer in Finance, Accounting and Auditing at Strathmore University, a Senior Internal Auditor at the East African Development Bank based in Uganda and the Head of Internal Audit at the Competition Authority of Kenya. He previously served as Head of Audit at Family Bank Limited.

Wachiuri has been involved in setting up risk and compliance departments, designing internal audit departments using risk based methodology whilst offering valuable recommendations and strategic insights to Management and Boards of the organizations he has worked in especially in the improvement of internal controls, enhancing enterprise risk management and cost efficiency.

John Wachiuri
Head of Audit

Wachiuri is a holder of a Masters in Business Administration (MBA) majoring in Finance from the United States International University and a Bachelors of Education Degree (Business Studies and Economics) from Kenyatta University. He is also a Certified Public Accountant of Kenya, a Certified Internal Auditor (CIA), a Certified Information Systems Auditor (CISA) and is currently pursuing the Certified Public Secretaries (CPS) designation. Besides, he is an active member of the Institute of Certified Public Accountants of Kenya (ICPAK) and also a member of the Institute of Internal Auditors (IIA). Wachiuri is an accredited Integrity Assurance Officer by the Ethics and Anti-Corruption Commission (EACC) and is also a designated trainer of trainers in Corporate Governance by the Centre of Corporate Governance.

An astute banker with over 15 years' experience, Nancy Njau is the Head of Retail Banking. Nancy joined Family Bank in 2002 as a graduate clerk and has risen through the ranks, having worked in various branches and capacities across the network. Appointed into the position in 2017, she previously served as the Regional Manager for Nairobi Central with an overall oversight mandate for growth of the 21 branches constituting the Region.

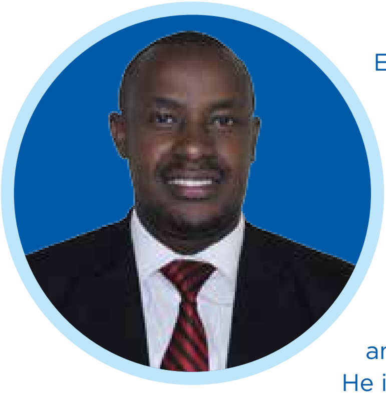
Nancy holds a Masters in Business Administration in Strategic Management from Jomo Kenyatta University of Agriculture and Technology, a Bachelor of Commerce Degree (Accounting) from Kenyatta University and a Higher Diploma in Human Resource Management. In addition, she is a Certified Public Accountant of Kenya (CPA-K) and a trained Executive Leadership Coach. She has attended numerous courses on Performance Management, Credit Management, Transformational Leadership, Customer Service, to name a few.

Nancy Njau
Head of Retail Banking

Julius holds a Bachelor of Arts (Economics Major) degree from Egerton University and is a member of the Insurance Institute of Kenya (IIK). He is also pursuing a Diploma in Insurance from College of Insurance. He has over 15 years extensive experience in insurance Underwriting, Product Development, Marketing & Business Development both personal and corporate lines.

Prior to joining the bank, Julius worked for Equity Insurance for 10 years where he oversaw successful implementation of bancassurance business. He has also worked for blue chip composite underwriters namely British American Insurance Company (Britam) handling corporate lines and Insurance Company of East Africa (now ICEA-LION) handling personal lines and is fully conversant with all technical aspects of General & Life insurance.

Julius Mbugua Ng'ang'a
General Manager - Family Bank Insurance Agency



Elijah Kariuki
Ag. Head of Human Resource

Elijah Kariuki, is a HR specialist and a seasoned banker with over 10 years' experience, He was appointed Ag. Head of Human Resources in January 2018. He started his career at Family Bank Ltd as an Intern in the ICT department in October 2007, he rose through the ranks in different functions as ICT Officer, Operations Officer in Trade Finance, HR Officer to HR Manager. Prior to this appointment, Elijah was a Senior Human Resource Business Partner.

Mr. Kariuki is a holder of a Bachelor's Degree in Human Resource Management from Kenyatta University. He also holds a Higher Diploma in Human Resource Management and a certificate in counselling both from the college of Human Resource Management. He is a full member of the Institute of Human Resource Management Kenya (IHRM).

Over the course of his career he has also attended numerous trainings covering Leadership, People Management, Labour Laws trainings, Performance Management to name but a few.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Family Bank Limited, it gives me great pleasure to present to you our inaugural Integrated Report and Financial Statements for the year ended 31 December 2017. The year under review certainly goes down as one of the most challenging in the history of banking in Kenya in general and for Family Bank in particular. However, we took measures to ensure that our business remained resilient amidst the turbulent and uncertain times.

Key Financial Performance Highlights

- Reduction of Profit Before Tax from Ksh 664 Million in 2016 to a loss of Ksh 1.357 Billion Before Tax for the year ended 31 December 2017
- Customer deposits grew by 14.4% to KSh 47.36 billion in 2017 compared to KSh 41.47 billion in 2016
- Slight reduction on total assets from Kshs 69.5 billion as at December 2016 to Ksh 69.1 billion as at December 2017.
- The Bank's liquidity ratio increased by 20.2% compared to a similar period last year to stand at 34.6%
- Total Shareholders' Funds decreased by 8.01% from Ksh 12.6 Billion as at December 2016 to Ksh 11.6 Billion as at December 2017.
- Net loans and advances to customers stood at Ksh 50.2 billion as at December 2016 compared to Ksh 43.5 billion as at December 2017
- The Bank now has over 1.2 Million customers.

The reduction in profitability is predominantly attributable to the following:

1. A deposit re-building led strategy in Quarter 1 2017. This strategy essentially was to mitigate the impact of the drop in deposits as a result of malicious rumour in 2016. We began the year 2017 with deposits of Ksh 41.47 billion as at January 2017 and a liquidity ratio of 14.41%. To ensure that we build up our liquidity ratio to ensure regulatory compliance we reduced lending and embarked on building our liquidity position and we only picked up lending in April 2017 when our liquidity improved to 26.50%. This essentially meant that we recorded significant reduction in loans fees and interest income for a period of 5 months which has traditionally been a key source of revenue for the Bank.

2. Reduced revenues in an interest rates cap environment: This was the year when the full impact of Interest Rate Cap was realized in the financial statements. Net Interest Income dropped by 38% to Ksh 4.4 billion as a result of interest rate caps with Check off, Micro and SME businesses impacted materially due to their pricing model before the change.

3. The Board in an effort to manage the costs structure in view of the shrinking revenue approved a one-off expense to support restructuring and the Transformation Programme. This action has however together with other cost cutting initiatives such as branch space rationalization seen a significant drop in our Operating Expenses and this is reflected in the performance of the Bank.

4. Non Performing Loans - The non performing loans position was aggrevated by the prolonged political climate in 2017.

I am pleased to inform the shareholders that the Board is confident that Bank is firmly back on track in performance due to strong customer engagement by management supported by the Board which has seen our retail deposits hold steady and record growth in the second half of 2017. Our institutional depositors are also beginning to restore relations with the Bank in view of our stability and gradual growth and we continue to engage them until they fully restore their lines with the Bank.

INDUSTRY HIGHLIGHTS

The economy and banking sector faced a number of challenges

Area	Themes	Detail
Macro	Slowdown in growth of domestic demand	▪ **Slow growth in the agricultural and manufacturing sectors** due to drought and prolonged elections which adversely impacted the growth of the domestic market
Industry specific	"Flight to Tier 1"	▪ The statutory management of 3 banks instigated a **movement of wholesale deposits** from tier 2 & 3 banks to tier 1 ▪ Increased **public sensitive to adverse or malicious news**
	Changes in regulation	▪ The **interest cap regulation** has negatively affected lending to a number of segments based on risk profiling and this has had a negative impact on the Industry's performance
	Deteriorating asset quality	▪ **Slower private consumption growth, layoffs and delayed government payments** has affected **asset quality** in trade, communication & transport, personal & households and real estate

Review of the macroeconomic environment

Global Economy

The global economy expanded by 3.6% in 2017 compared to a growth of 3.1% in 2016. The United States of America registered a growth of 2.2% in 2017 compared to a growth of 1.5% in 2016, largely due to increase in household income that supported private consumption and investments. The growth in United Kingdom decelerated to 1.5% in 2017 due to a weaker aggregate demand and uncertainty surrounding the Brexit negotiations. In China, real Growth Domestic Product (GDP) was boosted by fiscal support and recovery in exports to grow by 6.8% in 2017 compared to 6.7% in 2016. Real GDP in Sub Saharan Africa expanded by 2.6% in 2017, mainly due to higher commodity prices and favourable external environment. Global inflation rose to 3.1% in 2017 from 2.8% in 2016, partly attributable to increase in oil prices. World trade grew by 4.8% in 2017 compared to 2.6% in 2016 as result of recovery in global manufacturing occasioned by increased investments. Global unemployment rate stood at 5.6% in 2017.

Local Economy

Kenya's economy grew by 4.9% in 2017, recording the slowest margin in five years, amid prolonged election period and adverse weather. This pace of growth falls far below the 5.9% recorded in 2016. Inflation also rose to an average of 8% in 2017, up from 6.3% in 2016. The Central Bank Rate (CBR) was retained at 10.0% to continue anchoring inflation expectations in 2017.

Generally, key macroeconomic indicators largely remained stable and therefore supportive of growth in 2017. The full impact of the capping of interest rates, through the Banking (Amendment) Act 2016 in September 2016 was realised in the course of the year under review. This led to erosion of interest income and slowdown in growth of the financial and insurance sector. The economic slowdown affected our customers' ability to service their obligations in time and in full leading to an increase in non-performing loans and necessitating higher provisioning for bad debts. Consequently, the banking sector saw banks become more prudent, selective, and conservative in advancing credit facilities to counter this.

Performance across various sectors varied widely with finance, agriculture and the manufacturing sectors registering decelerated growth in 2017 compared to 2016. The construction, information and communication sectors registered significant growth in 2017; with growth in the construction industry being mainly due to increase in government infrastructure spending. All these developments are an indication that Kenya is becoming a more diversified economy, shedding its over-reliance on specific sectors. This presents Family Bank with a unique opportunity to strongly serve our country in future.

Banking Sector Developments

In 2017 banking sector was characterised by various challenges, some localised and others global. However, innovation remained at the top of the pile. Financial Technology is a key trend and focus area in the sector with banks adopting branchless banking, mobile banking and internet banking to increase the uptake of banking services in Kenya. In a bid to minimize costs, banks have embraced technology to reduce operational costs and hence drive efficiency. Some of these measures include integration with mobile application platforms and internet banking to facilitate the increased collection of deposits and disbursement of loans with lower operating costs. Innovation such as agency banking and mobile banking is proving to be key drivers of diversification for banks and distribution channels of banking products.

In 2017, Kenya Bankers Association (KBA) through its fully owned subsidiary, Integrated Payment Services Limited (IPSL) championed the launch of PesaLink, a real-time interbank funds transfer switch, increasing payment services available to customers and further expanding financial inclusion. Family Bank was amongst the first twenty banks at launch and has seen the transaction numbers on this platform increase tremendously.

As part of our strategy, we seek to build a robust and agile bank tuned to quickly adapt to the dynamism of the sector. The Bank will continue to focus on building a resilient business model that will support re-emergence into profitability against the backdrop of a turbulent, more competitive and challenging operating environment.

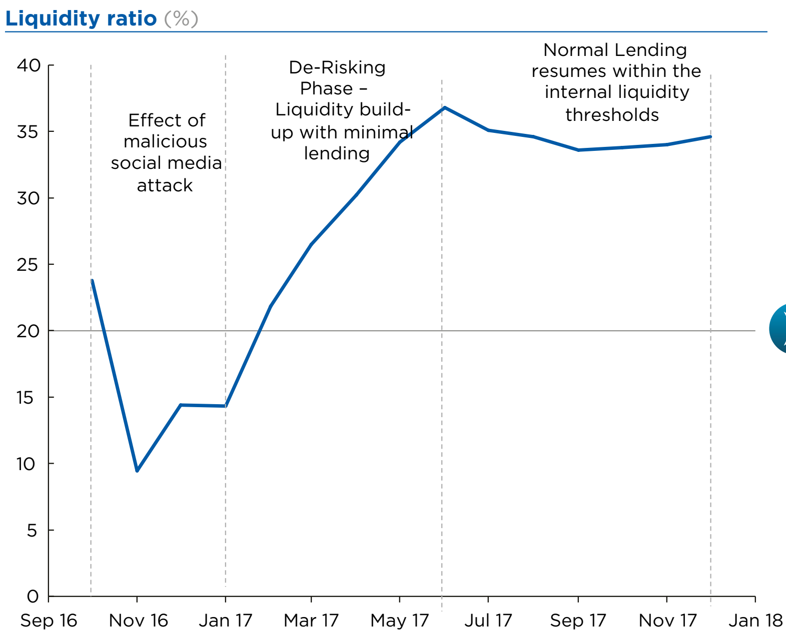
Corporate Governance

In 2017, the board remained committed to steering good corporate governance principles through the entrenchment of value driven corporate governance culture throughout the organization. However, in the course of executing our mandate, the following notable changes were made: We bid farewell to three members of the Board of Directors. Prof. David Kimutai Some, Mr. David Kimani and Mr. Njung'e Kamau who all retired at the end of their term.

Future Outlook

In 2017, we experienced the full impact of the interest cap environment, like the industry, which resulted in a net interest margin compression of 300 basis points as evidenced in the reduction in net interest income by 38%. The 2016 deposit flight that resulted in the loss of Ksh 21 billion customer deposits greatly impacted our financial position and our ability to lend to our customers as evidenced by the contraction of our loan book by Ksh 7 billion. As a result, we took a strategic position as a Bank to rebuild our liquidity level which resulted in lower yields in 2017. The cost of our restructuring exercise also took a toll on our financial position. The cost, which stood at Ksh 167 million, impacted our financial position which stood at a loss of Ksh 1.357 Billion Before Tax for the year ended 31 December 2017.

Liquidity has recovered after facing severe strain in Q4 2016



Insight

- Adverse and malicious social media attack which resulted in loss of significant deposits over a 5 day period

Employee resilience and customer loyalty have since restored our liquidity with normal lending activities resuming during the 2nd Half of the Year

I am glad to report that Family Bank is on track having recovered from a turbulent year and we are optimistic of our performance going forward. Our aggressive deposit mobilization strategy, customer engagement sessions at an individual and corporate level and improved operational efficiency are expected to yield fruits.

At an industry level, looking ahead, the Board is optimistic that the macroeconomic indicators will remain stable and supportive of growth in 2018. Family Bank will continue to march forward confidently as we continue to address the financial needs of our customers as we seek to remain true our mission of positively transforming peoples lives by providing quality financial services through innovative, efficient and reputable practices.

As a Bank, we are continuously realigning our business model to adapt to the dynamic business environment while ensuring the fulfilment of our mandate to our customers and shareholders is upheld.

We are committed to fully complying with Central Bank of Kenya regulations and policies such as the IFRS 9 accounting standards that is fully effective on 1 January 2018.

Conclusion

The Board remains optimistic that our strategy will continue bearing fruit that will steer the Bank to even greater growth. We believe that the worst is now behind us and the future is full of immense opportunities and possibilities as we continue to drive our growth agenda through technology and innovation.

My sincere gratitude to the shareholders, my fellow Board members, the management and staff of Family Bank for their steadfast support and commitment. I would like to, particularly, thank our customers for the unwavering support that they have given us over the years and even more when we experienced some turbulence. We are forever grateful. We are certain that 2018 will be a year of great tidings backed by even better performance.

Thank you.

Dr. Wilfred D. Kiboro
Chairman - Board of Directors

MANAGING DIRECTOR AND CEO'S STATEMENT

Dear Shareholders,

On behalf of the management and staff of Family Bank, I am honored to present the Bank's Integrated Report and Financial Statements for the year ended 31st December 2017.

The year 2017 was not an ordinary year for Family Bank; but I am singularly delighted to report that the resilience of the Bank was well demonstrated throughout the year. It was an extremely tough year for the Kenyan economy in general, but more so for the Banking industry and Family Bank in particular. The Bank ushered in the year under very tough conditions on the back of a near run on the Bank towards the end of 2016.

The tough macro-economic conditions, extended electioneering period characterized by many months of emotive campaigns, two presidential elections followed by political instability as well as the severe drought exacerbated an already dire situation for Family Bank. Further, 2017 was the first whole year that the Banking industry experienced the full impact of the Banking (Amendment) Act 2016 that introduced capping of interest rates.

Despite the challenges, Family Bank demonstrated its resilience and successfully navigated through the storms to emerge triumphant and solidly anchored on its overarching vision of being the Financial Institution that leads in the positive transformation of people's lives in Africa. We took a deliberate decision to re-model our business to align with what is now the new-normal within the Banking industry. The efficiencies derived from this business re-modelling gives me the confidence that we have completely turned the bend on our recovery journey and the positive growth trajectory will be sustainably maintained in 2018. We remain true to our transformation program that is premised on key pillars that focus on our customers, staff and shareholders. Our continued drive for operational efficiency is motivated by our commitment to better serve our customers, ensure our staff are well equipped and skilled to deliver the promise to our customers so as to sustainably deliver returns to our shareholders.

Financial Performance

The 2017 financial performance mirrors the macro and the Bank specific context captured above. Though the Group recorded a net loss of Kes 1billion, its resilience was captured by consistent growth in the foundational parameters that give assurance for business recovery and growth in 2018 and beyond. Liquidity, the measure of a bank's lifeline recorded a remarkable recovery to 34.6% from 2016 closing position of 14.4% which was below CBK's required guideline of 20%. Customer deposits were up 14.4% to Ksh 47.4 billion from Ksh 41.4 billion the previous year. Investments in government securities held to maturity went up by 61.8% to KSh 7.7 billion compared to KSh 4.8 billion as at December 2016.

Net non-performing loans increased by KSh 2.4 billion largely due to the slowdown in economic activities whose impact was further compounded by the prolonged electioneering period and severe drought conditions that took a toll on the borrower's ability to service debts. Total net interest income dropped by 38% in 2017 compared to the net interest income recorded as at December 2016. The decline in the net interest income was as a result of the effects of the interest rate cap law coupled with reduced lending and the effort undertaken by the Bank to strengthen its liquidity which stood at 14.4% at the end of 2016.

Operating expenses dropped by 8.0% to KSh 6.98 billion compared to KSh 7.61 billion in 2016. This was through cost-saving initiatives rolled out during the year; the full impact of which is expected to sustainably impact the Group's performance in 2018 and beyond.

Our Customer Touch Points

We have cast our eyes on being the trusted financial partner in the digital age that we are now living in. Our customer touch points offer 24 hour convenient access to our services. In our endeavor to offer our customers choice and convenience, we have over 4000 Pesapap Agents, over 2000 ATMs, internet banking and 91 branches spread across the country. Our customers are increasingly opting to access our services through the non-traditional touch points, and to this end we continue to invest in dynamic upgrade and refresh of our PesaPap Mobile Banking platform, Internet Banking, as well as our Family PesaPap Agency Banking network.

Family Bank MD Dr. David Thuku attends to a customer at Family Bank Towers Retail branch in Nairobi during the Customer Service Week.

We have continued to partner with other service providers to enhance our customer value proposition. Some of the key partnerships in 2017 include:

PesaLink - we partnered with IPSL, a fully owned subsidiary of The Kenya Bankers Association (KBA), amongst the initial 20 banks to launch PesaLink, a real-time funds transfer solution that complements our existing money transfer solutions on offer to our customers.

Formal Commercial Launch of mVisa – we partnered with Visa in the formal launch of the digital mVisa proposition. Family Bank received formal recognition for being the first bank to integrate and offer mVisa to our customers in Middle East and Africa at large as well as the top accolade for the highest number of mVisa merchants in Kenya.

Instant Visa Debit Cards Issuance - To improve our service delivery on cards issuance, we rolled out an instant cards issuing platform that supports issuance of debit cards on demand, reducing on the previous 4-day wait period for the same service.

Family Bank Business Club - Our Business Club provides a forum that brings our SME clients together, giving them an opportunity to network, share experiences and exchange ideas on business and personal growth. During the year, Our Business Club organized 3 Business Exposure trips to the world's largest economies namely USA and China; with a leisure trip to Dubai and the Mediterranean.

Lawyers Bouquet – As part of our endeavor to offer relevance and value addition to homogeneous client cohorts, we partnered with lawyers to launch the Lawyers Bouquet that addresses unique needs of the legal fraternity and provide financial solutions that meet both personal and business needs of registered legal firms in Kenya. We are extending this partnership approach to custom-fitted solutions to other professionals including accountants and medics.

Family Bank MD Dr. David Thuku, Company Secretary Rebecca Mbithi and other Bank representatives unveil Advocates Bouquet, a tailor-made product for the legal fratenity.

Other Partnerships – In our endeavor to offer holistic engagements and positively contribute to the wider societal agenda, we extend our partnerships to other core areas such as education, community empowerment and health. We believe in the huge potential of the youth in our society, both at the university level as well as school level, to radically transform our economy positively. In this regard, we partnered with Mount Kenya University (MKU) to offer mentorship to young entrepreneurs, who are graduates of the university's Graduates Enterprise Academy (GEA). The mentorship is orchestrated through our Business Club and offers free mentorship sessions on best business practices, business funding and growth as well as personal effectiveness of the entrepreneurs.

We offered High school students real life job shadow experience at our head office departments and branches. This programme accords students an opportunity to have a glimpse and gain hands on experience and exposure to the world work while still in school. This provides valuable exposure to students and opportunity to interact and seek clarity that helps them make informed career decisions at an early stage. We are happy to support such initiatives that are geared to tapping into the opportunity in our youth whom we believe if well nurtured will provide the key to the full realization of the African renaissance.

All the above efforts did not go unnoticed as the Bank was honoured by being named "The Best SME Bank Kenya" in the Banker Africa East Africa Awards 2017.

Family Bank MD Dr David Thuku officially open the Autism Centre at Sosiani primary School in Eldoret with Family Group Foundation Manager Jacqueline Mathaga and Sosiani Primary School Headmaster Julius Keter

Registered athletes take part in the 11th Edition of the annual Family Bank Eldoret Half Marathon in October 2017.

Family Bank MD Dr David Thuku presents a tank donated by Family Bank staff through the Maji Kwa Wanafunzi initiative to Dagoretti Muslim Primary School

Risk Management

As the business environment continues to evolve, attendant risks equally continue to evolve. The Bank accords its fiduciary risk management obligations with the seriousness they deserve. Considering that we process transactions in hundreds of thousands daily, automation and investing in risk management infrastructure is a continuous engagement for the Bank. Our Anti Money Laundering risk management infrastructure helps in safeguarding the Bank from the risk by omission or commission. Additionally, we deployed Acumennet , a comprehensive treasury management system, to effectively support Treasury Department's growing operations. The solution offers Straight Through Processing (STP) with intermediate checking points. It easily integrates with any back-end system, delivering utmost flexibility to the bank for seamless operations and competitive user and customer experience.

Conclusion

Family Bank is a strong and stable business with an attractive brand focused on building its innovative infrastructure. Our fundamentals are strong and offer assurance for the sustainability of the Bank. With a competent and capable leadership, we are focused on offering value to our customers and shareholders. We remain confident that our strategic drivers will result in positive growth for the Bank towards our vision.

I am truly honored to work with a team of competent and dedicated staff and management to deliver our vision and strategy for 2018 and beyond. To our shareholders, we are grateful for your support over the years. We sincerely value all our stakeholders who have helped us accelerate and unlock our potential and steer the business to greater heights. We remain committed to our mission, core values and focus in delivering value to your investment. To our dear customers, we are grateful for choosing to do business with us.

Thank You and God Bless You

Dr. David Thuku
Managing Director & Chief Executive Officer


Our customers
are the real stars
Banker
AFRICA
EAST AFRICA
AWARDS 2017
FAMILY BANK LIMITED
BEST SME BANK 2017
It is because of you that we won the Best SME Bank award at the Banker Africa East Africa Awards 2017.
Family Bank
With you, for life

Flexibility

Humility

Access

Sustainability Review **2017**

Family Bank
With you, for life

SUSTAINABILITY REVIEW

Contents

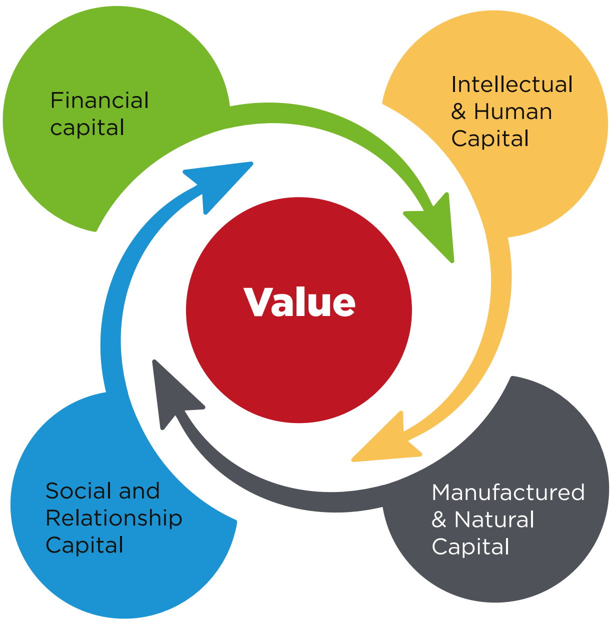
Our Brand Pillars

Flexibility	We are flexible and supportive brand. We are in touch with the needs of customers and always strive to deliver value to them in the most convenient way possible.
Humility	Our brand is humble. We build relationships based on mutual respect and understanding of each other. Our friendly nature will make you feel like family.
Access	We strive to always be accessible. To give our customers an experience that is fast and affordable, with products and services that are easy to purchase.

OUR VALUE CREATION PROCESS

Family Bank continues to create value for its stakeholders especially to the value to the society and wider macroeconomic environment. With the mission of positively transforming people's lives by providing quality financial services through innovative, efficient and reputable practices. To achieve this, sustainability considerations (social, economic and environment) are incorporated in day to day activities. The sustainability agenda of the business is driven by the needs of our stakeholders.

Financial capital



The funding for the Bank comes from investors, institutional lenders and deposits from our clients. The funds are used to run the activities of the Bank and generate returns for shareholders.

- Shareholders' Funds Kshs.11.7 Billion
- Borrowings – Kshs.8.3 Billion
- Customer Deposits – Kshs.47.4 Billion

Human Capital

Our human capital - people, management and leadership – are our greatest asset. We remain cognizant our human capital contribution in building our brand, growing the business and increasing shareholder returns.

- Staff Head Count: 1,369
- Permanent employees: 1,324
- Temporary employees: 45
- Male 725 (53%) Female 644 (47%)

1,369 Staff Head Count

1,324 Permanent employees

45 Temporary employees

53% Male

47% Female

Intellectual Capital

The Bank's executives and employees continually embrace disruption by taking on new challenges to build our intellectual assets, such as brand value, human resources, innovative products, innovation capacity and reputation also play a key role in growing the business. The intellectual assets the Bank has built up over the years help form the financial platform that enables Family Bank to provide services that deliver shared value for all our stakeholders.

Social and Relationship Capital

Our corporate responsibility approach will not be credible without deliberate ongoing relations with primary stakeholders (customers, investors/shareholders, regulators, government, employees, industry associations, suppliers, general public/communities, media and civil society). A key asset to the sustainability of the business as they give us a social license to operate.

Manufactured Capital

This refers to capital goods stock build by the Bank over past to deliver customer expectations. Manufactured Capital of the Bank are represented in the form of Property, Plant and Equipment, Intangible Assets (Banking Platforms) and Leasehold properties.

Natural Capital

These are all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of the Bank. They include: air, water, land, minerals and forests plus biodiversity and eco-system health.

OUR STAKEHOLDERS

This section of the report identifies our stakeholders, describes their key concerns, and then delineates the value we deliver to them. At Family Bank, we acknowledge that a credible corporate responsibility approach must include ongoing relations with primary stakeholders. We identify our primary stakeholders as those whom we impact during our operations or have an impact on our ability to operate. These stakeholders are: customers, investors/ shareholders, regulators and government, employees, society, and suppliers.

The table below looks at each stakeholder as per the parameters defined above.

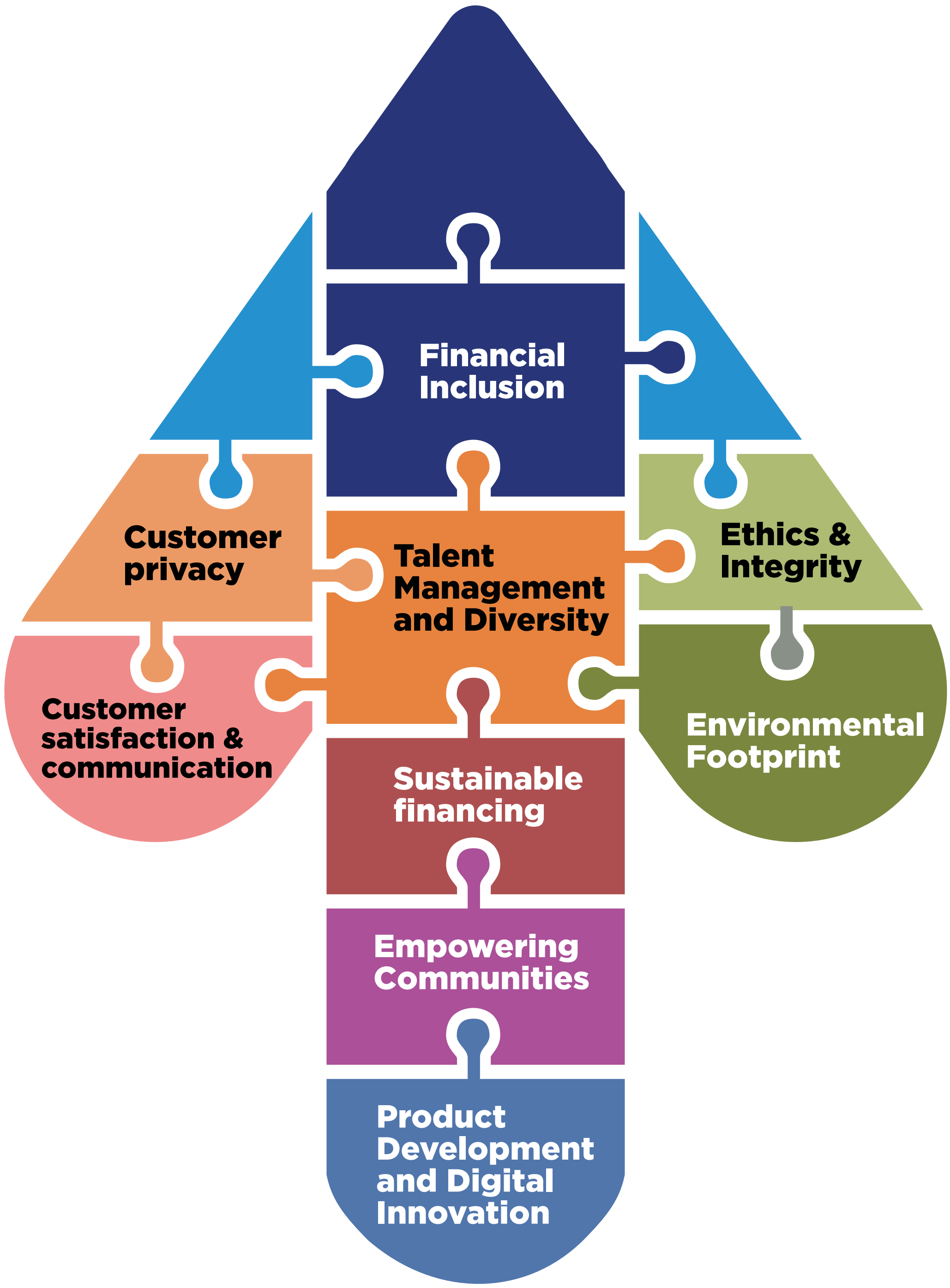
Stakeholder	Description	Key Concerns	Value Delivered
Shareholders	They are initial providers of core financial capital and we disclose to them relevant information to make informed investment decisions as well as seek their perspectives on our financial performance and Strategy.	The key concerns raised by shareholders related to credit risks considering the introduction of interest rate capping and IFRS 9. They were also concerned about business growth prospects in a challenging operating environment. A greater number of shareholders showed interest in how we are embedding sustainability considerations into our business practices.	• Increased net asset value, dividends, share price and earnings. • Continuous engagement to ensure full disclosure and open communication to inform their investment decisions.
Customers	Customers remain the largest source of our deposits (financial capital), which enable us fund lending activities. More customers mean greater revenue growth and this can only be achieved by providing superior customer experience. On the other hand, sustainable banking practices and world-class governance and risk management ensure we maintain the trust customers have in us.	They desire banking to become simpler, more intuitive and time-efficient. Excellent customer service, getting it right for customers first time and security for their money and data.	• Secure deposits, investments and wealth, while growing returns. • Sustainable credit that enables wealth creation, economic development and job creation. • Multiple banking channels. • Financial inclusion through affordable products to the previously unbanked. • Innovative solutions that meet their needs.
Employees	Staff are our greatest asset and key stakeholder. They are the face of the business. We are cognizant of the contribution of our	They want to grow as the business grows, open doors for career progression, opportunities to contribute to society and a work environment that	• Employment • Performance-based promotions • Local and International Training

	staff in building this brand and delivering value to our stakeholders.	is friendly, safe and conducive for work life balance.	• Employment equity and gender equality • Continuous improvement of processes.
Society	We know that our business cannot succeed in a failing society. Society grants us the decisive license to operate. Our vision as a Bank is to positively transform the lives of people in areas we operate.	Banks greater influence on their customers and employees to prioritize environmental, social and governance matters.	• Transform people's lives through sports, water, education and health. • Sustainable banking practices and regulatory compliance.
Regulators & Government	Good Corporate citizenship is non-negotiable to us through implementation and compliance with public policies.	Regulation for the banking industry continues to be around key areas such as cyber security, business and professional conduct, corporate governance, financial reporting and financial crime.	• Taxes • Compliance with laws and regulations • Purchase of government and public-sector bonds
Suppliers	The extensive network of suppliers is not only vital to our ability to provide high-quality financial services reliably and efficiently, it also represents an opportunity to extend our ability to positively impact the communities and environments in which we operate.	Supplier diversity	Procurement program that caters for groups in the society: women, youth etc.

In order to enrich our relations with the above stakeholders, the Bank is reviewing its engagement process to offer a variety of ways for stakeholders to contact us and let us know their needs and concerns in real-time. We want to actively maintain various channels of communication to learn what we are doing well and where we need to improve instead of asking them simply to identify and rank issues. We want them to provide input as the Bank builds its understanding of how its activities might positively or negatively impact key socio-ecological thresholds.

MATERIAL MATTERS

We used the accounting principle of Materiality to identify the Bank's material issues. The Bank defines these issues as those which have the potential to substantially impact Its ability to create and sustain value for our stakeholders. As such, our material issues help the Bank focus its sustainability strategies on the most important issues whilst giving our investors or shareholders tools to analyze portfolio exposure to specific sustainability risks and opportunities represented by each issue. Therefore, the Bank's material issues coincide with its key risks areas.



Financial Inclusion

Financial inclusion today is a stated goal for both public and private sector actors. Among international organizations, financial inclusion is mentioned in seven of the Sustainable Development Goals (SDGs). As a Bank we know that stimulating financial inclusion has the potential to bolster economic growth while alleviating poverty. We have deployed advanced technology to provide access to payments and savings, protect against crises and mobilize resources essential for investment and consumption. At the end of 2017, the Bank had:

- 3,300 Agent outlets
- 599,000 Registered mobile users
- Processed over 1,018 (Ksh 24,799,740) loans via mobile

3,300
Agents Outlet

599,000
Registered mobile users

Talent Management and Diversity

Staff are our greatest asset and key stakeholder. We are cognizant of the contribution of our staff in building this brand. We continue to develop our staff through local and overseas training to enhance their skills and leadership qualities. However, with the tough economic environment witnessed in 2017 by the industry, the Bank undertook a staff rationalization program to align to the current business model. The program was done in accordance with set human resource regulations and law. Below is our staff profile:

- 1,369 employees (725 Male and 644 female);
  Below 30 years (626 employees); 31-40 years (671 employees);
  Above 41 years (72 employees); and Interns (21).
- Average training days per employee is 3 days.
- All new hires undergo induction training.
- Occupational safety and health audits (OSHA) is conducted annually in all facilities and reports filed with relevant authorities. Recommendations are acted on through a continuous improvement process.
- Remuneration is based on performance except for new hires whose salary depends on the Grade. Annual Salary increase is 10%.
- The Banks senior management comprises of eight (8) of which two (2) are female.
- Board of Directors comprises of nine (9) directors of which two (2) are female. Annual Director Fees is Ksh 1,600,000 (400,000 per quarter).

53%
Male

47%
Female

Ethics and Integrity

At the beginning of 2017, some Bank employees were indicted by the state with failure to report unusual transactions with regard to what was alleged to be proceeds of crime. These proceeds were from National Youth Service (NYS). To remedy this situation, the Bank moved with speed to release those indicted plus develop and operationalize a whistleblowing and feedback portal.

Whistle blowing portal– The portal seeks to enable employees to anonymously, securely and confidentially report corruption or any lack of compliance directly to the Managing Director. The long-term focus of the portal is to move the Bank beyond strict compliance programs toward ensuring that ethics and integrity become values lived by all employees.

Fraud - The Bank experienced 157 fraud cases in the reporting period of which 33 were successful and 124 unsuccessful. The number of employees dismissed as a result of fraud was 26. The Bank undertook three fraud trainings for 120 employees in detection, prevention and remediating fraud in the same period.

157 Fraud cases

33 successful reporting

124 unsuccessful reporting

26 dismissed employees

Empowering Communities

From just one branch in 1985, the Bank has grown over time and currently enjoys a network of 93 branches, 3,300 agents and over 10,000 merchants countrywide. Our vision is to be the financial institution that leads to the positive transformation of people's lives in the region because we know that we are as strong as the communities we operate in. Our promise to our customers, with you, for life, cascades beyond our provision of financial services to improving the lives of the communities around us through four key pillars namely; sports, water, education and health.

1 Branch in 1985

93 Branches in 2017

3300 Agents in 2017

10000 merchants in 2017

Sports

The Family Bank Eldoret Half Marathon was launched in 2007 as a platform to nurture raw talent in an already fertile ground for champions in Eldoret, Uasin Gishu County. 2017 marked the 11th edition of the annual marathon that has seen those who excel go on to conquer the regional, continental and the international stage. As a Bank, we are proud of having hosted great talent like Wilson Kipsang (winner, 2013 Berlin Marathon), Solomon Bushiendich (winner, Amsterdam, Lille & Rotterdam Marathons in 2008).

Investment into the Family Bank Eldoret Half Marathon

Year	Amount in Ksh.
2015	9,972980
2016	18,277,120
2017	5,052,299

Registered Athletes

Year	Number of registered athletes
2015	1,300
2016	564
2017	264

Water

With a population of over 46 million, 41 percent of Kenyans still rely on unimproved water sources, such as ponds, shallow wells and rivers, while 59 percent of Kenyans use unimproved sanitation solutions. These challenges are especially evident in the rural areas and the urban slums. It is with this in mind that Family Bank staff saw the need to fundraise, purchase and donate water tanks to primary schools across the country with utmost priority being given to schools in arid and semi-arid areas. The tanks enable the schools to harvest and store clean and safe water thereby playing a major role in improving sanitation and access safe drinking water.

The initiative dubbed 'Maji kwa Wanafunzi' has seen over 37 tanks donated to schools countrywide and has had a direct impact to more than 40,000 students. Family Bank staffs from the 93 branch-network passionately contribute to this worthy initiative.

37 Tanks donated

40000 Impacted students

Education

Inclusive and equitable quality education is one of the Sustainable Development Goals by the United Nations Organisation that seeks to promote lifelong learning opportunities to all. One of the defining factors of our focus on the education pillar is to increase access to secondary schooling by providing comprehensive scholarships and holistic growth of the students through The Family Group Foundation (Family Bank Limited, Alpha Africa Asset Managers, Kenya Orient Insurance Limited).

• **Scholarship Programmes** - A total of 425 students have been offered scholarships both in high school and tertiary institutions. As at December 2017, the Foundation had 348 students under its scholarship programme with 43 students sitting for their secondary exams in 2016. In 2017, 94 students from the scholarship programme sat for their Kenya Certificate for Secondary School Education.

425 students on scholarship

• **Mentorship Programmes -** The mentorship programme takes the students under scholarship through counselling on academic, personal and career-related aspects of their lives. In 2017, the Foundation held two mentorship camps in the months of April and November for all its students within the scholarship programme. The 338 beneficiaries were paired with mentors from Kenya Orient Insurance, Family Bank and Daykio.

• **Children with Special Needs** - The proceeds from the 2016 edition of the Family Bank Eldoret Half Marathon were channeled to complete the refurbishment and equipping of a specialised classroom at Sosiani Primary School in Eldoret. Built and refurbished at a cost of KES 300,000, the classroom was equipped to provide a conducive learning environment for students living with autism. Sosiani Primary School is the only school with such a facility in the North Rift Valley region.

• **Separately** the Bank has over the years been supporting **St. Thomas Barnado's Children's Home and Mama Fatuma Children's home** through cash donation as well as in kind during the festive season.

• In 2015 Family Bank launched a **CSR initiative at Kenyatta National Hospital's Oncology** ward that saw bank construct a playground worth Ksh. 4.3 Million. The playground was commissioned in 2016. Previously the Bank had been making an annual donation of Ksh. 250,000 to the Kenyatta National Hospital in support of the Children's Cancer Ward at the Hospital.
Health

4.3M
Kshs for playground construction

We partnered with the Higher Education Loans Board (HELB) to roll out the Afya Elimu Fund together with other partners. The Afya Elimu Fund aims to support over 2,500 health workers during the first year and a further 1,500 health workers every year in the fields of Nursing, Clinical Medicine, Laboratory Services, Nutrition and Health Records Information Technology. The support from the Family Group Foundation will be sufficient to educate at least 100 students over this period. This will be a significant contribution towards reducing the shortage of health workers across the country. To date, the Foundation has contributed KES 3.75 Million that has supported 42 students in Kenya Medical Training Colleges.

Other Partnerships

• **Mount Kenya University** - In 2017, we partnered with Mount Kenya University to offer mentorship to young entrepreneurs, who are graduates of the university's Graduates Enterprise Academy (GEA). The mentorship, which is orchestrated through our Business Club, offered free mentorship sessions on best business practices, business funding and growth.

• **Junior Achievement** - The Bank partnered with Junior Achievement Kenya to give an opportunity to high school students to visit the Head Office and select Mombasa and Nairobi branches for job shadowing. This programme accords students an opportunity to gain hands on experience and exposure at the work place. This not only provides the bank with an opportunity for mentorship but also provides a platform for exposure to students to make informed career decisions at an early stage. We are happy to support such initiatives that mold careers of the youth.

• **Partners in Action for Community & Environment (PACE)** - The Foundation also organised community service programmes that sought to foster community spirit and a sense of patriotism for the form four leavers. High school graduates from the scholarship program were assigned to different schools to work as teaching assistants in providing learning support in under-resourced schools. The project in 2017 was a pilot project in the partnership between PACE and the Foundation. It started off with seven volunteers who are alumni of the Family Group Foundation sponsorship programme. This year the Foundation plans to absorb more of its alumni into the community program.

• **Dr. Robert Ouko's Foundation** - 2016 the Bank **donated Ksh 300,000** to support various community initiatives (running a community library and a primary school) run by The Dr. Robert Ouko's Foundation in Koru, Muhoroni Constituency, Kisumu County.

300,0000
Donated by the bank

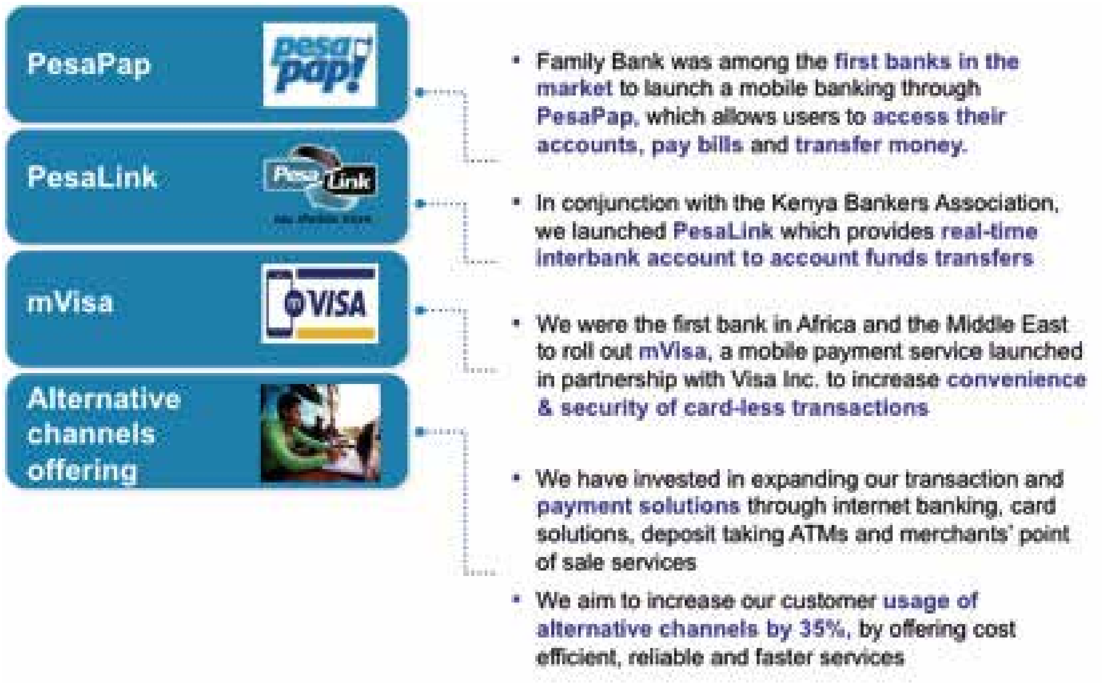
Environmental Footprint

In exercising responsible strategic oversight, the Bank has embarked on a management led process, to acknowledge, analyze, and institutionalize the need to address social and environmental constraints. A key part of integrating contextual thinking into the Bank strategy involves developing an understanding of socio-ecological trends and their related thresholds and of the magnitude of change required to adhere them. But it also involves determining the portion of the change that is within the Bank's responsibility to address (and in what timeframe).

In the next reporting cycle, the Bank will begin to move beyond simply reporting on its environmental and social contributions, and instead start contemplating its own interests and roles in upholding resilient ecosystems, resilient social systems, and resilient economies.

Product Development and Digital Innovation

In order to deliver shared value for our stakeholders, the Bank must embrace curiosity, challenges, take responsibility for its share of the problem, and spur the quest for solutions. As a Bank, we are known to embrace disruption as a core element of our strategy. We are pioneers in uncharted customer digital service lines: Mobile banking (PesaPap); Money transfer (PesaLink); and Mobile Payment (mVisa). Our long-term goal is to increase customer usage of these alternative banking channels by 35%.



In 2017, the Bank launched two (2) new products and improved one (1) process:

- **Advocates Bouquet** – to tap into the unique needs of the legal fraternity and provide financial solutions to meet both personal and business needs of registered legal firms in Kenya. In future the Bank will offer comprehensive solutions to professional bodies like Accountants, Medics, and other professions.

- **PesaLink** - In April 2017 the Bank in partnership with Integrated Payment Services Limited (IPSL) a fully owned subsidiary of The Kenya Bankers Association (KBA) was amongst the initial 20 banks to launch PesaLink, a real-time funds transfer solution to the market complementing our existing money transfer solutions on offer to our customers.

- **Instant Visa Debit Cards Issuance** - To improve our service delivery on cards issuance, the Bank rolled out and instant cards issuing platform that will support issuance of debit cards on demand, reducing on the previous 4-day wait period for the same service.

Customer Privacy, Satisfaction, and Communication

Customer Privacy

Family Bank respects customer privacy and are committed to keeping their personal information and other data confidential and secure. All employees are continuously trained in ways to ensure zero breaches of customer data especially during induction.

We do not otherwise disclose customer data information to third parties unless we have their permission or we are under a legal or similar obligation, for example, regulators, supervisors, or governments.

Customer Satisfaction

The Bank has not undertaken a survey to measure customer satisfaction in the last three years. However, in Q2 2018, an Organisational Health Index (OHI) will be done. We expect the OHI to indicate customer satisfaction levels. In order to enhance customer satisfaction, we have created multiple segment specific products and services as well as diverse service channels as below:

In 2017, the bank was awarded as the Best SME Bank at the Banker East Africa Awards. This Award shows satisfaction with our products and services on the part of our SME Customers.

Customer Communication

Communication is at the heart of customer interaction, and it can make or break our business. Being able to communicate effectively with our customers has lead to increased sales, repeat business and referrals. On the other hand, not being able to can quickly lead to decreased sales, frustrated customers and negative word of mouth.

In 2016, we launched a 24-hour Call Centre with dedicated staff to enhance or customer engagement at any time of day or night. We have deepened our customer interactions through social media (Facebook, Twitter, and LinkedIn). So far, the response has been impressive:

Facebook Page Likes - **40,570**

Twitter Followers - **14,500**

LinkedIn – **14,700**

Family Bank Material Issues and Sustainable Development Goals (SDGs)

In 2015, world leaders promulgated the Sustainable Development Goals (SDGs) after the Millennium Development Goals (MDGs) period ended. SDGs define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. The SDGs call for worldwide action among governments, business and civil society to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet.

The SDGs present an opportunity for business-led solutions and technologies to be developed and implemented to address the world's biggest sustainable development challenges. As the SDGs form the global agenda for the development of our societies, they will allow leading companies to demonstrate how their business helps to advance sustainable development, both by minimizing negative impacts and maximizing positive impacts on people and the planet.

Family Bank is in the processing aligning its strategy to the SDGs to augment its mission of positively transforming people's lives by providing quality financial services through innovative, efficient and reputable practices. The Bank's material issues are aligned to the 2030 Agenda (SDGs) as below:

Financial Inclusion	1 NO POVERTY
Talent Management and Diversity	5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
Ethics and Integrity Customer privacy	11 SUSTAINABLE CITIES AND COMMUNITIES; 16 PEACE AND JUSTICE STRONG INSTITUTIONS
Empowering Communities	3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 6 CLEAN WATER AND SANITATION
Environmental Footprint Sustainable financing	11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Product Development and Digital Innovation Customer satisfaction and communication	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

CORPORATE GOVERNANCE STATEMENT

1. STATEMENT OF COMPLIANCE

The Board and management of the Bank continue to comply with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and Corporate Governance guideline prescribed by Central Bank of Kenya (CBK) in the 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 Bank has adequate policies and procedures in place that are reviewed regularly and which include:

- clearly defined responsibilities and authority of directors, the Managing Director and management;
- established corporate objectives and strategies;
- recognition of the interests of various stakeholders;
- alignment of corporate activities and behaviour in compliance with applicable laws and regulations; and
- 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:

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

2. RELATIONS WITH SHAREHOLDERS

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

3. BOARD COMPOSITION

The Bank has a competent Board of Directors bringing together diverse backgrounds and expertise necessary to provide leadership to the Bank. The Board comprises of six non-executive Directors (three of whom are Independent Non-Executive Directors), and one executive director. The Chairperson of the Board is a non-executive director;

Principle on Structure of the Board

To ensure effectiveness and value addition, the Bank at all times, has a minimum of at least 7 Directors and a maximum of 10 Directors. The Directors are highly qualified in varied fields, which is essential in enabling them to:

- have proper understanding of, and competence to deal with, the current and emerging issues of the business;
- exercise independent judgment;
- encourage enhanced performance of the Bank;
- fairly reflect the Group's shareholding structure;and
- effectively review and challenge the performance of Management.

CORPORATE GOVERNANCE STATEMENT (Continued)

4. BOARD GUIDING PRINCIPALS

4.1 Division of the Role of Chairperson and Chief Executive Officer

The Chairperson

The Chairperson of the Board is an Independent Non-Executive Director. The Chairperson leads and manages the work of the Board and ensures that decisions are taken on a sound and well-informed basis. The Chairperson provides leadership to the Board and is responsible for the Board's effective overall functioning.

The Chairperson also ensures:

a) the smooth functioning of the Board, the governance structure and instils a positive culture in the Board;
b) guidelines and procedures are in place to govern the Board's operation and conduct;
c) all relevant issues are on the agenda for Board meetings and all Directors are able to participate fully in the Board's activities;
d) the Board debates strategic and critical issues; and
e) the Board receives the necessary information on a timely basis from management.

The Chief Executive Officer

The Chief Executive Officer is wholly responsible to the Board for the day to day running of the Bank. The collective responsibility of the Group's management is vested in the Chief Executive Officer and bears ultimate responsibility for all management functions.

The Chief Executive Officer undertakes the following key responsibilities:
a) ensures that the policies spelt out by the Board in the Bank's overall corporate strategy of the institution are implemented;
b) identifies and recommends to the Board competent officers to manage the operations of the Bank;
c) establishes and maintains efficient and adequate internal control systems; and
d) ensures that the Board is frequently and adequately appraised about the operations of the Bank.

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.

The Board is assisted by a qualified and competent company secretary of good standing with the Institute of Certified Public Secretaries of Kenya (ICPSK);

5. BOARD LEADERSHIP AND RESPONSIBILITY OF THE BOARD

The Board recognises its 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:

- 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.
- The provision of the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.
- Cognisant of its 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:
- Agree on the Bank's strategic objectives, and its roadmap to achieving the agreed objectives,
- Review and approve the Bank's annual budget,
- Review the Bank's performance against approved budget,

CORPORATE GOVERNANCE STATEMENT (Continued)

- Review the Bank's policies and procedures,
- Consider and approve the annual and interim financial statements,
- Recommend dividends to the shareholders,
- Evaluate the performance of the Managing Director, and
- Approve other matters of fundamental significance.

5.1. Principle on Appointment, Composition, Size and Qualifications of Board Members

The Board has appointed a Nominations Committee, which proposes new members for Board appointment, as well as spearheading Board evaluation. In proposing appointments to the Board, the Committee ensures the achievement of diversity in its composition, as well as ensuring that at least three-fifths of the Directors are Non-executive and at least one third of the total number of Directors are Independent. The Board's composition is not biased towards representation of a substantial shareholder of the Group, but instead, it reflects the Group's broad shareholding structure.

The Board's composition provides a mechanism for representation of any minority shareholders without undermining the collective responsibility of the Directors.

5.2. Principle on the Functions of the Board

To enhance accountability to its Shareholders, the Group has ensured that:

1) It has distinguished the roles reserved for the Board and those delegated to Management;
2) The functions of the Chairperson and the Chief Executive Officer are not exercised by the same individual;

5.3. Principle on Age Limit for Board Members

The Code Of Corporate Governance Practices for Issuers of Securities to the Public 2015 has prescribed 70 years as the age limit for its Directors. Any Director who has reached the age of 70 years resigns from the office of Director at the following Annual General Meeting and Shareholders are informed of such resignation at each Annual General Meeting. If any Director wishes to continue serving in the office of Director, he/she must seek the approval of the Shareholders at an Annual General Meeting.

5.4. Principle on Board Tools

The Bank is in the process of formulating a Code of Ethics and Conduct, which will be cascaded down to all employees. It already has an established a Board Charter to guide in the activities of the Board. Further, the Board develops a work plan and an evaluation toolkit annually, to ensure effectiveness.

5.5. Principle on Governance and Legal Audit

The Board has mandated the Group to conduct an annual governance audit, in order to assess the level of compliance with sound governance practices. Additionally, a compliance and legal audit is conducted to identify the level of compliance with applicable laws, regulations and standards.

The 2018 governance and legal audit is expected to kick off in the third quarter of the year.

CORPORATE GOVERNANCE STATEMENT (Continued)

5.6. Compliance with Laws and Regulations

Family Bank has a listed Medium Term Note in the Fixed Securities Segment of the Nairobi Securities Exchange (the Exchange) and as such, is bound by and complies with:

a) The Capital Markets Act Cap. 485 and all subsidiary legislation made thereunder;
b) The NSE rules and guidelines issued by the Capital Markets Authority (the Authority), the Exchange and any requirements, decisions, or directions given by the Authority and the Exchange;
c) The Banking Act and all prudential guidelines and directions given by the Central Bank of Kenya and other regional regulators;
d) The Kenya Companies Act, No. 17 of 2015 and its amendments thereto; and
e) All other applicable laws and regulations governing the various lines of businesses it is engaged in.

5.7 Risk Management

Why it matters

As a large financial services organization operating in a complex industry, effective risk management is critical to the overall profitability, competitive market positioning and long-term financial viability of the Company.

Our Risk Management Framework sets out lines of responsibility and authority for risk-taking, governance and control. The Board of Directors is ultimately responsible for ensuring the oversight of all risks across the enterprise and has primary responsibility for taking action to ensure risk management policies, programs and practices are in place. The Board delegates certain responsibilities to standing Board Committees, which oversee and monitor these risks:

- Risk Management and Compliance Committee
- Audit Committee

Our approach

We have a Risk Management Framework, approved by the Board of Directors that prescribes a comprehensive set of protocols and programs for conducting our business activities. This framework seeks to ensure that risks to a business undertaking are appropriately managed to achieve the Company's business objectives over time. The Risk Management Framework, corporate strategy and business objectives are all aligned and risk management protocols and programs are embedded in every business segment.

Our Risk Appetite Policy, also approved by the Board of Directors, sets out specific constraints that define the aggregate level of risk that the Company is willing to accept. The Company's risk appetite seeks to balance the various needs, expectations, risk and reward perspectives and investment horizons of key stakeholders. In particular, our risk appetite supports the pursuit of shareholder value while ensuring that the Company's ability to pay claims and fulfill policyholder commitments is not compromised.

Our risk management program is embedded in the Company's culture, which encourages ownership and responsibility for risk management at all levels. A key premise is that all employees have an important role to play in managing the Company's risks.

Assurance is guaranteed via risk department, internal audit, compliance and enforcement teams, external audits by PwC, Central Bank Audit, Capital Markets Authority and Nairobi Securities Exchange reviews.

CORPORATE GOVERNANCE STATEMENT (Continued)

6. BOARD ACTIVITIES 2017

6.1 Board attendance

The Board convened 7 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%**
TK Muya	**100%**
Lazarus Muema	**100%**
Ruth Waweru	**100%**
Francis Mungai	**71%**
Lerionka Tiampati	**100%**
David Thuku	**100%**

6.2. Board Training and Continuous Professional Development 2017

During the year, the Board members attended training on Corporate Governance as part of Continuous Professional Development and in line with CBK Prudential Guideline on Corporate Governance. There was also training on Board Risk committee members undertook training in cybersecurity while Board Audit Committee members took training on Integrated reporting.

6.3. Board Evaluation

The annual Board evaluation was conducted in March 2018 in a process led by the Chairman to the Board and supported by the Company Secretary. The Board conducted the process internally and engaged an analyst to to analyse the results of the evaluation.

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.

7. COMMITTEES OF THE BOARD (CONTINUED)

7.1 Board Audit Committee (Continued)

The Committee held Four meetings during the year under review. The members of this committee during the year under review were Mr Lazarus Muema (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 two times during the year under review. The members of the Committee in the year under review were: Mr Francis Mungai (Chairman), Dr W.D Kiboro, Mr T.K Muya, Dr David Thuku. 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 three times during the year and recorded a quorum during all its meetings. The members of the Committee in the year under review were Mr. Lazarus Muema (Chairman) and Dr Ruth Waweru, Mr L.Tiampati. 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 four times during the year under review. The members of the Committee are which is Chaired by Dr. R.Waweru are Mr T.K Muya, Mr Francis Mungai, Dr W.D Kiboro, 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 (Chairman), Dr W.D Kiboro, Mr T. K Muya, Mr Lerionka Tiampati, and Dr David Thuku . 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 Committees regularly reviews the structure, size and composition of the board and make recommendations on any adjustments deemed necessary. It identifies, nominates and recommends for the approval of the board, candidates to fill board vacancies as and when they arise. The Committee members are Dr Ruth Waweru (Chairman), Dr W.D Kiboro and Mr T.K Muya. This committee held one meeting in 2017.

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. THE BOARD REMUNERATION REPORT

The Board reviews and recommends the remuneration structure of Directors annually, subject to Shareholders' approval. Directors' remuneration is linked to performance but is competitively structured to attract and retain the best talent to effectively develop the Group's business.

Executive Directors

The Executive Directors remuneration package comprises core fixed elements (base salary, pension and other benefits). Executive Directors are eligible to participate in a bonus scheme approved by the Board which is anchored on achievement of key business performance indicators, but are not entitled to earn fees or sitting allowances for Board sittings.

Non-Executive Directors

Non-Executive Directors retire by rotation. Every year 1/3 of the directors retire in accordance to the date of appointment. They seek for a renew of their term subject to shareholder ratification. They are remunerated for playing the following key roles:

- 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.
- The provision of the overall direction, governance and promoting proper standards of conduct and sound banking practices which enhance internal controls and shareholder value.
- Agree on the Bank's strategic objectives, and its roadmap to achieving the agreed objectives,
- Review and approve the Bank's annual budget,
- Review the Bank's performance against approved budget,
- Review the Bank's policies and procedures,
- Consider and approve the annual and interim financial statements,

Non-Executive Directors are entitled to sitting allowances for attending Board and Committee meetings, as well as quarterly Directors Fees.

Insurance

The Group provides Directors' and Officers' Liability Insurance for all Directors of the Group during the entire duration of their tenure.

Share Options

There are currently no share options issued by the Group to the Executive and the Non-Executive Directors.

CORPORATE GOVERNANCE STATEMENT (Continued)

9. THE BOARD REMUNERATION REPORT (Continued)

The aggregate amount of remuneration paid to the Bank's directors for the reporting period on a consolidated basis in the various categories is as follows:

Description	Ksh'000'
Executive directors' fees	-
Executive directors' emoluments;	54,900
Non-executive directors' fees;	58,440
Non-executive directors' emoluments;	19,764
Loans granted to directors	4,230
Share options and other forms of compensation paid or payable in that year	-

10. 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 2017*

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	46,417,000
6	PA securities	44,444,445
7	Kenya Orient Insurance Limited	35,600,936
8	Julius Muya Kiondo	33,448,788
9	Ann Muya	33,428,788
10	Mark Keriri	33,428,788
	Top 10 Shareholders	831,721,730
	Others	455,385,812
	Total Issued Shares	1,287,107,542
		==========

CORPORATE GOVERNANCE STATEMENT (Continued)

10. CAPITAL STRUCTURE (Continued)

c) *Distribution of Shareholders as at 31 December 2017*

	No of Shareholders	No of Shares	%
10,000,000 - Above	17	991,748,002	77.05
50,000 - 9,999,999	615	239,761,026	18.63
10,000 - 49,999	2,094	38,212,328	2.97
1 - 9,999	3,219	17,386,182	1.35
Total	5,945	1,287,107,542	100.00

d) *Directors Holding Shares as at 31 December 2017*

Name	No. of shares	%
Wilfred Kiboro	11,893,168	0.92
Titus Muya	67,163,768	5.22
Dr Ruth Waweru	190,000	0.01
Francis Mungai	1,620,404	0.13
Dr David Thuku	205,600	0.02
Total	81,072,940	6.30

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Family Bank Limited (the "Bank" or "Company") and its subsidiary, Family Insurance Agency Limited, (together, the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The financial performance for 2017 was adversely impacted on by the Banking Amendment Act, 2016 which introduced an interest rate capping regime in September 2016 with a resultant erosion of the net interest margin. This was further compounded by an adverse attack on the Brand through social media which resulted in a significant withdrawal of deposits by our customers. The expected quick recovery from these two events was further slowed down by the drought experienced during the first half of the year and the prolonged electioneering period during the latter half of the financial year.

We however embarked on a successful turnaround of the business through refining our business model into a more efficient and sustainable one and the Board of Directors remain confident that the positive results which have commenced will be maintained and evidenced into the future.

The following is the summary of the results for the year ended 31 December 2017:

	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
(Loss) / Profit before taxation	(1,357,638)	664,642	(1,370,841)	633,419
Taxation	356,850	(312,363)	361,264	(302,125)
(Loss)/Profit for the year	(1,000,788)	352,279	(1,009,577)	331,294
	===========	===========	===========	===========

DIVIDEND

The directors do not recommend payment of a dividend in respect of the year ended 31 December 2017 (2016: Nil).

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The Directors who held office at the date of this report are set out on page 1.

The following changes took place during the year:

1. Mr Njung'e Kamau served as an executive Director during part of the year until he retired on 30 April 2017.
2. Mr David Kimani served as a Non -Executive director during part of the year until he retired at the Annual General Meeting held on 29 June 2017.
3. Prof David K. Some served as a Non – Executive director during part of the year until he retired at the Annual General Meeting held on 29 June 2017.

Events subsequent to the end of the reporting period

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.

DISCLOSURES TO AUDITOR

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

Deloitte & Touché retired from office at the conclusion of the Annual General Meeting held on 29 June 2017 in accordance with section 721 of the Kenyan Companies Act 2015. In their place, PricewaterhouseCoopers were appointed into office as the Company's auditor in accordance with section 721(1) of the Kenya Companies Act 2015

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Approval of financial statements

The financial statements were approved by the Board of Directors on 20th March 2018.

BY ORDER OF THE BOARD

Rebecca Mbithi
COMPANY SECRETARY
20th March 2018

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 Group and Company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then applying them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Group and Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Group and Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the board of directors on 20th March 2018 and signed on its behalf by:

Dr. Wilfred D. Kiboro	Dr. David Thuku
Chairman	Managing Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FAMILY BANK LIMITED

Report on the audit of the financial statements

Our opinion

We have audited the accompanying separate financial statements of Family Bank Limited (the Bank) and the consolidated financial statements of the Bank and its subsidiary (together, the Group) set out on pages 62 to 126, which each comprise a statement of financial position at 31 December 2017 and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank at 31 December 2017 and of their 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, 2015.

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 our 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 the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were 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 these matters.

Key audit matter	*How our audit addressed the matter*
Credit risk and provision for impairment loss on loans and advances to customers As explained in Note 3(a) of the financial statements, the directors make complex and subjective judgments when estimating the impairment loss on loans and advances. Due to the significant judgment and estimation applied in this process, impairment of loans and advances is a key audit matter.	We tested the Group's controls over the identification of loans with objective evidence of impairment, including system configuration to accurately calculate the number of days past due on loans. For a sample of loans selected using a risk based criteria, we performed an independent assessment of the classification between performing or non-performing.

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Key audit matters (continued)

Key audit matter	*How our audit addressed the matter*
Credit risk and provision for impairment loss on loans and advances to customers (continued) Impairment on loans is computed at two levels (i) specific/ identified impairment which is calculated for individual loans and advances that are classified as non-performing; and (ii) general/unidentified impairment which is estimated on the residual credit book where no objective evidence has been identified. In computing specific impairment, the directors estimate future cash flows expected to be recovered from the individual clients, and then discount these at the effective interest rate of the loan. The key judgement applied is on the value of collateral charged to the Group and the estimated period of recovery. With regard to unidentified impairment, the loans are grouped together based on similar credit risk characteristics and collectively assessed for impairment using a general/ unidentified impairment model. The unidentified impairment model is based on empirical data on 'loss' ratios from past experience and an estimation of the emergence period. The emergence period is the period that it takes, on average, for the Group to identify a loan that has suffered a loss-causing event. This varies depending on the nature of the loan, and is a matter of judgment.	For performing loans, we tested the reasonableness of the loss ratios by validating historical data used by management and reasonableness of the emergence period based on our knowledge of the products and the Group's monitoring activities. For the non-performing loans, 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 including, where relevant, how forbearance had been considered. Further, where specific impairment was calculated, we examined the reasonableness of the expected future recoverable amounts as assessed by management to support the calculation of the impairment. We assessed the assumptions and compared estimates to external evidence where available.

Other information

The directors are responsible for the other information. The other information comprises the Group and company information, Directors' report and Statement of directors' responsibilities (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Notice to the AGM, Board of directors' profiles, Chairman's and Chief Executive Officer's statements and the Corporate governance statement, which are expected to be made available to us after the audit report date.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information 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.

When we read the other information not yet received as described above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is 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's ability to continue as a going concern, 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 or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 scepticism 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'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's ability to continue as a going concern. 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 to cease to continue as a going concern.

- 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.

Auditor's responsibilities for the audit of the financial statements (continued)

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

We communicate with the directors 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.

We also provide the directors with a statement that we have complied with relevant ethical 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 directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the 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 extremely rare 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 matters prescribed by the Kenyan Companies Act, 2015

Report of the directors

In our opinion the information given in the Report of the Directors on pages 55 and 56 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – Practising Certificate No. 1652.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

28th March 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Interest income	6	7,047,889	11,133,471	7,047,889	11,133,471
Interest expense	7	(2,667,881)	(4,098,037)	(2,674,118)	(4,111,868)
Net interest income		4,380,008	7,035,434	4,373,771	7,021,603
Foreign exchange gains		288,761	235,681	288,761	235,681
Fee and commission income	8(a)	1,779,944	1,704,899	1,779,944	1,704,899
Other income	8(b)	104,497	149,948	33,134	36,000
Operating income		6,553,210	9,125,962	6,475,610	8,998,183
Operating expenses	9	(6,979,418)	(7,613,950)	(6,915,021)	(7,517,394)
Impairment charge on loans and advances	17	(931,430)	(847,370)	(931,430)	(847,370)
(Loss) / Profit before taxation		(1,357,638)	664,642	(1,370,841)	633,419
Income tax credit / (expense)	11	356,850	(312,363)	361,264	(302,125)
(Loss) / Profit for the year		(1,000,788)	352,279	(1,009,577)	331,294
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	-	8,792
Realised fair value adjustments on available for sale investments transferred to profit or loss		1,007	(1,007)	1,007	(1,007)
		1,007	7,785	1,007	(7,785)
Total other comprehensive income		1,007	129,330	1,007	129,330
Total comprehensive income for the year		(999,781)	481,609	(1,008,570)	460,624
		Sh	Sh	Sh	Sh
Earnings per share (basic and diluted)	12	(0.80)	0.28	(0.81)	0.27

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Notes	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	13	5,641,710	5,492,415	5,641,710	5,492,415
Balances due from banking institutions	14(a)	2,495,298	186,792	2,495,298	186,792
Government securities held to maturity	15(a)	7,692,403	4,754,137	7,692,403	4,754,137
Government securities available for sale	15(b)	-	251,007	-	251,007
Loans and advances to customers	16	43,471,853	50,163,555	43,471,853	50,163,555
Corporate bonds held to maturity	18	842,679	842,389	842,679	842,389
Other assets	19	3,616,759	2,234,038	3,578,245	2,226,946
Investment in subsidiary	20	-	-	1,000	1,000
Investment properties	21	18,200	18,200	18,200	18,200
Property and equipment	22	3,622,587	4,167,845	3,615,785	4,158,968
Intangible assets	23	470,887	451,121	465,526	445,469
Prepaid operating lease rentals	24	148,736	153,359	148,736	153,359
Deferred tax asset	29	324,879	-	324,495	-
Current tax assets	11	788,944	776,826	755,013	738,137
TOTAL ASSETS		69,134,935	69,491,684	69,050,943	69,432,374
LIABILITIES AND SHAREHOLDERS' FUNDS					
LIABILITIES					
Short-term borrowings – Central Bank of Kenya	14(c)	-	4,393,608	-	4,393,608
Customer deposits	25	47,362,130	41,395,232	47,425,108	41,473,321
Balances due to banking institutions	14(b)	201,708	922,654	201,708	922,654
Borrowings	26	8,362,529	8,933,191	8,362,529	8,933,191
Provisions	27(a)	313,340	111,638	312,655	110,953
Other liabilities	27(b)	1,139,156	950,738	1,137,842	950,167
Unclaimed dividends	28(a)	2,808	4,720	2,808	4,720
Deferred tax liability	29	-	24,844	-	24,883
TOTAL LIABILITIES		57,381,671	56,736,625	57,442,650	56,813,497
SHAREHOLDERS' FUNDS					
Share capital	30	1,287,108	1,287,108	1,287,108	1,287,108
Share premium	30	5,874,662	5,874,662	5,874,662	5,874,662
Revaluation surplus		192,624	195,888	192,624	195,888
Fair value reserve		-	1,007	-	1,007
Retained earnings		4,102,941	4,954,665	3,957,970	4,818,483
Statutory reserve		295,929	441,729	295,929	441,729
TOTAL SHAREHOLDERS' FUNDS		11,753,264	12,755,059	11,608,293	12,618,877
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		69,134,935	69,491,684	69,050,943	69,432,374

The financial statements on pages 62 to 126 were approved for issue by the Board of Directors on 20th March 2018 and were signed on its behalf by:

Dr. Wilfred D. Kiboro
Director

Dr. David Thuku
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016	1,245,186	5,062,519	76,823	(6,778)	5,136,745	527,484	12,041,979
Profit for the year	-	-	-	-	352,279	-	352,279
Other comprehensive income, net of tax	-	-	121,545	7,785	-	-	129,330
Transfer from statutory reserve	-	-	-	-	85,755	(85,755)	-
Transfer of excess depreciation	-	-	(4,338)	-	4,338	-	-
Deferred tax on excess depreciation	-	-	1,858	-	(1,858)	-	-
Contribution and distributions to owners							
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)
At 31 December 2016	1,287,108	5,874,662	195,888	1,007	4,954,665	441,729	12,755,059
At 1 January 2017	1,287,108	5,874,662	195,888	1,007	4,954,665	441,729	12,755,059
Loss for the year	-	-	-	-	(1,000,788)	-	(1,000,788)
Other comprehensive income, net of tax	-	-	-	(1,007)	-	-	(1,007)
Transfer from statutory reserve	-	-	-	-	145,800	(145,800)	-
Transfer of excess depreciation	-	-	(4,663)	-	4,663	-	-
Deferred tax on excess depreciation	-	-	1,399	-	(1,399)	-	-
At 31 December 2017	1,287,108	5,874,662	192,624	-	4,102,941	295,929	11,753,264

BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016	1,245,186	5,062,519	76,823	(6,778)	5,021,548	527,484	11,926,782
Profit for the year	-	-	-	-	331,294	-	331,294
Other comprehensive income, net of tax	-	-	121,545	7,785	-	-	129,330
Transfer from statutory reserve	-	-	-	-	85,755	(85,755)	-
Transfer of excess depreciation, net of tax	-	-	(4,338)	-	4,338	-	-
Contribution and distributions to owners							
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)
At 31 December 2016	1,287,108	5,874,662	195,888	1,007	4,818,483	441,729	12,618,877
At 1 January 2017	1,287,108	5,874,662	195,888	1,007	4,818,483	441,729	12,618,877
Loss for the year	-	-	-	-	(1,009,577)	-	(1,009,577)
Other comprehensive income, net of tax	-	-	-	(1,007)	-	-	(1,007)
Transfer from statutory reserve	-	-	-	-	145,800	(145,800)	-
Transfer of excess depreciation	-	-	(4,663)	-	4,663	-	-
Deferred tax on excess depreciation	-	-	1,399	-	(1,399)	-	-
At 31 December 2017	1,287,108	5,874,662	192,624	-	3,957,970	295,929	11,608,293

CONSOLIDATED AND BANK STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Bank	
		2017	2016	2017	2016
	Note	Sh'000	Sh'000	Sh'000	Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash generated from operations	31(a)	8,777,285	(9,815,829)	8,774,903	(9,868,510)
Taxation paid	11(c)	(4,990)	(1,121,222)	(4,990)	(1,078,951)
Cash generated from operating activities		8,772,295	(10,937,051)	8,769,913	(10,947,461)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	22	(220,200)	(1,533,781)	(218,706)	(1,528,883)
Purchase of intangible assets	23	(162,942)	(248,421)	(161,504)	(242,909)
Proceeds on sale of motor vehicles		16,480	-	15,930	-
Proceeds from sale of non-current assets held for sale		-	105,000	-	105,000
Net cash used in investing activities		(366,662)	(1,677,202)	(364,280)	(1,666,792)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings received	26	7,931	3,457,200	7,931	3,457,200
Short term borrowings from Central Bank		(4,393,608)	4,393,608	(4,393,608)	4,393,608
Repayment of borrowings	26	(898,045)	(455,772)	(898,045)	(455,772)
Dividends paid	28	(1,912)	(646,463)	(1,912)	(646,463)
Proceeds from issue of shares	30	-	922,249	-	922,249
Rights issue costs paid	30	-	(68,184)	-	(68,184)
Net cash generated from financing activities		(5,285,634)	7,602,638	(5,285,634)	7,602,638
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		3,119,999	(5,011,615)	3,119,999	(5,011,615)
Cash and cash equivalents at the beginning of the period		2,656,024	7,667,639	2,656,024	7,667,639
Cash and cash equivalents at the end of the period	31(b)	5,776,023	2,656,024	5,776,023	2,656,024

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1 Corporate information

Family Bank Limited and its subsidiary Family Insurance Agency Limited are both incorporated in Kenya under the Companies Act and is domiciled in Kenya.

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

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

A number of amendments to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2017 and have been adopted by the Group.

Amendment to IAS 12 – Income taxes, the amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.

Amendment to IAS 7 – Cash flow statements, the amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

The revised standards did not have any effect on the Group's reported earnings or financial statement position and had no impact on the accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9 '***Financial Instruments'***

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

In addition there is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

The new standard is effective for financial years commencing on or after 1 January 2018 and the Group will apply the new rules retrospectively from the effective date.

As at 31 December 2017, the Group's best estimate of the impact of IFRS 9 adoption, subject to ongoing refinements and reviews by the Group's governance frameworks, is an overall reduction in Shareholders' Equity within the range of 5% and 10% on 1 January 2018. A significant portion of this is driven by the adoption of the Expected Credit Loss model while other minor changes are due to classification and measurement changes.

IFRS 15, ***'Revenue from contracts with customers'***

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The Group assessed and concluded that the impact on the annual financial statements is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 16,'***Leases'***

IFRS 16,'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

The Group is in the process of assessing the impact of the new standard.

IFRIC 23 ***Uncertainty over Income Tax Treatments***

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

This Interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(b) 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.

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.

(c) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and an entity 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 Significant accounting policies (continued)

(c) 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.

Refer to note 36 of the financial statements for description of Basis of non- consolidation of an entity under the Group's control.

(d) Investment in subsidiary

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

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(e) Interest income and expense (continued)

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

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

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

(f) 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. The Bank has reclassified credit origination fees as part of interest income.

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.

(g) 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 revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve account. 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 freehold land and buildings at least once every five years. The last valuation was done on 31 December 2016. The valuation considered the highest and best use of the property. The basis of valuation for freehold land and buildings is open market value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(h) 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	2.50%
Fixtures, fittings and equipment	12.50%
ATM Machines	16.70%
Motor vehicles	20%
Computers	20%

Freehold land is not depreciated.

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.

(i) 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.

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(k) 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.

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.

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.

(l) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(m) 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.

(n) Foreign currencies

i) Presentation currency

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the Company's Functional and Presentation currency. For each entity in the Group, the Company determines the functional currency and items included in the financial statements of each entity are measured using that Functional currency.

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.

(o) 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 Significant accounting policies (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.

(p) Financial instruments

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

Financial assets

(i) Classification and measurement

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial assets (continued)

(i) Classification and measurement (continued)

a) ***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.

b) 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.

c) Available-for-sale financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

Financial assets (continued)

(ii) 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:
  - o The Group has transferred substantially all the risks and rewards of the asset, or
  - o The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

(iii) Impairment of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

Financial assets (continued)

(iii) Impairment of financial assets (continued)

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

Assets carried at amortised cost

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.

Renegotiated loans

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the group

(i) Classification and measurement

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

Equity instruments

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

Financial liabilities

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

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities

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

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

iii) Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18: 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

Financial liabilities (continued)

(ii) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(v) 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.

(w) Employee benefit costs

The Group operates a defined contribution 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 and its employees also contribute 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.

(x) 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.

(y) 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.

(z) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Critical accounting estimates and judgements

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.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment losses on loans and advances

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Critical accounting estimates and judgements (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.

(b) 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 in-house 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management

The Group defines risk as the possibility of losses being incurred 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.

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 risk

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- Group and Bank

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(a) Credit risk-Group and Bank (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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(b) Credit risk measurement (continued)

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

Risk limit control and mitigation policies

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

Maximum exposure to credit risk before collateral held

	2017		2016	
	Sh'000	%	Sh'000	%
Credit exposures				
On – balance sheet items				
Balances with Central Bank of Kenya	2,159,276	3	2,100,529	3
Balances due from other banking institutions	2,495,298	4	186,792	-
Government securities	7,692,403	12	5,005,144	8
Loans and advances to customers	43,471,853	70	50,163,555	82
Corporate bonds	842,679	1	842,389	1
Other assets	1,836,532	3	977,627	2
	58,498,041	95	59,276,036	97
Off-balance sheet items				
Guarantees and letters of credit	3,390,281	5	3,045,782	3
	61,888,322	100	62,321,818	100

The table represents the worst case scenario of credit exposure for 31 December 2017 and 31 December 2016, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 70% (2016 - 82%) 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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

Maximum exposure to credit risk before collateral held (continued)

Collateral management

The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The acceptability of collateral for credit risk mitigation is guided by the Bank's procedures and policies. The main types of collateral taken are:

Type of lending	Collateral type
Mortgage lending	First ranking legal charge over the property financed.
Personal loans	Checkoffs and cash backed
Asset finance	Secured by motor vehicles and chattel registrations
Other loans and advances	Debentures over the Company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and Company guarantees.

Valuation of collateral

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuation reports on properties are valid for 5 years after which the property and equipment is revalued.

Financial effect of collateral

As at 31 December 2017, 60% of the outstanding loan balances were covered by collateral.

Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The Bank holds financial instruments, financial collateral and cash collateral against its loans and advances measured at armotised cost. The Bank is entitled to offset these through enforceable master netting arrangements or similar agreements, in case of default. As at 31 December 2017, no financial assets or financial liabilities had been offset and presented net on the statement of financial position. Cash collateral held as at 31 December 2017 was Shs 539,423,182 (2016: Shs 808,097,610) and this has been included in 'Other liabilities'. No collateral had been pledged for deposits held.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(a) Credit risk-Group and Bank (continued)

Classification of loans and advances

	Loans and advances to customers	
	2017	2016
	Sh'000	Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard)	2,033,078	1,458,240
Grade 7: Impaired (doubtful)	4,877,531	3,001,910
Grade 8: Impaired (loss)	1,449,498	1,542,689
Gross amount	8,360,107	6,002,839
Allowance for impairment	(2,358,817)	(2,309,749)
Carrying amount	6,001,290	3,693,090
Collectively impaired (Past due but not impaired)		
Grade 4-5: Watch list	1,810,192	2,368,660
Allowance for impairment	(54,306)	(71,060)
Carrying amount	1,755,886	2,297,600
Neither past due nor impaired		
Grade 1-3: Normal, net of unidentified loss provisions	35,714,677	44,172,865
Total carrying amount	43,471,853	50,163,555

Loans and advances neither past due not 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(a) Credit risk-Group and Bank (continued)

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 and 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 (continued)

(a) Credit risk-Group and Bank (continued)

Concentration of risk

Details of significant concentrations of the Group's assets (before impairment), liabilities and off balance sheet items by industry groups are as detailed below:

i) Advances to customers- Group and Bank

	2017		2016	
	Sh'000	%	Sh'000	%
Manufacturing	2,415,192	5	160,021	-
Wholesale and retail	16,412,142	35	17,683,527	34
Transport and communication	5,257,380	11	7,929,738	15
Agriculture	2,415,192	5	2,405,485	5
Business services	522,520	1	517,158	1
Building and construction	3,543,792	8	3,543,792	7
Other	15,363,160	34	20,304,643	38
	45,929,378	100	52,544,364	100
	==========	===	==========	===
ii) Customer deposits				
Central and local Government	28,520	-	199,094	-
Co-operative societies	334,809	1	319,877	2
Insurance companies	213,714	-	183,778	-
Private enterprises & individuals	46,669,578	99	40,588,408	98
Non-profit institutions	115,509	-	104,075	-
	47,362,130	100	41,395,232	100
	=========	===	==========	===
iii) Off balance sheet items				
Letters of credit and guarantees	3,390,281	100	3,045,782	100
	3,390,281	100	3,045,782	100
	==========	===	==========	===

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(b) Liquidity risk- Group and Bank

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.

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:

	2017	2016
At 31 December	34.6%	14.4%
Average for the year	30.8%	22.7%
Maximum for the year	36.8%	30.1%
Minimum for the year	14.3%	9.4%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(b) Liquidity risk- Group and Bank (continued)

Exposure to liquidity risk (continued)

	2017 Sh'000	2016 Sh'000
Cash and cash balances with Central bank of Kenya (note 13)	5,641,710	5,492,415
Balances due from banking institutions (note 14 (a))	2,495,298	186,792

Liquidity risk based on undiscounted cash flows- Group and Bank

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-Dec-17	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	3,482,434	-	-	-	-	3,482,434
Balances with CBK	2,159,276	-	-	-	-	2,159,276
Balances due from banks	2,495,298	-	-	-	-	2,495,298
Government securities	10,514	2,941,878	55,411	2,299,974	3,576,389	8,884,167
Loans and advances	6,038,000	722,481	4,218,628	23,860,894	11,089,375	45,929,378
Corporate bonds	-	-	-	1,057,057	-	1,057,057
Other assets	1,990,660	-	-	-	-	1,990,660
Total financial assets	16,176,182	3,664,359	4,274,039	27,217,925	14,665,764	65,998,269
Financial liabilities						
Balances due to banks	201,708	-	-	-	-	201,708
Customer deposits	32,947,279	3,284,754	11,193,076	-	-	47,425,109
Borrowings	-	-	7,743,164	-	2,361,451	10,104,616
Other liabilities	137,470	-	-	-	-	137,470
Total financial liabilities	33,286,457	3,284,754	18,936,240	-	2,361,451	57,868,903
Net liquidity gap	(17,110,275)	379,605	(14,662,200)	27,217,925	12,304,312	8,129,366
	=========	========	==========	=========	=========	=========

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Liquidity risk- Group and Bank (continued)

Liquidity risk based on undiscounted cash flows (continued)

The following table shows commitments/guarantees and operating lease commitments that are expected to have cash outflows in future from the Group as at 31 December 2017.

	2017 Sh'000	2016 Sh'000
(a) Letters of credit, guarantees, acceptances	3,390,281	3,045,782
(b) Operating lease arrangements	4,936,972	4,812,437
(c) Committed and undrawn facilities	4,230,868	3,064,395
	12,558,121	10,922,614

31-Dec-16	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	4,985,416
Loans and advances to customers	5,679,905	1,391,925	3,853,103	26,749,303	14,870,129	52,544,365
Corporate bonds	-	-	-	1,183,903	-	1,183,903
Other assets	1,146,732	-	-	-	-	1,146,732
Total financial assets	12,755,844	2,587,257	4,145,912	28,201,417	17,849,193	65,539,623
Financial liabilities						
Borrowing from CBK	4,393,608	-	-	-	-	4,393,608
Balances due to banks	922,654	-	-	-	-	922,654
Customer deposits	27,399,616	4,956,567	5,752,376	3,364,761	-	41,473,320
Borrowings	-	-	140,994	6,773,435	2,130,774	9,045,203
Other liabilities	139,967	-	-	-	-	139,967
Total financial liabilities	32,855,845	4,956,567	5,893,370	10,138,196	2,130,774	55,974,752
Net liquidity gap	(20,100,001)	(2,369,310)	(1,747,458)	18,063,221	15,718,419	9,564,871

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(b) Liquidity risk- Group and Bank (continued)

Liquidity risk based on undiscounted cash flows (continued)

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.

(c) Market risks-Group and Bank

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(d) Market risk-Group and Bank (continued)

Interest rate risk (continued)

31-Dec-17	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	-	-	-	-	-	3,482,434	3,482,434
Balances with CBK	-	-	-	-	-	2,159,276	2,159,276
Balances due from banks	-	1,868,833	-	-	-	626,464	2,495,298
Government securities	10,514	2,941,878	55,412	1,833,525	2,851,075	-	7,692,404
Loans and advances	43,471,853	-	-	-	-	-	43,471,853
Corporate bonds	-	-	-	842,679	-	-	842,679
	43,482,367	4,810,711	55,412	2,676,204	2,851,075	6,268,174	60,143,943
Financial liabilities							
Balances due to banks	201,708	-	-	-	-	-	201,708
Customer deposits	3,284,754	-	7,294,684	3,898,392	-	32,884,301	47,362,131
Borrowings	-	-	6,330,527	-	2,032,001	-	8,362,528
	3,486,462	-	13,625,211	3,898,392	2,032,001	32,884,301	55,926,367
Interest sensitivity gap	39,995,905	4,810,711	(13,569,799)	(1,222,188)	819,074	(26,616,127)	4,217,577

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

(d) Market risk-Group and Bank (continued)

Interest rate risk (continued)

31-Dec-16	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	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 (continued)

(d) Market risk-Group and Bank (continued)

(ii) Currency Risk

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

	USD	GBP	EURO	Total
As at 31 December 2017	Sh'000	Sh'000	Sh'000	Sh'000
Financial assets				
Deposits and balances due from banking institutions	352,587	118,597	135,801	606,985
Financial liabilities				
Borrowings	-	(139,714)	(61,994)	(201,708)
Sensitivity gap	352,587	(21,117)	73,807	405,277
	========	=======	=======	=========
As at 31 December 2016				
Financial assets				
Deposits and balances due from banking institutions	87,814	27,447	41,994	157,255
Financial liabilities				
Borrowings	(205,287)	(63,167)	(54,201)	(322,665)
Sensitivity gap	(117,473)	(35,720)	(12,207)	(165,410)
	========	=======	=======	=========

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 (continued)

(c) Market risks-Group and Bank (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 variable and constant rates.
- The projections make other assumptions including that all positions run to maturity.

Assuming no management actions, a 10% appreciation in interest rates would increase net interest income by Sh 438,000,772 (2016 – Sh 671,288,240), while a 10% depreciation in interest rated would decrease net interest income by Sh 438,000,772 (2016 – Sh 671,288,240).

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.

Assuming no management actions, a 10% parallel appreciation in all foreign currencies would increase earnings by Sh 28,876,133 (2016 - Sh 23,567,966), while a 10% parallel appreciation in all foreign currencies would decrease net interest income by Sh 28,876,133 (2016 - Sh 23,567,966).

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 developments.
- To comply with the capital requirements set by the Central Bank of Kenya.

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

a) Hold the minimum level of regulatory capital of 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

Capital management (continued)

Regulatory capital (continued)

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

Fair Value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) level 3

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (continued)

Capital management (continued)

Regulatory capital (continued)

Fair Value of financial assets and liabilities (continued)

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
At 31 December 2017					
Assets					
Cash and balances with CBK	5,641,710	-	-	5,641,710	5,641,710
Balances due from banking institutions	-	-	2,495,298	2,495,298	2,495,298
Loans and advances to customers	-	-	41,195,697	41,195,697	43,471,853
Financial assets – held-to-maturity	4,213,913	-	3,007,804	7,221,717	7,692,403
	9,855,623	-	46,698,799	56,554,422	59,301,264
Liabilities					
Deposits from customers	-	-	47,362,131	47,362,131	47,362,131
Borrowings	-	-	6,214,990	6,214,990	8,362,529
	-	-	53,577,121	53,577,121	55,724,659

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Fair value Shs'000	Carrying value Shs'000
At 31 December 2016					
Assets					
Cash and balances with CBK	5,492,415	-	-	5,492,415	5,492,415
Balances due from banking institutions	-	-	186,792	186,792	186,792
Loans and advances to customers	-	-	45,328,787	45,328,787	50,163,556
Financial assets – held-to-maturity	3,257,138	-	2,324,239	5,581,377	5,837,668
	8,749,553	-	47,839,818	56,589,371	61,680,431
Liabilities					
Deposits from customers	-	-	41,395,232	41,395,232	41,395,232
Borrowings	-	-	5,642,944	5,642,944	8,933,191
	-	-	47,038,176	47,038,176	50,328,423

The fair values of the other financial assets and liabilities held by the Group approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in the previous maturity analysis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial risk management (continued)

Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital position at 31 December 2017 was as follows:

	2017 Sh'000	2016 Sh'000
Tier 1 capital		
Share capital	1,287,108	1,287,108
Share premium	5,874,662	5,874,662
Retained earnings	3,957,970	4,818,483
Total Tier 1 capital	11,119,740	11,980,253
Tier 2 capital		
Revaluation reserves (25%)	48,156	48,972
Term subordinated debt	2,018,800	2,018,800
General loan loss provision (statutory reserve)	295,929	441,729
Total Tier 2 capital	2,362,885	2,509,501
Total regulatory capital	13,482,625	14,489,754
Risk-weighted assets	66,207,095	69,533,673
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	20.40%	20.84%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 10.5%)	16.80%	17.23%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Interest Income	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Interest on loans and advances	6,124,518	10,081,271	6,124,518	10,081,271
Interest on bank placements	38,879	211,708	38,879	211,708
Interest on held to maturity assets:				
- government securities	778,517	657,751	778,517	657,751
- corporate bonds and commercial paper	105,975	182,741	105,975	182,741
	7,047,889	11,133,471	7,047,889	11,133,471
7. Interest Expense				
Interest on customer deposits	1,578,033	2,853,750	1,584,270	2,867,582
Interest on balances due to banks	101,140	219,245	101,140	219,245
Interest on borrowings	988,708	1,025,042	988,708	1,025,041
	2,667,881	4,098,037	2,674,118	4,111,868

8. Fees, commission and other income

(a) Fee and commission income				
Transaction related fees	1,509,493	1,436,700	1,509,493	1,436,700
Credit related fees and commissions	108,907	157,096	108,907	157,096
Ledger related fees and commissions	161,544	111,103	161,544	111,103
	1,779,944	1,704,899	1,779,944	1,704,899

Credit arrangement and origination fees for 2016 amounting to Shs 322m, that were an integral part of the effective interest rate, have been reclassified from fees and commissions income to interest income above. This was done in order to align the classification with the effective interest rate model, and to conform to the basis of disclosure in the current financial period.

(b) Other income	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Brokerage commissions	71,363	113,948	-	-
Gain on disposal of non-current assets held for sale (note 21 (b))	-	15,000	-	15,000
Other incomes	33,134	21,000	33,134	21,000
	104,497	149,948	33,134	36,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 Operating Expenses

Operating expenses	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Staff costs (Note 10)	2,289,793	2,936,936	2,240,850	2,870,912
Directors' emoluments - Fees	70,089	70,950	66,020	66,930
- Other	54,107	84,086	54,107	84,086
Depreciation – property and equipment	754,505	692,429	752,158	690,270
Amortisation of intangible assets	143,276	116,101	141,448	115,065
Contribution to Deposit Protection Fund	83,044	84,579	83,044	84,579
Auditors' remuneration	11,704	12,890	11,182	12,419
Amortisation of prepaid operating lease	4,623	4,610	4,623	4,610
Marketing expenses	153,260	245,329	151,998	243,544
Occupancy expenses	1,191,196	1,196,271	1,189,363	1,194,684
Other operating expenses	2,223,821	2,169,769	2,220,228	2,150,295
	6,979,418	7,613,950	6,915,021	7,517,394

10 Staff costs

	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Salaries and wages	1,908,394	2,505,598	1,866,950	2,448,238
Training, recruitment and staff welfare costs	96,261	91,663	96,261	91,663
Contributions to defined contribution pension scheme	119,884	143,980	118,184	141,420
Medical expenses	165,249	185,211	160,237	179,327
Leave pay provision	(3,458)	6,034	(4,137)	5,946
NSSF contributions	3,463	4,450	3,355	4,318
	2,289,793	2,936,936	2,240,850	2,870,912

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Taxation

	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
Taxation				
a)Taxation charge				
Current tax based on the taxable profit at 30% (2016: 30%)	6,521	313,955	1,762	303,863
Deferred tax credit (note 29)	(349,723)	(1,592)	(349,378)	(1,738)
Overprovision of current tax in prior years	(13,648)	-	(13,648)	-
Tax	(356,850)	312,363	(361,264)	302,125
b) Reconciliation of accounting profit to tax charge				
(Loss) / Profit before taxation	(1,357,638)	664,642	(1,370,841)	633,419
Tax calculated at a tax rate of 30% (2016: 30%)	(407,291)	199,393	(411,252)	190,026
Tax effect of expenses not deductible for tax purposes	100,987	154,250	100,725	153,379
Tax effect of income not taxable	(36,898)	(41,280)	(37,089)	(41,280)
Overprovision of current tax in prior years	(13,648)	-	(13,648)	-
	(356,850)	312,363	(361,264)	302,125
c) Corporate tax (recoverable)/payable				
At beginning of the year	(776,826)	30,441	(738,137)	36,951
Charge for the year	6,521	313,955	1,762	303,863
Overprovision of current tax in prior years	(13,648)	-	(13,648)	-
Tax paid during the year	(4,990)	(1,121,222)	(4,990)	(1,078,951)
At end of the year	(788,944)	(776,826)	(755,013)	(738,137)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Earnings per share (continued)

	Group		Bank	
	2017	2016	2017	2016
(Loss)/Profit (Sh'000)	(999,781)	352,279	(1,008,570)	331,293
	========	========	=========	=========
Weighted average number of shares during the year (000)	1,245,187	1,245,187	1,245,187	1,245,187
	========	========	=========	=========
Earnings per share:				
Basic and diluted (Sh)	(0.80)	0.28	(0.81)	0.27
	========	========	=========	=========

There were no potential dilutive shares outstanding at 31 December 2017.

13 Cash and cash balances with Central Bank of Kenya – Group & Bank

	2017 Sh'000	2016 Sh'000
Cash in hand	3,482,434	3,391,886
Balances with Central Bank of Kenya - cash ratio & other balances	2,159,276	2,100,529
	5,641,710	5,492,415
	========	========

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 2017, the cash ratio reserve requirement was 5.25% (2016 – 5.25%) of all customer deposits held by the Bank. These funds are not available to finance the Group's day to day operations.

14 Balances due from banking institutions – Group & Bank

	2017 Sh'000	2016 Sh'000
a) Balances due from banking institutions maturing within 90 days:		
Overnight lending and placement with other banks	1,868,834	1,816
Balances due from local banking institutions	1,319	525
Balances due from foreign banking institutions	625,145	184,451
	2,495,298	186,792
	========	=======
b) Balances due to banking institutions maturing within 90 days:		
Balances with local banking institutions	201,708	922,654
	========	=======

Deposits with/from local banks as at 31 December 2017 represent overnight lending.
The effective interest rate on deposits due from local banking institutions at 31 December 2017 was 8.61% (2016 –9.50%).

The effective interest rate on deposits due to local banking institutions at 31 December 2017 was 7.89% (2016 –9.47%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Balances due from banking institutions Group and Bank (continued)

	2017 Sh'000	2016 Sh'000
c) Short term borrowings from the Central Bank of Kenya	-	4,393,608
	=======	=========

The short-term borrowing comprised placements from the CBK to cover the cash short-fall the Bank experienced in 2016. As at 31 December 2017, the Bank did not have borrowings from Central Bank of Kenya.

15 Government Securities

	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
a) Held to Maturity				
Treasury bonds – at amortised cost	4,772,704	3,577,670	4,772,704	3,577,670
Treasury bills –at face value less unearned discount	2,919,699	1,176,467	2,919,699	1,176,467
	7,692,403	4,754,137	7,692,403	4,754,137
	=========	========	=========	=========
The maturity profile of government securities is as follows:				
Maturing within one year	3,007,804	1,369,820	3,007,804	1,369,820
Maturing between 2 to 5 years	1,833,524	1,273,098	1,833,524	1,273,098
Maturing after 5 years	2,851,075	2,111,219	2,851,075	2,111,219
	7,692,403	4,754,137	7,692,403	4,754,137
	=========	========	=========	=========

The weighted average effective interest rate on treasury bonds at 31 December 2017 was 10.66 %, (2016 -10.59%) The weighted average effective interest rate on treasury bills was 11.02% (2016-13.12%).

As of 31 December 2017, no treasury bonds were pledged as collateral under repurchase agreements with the Central Bank of Kenya, (2016: Ksh 3,600,000,000)

	2017 Sh'000	2016 Sh'000
b) Available for sale – Group & Bank		
At fair value		
At 1 January	251,007	443,222
Disposals	(243,222)	(201,007)
Additions		
Fair value gain/(loss)	(7,785)	8,792
At 31 December	-	251,007
	=======	=======

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers - Group & Bank

	2017 Sh'000	2016 Sh'000
Commercial loans	36,664,549	39,728,934
Overdrafts	2,393,731	2,688,334
Asset finance loans	5,531,764	8,566,266
Staff loans	1,339,334	1,560,830
Gross loans and advances to customers	45,929,378	52,544,364
Less: Impairment losses (Note 17)	(2,457,525)	(2,380,809)
Net loans and advances to customers	43,471,853	50,163,555
Analysis of gross loans and advances by maturity		
Maturing:		
Within 1 year	10,246,677	23,456,151
Between 1 and 3 years	13,080,891	14,218,084
After 3 years	22,601,810	14,870,129
Loans and advances to customers	45,929,378	52,544,364

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 2017 was 12.19% (2016 – 18.41 %). Included in gross advances of Sh 45,929,378,000 (2016: Sh 52,544,366,000) are loans and advances amounting to Sh 8,360,108,000 (2016: Sh 6,002,839,000) which have been classified as non-performing (impaired).

17 Impairment of loans and advances

	2017 Sh'000	2016 Sh'000
At 1 January	2,380,809	1,539,170
Increase in impairment allowances	931,430	847,370
Amounts written off during the year as uncollectible	(854,714)	(5,731)
At 31 December	2,457,525	2,380,809

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Corporate bonds- Held to Maturity- Group & Bank

	2017 Sh'000	2016 Sh'000
At amortised cost:		
Britam Holdings Limited	425,403	406,533
Centum Limited	417,276	435,856
	842,679	842,389
The maturity profile of corporate bonds is as follows:		
Within 1 year	-	-
Maturing 1 to 5 years	842,679	842,389
Maturing after 5 years	-	-
	842,679	842,389

The weighted average effective interest rate on corporate bonds as at 31 December 2017 was 13.00% (2016 – 13.7%).

19 Other assets

	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Un-cleared items in the course of collection	160,562	178,109	160,562	178,109
Prepayments	393,653	597,300	393,653	597,300
Deposits for services	134,316	140,538	134,316	140,538
Other receivables	1,830,097	975,597	1,830,097	975,597
Other*	1,098,130	342,494	1,059,617	335,402
	3,616,759	2,234,038	3,578,245	2,226,946

*Included in other assets is;

- Shs 750 million held in Chase Bank Limited which is under administration by the Central Bank of Kenya.
- Shs 340 million relating to fair valuation of loans and advances given to staff.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Investment in subsidiary- Bank

	No of shares	Holding	2017 Sh'000	2016 Sh'000
Family Bank Insurance Agency Limited	1,000	100%	1,000	1,000

The subsidiary is a 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. Subsequently, the subsidiary acquired Family Insurance Brokers Limited on 31 July 2015 and changed its name to Family Bank Insurance Agency Limited.

The principal activity of the company is that of an insurance agency business.

21 Investment properties - Group & Bank

a) Investment properties		
At start of year	18,200	18,200
At end of year	18,200	18,200

Investment property relates to Leasehold land acquired at a cost of Shs 24,500,000 as part of the Group's expansion plans and Leasehold land acquired at a cost of Shs 3,170,000 for national customer promotion raffle in 2015. Part of the land at value of Shs 7,200,000 was given out in the "Kunacha Mili na Acre," promotion to the various winners.

b) Non-current assets held for sale		
At the start of the year	-	90,000
Fair value gain	-	15,000
Disposal	-	(105,000)
At end of year	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 Property and Equipment- Group

Cost/ Valuation	Freehold Land Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and equipment Sh'000	Total Sh'000
Year ended 31 December 2016							
At 1 January 2016	122,412	357,288	2,321,253	1,907,741	142,633	927,163	5,778,490
Additions	382,501	-	589,869	220,218	28,887	312,306	1,533,781
Gain on revaluation	64,088	86,660	-	-	-	-	150,748
At 31 December 2016	569,001	443,948	2,914,707	2,127,959	171,520	1,235,884	7,463,019
Depreciation							
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	301,676	25,663	109,415	692,279
At 31 December 2016	-	44,196	1,330,703	1,319,710	97,718	502,847	3,295,174
Net Book Value							
At 31 December 2016	569,001	399,752	1,584,004	808,249	73,802	733,037	4,167,845
Year ended 31 December 2017							
At 1 January 2017	569,001	443,948	2,914,707	2,127,959	171,520	1,235,884	7,463,019
Additions	-	-	75,505	16,269	-	128,426	220,200
Disposal	-		-	-	(54,701)	-	(54,701)
At 31 December 2017	569,001	443,948	2,990,212	2,144,228	116,819	1,364,310	7,628,518
Depreciation							
At 1 January 2017	-	44,196	1,330,703	1,319,710	97,718	502,847	3,295,174
Charge for the year	-	11,099	273,295	312,742	23,977	136,941	758,057
Disposal	-	-	-	-	(47,297)		(47,297)
At 31 December 2017	-	55,295	1,603,988	1,632,452	74,398	639,788	4,005,391
Net book value							
At 31 December 2017	569,001	388,653	1,386,214	511,776	42,421	724,522	3,622,587

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 Property and Equipment- Bank

Cost/ Valuation	Freehold land Sh'000	Buildings Sh'000	Leasehold improvements Sh'000	Computer Sh'000	Motor vehicles Sh'000	Fixtures, fittings and Equipment Sh'000	Total Sh'000
Year ended 31 December 2016							
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
Disposal	-	-	-	-	-	-	-
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 2016	-	25,206	1,094,169	1,016,820	70,731	393,138	2,600,064
Charge for the year	-	10,015	245,143	301,023	24,685	109,286	690,152
At 31 December 2016	-	35,221	1,339,312	1,317,843	95,416	502,424	3,290,216
At 31 December 2016	569,001	408,727	1,571,810	805,714	71,211	732,505	4,158,968
Year ended 31 December 2017							
At 1 January 2017	569,001	443,948	2,911,122	2,123,557	166,627	1,234,929	7,449,184
Additions	-	-	75,206	15,738		127,762	218,706
Disposal	-	-	-	-	(53,218)	-	(53,218)
At 31 December 2017	569,001	443,948	2,986,328	2,139,295	113,409	1,362,691	7,614,672
Comprising:							
At cost	499,913	32,288	2,986,328	2,139,295	117,024	1,359,076	7,133,924
At valuation	69,088	411,660	-	-	-	-	480,748
At 31 December 2017	569,001	443,948	2,986,328	2,139,295	117,024	1,359,076	7,614,672
Depreciation							
At 1 January 2017	-	35,221	1,339,312	1,317,843	95,416	502,424	3,290,216
Charge for the year	-	11,099	273,295	311,877	23,175	136,328	755,774
Disposal	-	-	-		(47,103)	-	(47,103)
At 31 December 2017	-	46,320	1,612,607	1,629,720	71,488	638,752	3,998,887
Net book value							
At 31 December 2017	569,001	397,628	1,373,721	509,575	45,535	720,324	3,615,785

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	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
Cost				
At 1 January	1,081,090	832,669	1,073,809	830,898
Additions	162,942	248,421	161,504	242,909
At 31 December	1,244,032	1,081,090	1,235,313	1,073,807
Amortisation				
At 1 January	629,969	513,868	628,338	513,273
Charge for the year	143,176	116,101	141,449	115,065
At 31 December	773,145	629,969	769,787	628,338
Net book value				
At 31 December	470,887	451,121	465,526	445,469

24 Prepaid Operating Lease Rentals- Group & Bank

	2017	2016
	Sh'000	Sh'000
Leasehold land:		
Cost		
At 1 January and 31 December	180,335	180,335
Amortisation		
At 1 January	26,978	22,366
Charge for the year	4,621	4,610
At 31 December	31,599	26,976
Net book value		
At 31 December	148,736	153,359

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 Customer deposits

	Group		Bank	
	2017	2016	2017	2016
	Sh'000	Sh'000	Sh'000	Sh'000
Customer deposits				
Current and demand accounts	30,458,091	27,393,527	30,467,069	27,399,616
Savings accounts	2,964,292	2,628,113	2,964,292	2,628,113
Fixed deposit accounts	13,939,747	11,373,592	13,993,747	11,445,592
	47,362,130	41,395,232	47,425,108	41,473,321
Maturity analysis of customer deposits				
Repayable:				
On demand	30,458,091	27,393,527	30,467,069	27,399,616
Within one year	13,005,647	10,636,943	13,059,647	10,708,943
1-5 years	3,898,392	3,364,761	3,898,392	3,364,761
	47,362,130	41,395,232	47,425,108	41,473,321

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2017 was 10.39 % (2016 – 11.34 %). The related party transactions and balances are covered under note 35 and concentration of customers' deposits is covered under note 4.

26 Borrowings - Group & Bank

	2017	2016
	Sh'000	Sh'000
a) Analysis		
European Investment Bank (EIB)	5,633,628	5,926,330
OIKO Credit	677,684	847,105
Kenya ICT Board – Pasha loan	-	127,191
Waste Finish Ink	10,864	10,864
Water Credit Alternative Channels	8,352	2,340
	6,330,528	6,913,380
Corporate Bond	2,074,768	2,074,768
Unarmotised origination fees	(42,767)	(54,957)
	8,362,529	8,933,191
b) Movement:		
At beginning of the year	8,933,191	5,587,720
Received in the year	7,931	3,457,200
Accrued interest	319,452	344,043
Repaid in the year	(898,045)	(455,772)
At end of the year	8,362,529	8,933,191

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%. The 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.

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	5.50%
5 years	6.00%
6 years	6.50%
7 years	7.00%

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. The facility was repaid in April 2017.

The OIKO loan is from OIKO Credit for the purpose of targeting financial intervention in sanitation and hygiene.

The interest charged is 11.47% (2016: 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.

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%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 Borrowings-(continued)

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

	2017 %	2016 %
EIB	9	9
OIKO Credit	10.4	10.4
PTA Loan 2(USD)	8	8
Kenya ICT Board – Pasha loan	4	4
Corporate Bond	15	15
	====	=====

Due to the difficult macro-economic environment, the Bank was not in compliance to the agreed limit on the non-performing loans covenant as agreed with both OIKO and EIB. We have plans in place in consultation with both lenders to remedy this non-compliance and revert back to the agreed limits but we have in the interim re-classified the maturity of the borrowings to within one year for disclosure purposes in the liquidity analysis in note 4 (b) and (d).

27 Provisions and Other Liabilities

	Group		Bank	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
(a) Provisions and accruals				
Provisions and accruals	270,142	64,150	270,142	64,150
Leave pay accrual	43,198	47,488	42,513	46,803
	313,340	111,638	312,655	110,953
(b) Other Liabilities	=======	=======	=======	=======
Cheques for collection	137,470	139,867	137,470	139,367
Revenue collected on behalf of revenue authorities	100,438	91,193	100,438	91,193
Other payables	901,248	719,678	899,934	719,607
	1,139,156	950,738	1,137,842	950,167
	=======	=======	=======	=======

28 Dividends - Group & Bank

	2017 Sh'000	2016 Sh'000
a) Unclaimed dividends		
At 1 January	4,720	28,589
Declared relating to 2015 financial year	-	622,594
Paid during the year	(1,912)	(646,463)
At 31 December	2,808	4,720
	========	========

Unclaimed dividends relate 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 dividends for the year ended 31 December 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 Deferred Tax Liability

	Group 2017 Sh'000	Group 2016 Sh'000	Bank 2017 Sh'000	Bank 2016 Sh'000
The deferred tax asset computed at the enacted rate of 30% is attributed to the following items:				
Deferred tax assets:				
Provisions	(38,250)	(35,564)	(38,045)	(35,358)
Excess depreciation over capital allowances	(11,694)	983	(11,515)	816
Tax losses	(287,904)	-	(287,904)	-
	(337,848)	(34,581)	(337,464)	(34,542)
Deferred tax liabilities:				
Revaluation surplus	12,969	59,425	12,969	59,425
Net deferred tax liability/(asset)	(324,879)	24,844	(324,495)	24,883

Movement in deferred tax liability is as follows:

	Group 2017	Group 2016	Bank 2017	Bank 2016
At 1 January	24,844	(2,767)	24,883	(2,582)
Credit to profit or loss (note 11)	(349,723)	(1,592)	(349,378)	(1,738)
Other comprehensive income charge	-	29,203	-	29,203
At 31 December	(324,879)	24,844	(324,495)	24,883

30 Share Capital and reserves

(a) Share capital

	2017 Sh'000	2016 Sh'000
Authorised:		
1,500,000,000 ordinary shares of Sh 1 each	1,500,000	1,500,000
Issued and fully paid:		
1,287,107,542 ordinary shares of Sh 1 each	1,287,108	1,287,108

Movement in issued and fully paid shares

	Number of shares	Share capital Sh '000	Share premium Sh '000	Total Sh'000
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
At 1 January 2017	1,287,107,542	1,287,108	5,874,662	7,161,770
At 31 December 2017	1,287,107,542	1,287,108	5,874,662	7,161,770

There was no change in the share capital for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Share Capital and reserves (continued)

(b) Nature and purposes of reserves

30.1 Revaluation surplus

This represents solely the revaluation of building and freehold land net of deferred income tax and is non-distributable.

30.2 Statutory reserve

The reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non- distributable.

30.3 Fair value reserve

The fair value reserve comprise of the cumulative net change in the fair value of available for sale financial assets until the investment is derecognised or impaired. The reserve is non-distributable.

31 Notes to the statement of cash flows

(a) Reconciliation of profit before taxation to cash flow from operations	Group		Bank	
	2017	2016	2017	2016
	Sh '000	Sh '000	Sh '000	Sh '000
(Loss)/Profit before taxation	(1,357,638)	664,641	(1,370,841)	633,419
Adjustments for:				
Depreciation of property and equipment (note 22)	758,057	692,429	755,774	690,270
Amortisation of intangible assets (note 23)	143,176	116,101	141,449	115,065
Gain on disposal of equipment	(9,780)		(9,814)	
Amortisation of leasehold land (note 24)	4,621	4,610	4,621	4,610
Fair value adjustment on investment property (note 21 (b)	-	(15,000)		(15,000)
Interest expense on borrowings (note 26)	319,452	344,043	319,452	344,043
Changes in working capital items:				
Cash ratio balance	(58,748)	1,159,639	(58,748)	1,159,639
Loans and advances to customers	6,691,703	5,690,327	6,691,703	5,690,327
Other assets	(1,383,025)	(887,445)	(1,352,306)	(901,871)
Customer deposits	5,966,898	(21,315,627)	5,951,788	(21,257,546)
Provisions and Other liabilities	390,118	312,241	389,374	313,458
Government securities - HTM	(2,938,266)	2,394,381	(2,938,266)	2,629,139
Government securities - AFS	251,007	297,893	251,007	-
Corporate bonds	(290)	725,938	(290)	725,937
Cash generated from operations	8,777,285	(9,815,829)	8,774,903	(9,868,510)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. Notes to the statement of cash flows (continued)

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

	Group		Bank	
	2017	2016	2017	2016
	Sh '000	Sh '000	Sh '000	Sh '000
Cash in hand	3,482,433	3,391,886	3,482,433	3,391,886
Balances with other banking institutions	2,495,298	186,792	2,495,298	186,792
Balances due to other banking institutions	(201,708)	(922,654)	(201,708)	(922,654)
	5,776,023	2,656,024	5,776,023	2,656,024
	=========	=========	=========	=========

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.

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 2017 or 2016.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Operating segments (continued)

Profit or loss for the year ended 31 December 2017

	Whole sale banking Sh'000	Retail banking Sh'000	Other Sh'000	Total Sh'000
Interest income	2,819,156	4,228,734	-	7,047,889
Interest expense	(1,067,153)	(1,600,729)	-	(2,667,882)
Net interest income	1,752,003	2,628,005	-	4,380,008
Other income	840,736	1,261,103	71,363	2,173,202
Operating income	2,592,739	3,889,108	71,363	6,553,210
Depreciation and amortisation	(359,291)	(538,937)	(4,176	(902,404)
Operating expenses	(2,392,419)	(3,588,629)	(109,773)	(6,090,821)
Impairment charge on loans and advances	(372,572)	(558,858)	-	(931,430)
Share of profit subsidiary	-	-	13,807	13,807
Profit before tax	(531,544)	(797,316)	(28,779)	(1,357,639)
Tax (expense) / credit	144,506	216,759	(4,415)	356,850
Loss after tax	(387,038)	(580,557)	(33,194)	(1,000,789)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 Operating segments (continued)

Statement of financial position as at 31 December 2017

	Wholesale banking	Retail banking	Other	Total
Assets	Sh' 000	Sh' 000	Sh' 000	Sh' 000
Segment assets	27,595,245	41,392,864	-	68,988,109
Un-allocated assets	-	-	146,827	146,827
Total assets	27,595,245	41,392,864	146,827	69,134,935
Liabilities and equity:				
Segment liabilities	27,678,807	41,518,207	-	69,197,014
Un-allocated liabilities	-	-	(62,079)	(62,079)
Inter-segment lending	(57,857)	(86,785)	144,162	-
Total liabilities and equity	27,620,950	41,431,423	82,563	69,134,935
Other disclosures				
Capital expenditure	130,128	162,660	32,532	325,321

Statement of financial position as at 31 December 2016

	Wholesale banking	Retail banking	Other	Total
	Sh' 000	Sh' 000	Sh' 000	Sh' 000
Assets				
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	69,491,684
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

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.

	2017 Sh'000	2016 Sh'000
Year 1	568,840	563,354
Year 2 - 3	1,237,893	1,227,384
Year 4 - 5	1,398,633	1,388,840
Above 5 years	1,731,606	1,632,859
	4,936,972	4,812,437
	========	========

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.

	2017 Sh'000	2016 Sh'000
Year 1	8,755	7,597
Year 2 - 3	9,387	16,550
Year 4 - 5	9,711	15,768
Above 5 years	10,925	14,538
	38,778	54,453
	======	======

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.

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.

2017 Sh'000	2016 Sh'000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 Contingencies and commitments including off balance sheet items (Continued)

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 Group

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

b) Commitments to extend credit

	2017 Sh'000	2016 Sh'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	4,230,868	3,064,395
	========	========

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

c) Capital commitments

	2017 Sh'000	2016 Sh'000
Authorised and contracted for	663,901	316,000
	========	========
Authorised but not contracted for	135,000	465,000
	========	========

The authorised but not contracted for capital commitments relate to the branch set up costs amounting to Sh.135 million (2016 Sh 465 million) for 7 proposed branches in the year ending 31 December 2017.

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 2017 include advances and loans to companies associated with the directors.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 Related party transactions (Continued)

	Group		Bank	
	2017	2016	2017	2016
	Sh '000	Sh '000	Sh '000	Sh '000
(a) Loans and advances				
At 1 January	3,828,353	3,117,341	3,828,353	3,117,341
Additions	727,666	1,785,459	727,666	1,785,459
Interest charged	266,376	234,017	266,376	234,017
Repayments	(1,553,312)	(1,308,463)	(1,553,312)	(1,308,463)
At 31 December	3,269,083	3,828,354	3,269,083	3,828,354

As at 31 December 2017 loans and advances to staff amounted to Sh 1,400,556,552 (2016 – Sh 1,715,286,000). The loans and advances to related parties are performing and adequately secured.

	Directors	Companies associated to directors	Total
	Sh '000	Sh '000	Sh '000
(b) Deposits – Group and bank			
At 1 January 2016	34,352	387,085	421,437
Withdrawals	(7,124)	(46,306)	(53,430)
At 31 December 2016	27,228	340,779	368,007
At 1 January 2017	27,228	340,779	368,007
Withdrawals	(14,190)	458,502	444,312
At 31 December 2017	13,038	799,281	812,319

	2017	2016
	Sh '000	Sh '000
(c) Due to related parties – Bank		
Family Bank Insurance Agency	-	1
Family Foundation	-	1,119
	-	1,120

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 Related party transactions (Continued)

Key management compensation

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

Short term benefits	2017 Sh'000	2016 Sh'000
Salaries and other benefits	125,445	104,350
Directors' emoluments	93,539	229,652
	218,984	334,002

36 Family Bank Foundation

The Bank has control over The Family Group Foundation ("the Foundation") as per the provisions of IFRS 10 Consolidated Financial Statements. Control in this case is achieved through the Bank's contributions to the Foundation which indicate power over the Foundation and its ability to influence the Foundation's activities, as well as the reputational dividend from the Foundation's name.

The Foundation is registered in Kenya and its principal activity is to provide financial support in the education of needy students in Kenya. Its registered office is Daykio Plaza, Ngong Road, Nairobi.

Except for Kshs 45m (2016: Kshs 53m) contributions by the Bank to the Foundation which have been included as expenses in Note 9 of the financial statements, other intercompany transactions and interactions between the Foundation and the Bank were immaterial. These financial statements are not consolidated as a result.

PROXY FORM

Shareholder's Name: …………………….....
Share Account No. ……………………...

The Company Secretary
Family Bank Limited
8th Floor, Family Bank Towers.
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 Wednesday, 27th June 2018 at 10.00 am at Kenyatta International Conference Centre, Amphitheatre and at any adjournment thereof.

This form is to be used in favor or against the resolution and unless otherwise instructed the proxy will vote as he/she deems fit.
As witnessed by my/our hand this ………………………day of ………………………….. 2018
Signed……………………………………………..........……… Signed……….……………..........…………….………….
ID No…………………………………………….……............… ID No……………..………………………….........……….

NOTES

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

Shareholder's Admission Form

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

Name………………………………………………… ID Number...
Shareholder's Share Account No……………………… Signature ....……………………………………….....

Family Bank
With you, for life

Notes

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BRANCHES

BRANCH NAME	BRANCH CODE	BRANCH NAME	BRANCH CODE
Kiambu	001	Banana	051
Githunguri	002	Ruaka	052
Sonalux	003	Naivasha	053
Gatundu	004	Chuka	054
Thika	005	Nyeri	055
Murang'a	006	Karatina	056
Kangari	007	Kerugoya	057
Kiria-ini	008	River Road West - Nairobi	058
Kangema	009	River Road - Nairobi	059
JKIA	010	Kayole	061
Othaya	011	Nkubu	062
Kenyatta Avenue - Nairobi	012	Meru	063
Cargen	014	Nanyuki	064
Laptrust - Nairobi	015	KTDA Corporate	065
City Hall - Nairobi	016	Ongata Rongai	066
Kasarani	017	Kajiado	067
Nakuru Finance	018	Family Bank Towers Corporate	068
Nakuru Market	019	Ngara	069
Kutus	020	Kitengela	071
Dagoretti	021	Kitui	072
Kericho	022	Machakos	073
Nyahururu	023	Migori	074
Ruiru	024	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
Kagwe	049		

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