DTB Corporate Philosophies

Our Vision

'Enabling people to advance with confidence and success'.

Our Mission

'To make our customers prosper, our staff excel and create value for our stakeholders'.

Our Values

Our values are the fundamental principles that define our culture and are brought to life in both our attitudes and our behaviour. It is our values that makes us unique and unmistakable.

Excellence

This should be at the core of everything we do. The markets in which we operate are becoming increasingly competitive and our customers now have an abundance of choice. Only through being the very best - in terms of the service we offer, and our products and premises - can we hope to be successful and grow.

Integrity

To be one of the leading banks in Sub-Saharan Africa, knowing that our success depends upon trust. Our customers - and society in general - expect us to possess and steadfastly adhere to high moral principles and professional standards.

Customer Focus

We need to understand fully the needs of our customers and to adapt our products and services to meet these. We must strive always to put the satisfaction of our customers first.

Meritocracy

We believe in giving opportunities and advantages to our employees on the basis of their ability. We believe in rewarding achievement and in providing first-class career opportunities for all.

Progressiveness

We believe in the advancement of society through the adoption of enlightened working practices, innovative new products and processes and a spirit of enterprise.

Contents

Financial statements:

Company Information

BOARD OF DIRECTORS	Mahmood Manji	*Chairman*
	Nasim Devji *	*Managing Director*
	Nauman Dar**	Appointed on 28 May 2009
	Kabir Hyderally **	
	Moez Jamal*	Appointed on 4 December 2009
	Nizar Juma	
	Amin Merali	
	Mwaghazi Mwachofi	Appointed on 28 May 2009
	Sukh Dev Nayyar***	Appointed on 26 August 2009
	Abdul Samji	
	Karim Kanji****	Retired on 29 May 2009
	Jack Kisa	Retired on 29 May 2009
	Mohamood Thobani*****	Retired on 29 May 2009
	*British ** Pakistani ***Indian ****Tanzanian *****Ugandan	
COMPANY SECRETARY	Stephen Kodumbe	Appointed on 12 August 2009
REGISTERED OFFICE	Nation Centre Kimathi Street P.O. Box 61711 City Square 00200 NAIROBI	
AUDITOR	PricewaterhouseCoopers Certified Public Accountants Rahimtulla Tower Upper Hill Road P.O. Box 43963 - 00100 NAIROBI	
SUBSIDIARIES	Diamond Trust Bank Tanzania Limited Diamond Trust Bank Uganda Limited Diamond Trust Bank Burundi S.A. Diamond Trust Insurance Agency Limited Premier Savings and Finance Limited Network Insurance Agency Limited	

Company Information (Continued)

BRANCHES

Nation Centre
Kimathi Street
P.O. Box 61711 - 00200
NAIROBI

Unit 2, Capital Centre
Mombasa Road
P.O. Box 27556 - 00506
NAIROBI

Aga Khan Hospital
3rd Avenue, Parklands
P.O. Box 39694 - 00623
NAIROBI

Westgate Shopping Mall
Mwanzi Road
P.O. Box 66213 - 00800
NAIROBI

Tuskys Supermarket
Mondlane/Tom Mboya Street
P.O. Box 61711 - 00200
NAIROBI

OTC Building, Shop No. 3
Gwasi Lane, Off Racecourse Road
P.O. Box 7978 - 00300
NAIROBI

Prestige Plaza
2nd Floor, Ngong Road
P.O. Box 21053 - 00505
NAIROBI

Industrial Area
Likoni Road
P.O. Box 78552 - 00507
NAIROBI

Supermarket Arcade Building
2nd Avenue Eastleigh
P.O. Box 69001 - 00622
NAIROBI

Village Market
Limuru Road
P.O. Box 63473 - 00619
NAIROBI

Buruburu
South Mumias Road
P.O. Box 12125 - 00515
NAIROBI

Jubilee Insurance House
Wabera Street
P.O. Box 49538 - 00100
NAIROBI

Petrocity Service Station
Ngong Road, Karen
P.O. Box 24827- 00502
NAIROBI

Crowne Plaza Hotel
Kilimanjaro Road, Upper Hill
P.O. Box 49627- 00100
NAIROBI

T-Mall Plaza
Langata Road
P.O. Box 5060 - 00506
NAIROBI

Millenium Building
Kajiado Road
P.O. Box 108 - 00241
KITENGELA

Tuskys Chania
Kenyatta Highway
P.O. Box 327 - 01000
THIKA

Diamond Trust House
Moi Avenue
P.O. Box 90564 - 80100
MOMBASA

Magongo Road, Changamwe
P.O. Box 93140 - 80100
MOMBASA

Majengo Bazaar Building
Jomo Kenyatta Street
P.O. Box 97888 - 80112
MOMBASA

South Coast Plaza, Diani
Diani Beach Road
P.O. Box 5656 - 80401
MOMBASA

F.N. Centre
Lamu Road
P.O. Box 5244 - 80200
MALINDI

Diamond Trust House
Oginga Odinga Road
P.O. Box 1081 - 40100
KISUMU

S.D. Shah Building
Kenyatta Avenue, Nakuru
P.O. Box 1101 - 20100
NAKURU

Cannon Awori Road
P.O. Box 2480 - 50100
KAKAMEGA

Kenyatta Street, Kitale
P.O. Box 3707 - 30200
KITALE

Tengecha Road
P.O. Box 1051 - 20200
KERICHO

Moi Avenue, Bungoma
P.O. Box 726 - 50200
BUNGOMA

Moi Highway
P.O. Box 1265 - 40200
KISII

Company Information (Continued)

PRINCIPAL OFFICERS	Shahzad Karim	Head of Corporate Banking
	Gopa Kumar	Head of Retail Banking
	Kennedy Nyakomitta	Head of Asset Finance, Insurance Premium Finance & Western Kenya Region
	Joseph Mathai	Head of Coast Region
	Sathya Vadana	Head of Treasury & International Banking
	Alkarim Jiwa	Head of Finance & Planning
	Nita Shah	Head of Risk Management
	Nizar Tundai	Head of Technology
	Laila Premji	Head of Branch Management Unit
	Frederick Olande	Head of Human Resources
	Stella Mulandi	Head of Money Transfer Services
	Peter Kimani	Head of Internal Audit
	Milerangam Jayaraman	Head of Credit Risk
	Sospeter Muchiri	Head of Centralised Operations
	Suraj Shah	Head of Special Projects
	Stephen Kodumbe	Company Secretary & Head of Legal
	Hilda Kerubo	Head of Compliance
	Imrana Qureshi	Head of Marketing & Corporate Communications

PRINCIPAL CORRESPONDENTS	London	Habib Allied Bank Standard Chartered Bank Plc
	New York	Habib Bank Limited Citibank N.A. Standard Chartered Bank Plc
	Paris	Banque Natexis
	Frankfurt	BHF Bank Commerzbank Standard Chartered Bank Plc
	Toronto	Citibank, Canada Bank of Montreal
	Johannesburg	Citibank, South Africa Standard Bank, South Africa
	Mumbai	ICICI Bank Development Credit Bank Limited
	Melbourne	ANZ Bank Melbourne, Australia
	Tokyo	Standard Chartered Bank Plc
	Dubai	Habib Bank Limited

Five - Year Financial Review

	2009	2008	2007	2006	2005
Net interest income	3,519,513	2,438,734	1,720,661	1,078,864	811,211
Non-fund based income	1,548,417	1,230,067	633,656	431,255	337,210
Total income	5,067,930	3,668,801	2,354,317	1,510,119	1,148,421
Operating profit before provisions	2,225,544	1,794,823	1,121,793	743,720	518,554
Charge for impairment of loans	(295,682)	(190,527)	(66,523)	(58,813)	(91,940)
Profit before income tax	1,929,862	1,604,296	1,055,270	684,907	426,614
Profit after tax and non controlling interests	1,250,250	1,024,489	690,691	487,830	294,598
Dividends for the year	252,708	228,252	228,252	139,746	86,953
Advances to customers (net)	41,518,135	34,063,359	23,181,871	13,832,756	10,318,103
Total deposits (customers and banks)	54,954,890	45,853,320	29,347,307	16,952,462	13,846,171
Shareholders' funds	6,998,163	5,905,514	5,052,025	2,868,090	1,652,234
Total assets	66,679,080	56,145,697	35,997,571	21,737,391	16,384,422

Performance ratios					
Earnings per share - basic and diluted	Shs. 7.67	Shs. 6.28	Shs. 4.72	Shs. 3.38	Shs. 2.04
Dividend per share	Shs. 1.55	Shs. 1.40	Shs. 1.40	Shs. 1.00	Shs. 0.70
Net loans to deposits	75.5%	74.3%	79.0%	81.6%	74.5%
Non performing loans to total loans (before provisions)	1.4%	1.2%	0.7%	0.8%	0.8%
Return on average assets	2.0%	2.2%	2.4%	2.6%	2.1%
Return on average shareholders' funds	19.4%	18.7%	17.5%	21.6%	19.1%
Non-fund based income to total income	30.6%	33.5%	26.9%	28.6%	29.4%

Other indicators (Bank only)					
Core capital to customer deposits	14.5%	13.6%	17.5%	15.1%	9.8%
Core capital to total risk weighted assets	15.4%	15.6%	19.1%	16.5%	11.1%
Total capital to total risk weighted assets	19.0%	19.8%	19.1%	19.7%	14.2%
Number of branches	28	17	11	5	5
Number of employees	530	396	364	238	201
Expenditure on property and equipment	433,793	276,290	159,884	74,241	54,877

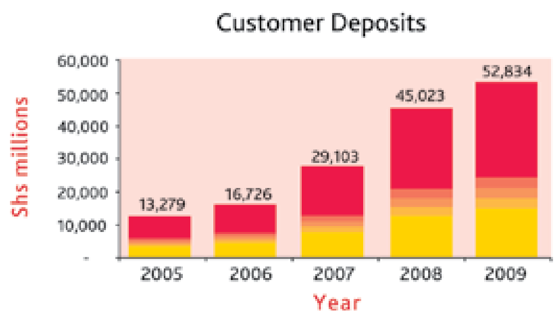
The extracts from the consolidated financial statements are stated in thousands of Kenya Shillings (Shs 000) except where otherwise indicated.

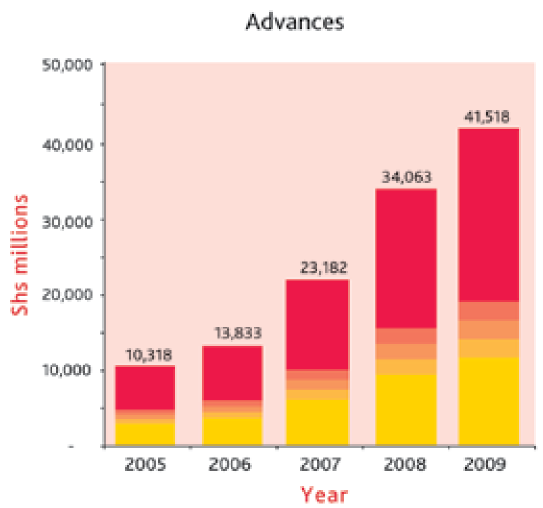
The results for Diamond Trust Bank Tanzania Limited which had previously been accounted for as an associate, have been accounted for as a subsidiary from 15 June 2007. This follows the increase in the Bank's shareholding in Diamond Trust Bank Tanzania Limited from 33.4% to 55.4% on the same date.

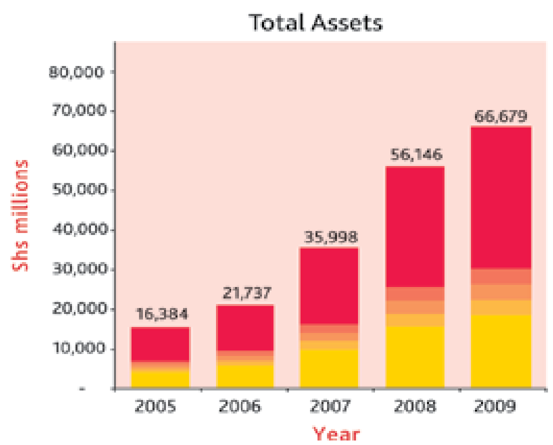
The results for Diamond Trust Bank Uganda Limited (DTBU), which had previously been accounted for as an associate, have been accounted for as a subsidiary from 6 October 2008. This follows the increase of the Bank's shareholding in DTBU from 26.7% to 51% on the same date.

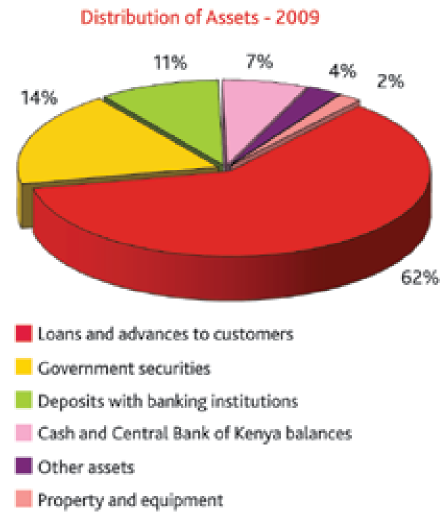
The results for Diamond Trust Bank Burundi S.A. and Diamond Trust Insurance Agency Limited have been accounted for as subsidiaries effective November 2008 and December 2008 respectively.

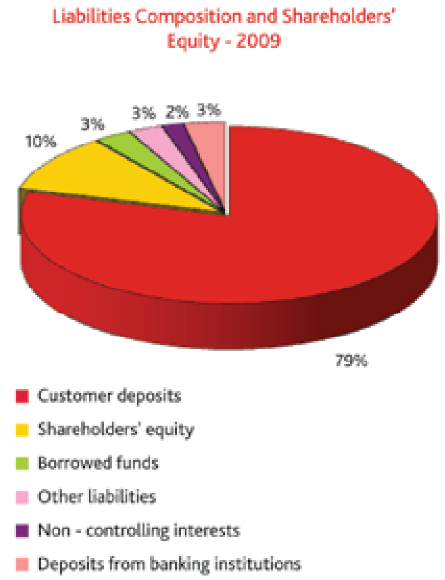
Financial Performance Charts

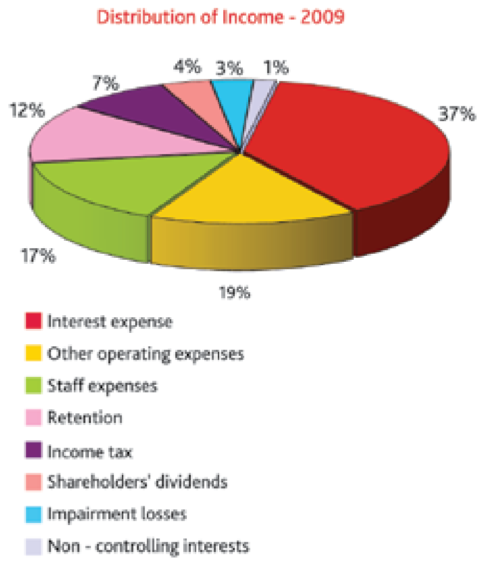












Board of Directors

Mr. Mwaghazi Mwachofi
Non - executive Director

Mr. Moez Jamal
Non - executive Director

Mr. Amin Merali
Non - executive Director

Mrs. Nasim Devji
Managing Director

Mr. Mahmood Manji
Chairman

Not in the picture: **Mr. Kabir Hyderally** *Non - executive Director*

Mr. Stephen Kodumbe
Company Secretary

Mr. Nauman Dar
Non - executive Director

Mr. Sukh Dev Nayyar
Non - executive Director

Mr. Nizar Juma
Non - executive Director

Mr. Abdul Samji
Non - executive Director

Directors' Profiles

MR. MAHMOOD MANJI
CHAIRMAN

A career banker, Mr Manji was appointed Chairman of the DTB Group in July 2005. Mr Manji joined DTB as Group Chief Executive in 1996, a position he held until 1999. He retained his seat on the Board until 2004, when he was appointed Deputy Chairman. Prior to his appointment at DTB, Mr Manji was the Managing Director of CFC Bank Limited. He is the Chairman of Property Development and Management Limited and a Director of TPS Eastern Africa Limited. He is a former director of the Kenya Civil Aviation Authority. Mr Manji, a Fellow of the Kenya Institute of Bankers, is a member of the Institute of Chartered Accountants in England and Wales and the International Who's Who of Professionals.

MRS. NASIM DEVJI
MANAGING DIRECTOR

Mrs. Devji joined the DTB group in 1996. In 2001, she was appointed Group Chief Executive Officer of the Diamond Trust Banks in East Africa. Prior to joining the DTB group, she worked in the United Kingdom for 25 years in the accountancy profession and as a taxation specialist in the oil industry. Mrs. Devji is a Fellow of The Institute of Chartered Accountants of England and Wales, an associate of the Institute of Taxation (United Kingdom) and a Fellow of the Kenya Institute of Bankers. Mrs. Devji is a director of DTB Tanzania, DTB Uganda, DTB Burundi and Diamond Trust Insurance Agency Limited. She is also a director of Development Credit Bank Limited, India and a member of the Deposit Protection Fund Board.

MR. ABDUL SAMJI
NON - EXECUTIVE DIRECTOR

Mr. Samji is a Certified Public Accountant and Management Consultant by profession, and a former Managing Partner of PKF Kenya, a firm of Certified Public Accountants. He was appointed to the DTB Kenya Board in 1997. He is a B.Comm (Hons.) graduate, Fellow of the Association of Chartered Certified Accountants and a member of the Institute of Certified Public Accountants of Kenya. Mr. Samji is a past District Governor of Rotary International, District 9200, and is a Trustee for several institutions involved in charitable and service activities. Mr. Samji is also a director of the Kenya Tourist Board.

MR. NAUMAN DAR
NON - EXECUTIVE DIRECTOR

Mr Dar was appointed to the DTB Kenya Board in May 2009. Mr. Dar is a career banker of many years standing and is currently the CEO of Habib Allied International Bank plc UK, as well as the Head of International Banking of Habib Bank Limited. Prior to his current appointment, he worked in various senior positions with the Bank of America N.A. and Citibank N.A.

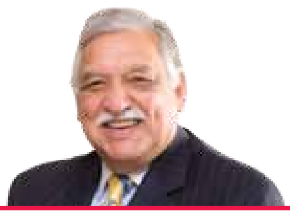
MR. KABIR HYDERALLY
NON - EXECUTIVE DIRECTOR

Mr. Hyderally was appointed to the DTB Kenya Board in September 2007. He has served as a non-executive director of DTB Tanzania since 1988. He is a B.Comm graduate, Fellow of the Institute of Chartered Accountants of Pakistan, and a Fellow of the National Board of Accountants & Auditors, Tanzania. Mr. Hyderally is also a director of TPS Eastern Africa Limited.

MR. MOEZ JAMAL
NON - EXECUTIVE DIRECTOR

Mr Jamal was appointed to the DTB Kenya Board in December 2009. He has vast experience in banking and is currently a Director of Habib Bank Limited, Pakistan and Marcuard Family Office, Switzerland. He is also a Senior Advisor to Absolute Investment Services, Zurich. Mr Jamal has previously worked in various senior positions with Credit Suisse and Lloyds Bank International London/New York and his last assignment was as the Global Treasurer, Credit Suisse.

Directors' Profiles (Continued)



MR. NIZAR JUMA
NON - EXECUTIVE DIRECTOR

Mr. Juma is a Kenyan businessman. He is probably most well known for his company, Orbitsports Limited, manufacturers of Adidas products. He joined the DTB Kenya Board in August, 1997. Mr. Juma was Chairman of the Aga Khan Health Services in Kenya for almost seven years. He is currently the East African Regional Chairman of the IPS Group of Companies. He is also the Chairman of The Jubilee Insurance Group of Companies in this region. He holds a joint honors degree in Economics, Law and Accountancy from the University of Wales. He was awarded the Silver Star by the President of Kenya for outstanding service to the nation.

MR. AMIN MERALI
NON - EXECUTIVE DIRECTOR

Mr. Merali was appointed to the DTB Kenya Board in 1998. Mr. Merali is a prominent businessman and is Chairman and Chief Executive of the Merali Group of Companies, comprising the Neptune Group of hotels in Kenya and Tanzania, bulk fuel haulage and property development in Kenya, Uganda and Tanzania.

MR. MWAGHAZI MWACHOFI
NON - EXECUTIVE DIRECTOR

Mr Mwachofi was appointed to the DTB Kenya Board in May 2009. He is a former Permanent Secretary in the Ministry of Finance, Kenya and is currently the Finance Director of the Aga Khan Agency for Microfinance in Geneva. Prior to his current appointment Mr Mwachofi had a long career in banking and held senior positions with the First Chicago Bank in Nairobi, Citibank and the International Finance Corporation in Washington. He worked with Celtel International BV before his current appointment. Mr Mwachofi is a holder of an Honours Degree in Accounting from the University of Nairobi and an MBA in Finance from the Wharton Business School, University of Pennsylvania. He is currently also a director of the First Microfinance Bank, Pakistan.

MR SUKH DEV NAYYAR
NON - EXECUTIVE DIRECTOR

Mr Nayyar was appointed to the DTB Kenya Board in August 2009. He was an Associate of the Institute of Bankers, England and is knowledgeable in the area of risk management. Mr Nayyar has vast experience in banking and is currently a non-executive Director of Development Credit Bank, India (DCB), and Chairman of its Board Credit Committee. He has previously worked in various senior positions with Grindlays Bank, India and ING Bank, India. Mr Nayyar's last assignment was as the Chairman and Managing Director of ING Asset Management Company, India.

MR. STEPHEN KODUMBE
COMPANY SECRETARY

Mr. Kodumbe joined DTB in 2008 as the Manager, Legal Services and was appointed Company Secretary in August 2009. Mr. Kodumbe holds a Bachelor of Laws (LL.B) Degree and a Masters in Business Administration Degree from the University of Nairobi together with a Diploma from the Kenya School of Law. Besides being an Advocate of the High Court of Kenya and a registered Certified Public Secretary, Mr. Kodumbe is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

Member of:

Board Executive Committee	*Board Risk Management Committee*
Board Nomination and Remuneration Committee	*Board Credit Committee*
Board Audit Committee	*Board Asset and Liability Committee*

"One has no regrets making DTB its choice" Bungoma, Kenya

" Fast and efficient service makes the difference" Kericho, Kenya

" DTB gives banking a warm human touch" Diani, Kenya

" DTB branch has the most friendly staff. Banking is a pleasure" Kitale, Kenya

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FORTY FOURTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF DIAMOND TRUST BANK KENYA LIMITED WILL BE HELD AT THE ABERDARES HALL, KENYATTA INTERNATIONAL CONFERENCE CENTRE, HARAMBEE AVENUE, NAIROBI, ON THURSDAY, 27 MAY 2010 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Forty Third Annual General Meeting held on 29 May 2009.
2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2009.
3. To approve payment of a final dividend of 38.75% (2008: 35%) on the Issued and Paid-up Share Capital of Shs 652 million to the shareholders registered in the Bank's books as at 27 May 2010 on or about 22 June 2010, as recommended by the Board.
4. To elect Directors in accordance with the Company's Articles of Association.
5. To approve the Directors' fees.
6. To appoint the Company's Auditors, PricewaterhouseCoopers, in accordance with Section 159(2) of the Companies Act (Cap.486) and Section 24(1) of the Banking Act (Cap.488). PricewaterhouseCoopers have indicated their willingness to continue in office.
7. To note the Auditors' remuneration for the year 2009, and to authorise the Directors to fix the Auditors' remuneration for the year 2010.
8. To transact any other Ordinary Business of an Annual General Meeting.

By Order of the Board

Stephen Kodumbe
Company Secretary

Nairobi

Note:

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on its/his/her behalf. Such proxy need not be a member of the Company. A proxy form, which must be lodged with the Company Secretary, P.O. Box 61711, City Square 00200, Nairobi not later than 48 hours before the time for holding the meeting, is enclosed.

Chairman's Statement

It gives me great pleasure to present your Bank's Annual Report and Financial Statements for the year 2009. Your Bank has, once again, despite the difficult economic environment, registered yet another year of solid financial performance and growth.

Group pre-tax profit soared to a record Shs 1.93 billion, a growth of 20% from Shs 1.6 billion in 2008. The Group asset base rose by 19% to stand at Shs 67 billion, up from Shs 56 billion in the previous year. DTB Group's customer deposit base rose by 17%, from Shs 45 billion in 2008 to Shs 53 billion over the corresponding period to December 2009. The loan book for the Group swelled by 22%, to stand at Shs 42 billion. Group operating income rose to Shs 5.1 billion up from Shs 3.7 billion realized over the same period in the previous year.

In light of the excellent results, your Directors have recommended an increase in the dividend to 38.75%, which translates to Shs 1.55 per share, an increase of 11% over the previous year.

2009 faced the brunt of the severe economic challenges brought about by the dual impact of the post poll chaos in Kenya and the global financial crisis. The Kenyan economy grew by a mere 2.5% last year. The tourism sector recovered well, contributing 12% to the GDP. The agricultural sector, however, exhibited poor growth due to poor rains. This resulted in inflationary pressures for much of the year, induced by high food prices and energy costs. Whilst expectations are high that economic recovery will continue in earnest in 2010, it will be some time before the economy returns to the buoyant levels witnessed prior to 2008. Most pundits, however, are optimistic that Kenya is on course to achieve meaningful and sustained economic growth over the medium term, provided macro-economic stability and pro - growth policies are maintained and the political challenges, ahead of the 2012 elections, are well managed.

Despite these challenges, DTB has continued, over the last twelve months, to aggressively implement its network expansion plans across Eastern Africa. In 2009, DTB increased its branch footprint in Eastern Africa from 30 to 53, stretching from Arua in North Western Uganda to Zanzibar on the East African seaboard. In Kenya, DTB opened 11 branches during the year, increasing the bank's branch network to 28. The new branches, spread out across the country, include four in Western Kenya, two at the Coast, four in Nairobi and one in Kitengela.

The Group subsidiary in Uganda doubled its network from 7 to 15 during the year, opening four additional branches in Kampala and 4 across the country. DTB Tanzania opened 3 new branches, increasing the number of branches to 9. The Group plans to double its footprint in Eastern Africa to over 100 branches over the next three years.

In addition to extending its presence in its three traditional markets in East Africa, the DTB Group also seeks to widen its footprint in other markets in Eastern and Southern Africa, in the medium term. This significant and varied expansion is in line with DTB's strategic objective to become a recognized, Pan African Bank, with a specific focus on servicing the banking needs of small and medium enterprises (SMEs). In this regard, I am very pleased indeed, to inform you that 2009 marked a watershed year for the Group following the opening, in June, of a banking subsidiary in Burundi, DTB being the first Kenyan bank to do so. This marked a significant milestone for DTB.

The network expansion plans across the region, as outlined above, are without doubt, ambitious. This, coupled with the Group's objective to ensure that its operations in Kenya continue to sustain its growth trajectory, will require your Bank to enhance its capital base, from time to time. In this respect, Shareholders will recall the measures the Bank has taken in recent years to augment its capital base. These have included two Rights Issues – in 2006 and 2007 – and the raising of long term subordinated debt in 2008. I wish to advise Shareholders that your Directors continue to keep a close eye on your Bank's capital base and will recommend appropriate measures, when necessary, to ensure that the capital base is commensurate with the Bank's expansion plans.

Chairman's Statement (Continued)

The Group has also made noteworthy progress in implementing the Africa Micro Small and Medium Enterprises (AMSME) Programme, sponsored by the International Finance Corporation. Through this Programme - which I had referred to in my statement last year - your Bank will soon be launching an array of innovative, technology based products and services aimed at the SME sector. The suite of products which include enhanced on- line banking functionality, mobile banking and cash management solutions are aimed at building alternative channels through which DTB's customers can conduct their banking transactions.

Your Bank continues to make significant progress, on the back of robust implementation of ambitious expansion plans and achievement of business performance targets. These successes are due, in large measure, to the dedication and commitment of the Group CEO and Managing Director, Mrs. Nasim Devji, the Management Team and the enthusiastic and untiring support and hard work of all the staff. On behalf of the Board I would like to express our appreciation to them for a most commendable performance.

I would also like to acknowledge, with much appreciation and gratitude, the invaluable support from my colleagues on the Board, which has helped us steer the Group's business activities and strategies successfully, during the year.

I would now like to address the changes in the composition of your Board. Last year, Messrs Mohamood Thobani and Karim Kanji retired from the Board. Mr Kabir Hyderally has chosen not to seek re-election at the forthcoming AGM, due to heavy professional commitments. On behalf of my colleagues on the Board, I would like to thank them, most sincerely, for the valuable advice and unstinting support that they accorded to the Bank, during their tenure of office.

Five new directors have been appointed to the Board during the course of the year. I would like to extend a very warm welcome to Messrs. Nauman Dar, Moez Jamal, Mwaghazi Mwachofi, Sukh Dev Nayyar and Jamil Shamji. They are distinguished professionals of high standing who, with their combined wealth of experience will, I am certain, be a major asset to the Institution.

After a career spanning three decades in the Banking Industry in East Africa, which includes a 14 year involvement with the DTB Group in various capacities, ranging from Chief Executive to Chairman, it is time for me to hand over the baton and move on. I have chosen to pursue new opportunities in the Aviation Sector in the East African Region.

To my colleagues on the Board, the Management and Staff of the Bank and, indeed, all the Shareholders I would like to express my deep gratitude and sincere appreciation for all the support and co-operation accorded to me during my term of office. I leave the Bank with a sense of deep satisfaction. Your Bank is a strong institution, well poised to become a major player in the banking industry in sub-Saharan Africa.

I will be succeeded by Mr. Abdul Samji, a director of long standing, who has chaired several board committees and is well versed with the Institution. I would like to wish him the very best and am confident that he will steer the Institution to even greater heights.

In conclusion, I would like to thank you, our Shareholders, for your continued trust, support and confidence in the Institution and to our loyal clients for their valued custom.

Mahmood Manji
Chairman
17 March 2010

Taarifa ya Mwenyekiti

Ni furaha yangu kuwasilisha kwenu Ripoti ya Mwaka ya Benki na Taarifa ya kifedha ya mwaka 2009. Benki yenu, kwa mara nyengine tena licha ya kuwepo kwa hali ngumu ya kiuchumi, imeweza kuandikisha mwaka mwengine wa mafanikio.

Kundi letu la Benki limeweza kupata faida kabla ya kutozwa ushuru hadi kufikia kiasi kikubwa cha shilingi bilioni 1.93, ikiwa ni kukua kwa asilimia 20% kutoka kiasi cha shilingi bilioni 1.6 mnamo mwaka 2008. Raslimali ya kundi letu la Benki iliongezeka kutoka asilimia 19% hadi kufikia shilingi bilioni 67, kutoka shilingi bilioni 56 katika mwaka uliotangulia. Akiba za wateja wa kundi la DTB ziliongezeka kwa asilimia 17% kutoka shilingi bilioni 45 mnamo mwaka 2008 hadi kufikia shilingi bilioni 53 wakati kama huo kufikia Disemba mwaka 2009. Kiwango cha mikopo kwa kundi la DTB kiliongezeka kutoka asilimia 22%, kufikia shilingi bilioni 42. Gharama za uendeshaji pia ziliongezeka hadi shilingi bilioni 5.1 kutoka shilingi bilioni 3.7 zilizopatikana wakati kama huo mwaka uliotangulia.

Kufuatia matokeo hayo bora, Wakurugenzi wenu wamependekeza kuongeza kiwango cha mgawo hadi kufikia asilimia 38.75%, kiwango ambacho kinamaanisha shilingi 1.55 kwa hisa, ambacho ni ongezeko la asilimia 11% kuliko mwaka uliotangulia.

Mwaka 2009 ulikuwa na changamoto ambazo zililetwa na athari za machafuko ya kisiasa ya baada ya uchaguzi humu nchini na msukosuko wa kifedha ulimwenguni. Uchumi wa Kenya ulikuwa kwa kiwango kidogo cha asilimia 2.5% mwaka uliopita. Sekta ya utalii iliimarika na kuchangia kiasi cha asilimia 12% kwenye mapato ya jumla ya taifa. Hata hivyo sekta ya kilimo ilizorota kutokana na kukosekana kwa mvua. Hali hii ilisababisha mfumko wa bei kwa kipindi kirefu cha mwaka na kupanda kwa gharama ya umeme.Ingawaje kuna matumaini makubwa ya uchumi kuimarika katika kipindi cha mwaka huu wa 2010, lakini itachukua muda kabla hali haijarejea kama ilivyokuwa kabla ya mwaka 2008. Hata hivyo, wadadisi wa mambo wana matumaini kwamba Kenya iko katika njia nzuri ya kuboresha uchumi wake katika kipindi kifupi kijacho, iwapo tu sera za kusimamia miradi midogo ya kiuchumi na changamoto za kisiasa, zitaweza kuthibitiwa kabla ya uchaguzi mkuu unaotarajiwa mwaka 2012.

Licha ya changamoto zote hizi, Benki ya DTB, imeendelea kwa miezi kumi na mbili iliyopita, kutekeleza mipango ya upanuzi wa matawi yake katika eneo la Afrika Mashariki. Mnamo mwaka 2009, DTB iliongeza idadi ya matawi yake katika eneo la Afrika Mashariki kutoka 30 hadi 53, yakiwa yameenea kutoka Arua, Kaskazini-Magharibi mwa Uganda hadi visiwani Zanzibar. Humu nchini, DTB ilifungua matawi mapya 11 katika kipindi hicho na kuongeza idadi ya matawi yake hadi 28. Matawi hayo mapya, ni pamoja na matawi manne Magharibi, mawili huko Pwani, matawi mengine manne hapa Nairobi na moja huko Kitengela.

Benki Mshirika wetu nchini Uganda iliongeza matawi yake kutoka 7 hadi 15, na kufungua matawi mengine manne mjini Kampala na mengine manne sehemu nyenginezo nchini humo. DTB Tanzania ilifungua matawi matatu mapya na kuongeza idadi ya matawi yake nchini humo kufikia tisa. Kundi la Benki ya DTB linatarajia kuongeza maradufu mtandao wa matawi yake katika eneo la Afrika Mashariki hadi kufikia 100 kwa miaka mitatu ijayo.

Licha ya kutaka kuongeza matawi yake katika soko la Afrika Mashariki, Kundi la Benki ya DTB pia linatarajia kupanua mtandao wa matawi yake katika maeneo mengine ya Afrika Mashariki na Kusini mwa Afrika, katika siku za hivi karibuni. Mikakati hii ambayo ni muhimu inakwenda sambamba na malengo yetu ya kutaka kutambulika kuwa benki ya kiafrika, inayolenga kuhudumia wateja wadogo wenye mahitaji ya benki. Kufuatia hatua hiyo, nina furaha kubwa kuwatangazia kuwa mwaka 2009 ulikuwa wa mafanikio makubwa kwa upande wetu kufuatia kuzinduliwa kwa Benki mshirika wetu nchini Burundi mnamo mwezi wa Juni, DTB ikiwa benki ya kwanza kufanya hivyo. Hatua hii ilikuwa ya maana sana kwa kundi la DTB.

Bila shaka,Mikakati ya kupanua shughuli zetu katika eneo hili, kama ilivyoelezewa hapo awali, ni ya maana sana. Hatua hiyo inalingana na malengo ya Benki ya kuhakikisha kwamba inadhibiti ukuaji wake, jambo ambalo litatulazimu kuimarisha mtaji wetu kila mara. Wenyehisa watakumbuka hatua ambazo Benki ilichukua katika miaka iliyopita kuboresha mtaji wake. Hatua hizo ni mauzo ya Hisa za ziada – mnamo mwaka 2006 na 2007 - na kuwezesha kupunguza deni la mwaka 2008. Ningependa kuchukua fursa hii kuwashauri Wenyehisa kuwa Wakurugenzi wenu wanaendelea kuangazia kwa makini kabisa akiba za wateja wa Benki na watatoa mapendekezo yao kwa hatua zinazostahili kuchukuliwa, panapokuwa na umuhimu wa kufanya hivyo, ili kuhakikisha kwamba akiba ya Benki inakwenda sawia na mipango ya upanuzi tunayotarajia kufanya katika Benki.

Kadhalika, Benki yenu imeweza kupiga hatua kubwa katika kuanzisha na kutekeleza miradi ya kusaidia biashara ndogondogo(AMSME) barani Afrika. Kupitia mradi huu ambao niliuzungumzia kwenye taarifa yangu ya mwaka jana, hivi karibuni Benki ya DTB itabuni miradi

Taarifa ya Mwenyekiti (Inaendelea)

mipya ya teknolojia ambayo italenga sekta ya SME. Miongoni mwa miradi hiyo ni pamoja na kufanya shughuli za Benki kwa njia ya mtandao, kutumia simu za mkono na usimamizi bora wa matumizi ya fedha ili kuwapa wateja wa DTB njia tofautitofauti za kufanya nasi biashara.

Benki yenu imeendelea kupata mafanikio, katika kupanua biashara zake na kuafikia malengo yake.Mafanikio haya yote yameweza kupatikana kutokana na kujitolea kwa Afisa Mkuu Mtendaji na ambaye pia ni Mkurugenzi Mkuu, Bi Nasim Devji, wasimamizi wengine na bidii ya wafanyakazi wote. Kwa niaba ya Halmashauri ya Wakurugenzi ningependa kuwapongeza kwa kazi nzuri yenye mafanikio.

Kadhalika ningependa kuwatambua, kwa heshima kubwa, usaidizi bora kutoka kwa wenzangu katika Halmashauri ya Wakurugenzi, ambao wamenisaidia kuweza kuendesha shughuli za kundi la DTB kwa mafanikio zaidi kwa mwaka uliopita.

Ningependa sasa kuchukua nafasi hii kuwaelezea mabadiliko yaliyofanyika katika Halmashauri ya Wakurugenzi wenu. Mwaka uliopita, Bw Mohamood Thobani na Bw Karim Kanji walistaafu. Bw Kabir Hyderally aliamua hatajitolea kuchaguliwa tena kwenye Mkutano mkuu wa mwaka huu, kutokana na majukumu mengine ya kikazi aliyonayo. Kwa niaba ya Wakurugenzi wenzangu, ningependa kuwashukuru wote, kwa moyo mmoja kutokana na ushauri wao wa busara na usaidizi wao wa kufaa waliotoa kwa Benki wakati wa utumishi wao.

Wakurugenzi watano wapya waliteuliwa kwenye Halmashauri ya Wakurugenzi. Ningependa kuwakaribisha kwa moyo mkunjufu kwa Wakurugenzi wafuatao. Bw Nauman Dar, Bw Moez Jamal, Bw Mwaghazi Mwachofii, Bw Sukh Dev Nayyar na Bw Jamil Shamji. Wakurugenzi hawa ni watu wanaoheshimika katika kazi zao, ambao utajiri wa maarifa walionao kwa pamoja, nina uhakika kwamba watakuwa raslimali kubwa kwa benki yetu.

Baada ya zaidi ya miongo mitatu kwenye sekta ya benki katika eneo hili la Afrika Mashariki, ambapo zaidi ya miaka 14 niliitumikia Benki ya DTB katika nyadhifa tofauti, kutoka kuwa Afisa mkuu Mtendaji hadi Mwenyekiti wake, ni wakati sasa umefika kwa mimi kuondoka na kumuachia mwengine jukumu hilo. Nimeamua kujiingiza kwenye shughuli za safari za anga katika kanda ya Afrika Mashariki.

Kwa Wakurugenzi wenzangu, Usimamizi na Wafanyakazi wote wa Benki, na hususan, wenyehisa, ningependa kuwashukuru sana kwa ushirikiano na usaidizi wenu mlionipatia wakati nikihdumu kama Mwenyekiti. Naiacha Benki ya DTB nikiwa nimeridhika. Benki yenu ni taasisi imara, ambayo iko tayari kuweza kukabiliana na ushindani wa benki nyengine katika kanda ya Afrika Mashariki.

Bw Abdul Samji ndiye atakayechukua nafasi yangu. Yeye ni mkurugenzi wa Benki hii kwa muda mrefu ambaye amewahi kusimamia Halmashauri mbalimbali na ana uzoefu na DTB. Ningependa kumtakia kila la heri katika wadhifa wake mpya na nina uhakika kwamba atasimamia Halmashauri ya Wakurugenzi kwa njia inayofaa.

Katika kumalizia, ningependa kuwashukuru sana, wenyehisa, kwa uaminifu wao kwetu, usaidizi na kuwa na imani na Benki yetu na pia nawashukuru wateja wetu wote kwa kuendelea kututhamini.

Mahmood Manji
Mwenyekiti
17 March 2010

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 15-16. Iwapo patatokea utata wowote katika tafsiri ya maana halisi ya maneno yaliyotumika, basi tafsiri ya Kingereza ndiyo itakayotawala.

The text set above is a Kiswahili translation of the Chairman’s Statement, which appears in pages 15-16. In the event of any dispute in the interpretation of the Kiswahili version, the English version shall be the authoritative version.

Statement on Corporate Governance

Corporate governance, defined as the system by which companies are directed and controlled, continues to be a Board priority, as directors are increasingly required to demonstrate and report to those with an interest in the Company ('stakeholders') about the procedures, systems and controls they have put in place to achieve results, improve accountability and prevent malpractice or fraud.

In recent years various recommendations have been made in several legal and professional publications, in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board of Directors of the Bank is committed to full compliance of all relevant laws, the "Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya" issued by the Capital Markets Authority, the Central Bank of Kenya (CBK) Prudential Guidelines and the Bank's internal polices on corporate governance.

The Board is responsible for the governance of the Bank and is committed to ensuring that its business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics. In this respect, the Board confirms that the Bank complies with all relevant local legislation, including the provisions of the Banking Act and the prudential regulations issued by the CBK.

Board of Directors

The Board fulfills its fiduciary obligations to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Managing Director to conduct the day-to-day business of the Bank.

The Board consists of eleven non- executive and independent directors (including the Chairman) and one executive director (the Managing Director). Board members possess extensive experience in a variety of disciplines, including banking, business and financial management, all of which are applied in the overall management of the Bank. All non-executive directors are subject to periodic retirement and re-election to the Board, in accordance with the Bank's Articles of Association.

The Board meets at least four times a year, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational and compliance issues.

The remuneration of all directors is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate. Non-executive directors are paid an annual fee in addition to a sitting allowance for every meeting attended. They are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes.

The Board has set up sub-committees to supplement its functions. These include:

Board Executive Committee ("BEC")

The membership of this Committee comprises the Chairman of the Board and three other non-executive and independent directors. This Committee is the link between the Board and management and is responsible for ensuring that, through the Managing Director, management implements strategic and operational plans including annual budgets, asset and liability management strategies as well as credit proposals review. The Committee is also responsible for ensuring that the Board Risk Management Committee has access to all the information to enable it to undertake its responsibilities. The BEC meets at least once a quarter.

Board Nomination and Remuneration Committee ("BNRC")

The membership of the BNRC comprises three non-executive and independent directors. The Committee is responsible for proposing new nominees to the Board, assessing the performance and effectiveness of directors and ensuring, through annual reviews, that the Board composition reflects an appropriate mix of skills and expertise required. The BNRC is also mandated to recommend to the full Board the remuneration and service contracts of executive directors and senior management and the structure of their compensation package.

Board Audit Committee ("BAC")

This Committee consists of three non-executive and independent directors. The BAC, which meets at least every three months, is mandated to raise the standards of corporate governance by continuously improving the quality of financial reporting, strengthening the control environment and the effectiveness of the internal and external auditing functions. In addition to advising the Board on best practice, the BAC also monitors management's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

Board Risk Management Committee ("BRMC")

The BRMC is made up of four non- executive and independent directors who meet at least once every three months. The responsibilities of this Committee include ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework. The Committee is also charged with setting out the nature, role, responsibility and authority of the risk management and the compliance functions of the Bank. The BRMC also defines the scope of the risk management work and ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time.

Statement on Corporate Governance (Continued)

Board Credit Committee ("BCC")
The BCC comprises four non-executive and independent directors, and formally meets at least once every quarter. The primary responsibilities of the BCC include the periodic review and oversight of the overall lending policy of the Bank, deliberate and consider loan proposals beyond the credit discretion limits extended to management, on an ongoing basis, as well as review lendings approved by management within its discretionary limits. The Committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management as well as assist the Board in discharging its responsibility to review the quality of the loan portfolio and ensure adequate bad debts provisions are maintained in line with the CBK prudential guidelines.

Board Asset and Liability Committee ("BALCO")
The BALCO is made up of three non-executive and independent directors. The duties of the Committee include the review, approval and monitoring of management's compliance with the applicable statutory provisions, Bank policies and guidelines relating to the monitoring of price, liquidity, exchange, investment (price) risk and interest rate risks. BALCO is also responsible for issuing policy directives to management on the pricing of products, desired mix and maturity profile of incremental assets and liabilities.

Board and Director Evaluation
In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the Central Bank of Kenya, each member of the Board (including the Chairman) conducts a peer as well as self- evaluation of the Board.

Attendance at Board Meetings

The attendance at Board Meetings by the Directors in 2009 is tabulated below:

		BOARD MEETINGS			
	Name of Director:	6 March 2009	28 May 2009	26 September 2009	4 December 2009
1	Mahmood Manji	√	√	√	√
2	Nasim Devji	√	√	√	√
3	Nauman Dar	**	**	√	√
4	Kabir Hyderally	√	√	√	X
5	Nizar Juma	√	√	X	√
6	Amin Merali	x	x	√	√
7	Mwaghazi Mwachofi	**	**	√	X
8	Sukh Dev Nayyar	**	**	**	√
9	Abdul Samji	√	√	√	√
10	Karim Kanji	√	x	Retired*	Retired*
11	Jack Kisa	√	√	Retired*	Retired*
12	Mohamood Thobani	x	√	Retired*	Retired*

√ - Attended

x - Absent with apology and valid reason for non-attendance

* Retired at the Annual General Meeting of 29 May 2009

** Messrs Nauman Dar and Mwaghazi Mwachofi were appointed to the Board on 28 May 2009 and Mr. Sukh Dev Nayyar was appointed to the Board on 26 August 2009.

Statement on Corporate Governance (Continued)

Internal Control Systems

The Bank has well defined written policies and procedures to ensure that best practices are followed in conducting the day-to-day operations and financial reporting as well as in implementing strategic action plans approved by the Board. A well-structured organisation chart ensures that there is adequate segregation of duties. Structures and systems have been defined in the Bank's policies and procedures to facilitate complete, accurate and timely execution of transactions, operations and commitments and the safeguarding of assets.

The Group's business performance trends, forecasts and actual performance against budgets and prior periods are closely monitored and regularly reported to the Board and senior management. Financial information is prepared using appropriate accounting policies, which are applied consistently.

To assist management in fulfilling its mandate and to ensure compliance with the laid-down policies and procedures, various committees have been established. The roles, responsibilities and composition of some of the key management committees are given below:

Management Credit Committee ("MCC")
In accordance with the Bank's Credit Policy, this Committee, which reports to the BCC, is chaired by the Managing Director and comprises four other senior management staff. It meets regularly to review and approve the Bank's credit applications, of up to pre- defined, Board-approved limits. Depending on the level of credit limits applied for, credit applications are recommended by the MCC for consideration by the BCC.

Assets and Liability Committee ("ALCO")
This Committee, which reports to the BALCO, is chaired by the Managing Director and comprises nine other members of senior management staff. The ALCO, which meets at least once each month, is mandated to optimise returns, whilst prudently managing and monitoring the assets and liabilities of the Bank. The ALCO is responsible for controlling and managing the Bank's interest rate risk, currency risk and liquidity risk, in addition to ensuring compliance with the Bank's Investment Policy, laid down by the Board, and statutory requirements relating to liquidity, foreign exchange exposure and cash ratio.

Operations Risk Committee ("ORCO")
The ORCO reports to the BRMC and is chaired by the Managing Director and comprises nine other senior management staff. The ORCO, which meets at least once each quarter, is responsible for identifying major areas of business operations prone to operational risks, recommending to the BRMC and implementing suitable policy guidelines for managing and mitigating operational risk and reviewing audit irregularities relating to operations.

Relations with Shareholders

The Board recognizes the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as published annual reports and financial statements are used as an opportunity to communicate with all shareholders. The Bank always gives its shareholders due notice of the AGM as defined in its Memorandum and Articles of Association and in compliance with the Companies Act.

Shareholders have direct access to the Bank, its Company Secretary and the Shares Registrar who responds to the correspondence received from the shareholders on a wide range of issues.

Statement on Corporate Governance (Continued)

Shareholding Structure

The distribution of issued share capital of the Bank as at 31 December 2009 was as follows:

Range	No of shareholders	No of shares held	% Shareholding
Up to 500 shares	3,249	655,980	0.40
501 – 5,000 shares	5,325	11,127,533	6.83
5,001 – 10,000 shares	1,550	11,567,613	7.10
10,001 – 100,000 shares	1,265	31,699,699	19.44
100,001 – 1,000,000 shares	81	18,504,145	11.35
Over 1,000,000 shares	13	89,482,138	54.88
Total	11,483	163,037,108	100.00

The ten largest shareholders of the Bank and their respective holdings as at 31 December 2009 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund for Economic Development S.A.	28,240,121	17.32
The Jubilee Insurance Company Limited	17,094,374	10.48
Habib Bank Limited	16,303,779	10.00
Barclays (K) Nominees Ltd a/c IFC	16,054,124	9.85
The Diamond Jubilee Investment Trust (U) Ltd	3,050,528	1.87
Noorali Mohan Manji	2,086,790	1.28
Craysell Investments Ltd	1,950,591	1.20
Mr. Amin Nanji Juma	1,504,851	0.92
Property Development and Management Limited	1,114,863	0.68
Phoenix of E.A. Assurance Co. Ltd	1,049,090	0.64

Corporate Social Responsibility

The Kanduyi Children's Home offers assistance to street children in Bungoma through implementation of programmes that protect and promote children's rights.

"Children of the Kanduyi Children's Home hold on to their Christmas and New Year gift from DTB".

Pefa Rehema Children's Home is dedicated to the long term care of abandoned and orphaned children.

"Kakamega Branch Manager Samson Magomere presents a cheque of Kshs. 50,000 to the Pefa Rehema Children's Home in Bukwa, Kakamega".

Corporate Social Responsibility (Continued)

Kids Home International is a non-profit humanitarian organization that seeks to improve the quality of lives of the homeless and orphaned kids.

“Kericho Branch Manager Dennis Onduko presents a cheque of Kshs. 50,000 to the Kids Home International”.

Olives Rehabilitation Centre provies a supportive environment to children from the Bombolulu slums, Mombasa.

“Stella Mulandi, DTB head of Money Transfer Services presents a cheque of Kshs. 750,000 to Pam Chandi, Managing Director of Olives Rehabilitation Centre”.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2009, which disclose the state of affairs of Diamond Trust Bank Kenya Limited and its subsidiaries (the 'Group') and of Diamond Trust Bank Kenya Limited (the 'Bank' or 'Company').

Incorporation and Registered Office

The Bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is as disclosed on page 3.

Principal Activities

The Group is engaged in the business of providing banking and other related services to the general public.

Results and Dividend

	Shs'000
Group profit before tax	1,929,862
Income tax expense	(575,427)
Profit for the year	1,354,435
Non controlling interests	(104,185)
	1,250,250
Dividends	(252,708)
Retained profit for the year	997,542

The directors recommend the approval of a final dividend of Shs 252,707,517 (2008: Shs 228,251,951).

Directors

The present membership of the Board is listed on page 3.

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Mahmood Manji, Kabir Hyderally and Amin Merali retire by rotation. Messrs Mahmood Manji and Kabir Hyderally, although being eligible, do not seek re-election. Mr. Amin Merali being eligible, offers himself for re-election.

In accordance with Article No. 102 of the Bank's Articles of Association, Messrs Sukh Dev Nayyar and Moez Jamal retire by rotation and, being eligible, offer themselves for re-election.

Auditor

The Bank's auditor, PricewaterhouseCoopers, continues in office in accordance with the provisions of Section 159(2) of the Companies Act and Section 24(1) of the Banking Act.

By order of the Board

Stephen Kodumbe
Company Secretary

17 March 2010

Statement of Directors' Responsibilities

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that these financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing, and maintaining adequate systems of internal financial control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

Mahmood Manji
Chairman

Nasim Devji
Managing Director

17 March 2010

Report of the Independent Auditor to the Members of Diamond Trust Bank Kenya Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Diamond Trust Bank Kenya Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 28 to 78. These financial statements comprise the consolidated balance sheet at 31 December 2009 and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the balance sheet of the Company standing alone as at 31 December 2009 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2009 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

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

iii) the Company's balance sheet is in agreement with the books of account.

PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi

17 March 2010

Consolidated Profit and Loss Account

	Notes	2009 Shs '000	2008 Shs '000
Interest income	5	6,461,453	4,695,985
Interest expense	6	(2,941,940)	(2,257,251)
Net interest income		**3,519,513**	**2,438,734**
Fee and commission income		847,863	708,694
Foreign exchange income		610,574	487,934
Other operating income	7	89,980	33,439
Operating income		**5,067,930**	**3,668,801**
Operating expenses	8	(2,762,283)	(1,851,463)
Impairment loss on loans and advances	16	(295,682)	(190,527)
Profit from operations		**2,009,965**	**1,626,811**
Finance costs		(80,103)	(31,280)
Share of results of associates after tax	18	-	8,765
Profit before income tax		**1,929,862**	**1,604,296**
Income tax expense	10	(575,427)	(477,831)
Profit for the year		**1,354,435**	**1,126,465**
Profit attributable to:			
Owners of the Bank		1,250,250	1,024,489
Non controlling interests		104,185	101,976
		1,354,435	1,126,465
Earnings per share (Shs per share)			
- basic and diluted	11	7.67	6.28

Consolidated Statement of Comprehensive Income

	2009	2008
	Shs '000	*Shs '000*
Profit for the year	**1,354,435**	**1,126,465**
Other comprehensive income		
Exchange differences on translating foreign operations	(76,644)	79,628
Fair value changes in Government securities available for sale	-	(13,946)
Recycling of fair value changes on maturity of Government securities	13,946	4,647
Income tax relating to fair value changes in Government securities	(4,184)	4,184
Fair value changes in available for sale equity investment	12,113	(17,851)
Income tax relating to fair value changes in available for sale equity investment	(3,633)	5,355
Other comprehensive income for the year, net of tax	**(58,402)**	**62,017**
Total comprehensive income for the year	**1,296,033**	**1,188,482**
Total comprehensive income attributable to:		
Owners of the Bank	1,224,060	1,037,415
Non controlling interests	71,973	151,067
	1,296,033	1,188,482

Consolidated Balance Sheet

	Notes	2009 Shs '000	2008 Shs '000
Assets			
Cash and balances with Central Banks	13	4,570,661	3,860,817
Government securities	14	9,226,700	10,188,683
Deposits and balances due from banking institutions	15	7,392,025	5,455,435
Loans and advances to customers	16	41,518,135	34,063,359
Corporate bond - held to maturity	17	933,746	-
Equity investments - available-for-sale	19	58,015	45,902
Property and equipment	20 (a)	1,606,902	1,049,289
Intangible assets - software costs	21	135,434	79,499
Intangible assets - goodwill	23	173,372	173,372
Corporation tax recoverable		29,850	2,532
Deferred income tax asset	24	141,194	126,990
Other assets	25	893,046	1,099,819
Total assets		**66,679,080**	**56,145,697**
Liabilities			
Balances due to Central Bank of Kenya	26	399,878	-
Customer deposits	27	52,834,395	45,023,186
Deposits and balances due to banking institutions	28	2,120,495	830,134
Current income tax payable		35,934	35,110
Deferred income tax liability	24	68	9,324
Long term borrowing	29	1,892,710	1,958,015
Other liabilities	30	1,307,402	1,269,511
Total liabilities		**58,590,882**	**49,125,280**
Shareholders' equity			
Share capital	31	652,148	652,148
Share premium	31	2,197,735	2,197,735
Retained earnings		3,628,298	2,582,523
Other reserves	32	177,903	205,398
Statutory loan loss reserve		89,371	39,458
Proposed dividend	12	252,708	228,252
Equity attributable to shareholders of parent		**6,998,163**	**5,905,514**
Non controlling interests		1,090,035	1,114,903
Total equity		**8,088,198**	**7,020,417**
Total liabilities and equity		**66,679,080**	**56,145,697**

The financial statements on pages 28 to 78 were approved for issue by the board of directors on 17 March 2010 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Abdul Samji
Director

Stephen Kodumbe
Secretary

Bank Balance Sheet

	Notes	2009 Shs '000	2008 Shs '000
Assets			
Cash and balances with Central Bank of Kenya	13	2,264,047	2,120,539
Government securities	14	5,980,327	7,201,942
Deposits and balances due from banking institutions	15	5,638,340	4,304,969
Loans and advances to customers	16	29,700,279	25,460,278
Corporate bond - held to maturity	17	933,746	-
Investments in subsidiaries and associates	18	897,227	897,228
Equity investments - available-for-sale	19	58,015	45,902
Property and equipment	20 (b)	792,095	495,736
Intangible assets - software costs	21	53,152	48,222
Deferred income tax asset	24	111,097	126,990
Other assets	25	718,442	890,243
Total assets		**47,146,767**	**41,592,049**
Liabilities			
Balances due to Central Bank of Kenya	26	399,878	-
Customer deposits	27	36,274,080	32,689,208
Deposits and balances due to banking institutions	28	1,310,761	658,034
Current income tax payable		35,147	41,572
Long term borrowing	29	1,892,710	1,958,015
Other liabilities	30	970,870	911,483
Total liabilities		**40,883,446**	**36,258,312**
Shareholders' equity			
Share capital	31	652,148	652,148
Share premium	31	2,197,735	2,197,735
Retained earnings		3,042,580	2,244,754
Other reserves	32	28,779	10,848
Statutory loan loss reserve		89,371	-
Proposed dividend	12	252,708	228,252
Total shareholders' equity		**6,263,321**	**5,333,737**
Total liabilities and equity		**47,146,767**	**41,592,049**

The financial statements on pages 28 to 78 were approved for issue by the board of directors on 17 March 2010 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Abdul Samji
Director

Stephen Kodumbe
Secretary

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs '000	Share premium Shs '000	Retained earnings Shs '000	Other reserves Shs '000	Statutory loan loss reserve Shs '000	Proposed dividend Shs '000	Attributable to equity holders of the Bank Sh s'000	Non controlling interests Shs '000	Total Shs '000
Year ended 31 December 2008										
At start of year		652,148	2,197,735	1,677,745	296,145	-	228,252	5,052,025	426,680	5,478,705
Comprehensive income										
Profit for the year		-	-	1,024,489	-	-	-	1,024,489	101,976	1,126,465
Other comprehensive income:										
Fair value changes in Government securities		-	-	-	(13,946)	-	-	(13,946)	-	(13,946)
Deferred tax on fair value changes		-	-	-	4,184	-	-	4,184	-	4,184
Recycling of net fair value gain on maturity of Government securities		-	-	-	4,647	-	-	4,647	-	4,647
Fair value changes in available for sale securities		-	-	-	(17,851)	-	-	(17,851)	-	(17,851)
Deferred tax on fair value changes		-	-	-	5,355	-	-	5,355	-	5,355
Translation adjustment	(i)	-	-	-	30,537	-	-	30,537	49,091	79,628
Write-back of unclaimed dividends	(ii)	-	-	4,868	-	-	-	4,868	-	4,868
Non controlling interests acquired in the year		-	-	-	-	-	-	-	537,156	537,156
Capitalisation of associate's retained earnings on consolidation		-	-	103,673	(103,673)	-	-	- -	-	- -
Statutory loan loss reserve	(ii)	-	-	-	-	39,458	-	39,458	-	39,458
Total comprehensive income		-	-	1,133,030	(90,747)	39,458	-	1,081,741	688,223	1,769,964
Distributions to owners										
Dividends:										
- Final for 2007 paid	12	-	-	-	-	-	(228,252)	(228,252)	-	(228,252)
- Proposed for 2008	12	-	-	(228,252)	-	-	228,252	-	-	-
At end of year		**652,148**	**2,197,735**	**2,582,523**	**205,398**	**39,458**	**228,252**	**5,905,514**	**1,114,903**	**7,020,417**

(i) These differences arise on translation of opening reserves in subsidiary companies at the end of period exchange rates.

(ii) Dividends that have remained unclaimed for over six years as at 31 December were written back to retained earnings in line with the Bank's Articles of Association

(iii) Where impairment losses required by the regulators exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is not distributable.

Consolidated Statement of Changes in Equity (Continued)

	Notes	Share capital	Share premium	Retained earnings	Other reserves	Statutory loan loss reserve	Proposed dividend	Attributable to equity holders of the Bank	Non controlling interest	Total
		Shs '000	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Sh s'000*	*Shs '000*	*Shs '000*
Year ended 31 December 2009										
At start of year		652,148	2,197,735	2,582,523	205,398	39,458	228,252	5,905,514	1,114,903	7,020,417
Comprehensive income										
Profit for the year		-	-	1,250,250	-	-	-	1,250,250	104,185	1,354,435
Other comprehensive income:										
Recycling of fair value gain on maturity of Government securities		-	-	-	13,946	-	-	13,946	-	13,946
Deferred tax on fair value changes		-	-	-	(4,184)	-	-	(4,184)	-	(4,184)
Fair value changes in available for sale securities		-	-	-	12,113	-	-	12,113	-	12,113
Deferred tax on fair value changes		-	-	-	(3,633)	-	-	(3,633)	-	(3,633)
Translation adjustment	(i)	-	-	-	(44,432)	-	-	(44,432)	(32,212)	(76,644)
Transfer of excess depreciation to retained earnings		-	-	1,864	(1,864)	-	-	-	-	-
Deferred tax on excess depreciation		-	-	(559)	559	-	-	-	-	-
Transfer to retained earnings		-	-	96,841	-	-	-	96,841	(96,841)	-
Statutory loan loss reserve	(ii)	-	-	(49,913)	-	49,913	-	-	-	-
Total comprehensive income		-	-	1,298,483	(27,495)	49,913	-	1,320,901	(24,868)	1,296,033
Distributions to owners										
Dividends:										
- Final for 2008 paid		-	-	-	-	-	(228,252)	(228,252)	-	(228,252)
- Proposed for 2009		-	-	(252,708)	-	-	252,708	-	-	-
At end of year		**652,148**	**2,197,735**	**3,628,298**	**177,903**	**89,371**	**252,708**	**6,998,163**	**1,090,035**	**8,088,198**

(i) These differences arise on translation of opening reserves in subsidiary companies at the end of period exchange rates.
(ii) Where impairment losses required by the regulators exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is not distributable.

Bank Statement of Changes in Equity

	Notes	Share capital	Share premium	Retained earnings	Other reserves	Statutory loan loss reserve	Proposed dividend	Total
		Shs '000	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
Year ended 31 December 2008								
At start of year		652,148	2,197,735	1,563,020	28,459	-	228,252	4,669,614
Comprehensive income								
Profit for the year		-	-	905,118	-	-	-	905,118
Other comprehensive income:								
Fair value changes in Government securities		-	-	-	(13,946)	-	-	(13,946)
Deferred tax on fair value changes		-	-	-	4,184	-	-	4,184
Recycling of net fair value gain on maturity of Government securities		-	-	-	4,647	-	-	4,647
Fair value changes in available for sale securities		-	-	-	(17,851)	-	-	(17,851)
Deferred tax on fair value changes		-	-	-	5,355	-	-	5,355
Write-back of unclaimed dividends	(i)	-	-	4,868	-	-	-	4,868
Total comprehensive income		-	-	909,986	(17,611)	-	-	892,375
Distributions to owners								
Dividends:								
- Final for 2007 paid	12	-	-	-	-	-	(228,252)	(228,252)
- Proposed for 2008	12	-	-	(228,252)	-	-	228,252	-
At end of year		652,148	2,197,735	2,244,754	10,848	-	228,252	5,333,737

(i) Dividends that have remained unclaimed for over six years as at 31 December were written back to retained earnings in line with the Bank's Articles of Association

	Notes	Share capital	Share premium	Retained earnings	Other reserves	Statutory loan loss reserve	Proposed dividend	Total
Year ended 31 December 2009								
At start of year		652,148	2,197,735	2,244,754	10,848	-	228,252	5,333,737
Comprehensive income								
Profit for the year		-	-	1,139,594	-	-	-	1,139,594
Other comprehensive income:								
Recycling of fair value gain on maturity of Government securities		-	-	-	13,946	-	-	13,946
Deferred tax on the fair value changes		-	-	-	(4,184)	-	-	(4,184)
Fair value changes in available for sale securities		-	-	-	12,113	-	-	12,113
Deferred tax on fair value changes		-	-	-	(3,633)	-	-	(3,633)
Transfer of excess depreciation		-	-	444	(444)	-	-	-
Deferred tax on excess depreciation		-	-	(133)	133	-	-	-
Statutory loan loss reserve	(ii)	-	-	(89,371)	-	89,371	-	-
Total comprehensive income		-	-	1,050,534	17,931	89,371	-	1,157,836
Distributions to owners								
Dividends:								
- Final for 2008 paid	12	-	-	-	-	-	(228,252)	(228,252)
- Proposed for 2009	12	-	-	(252,708)	-	-	252,708	-
At end of year		652,148	2,197,735	3,042,580	28,779	89,371	252,708	6,263,321

(ii) Where impairment losses required by the regulators exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is not distributable.

Consolidated Statement of Cash Flows

	Notes	2009 Shs '000	2008 Shs '000
Cash flows from operating activities			
Interest receipts		6,441,018	4,582,838
Interest payments		(2,893,990)	(2,025,142)
Net fee and commission receipts		967,572	743,426
Other income received		526,480	489,270
Recoveries from loans previously written off	16	3,235	6,412
Payments to employees and suppliers		(2,550,954)	(1,534,912)
Income tax paid		(622,459)	(546,366)
Cash flows from operating activities before changes in operating assets and liabilities		**1,870,902**	**1,715,526**
Changes in operating assets and liabilities:			
- cash reserve requirement		(36,041)	(466,362)
- Government securities		535,584	(2,439,182)
- loans and advances to customers		(7,641,029)	(8,380,512)
- corporate bond - held to maturity		(933,746)	-
- customer deposits		7,765,226	11,560,921
- other assets		206,773	154,093
- other liabilities		37,891	14,351
Net cash from operating activities		**1,805,560**	**2,158,835**
Cash flows from investing activities			
Purchase of property and equipment	20	(805,310)	(610,924)
Purchase of intangible assets - software costs	21	(95,336)	(74,282)
Proceeds from sale of property and equipment		3,701	5,780
Dividend received		11,686	10,106
Purchase of investments			
- Diamond Trust Bank Uganda Limited		-	(240,535)
- Diamond Trust Bank Burundi S.A.		-	(241,329)
- Diamond Trust Insurance Agency Limited		-	(2,000)
- Equity investments - available for sale		-	(63,754)
Net cash used in investing activities		**(885,259)**	**(1,216,938)**
Cash flows (used in)/from financing activities			
Proceeds from long term borrowing		-	1,953,750
Finance costs		(145,407)	(27,015)
Dividends paid		(228,252)	(241,235)
Net cash (used in)/from financing activities		**(373,659)**	**1,685,500**
Net increase in cash and cash equivalents		**546,642**	**2,627,397**
Cash and cash equivalents at start of year	36	7,085,293	3,664,222
Cash and cash equivalent on increase in investment in subsidiary		-	781,655
Translation difference		26,085	12,019
		7,111,378	**4,457,896**
Cash and cash equivalents at end of year	**36**	**7,658,020**	**7,085,293**

Notes to the Financial Statements

1 General information

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is as disclosed on page 3.

The shares of the Company are listed at the Nairobi Stock Exchange.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the board of directors to exercise its 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

(a) New and amended standards adopted by the Group

The following standards, amendments and interpretations which became effective in 2009 relevant to the group were adopted in the period:

IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the measurement basis adopted by the Bank and the Group.

IFRS 8 'Operating segments' – effective 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The application of IFRS 8 does not have any effect on the Group financial statements but has required enhanced segment disclosure.

(b) Standards amendments and interpretations issued but not relevant to the operations of the group.

In 2009, the following new standards amendments and interpretations became effective for the first time but have not had an impact on the Bank and Group's financial statements

IFRS 2, (amendment), effective from 1 January 2009 'Share-based payment': - It clarifies that vesting conditions are service conditions and performance conditions only. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IAS 23, (amendment), 'Borrowing costs' (effective from 1 January 2009).The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

IFRIC 13, 'Customer loyalty programmes' - (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example loyalty points or free products), the arrangement is a multiple element arrangement.

Notes to the Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) Standards amendments and interpretations issued but not relevant to the operations of the Group (Continued).
IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The adoption of the IAS 32 amendment does not have any material effects for the Group.

(c) Standards amendments and interpretations issued but not yet effective
IFRS 1 and IAS 27 , 'Cost of an investment in a subsidiary, jointly-controlled entity or associate' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

IFRS 3, 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit and loss account. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 27, 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

IFRIC 17-'Distribution to non cash assets to owners - (effective from 1 July 2009). Addresses how non cash dividends to shareholders should be measured.

IFRIC 18-Transfers of assets from Customers - (Applicable for financial years beginning on or after 1 July 2009). It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers.

IFRS 9 - Financial Instruments part 1 classification and measurement (effective from 1 January 2013) replaces those parts of IAS 39 relating to the classification and measurement of financial asset.

Besides the changes mentioned above, numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2010, but the Group has not early adopted any of them.

(b) Consolidation

The consolidated financial statements comprise the financial statements of Diamond Trust Bank Kenya Limited and its subsidiaries, Diamond Trust Bank Tanzania Limited, Diamond Trust Bank Uganda Limited, Diamond Trust Bank Burundi S.A, Diamond Trust Insurance Agency Limited and Premier Savings and Finance Limited, made up to 31 December 2009.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss statement.

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the Group companies are eliminated. The accounting policies for the subsidiaries are consistent with the policies adopted by the Bank.

Notes to the Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(c) Investment in associates

Associates are undertakings in which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Provisions are recorded for any impairment in value.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Equity accounting involves recognising in the profit and loss account the Group's share of the associates' profit or loss for the year. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill at acquisition.

A listing of the Group's associates is shown in Note 18.

(d) Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed in note 18) are stated in the Bank's balance sheet at cost less provision for impairment loss where applicable. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(e) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency.

(f) Translation of foreign currencies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Foreign currency transactions during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at the rates ruling at that date. The resulting differences are dealt with in the profit and loss account in the year in which they arise. Exchange differences resulting from translation of opening net assets of foreign associates are dealt with in reserves.

(g) Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing investments measured at amortised cost using the effective interest method, in the period in which it is earned/ charged. 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 period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected age of the financial instrument or, when appropriate a shorter period to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income includes coupons earned on Treasury bonds and accrued discounts on Treasury bills.

(h) Fees and commission income

Unless included in the effective interest calculation in (g) above, fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan appraisal fees for loans that have been or are likely to be drawn down are deferred and recognised over the period of the loan using the effective interest method. Fees and commission expense are deferred and recognised on an accrual basis when incurred.

Notes to the Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(i) Property and equipment

Property and equipment are initially recorded at cost. Leasehold buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. All other property and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on a straight line basis by reference to the expected useful lives of the assets concerned. The rates used are as follows:-

Leasehold buildings	Remaining period of lease
Leasehold improvements	Remaining period of lease
Motor vehicles	25%
Furniture, fittings and equipment	12.5%, 20% and 25%

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(j) Intangible assets – software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production or procurement of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software implementation consultancy costs and an appropriate portion of relevant overheads. The costs are amortised on a straight line basis over the expected useful life of four years (at the rate of 25% per year).

(k) Intangible assets – goodwill

Goodwill is the excess of the cost of an acquisition (including costs directly attributable to the acquisition) over the fair value of the Group's share of net identifiable assets of acquired subsidiaries at the date of acquisition. Goodwill is tested annually for impairment as well as when there are indications of impairment. Goodwill arising on acquisition of subsidiaries is stated at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8.

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(l) Financial assets

The group classifies its financial assets into the following categories: Financial assets at fair value through profit and loss; loans, advances and receivables; held to maturity investments and available for sale assets. Management determines the appropriate classification of its investment at initial recognition.

(i) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces measurement inconsistency. Financial instruments cannot be transferred out of this category after inception.

(ii) Loans, advances and receivables

Loans, advances and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at their amortised costs using the effective interest method.

(iii) Held to maturity financial assets

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. 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.

2. Summary of significant accounting policies (Continued)

(l) Financial assets (Continued)

(iv) Available for sale investments

Available for sale investments are those non derivative financial assets that are not classified under (i) to (iii) above.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets except those carried at fair value through profit or loss.

Regular purchases and sales of financial assets at fair value through the profit or loss, and held to maturity assets are recognised on trade-date - the date on which the group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available for sale assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans, advances and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of financial assets of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Dividends on available for sale equity instruments are recognised in the profit or loss when the Bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

(m) Impairment and uncollectability of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

i) Financial assets at amortised costs

A provision for identified loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, including amounts recoverable from guarantees and collateral.

A provision for unidentified loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such. This provision is based on available historical experience and experienced judgement.

When a loan is deemed uncollectible, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the profit and loss account. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for impairment in the profit and loss account.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

ii) Financial assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available- for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not subsequently reversed. The impairment loss is reversed through the profit and loss account, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

(n) Financial liabilities

The Group measures financial liabilities initially at fair value (being issue proceeds net of transaction costs incurred). After initial recognition, financial liabilities including customer deposits, balances due to Central Banks and banking institutions and borrowings are measured at amortised cost. Financial liabilities are derecognised when extinguished.

Notes to the Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Sale and repurchase agreements

Securities purchased from Central Bank of Kenya under agreements to resell ('repos') are disclosed as Treasury bills as they are held-to-maturity after they are purchased and are not negotiable/discounted during the tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities sold subject to repurchase agreement (reverse repos) are classified in the financial statements as pledged assets when the transferee has a right by contract to resell the collateral: the counter liability is included in amounts due to other banks, deposits from banks or balances due to Central Bank as appropriate.

(p) Statutory loan loss reserve

Where impairment losses required by the regulators exceed those computed under IFRS, the excess is recognised as a statutory loan loss reserve and is accounted for as an appropriation of retained earnings. The statutory loan loss reserve is not distributable.

(q) Leases

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as the un-earned finance income, which is allocated to the accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

(r) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(s) Long-term borrowing

Long-term borrowing is recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss account. Long-term borrowings are derecognised when extinguished.

t) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with maturities of three months or less from the date of acquisition, including: cash and balances with the Central Banks and amounts due from other banks. Cash and cash equivalent exclude the cash reserve requirement held with the Central Banks.

(u) Employee entitlements

Employee entitlements to gratuity and long-service awards are calculated and recognized annually. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date. The entitlements to gratuity are only applicable for employees recruited prior to 2001.

The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(v) Retirement benefit obligations

The Group operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate. The Group has no further payment obligation once the contributions have been paid.

The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

Notes to the Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(w) Proposed dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until approved by the shareholders at the Annual General Meeting.

(x) Forward foreign exchange contracts

Forward foreign exchange contracts are carried at their fair value. Forward foreign exchange contracts are initially recognised at fair value, which is equal to cost on the date the contract is entered into, and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date. Changes in fair value of forward foreign exchange contracts are recognised immediately in the profit and loss account.

(y) Acceptances, guarantees and letters of credit

Acceptances, guarantees and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(z) Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments (Geographic segments). Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision-maker. All transactions between business segments are conducted on an arm's length basis with intra-segment revenue and costs being eliminated at group level.

(zi) Comparatives

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

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, 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 the decrease can be identified with an individual loan in that portfolio. Judgements may also change with time as new information becomes available. 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 nature and carrying values of the loans and advances are disclosed in note 16.

(ii) 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 and not amortised cost. If the entire class of held-to-maturity investments is tainted, it will be reported at the fair value, with a corresponding entry in shareholders' equity. Details of these assets are set out in note 14 and 17.

(iii) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iv) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(m). The recoverable amounts from each cash generating unit have been determined based on value in use calculations. These calculations are based on financial budgets approved by the board covering a three year period. The discounts rates applied on the cashflows is based on the board of directors past estimate of risk adjusted rate for the respective countries where the subsidiaries are based. The carrying amount of the goodwill and the key assumptions made are set out in note 23.

Notes to the Financial Statements (Continued)

4. Financial risk management

Risk taking is central to banking activity. The Group evaluates business opportunities in terms of the risk-reward relationship. The risks that the Group takes are reasonable, controlled, within its financial resources and credit competence.

The diversity of our business requires us to identify, measure and manage associated risks effectively. The risks are managed through a framework, organisational structure, risk management and monitoring processes that are closely aligned with the activities of the Group and in line with the guidelines given by the Central Bank of Kenya (CBK) or the regulators under which it is operating in other countries.

Risk management principles

The following key principles form part of our approach to risk management.

- The Board, through its comprehensive subcommittee structure, oversees risk management, reviews and approves enterprise - wide risk policies and procedures and sets tolerance limits wherever required.
- The risk management function is independent of the Group's business and operating units. This function which is headed by the Head of Risk Management is able to manage Credit, Market and Operational risk on an integrated basis.
- Various committees at functional level oversee the implementation of risk management policies and procedures. These committees are closely aligned with the structure of the Group's business and operating units.
- Market and liquidity risks are overseen by the Board Asset and Liability Committee (BALCO) and managed by a well-represented Asset and Liabilities Committee (ALCO). The Members of ALCO are the Managing Director and the heads of Risk, Finance and business units.
- The Credit and Operational Risk Management committees are responsible for defining and implementation of their respective policies and procedures. The work of these two management committees is overseen by the Board Credit Committee and Board Risk Management Committee.
- Independent risk review function is conducted by the internal audit function which reports directly to the Board Audit Committee.

(a) Credit risk management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of the Group's risk exposures. The Group's credit process is governed by centrally established credit policies and procedures, rules and guidelines with an aim to maintain a well-diversified credit portfolio.

Credit risk policies and procedures are reviewed by the management and are approved by the Board. The Group has a system of checks and balances in place around the extension of credit that comprise of:

- an independent credit risk management function;
- multiple credit approvers; and
- Independent audit, risk review and compliance functions.

The Group's Credit Policy reflects the Groups' tolerance for risk i.e. credit risk appetite. This, as a minimum, reflects the Groups' strategy to grant credit based on various products, economic sectors, client segments, target markets giving due consideration to risks specific to each target market.

Salient features of the group's risk approval process are delineated below:

- Every extension of credit to any counterparty requires approval by various pre-defined levels of approving authorities as defined in the Credit Policy manual.
- All business units must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/pre-defined level.
  The disbursement of credit facilities is managed by a centralized Credit Administration Department (CAD), reporting to the Risk Management function. CAD is also responsible for collateral/documents management including safe-keeping.

The Group monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Group has an established Debt Recovery Unit to focus on expediting recoveries of problem credits. The Unit negotiates with problem borrowers and recommends restructuring and rescheduling of stuck up loans to the Management, Board Committees and the full Board. For cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Group follows the guidelines of the Central Bank of Kenya or the Regulators under their respective jurisdictions for the classification/write off procedures relating to problem loans.

Notes to the Financial Statements (Continued)

4 Financial Risk Management (Continued)

(a) Credit Risk Management (Continued)

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Maximum exposure to credit risk before collateral held				
Balances with Central Banks	3,551,075	3,069,802	1,849,442	1,801,619
Government securities	9,226,700	10,188,683	5,980,327	7,201,942
Deposits and balances due from banking institutions	7,392,025	5,455,435	5,638,340	4,304,969
Loans and advances to customers	41,518,135	34,063,359	29,700,279	25,460,278
Corporate bond- held to maturity	933,746	-	933,746	-
Uncleared effects	332,965	344,939	294,829	326,931
Items in the course of collection	144,707	341,276	141,583	341,632
Credit risk exposures relating to off-balance sheet items:				
- Acceptances and letters of credit	2,003,718	1,769,228	1,627,429	1,332,219
- Guarantee and performance bonds	2,057,842	1,148,793	1,243,556	763,269
	67,160,913	**56,381,515**	**47,409,531**	**41,532,859**

Financial assets that are past due or impaired

Loans and advances are summarised as follows:

	Group 2009	Group 2008	Bank 2009	Bank 2008
Neither past due nor impaired	32,702,426	26,216,030	23,581,994	19,328,078
Past due but not impaired	8,886,755	8,055,052	6,129,053	6,409,437
Impaired	592,523	406,095	568,531	269,203
Gross	42,181,704	34,677,177	30,279,578	26,006,718
Less: Allowance for impairment	(663,569)	(613,818)	(579,299)	(546,440)
	41,518,135	34,063,359	29,700,279	25,460,278

All financial assets other than loans and advances are neither past due or impaired.
Loans and advances less than 90 days are not considered impaired unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Past due up to 30 days	6,070,471	5,676,956	4,049,219	4,566,838
Past due 31 - 60 days	1,932,673	1,442,631	1,400,351	1,000,094
Past due 61 - 90 days	883,611	935,465	679,483	842,505
Total	8,886,755	8,055,052	6,129,053	6,409,437

Collateral and other credit enhancements

Impaired loans and advances are backed by collateral in the form of cash, properties, motor vehicles and corporate and personal guarantees.

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Fair value of collateral	647,639	673,185	622,561	103,616

4 Financial Risk Management (Continued)

(a) Credit Risk Management (Continued)

Loans and advances restructured

A restructured credit facility is a facility which has been refinanced, rescheduled, rolled over or otherwise modified because of weakness in the borrower's financial position or the non payment of the debt arranged.

The restructuring of the credit facility must be in conformance with the prudential guidelines issued by the regulators as well as the Bank's policy on restructuring credit facilities.

This request must satisfy the group's appraisal criteria and appropriate additional security may be sought where required, especially if the risk profile of the restructured facility is deemed to have risen. The terms of restructuring must be accepted by the borrower and all existing and proposed guarantors.
The amounts below represent loans and advances that have been restructured.

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Hire purchase and term loans	2,426,322	1,116,219	2,049,207	1,021,947

Loans and advances that are neither past due nor impaired

TThe Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with the regulators' prudential guidelines.

Past due but not impaired

This category includes exposures that are over 1 day (1 - 90 days) past due, where losses may have occurred/ been incurred but have not been identified. These exposures are graded internally as normal (1 - 30 days) and watch (31 - 90 days) in line with the regulator's guidelines. Through the management information generated by the core banking application, management is able to monitor indications of impairments through internally designed limit management and past due monitoring systems.

Impaired loans and advances

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded in accordance with the regulator's prudential guidelines and are termed as non-performing loans.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The components of this allowance are identified loss component that relates to individually significant exposures, and a collective loan loss allowance in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Settlement risk

The Group is exposed to settlement risk in its dealings with market counterparties (predominantly other financial institutions). These risks arise, for example, in foreign exchange transactions when the group pays away its side of the transaction to another Bank or other counterparty before receiving payment from the other side. The risk is that the counterparty may not meet its obligation. The risk is mitigated by setting counterparty limits. These limits are set after assessing the financial strength of the concerned counterparties.

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(b) Concentrations of Risk

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analyses of credit risk concentrations presented below are based on the economic sector in which they are engaged.

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

Group	Gross loans and advances		Credit commitments		Customer deposits	
At 31 December 2009	*Shs '000*	*%*	*Shs '000*	*%*	*Shs '000*	*%*
Manufacturing	4,230,494	10%	1,107,668	15%	2,937,337	6%
Wholesale and retail trade	10,220,073	24%	1,467,148	19%	4,725,425	9%
Transport and communications	6,329,357	15%	830,646	11%	1,621,861	3%
Business and financial services	4,819,673	11%	2,399,620	32%	12,600,615	24%
Agriculture	2,093,096	5%	289,833	4%	1,492,511	3%
Building and construction and real estate	7,536,620	18%	893,445	12%	6,287,913	12%
Tourism	2,902,832	7%	209,539	3%	159,761	0%
Individuals	3,050,783	7%	331,294	4%	19,024,579	36%
Other	998,776	3%	22,993	0%	3,984,393	7%
	42,181,704	100%	7,552,186	100%	52,834,395	100%
At 31 December 2008						
Manufacturing	4,032,208	12%	704,128	13%	2,019,322	4%
Wholesale and retail trade	6,444,336	19%	2,006,193	38%	3,900,369	9%
Transport and communications	5,038,072	14%	651,841	12%	2,304,252	5%
Business and financial services	4,715,123	14%	959,050	18%	12,832,258	29%
Agriculture	1,718,972	5%	487,106	9%	372,448	1%
Building and construction and real estate	6,172,872	18%	218,351	4%	3,093,056	7%
Tourism	2,912,630	8%	10,305	1%	127,556	0%
Individuals	3,037,196	8%	138,814	3%	16,750,571	37%
Other	605,768	2%	103,924	2%	3,623,354	8%
	34,677,177	100%	5,279,712	100%	45,023,186	100%

4. Financial Risk Management (Continued)

(b) Concentration of Risk (Continued)

Bank	Gross loans and advances		Credit commitments		Customer deposits	
At 31 December 2009	*Shs '000*	*%*	*Shs '000*	*%*	*Shs '000*	*%*
Manufacturing	2,705,760	9%	953,097	15%	1,380,872	4%
Wholesale and retail trade	6,876,927	23%	1,366,805	21%	2,159,141	6%
Transport and communications	5,383,234	18%	815,755	13%	1,303,106	4%
Business and financial services	3,782,715	12%	1,950,114	31%	7,608,036	21%
Agriculture	1,017,375	3%	273,180	4%	1,346,437	4%
Building and construction and real estate	6,212,460	21%	666,278	10%	2,040,027	6%
Tourism	1,490,325	5%	124,651	2%	111,292	0%
Individuals	2,744,911	9%	235,889	4%	17,568,923	48%
Other	65,871	0%	363	0%	2,756,246	8%
	30,279,578	100%	6,386,132	100%	36,274,080	100%
At 31 December 2008						
Manufacturing	2,604,382	10%	360,323	8%	1,063,823	3%
Wholesale and retail trade	4,151,788	16%	1,818,003	42%	1,617,542	5%
Transport and communications	4,287,511	16%	631,185	15%	929,678	3%
Business and financial services	4,117,844	16%	770,557	18%	10,322,952	32%
Agriculture	994,229	4%	482,724	11%	215,514	1%
Building and construction and real estate	5,133,431	20%	185,970	4%	2,338,185	7%
Tourism	1,912,975	7%	4,500	0%	51,476	0%
Individuals	2,770,517	11%	75,736	2%	13,844,448	42%
Other	34,041	0%	-	0%	2,305,590	7%
	26,006,718	100%	4,328,998	100%	32,689,208	100%

(c) Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices, in the Group's case. It emanates from the trading activities mainly carried out by treasury and structural positions housed in the banking books.

Market risk management is undertaken by the Treasury function under the supervision of ALCO, while Risk department maintains an overall oversight role.

The Group carries a limited amount of market risk. Tolerance limits for market risk are approved by the Board. The limits are further allocated to the banking and trading books that are monitored at pre-defined frequencies. Risk measurement is currently based on sensitivity analysis and stress testing.

(i) Price risk

The Bank is exposed to equity securities price risk because of investments in quoted shares classified as available-for-sale. The quoted shares held by the Bank are traded at the Nairobi Stock Exchange (NSE).

At 31 December 2009, if the NSE index had increased/decreased by 15% (2008: 25%) with all other variables held constant and all the Group's and Bank's equity instruments moved according to the historical correlation to the index, consolidated equity investments would have been Shs 8.7 million (2008: Shs 8 million) higher/lower.

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(c) Market Risk Management (Continued)

(ii) Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

A substantial part of the Group's assets and liabilities are subject to floating rates, hence are re-priced simultaneously. However, the Group is exposed to interest rate risk as a result of mismatches on a relatively small portion of its fixed rate assets and liabilities. The major portion related to this risk is reflected in the banking book owing to investments in fixed rate treasury bonds. The overall potential impact of the mismatches on the earnings in short-term and economic value of the portfolio in the long-term is not material and is being managed within the tolerance limits approved by the Board.

The table below summarises the group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on off-balance sheet items.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Group	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
At 31 December 2009							
ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	4,570,661	**4,570,661**
Government securities	408,006	1,783,010	2,701,337	1,939,781	2,394,566	-	**9,226,700**
Deposits and balances due from banking institutions	7,296,699	95,326	-	-	-	-	**7,392,025**
Loans and advances to customers	41,518,135	-	-	-	-	-	**41,518,135**
Corporate bond - held to maturity	-	-	-	933,746	-	-	**933,746**
Equity investments - available-for-sale securities	-	-	-	-	-	58,015	**58,015**
Property and equipment	-	-	-	-	-	1,606,902	**1,606,902**
Intangible assets - software costs	-	-	-	-	-	135,434	**135,434**
Intangible assets - goodwill	-	-	-	-	-	173,372	**173,372**
Corporation tax recoverable	-	-	-	-	-	29,850	**29,850**
Deferred income tax asset	-	-	-	-	-	141,194	**141,194**
Other assets	-	-	-	-	-	893,046	**893,046**
Total assets	**49,222,840**	**1,878,336**	**2,701,337**	**2,873,527**	**2,394,566**	**7,608,474**	**66,679,080**
LIABILITIES & EQUITY							
Balances due to Central Bank of Kenya	399,878	-	-	-	-	-	**399,878**
Customer deposits	24,491,005	9,013,736	18,793,384	525,935	10,335	-	**52,834,395**
Deposits and balances due to banking institutions	2,051,300	4,747	8,873	55,575	-	-	**2,120,495**
Current income tax payable	-	-	-	-	-	35,934	**35,934**
Deferred income tax liability	-	-	-	-	-	68	**68**
Long term borrowing	-	-	1,892,710	-	-	-	**1,892,710**
Other liabilities	-	-	-	-	-	1,307,402	**1,307,402**
Shareholders' equity	-	-	-	-	-	6,998,163	**6,998,163**
Non controlling interests	-	-	-	-	-	1,090,035	**1,090,035**
Total liabilities & equity	**26,942,183**	**9,018,483**	**20,694,967**	**581,510**	**10,335**	**9,431,602**	**66,679,080**
Interest sensitivity gap	**22,280,657**	**(7,140,147)**	**(17,993,630)**	**2,292,017**	**2,384,231**	**(1,823,128)**	**-**

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(c) Market Risk Management (Continued)

(ii) Interest Rate Risk (Continued)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Group	Shs '000	Shs '000	Shs '000	Sh '000	Shs '000	Shs '000	Shs '000
At 31 December 2008							
Total assets	39,456,008	4,039,647	5,449,833	76,365	-	7,123,844	56,145,697
Total liabilities & equity	20,267,903	11,099,017	14,280,807	396,337	-	10,101,633	56,145,697
Interest sensitivity gap	**19,188,105**	**(7,059,370)**	**(8,830,974)**	**(319,972)**	**-**	**(2,977,789)**	**-**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Bank	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
At 31 December 2009							
ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	2,264,047	2,264,047
Government securities	198,964	492,724	1,260,250	1,633,823	2,394,566	-	5,980,327
Deposits and balances due from banking institutions	5,638,340	-	-	-	-	-	5,638,340
Loans and advances to customers	29,700,279	-	-	-	-	-	29,700,279
Corporate bond - held to maturity	-	-	-	933,746	-	-	933,746
Investments in subsidiaries and associates	-	-	-	-	-	897,227	897,227
Equity investments - available-for-sale securities	-	-	-	-	-	58,015	58,015
Property and equipment	-	-	-	-	-	792,095	792,095
Intangible assets - software costs	-	-	-	-	-	53,152	53,152
Deferred income tax asset	-	-	-	-	-	111,097	111,097
Other assets	-	-	-	-	-	718,442	718,442
Total assets	**35,537,583**	**492,724**	**1,260,250**	**2,567,569**	**2,394,566**	**4,894,075**	**47,146,767**
LIABILITIES & EQUITY							
Balances due to Central Bank of Kenya	399,878	-	-	-	-	-	399,878
Customer deposits	15,570,786	6,865,835	13,558,062	269,062	10,335	-	36,274,080
Deposits and balances due to banking institutions	1,310,761	-	-	-	-	-	1,310,761
Current income tax payable	-	-	-	-	-	35,147	35,147
Long term borrowing	-	-	1,892,710	-	-	-	1,892,710
Other liabilities	-	-	-	-	-	970,870	970,870
Shareholders' equity	-	-	-	-	-	6,263,321	6,263,321
Total liabilities & shareholders' equity	**16,881,547**	**6,865,835**	**15,450,772**	**269,062**	**10,335**	**7,269,338**	**47,146,767**
Interest sensitivity gap	**18,656,036**	**(6,373,111)**	**(14,190,522)**	**2,298,507**	**2,384,231**	**(2,375,263)**	**-**
At 31 December 2008							
Total assets	29,970,563	2,837,396	4,159,230	-	-	4,624,860	41,592,049
Total liabilities & shareholders' equity	14,868,879	10,092,985	9,765,172	238,283	-	6,626,730	41,592,049
Interest sensitivity gap	**15,101,684**	**(7,255,589)**	**(5,605,942)**	**(238,283)**	**-**	**(2,001,870)**	**-**

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

Interest rate risk sensitivity analysis
The impact on financial assets, net of financial liabilities, of a 1% increase or decrease in interest rates would be as follows:

	Group		Bank	
	2009 Shs'million	2008 Shs'million	2009 Shs'million	2008 Shs'million
+ 1% Movement	55	45	46	43
- 1% Movement	(55)	(45)	(46)	(43)
	====	====	====	====

(iii) Foreign Exchange Risk
The Group's assets are typically funded in the same currency as the business transacted to eliminate foreign exchange exposure. However, the Group maintains an open position within the tolerance limits prescribed by the Central Banks and approved by the Board.

End-of-the-day positions are marked to market daily. The intra-day positions are managed by treasury/dealing room through stop loss/dealers limits.

The table below summarises the Group's and Bank's exposure to foreign currency exchange rate risk at 31 December 2009. Included in the table are the Group's and Bank's financial instruments, categorised by currency.

Group	**USD**	**GBP**	**EURO**	**OTHERS**	**TOTAL**
At 31 December 2009	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
Assets					
Cash and balances with the Central banks	457,588	24,221	46,618	2,706	531,133
Deposits & balances with banking institutions	5,595,252	400,431	187,615	118,095	6,301,393
Other assets	91,624	37,117	12,724	2,182	143,647
Loans and advances	12,250,654	114,161	966,696	1	13,331,512
Total assets	**18,395,118**	**575,930**	**1,213,653**	**122,984**	**20,307,685**
Liabilities & Equity					
Customer deposits	13,159,677	1,394,063	858,894	148,678	15,561,312
Deposits & balances with banking institutions	195,536	15,041	4,390	26,471	241,438
Other liabilities	1,969,288	7,985	-	-	1,977,273
Long term borrowing	1,892,710	-	-	-	1,892,710
Total liabilities & Equity	**17,217,211**	**1,417,089**	**863,284**	**175,149**	**19,672,733**
Net balance sheet position	**1,177,907**	**(841,159)**	**350,369**	**(52,165)**	**634,952**
Net off balance sheet position	**(3,140,894)**	**836,081**	**(324,015)**	**67,532**	**(2,561,296)**
Overall net position	**(1,962,987)**	**(5,078)**	**26,354**	**15,367**	**(1,926,344)**

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(iii) Foreign Exchange Risk (Continued)

Bank	**USD**	**GBP**	**EURO**	**OTHERS**	**TOTAL**
At 31 December 2009	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
Assets					
Cash and balances with the Central banks	101,681	12,447	30,451	96	144,675
Deposits & balances with banking institutions	4,144,535	296,788	133,144	105,553	4,680,020
Other assets	89,426	37,117	12,724	2,182	141,449
Loans and advances	6,050,045	114,159	940,717	-	7,104,921
Total assets	**10,385,687**	**460,511**	**1,117,036**	**107,831**	**12,071,065**
Liabilities & equity					
Customer deposits	5,146,227	1,284,987	767,652	140,215	7,339,081
Deposits & balances with banking institutions	134,329	15,041	4,390	26,471	180,231
Other liabilities	1,889,345	4,776	-	-	1,894,121
Long term borrowing	1,892,710	-	-	-	1,892,710
Total liabilities & Equity	**9,062,611**	**1,304,804**	**772,042**	**166,686**	**11,306,143**
Net balance sheet position	**1,323,076**	**(844,293)**	**344,994**	**(58,855)**	**764,922**
Net off balance sheet position	**(3,140,894)**	**836,081**	**(324,015)**	**67,532**	**(2,561,296)**
Overall net position	**(1,817,818)**	**(8,212)**	**20,979**	**8,677**	**(1,796,374)**

Currency risk sensitivity analysis

At 31 December 2009, if the local currency in each country the Group operates in, had strengthened or weakened by 5% against the major trading currencies, with all other variables held constant, the impact on the after-tax profit would have been as shown below:

	Group		**Bank**	
	2009	2008	2009	2008
	Shs'million	Shs'million	Shs'million	Shs'million
+ 5% Movement	(97)	(48)	(90)	(34)
- 5% Movement	97	48	90	34

(d) Liquidity Risk Management

Liquidity risk is the risk that the Group will be unable to meet cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding.

At management level, ALCO has the responsibility for the formulation and management of the overall strategy and oversight of the asset liability management function. At Board level and, through its sub-committee, BALCO reviews the strategy adopted by ALCO and provides direction on a periodic basis.

The Group follows a comprehensive liquidity risk management policy and procedures duly recommended by the ALCO, reviewed by the BALCO and approved by the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of the Group's liquidity under normal and crisis situation (stress testing).

The table below presents the undiscounted cash flows receivable and payable by the Group and Bank under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(iii) Liquidity Risk Management (Continued)

Group At 31 December 2009 **Assets**	**Up to 1 month** *Shs '000*	**1-3 months** *Shs '000*	**3-12 months** *Shs '000*	**1-5 years** *Shs '000*	**Over 5 years** *Shs '000*	**Total** *Shs '000*
Cash and balances with Central Banks	3,556,805	315,279	615,115	12,139	71,323	**4,570,661**
Government securities	460,271	1,868,445	3,231,201	3,333,414	4,494,566	**13,387,897**
Deposits and balances due from banking institutions	7,384,687	95,326	-	-	-	**7,480,013**
Loans and advances to customers	4,559,608	6,674,730	16,601,532	16,651,853	2,354,613	**46,842,336**
Corporate bond - held to maturity	-	-	-	340,825	1,289,730	**1,630,555**
Equity investments - available-for-sale	-	-	-	-	58,015	**58,015**
Property and equipment	-	-	-	-	1,606,902	**1,606,902**
Intangible assets - software costs	-	-	-	-	135,434	**135,434**
Intangible assets - goodwill	-	-	-	-	173,372	**173,372**
Corporation tax recoverable	-	-	-	-	29,850	**29,850**
Deferred income tax asset	-	-	-	-	141,194	**141,194**
Other assets	701,464	46,880	88,036	34,457	22,209	**893,046**
Total assets	**16,662,835**	**9,000,660**	**20,535,884**	**20,372,688**	**10,377,208**	**76,949,275**
LIABILITIES & EQUITY						
Balances due to Central Bank of Kenya	399,878	-	-	-	-	**399,878**
Customer deposits	24,648,309	9,207,772	19,688,180	597,682	24,735	**54,166,678**
Deposits and balances due to banking institutions	2,658,780	4,747	8,873	55,575	-	**2,727,975**
Current income tax payable	-	35,934	-	-	-	**35,934**
Deferred income tax liability	-	-	-	68	-	**68**
Long term borrowing	-	-	892	12,902	1,909,106	**1,922,900**
Other liabilities	1,039,090	48,319	219,856	137	-	**1,307,402**
Shareholders' equity	-	-	-	-	6,998,163	**6,998,163**
Non controlling interests	-	-	-	-	1,090,035	**1,090,035**
Total liabilities & Shareholders' equity	**28,746,057**	**9,296,772**	**19,917,801**	**666,364**	**10,022,039**	**68,649,033**
Net liquidity gap	**(12,083,222)**	**(296,112)**	**618,083**	**19,706,324**	**355,169**	**8,300,242**
At 31 December 2008						
Total assets	13,711,783	9,215,009	21,278,777	13,752,947	3,111,754	**61,070,270**
Total liabilities & Shareholders' equity	21,471,701	11,860,356	12,994,279	2,311,747	8,966,949	**57,605,032**
Net liquidity gap	**(7,759,918)**	**(2,645,347)**	**8,284,498**	**11,441,200**	**(5,855,195)**	**3,465,238**

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(iii) Liquidity Risk Management (Continued)

Bank	**Up to 1**	**1-3**	**3-12**	**1-5**	**Over 5**	
At 31 December 2009	**month**	**months**	**months**	**years**	**years**	**Total**
Assets	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
Cash and balances with Central Bank of Kenya	1,330,258	309,490	611,694	12,139	466	**2,264,047**
Government securities	250,599	566,234	1,733,158	3,012,055	4,494,566	**10,056,612**
Deposits and balances due from banking institutions	5,638,340	-	-	-	-	**5,638,340**
Loans and advances to customers	3,475,638	4,273,731	12,924,234	12,538,203	1,230,053	**34,441,859**
Corporate bond - held to maturity	-	-	-	340,825	1,289,730	**1,630,555**
Investments in subsidiaries and associates	-	-	-	-	897,227	**897,227**
Equity investments - available-for-sale	-	-	-	-	58,015	**58,015**
Property and equipment	-	-	-	-	792,095	**792,095**
Intangible assets - software costs	-	-	-	-	53,152	**53,152**
Deferred income tax asset	-	-	-	111,097	-	**111,097**
Other assets	620,458	18,382	39,703	20,213	19,686	**718,442**
Total assets	**11,315,293**	**5,167,837**	**15,308,789**	**16,034,532**	**8,834,990**	**56,661,441**
LIABILITIES & EQUITY						
Balances due to Central Bank of Kenya	399,878	-	-	-	-	**399,878**
Customer deposits	15,723,577	7,043,319	14,376,525	325,859	24,735	**37,494,015**
Deposits and balances due to banking institutions	1,310,761	-	-	-	-	**1,310,761**
Current income tax payable	-	-	-	-	35,147	**35,147**
Long term borrowing	-	-	892	12,902	1,909,106	**1,922,900**
Other liabilities	954,997	10,687	5,186	-	-	**970,870**
Shareholders' equity	-	-	-	-	6,263,321	**6,263,321**
Total liabilities & Shareholders' equity	**18,389,213**	**7,054,006**	**14,382,603**	**338,761**	**8,232,309**	**48,396,892**
Net liquidity gap	**(7,073,920)**	**(1,886,169)**	**926,186**	**15,695,771**	**602,681**	**8,264,549**
At 31 December 2008						
Total assets	8,618,462	6,826,206	16,884,635	10,072,550	2,427,660	**44,829,513**
Total liabilities & equity	15,354,701	10,489,258	8,081,753	1,478,444	7,310,020	**42,714,176**
Net liquidity gap	**(6,736,239)**	**(3,663,052)**	**8,802,882**	**8,594,106**	**(4,882,360)**	**2,115,337**

(e) Operational Risk Management

Operational risk is the risk that the Group will face direct or indirect loss resulting from inadequate or failed internal processes, people, technology failures and from external events. The Group has in place a Board-approved Operations Risk Management Policy and Procedures.

At management level, the Operations Risk Management Committee (ORCO) has the responsibility for assessing the risk associated with the Group's activities, ensuring they are clearly identified, assessed and controlled in line with the Group's Operational Risk Management Policy. ORCO is charged with ensuring that the Group has adequate internal policies and procedures, technology, business continuity and ensuring that the appropriate knowledge, skills, resources and expertise are available within the Group to enable the staff to meet the risk management and control requirements within each of their respective areas of operation.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost-effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

Notes to the Financial Statements (Continued)

4. Financial Risk Management (Continued)

(f) Fair values of financial assets and liabilities

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement 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).

As at 31 December 2009 the Group only had available for sale financial assets that were quoted in the Nairobi Stock Exchange hence categorised within level 1.

The fair value of available-for-sale investment securities at 31 December 2009 is estimated at Group and Bank: Shs 58 million (2008: Group: Shs 10,189 million, Bank: Shs 7,202 million). The fair values of the Group's other financial assets and liabilities 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.

(g) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are:

1. to comply with the capital requirements set by the Central Bank of Kenya (CBK);
2. to safeguard the Bank as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
3. to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented 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 risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

The group manages its capital to meet Central Bank of Kenya requirements listed below:

(a) hold the minimum level or regulatory capital of Shs 350 million;
(b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%;
(c) maintain core capital of not less than 8% of total deposit liabilities; and
(d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

1. Tier 1 capital (core capital): share capital, share premium plus retained earnings.
2. Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments and statutory loan reserve. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

During the year, the Group and Bank have complied with requirements of the regulators; Central Bank of Kenya, Bank of Tanzania, Bank of Uganda, Banque de la Republique du Burundi, the Capital Markets Authority as well as the Nairobi Stock Exchange.

The table below summarises the composition of regulatory capital and the ratios of the Group and Bank as at 31 December:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Tier 1 Capital	7,664,318	5,487,286	5,279,080	4,456,798
Tier 1 + Tier 2 Capital	8,630,663	6,715,161	6,512,383	5,639,995
Risk-weighted assets				
On-balance sheet	48,532,429	36,216,609	32,309,624	26,950,625
Off-balance sheet	3,328,696	2,863,051	2,014,273	1,575,803
Total risk-weighted assets	**51,861,125**	**39,079,660**	**34,323,897**	**28,526,428**

4. Financial Risk Management (Continued)

(g) Capital management (Continued)

Basel ratio	Group		Bank	
	2009	2008	2009	2008
Tier 1 (CBK) minimum - 8%; Bank of Tanzania (BOT) minimum - 10%; Bank of Uganda (BOU) minimum - 8% Banque de la Republique du Burundi minimum - 8%	14.8%	14.0%	15.4%	15.6%
Tier 1 + Tier 2 (CBK, BOT and BOU minimum - 12%)	16.6%	17.2%	19.0%	19.8%
Banque de la Republique du Burundi minimum - 8%				

	Group	
	2009	2008
	Shs '000	*Shs '000*
5. Interest income		
Loans and advances	5,306,113	3,874,004
Government securities	843,443	586,738
Placements and bank balances	311,897	235,243
	6,461,453	**4,695,985**
6. Interest expense		
Customer deposits	2,892,528	2,233,321
Deposits due to banking institutions	49,412	23,930
	2,941,940	**2,257,251**
7. Other operating income		
Rental income	14,628	14,809
Gain on sale of fixed assets	1,585	2,041
Gain on sale of held for trading treasury bonds	52,614	-
Other	21,153	16,589
	89,980	**33,439**
8. Operating expenses		
Other operating expenses include:		
Staff costs (Note 9)	1,324,068	884,484
Depreciation (Note 20)	232,511	126,157
Amortisation of intangible assets-software costs (Note 21)	39,170	32,730
Operating lease rentals	183,219	118,231
Auditors' remuneration	10,065	8,812
9. Staff costs		
Salaries and allowances	1,182,223	757,560
Contribution to defined contribution retirement scheme	32,375	28,405
Accrual for gratuity pay	6,567	8,058
National Social Security Fund Contribution	39,143	21,543
Others including insurance, travel, and training	63,760	68,918
	1,324,068	**884,484**

10. Income tax expense

	Group	
	2009	**2008**
	Shs '000	*Shs '000*
Current income tax	616,420	480,647
Under provision of income tax in previous year	75	-
Deferred income tax	(44,277)	(2,816)
Under provision of deferred tax credit in previous year	3,209	-
	575,427	**477,831**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax-rate as follows:

	2009	**2008**
	Shs'000	*Shs'000*
Profit before tax	1,929,862	1,604,296
Tax calculated at the statutory tax rate of 30% (2008: 30%)	578,958	481,289
Tax effect of:		
Income not subject to tax	(45,632)	(28,045)
Expenses not deductible for tax purposes	21,090	19,074
Under provision of current income tax in previous year	75	-
Under provision of deferred tax credit in previous year	3,209	-
Final tax on investments	17,727	5,513
Tax charge	**575,427**	**477,831**

11. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Bank of Shs 1,250,250,000 (2008: Shs 1,024,489,000) by the weighted average number of ordinary shares outstanding during the year.

	2009	**2008**
Net profit attributable to shareholders (Shs thousands)	1,250,250	1,024,489
Weighted number of ordinary shares in issue after rights issue (thousands)	163,037	163,037
Earnings per share (Shs per share) - basic and diluted	7.67	6.28

Diluted earnings per share have been calculated on the basis of the number of ordinary shares issued as at 31 December 2009. There were no potentially dilutive shares outstanding at 31 December 2009.

12. Dividends per share

At the Annual General Meeting to be held on 27 May 2010, a final dividend in respect of the year ended 31 December 2009 of Shs 1.55 per share amounting to a total of Shs 252,707,517 is to be proposed.

The total dividend for the year is Shs 1.55 per share (2008: Shs 1.40), amounting to a total of Shs 252,707,517 (2008: Shs 228,251,951).

Payment of dividends is subject to withholding tax at a rate of 5% for shareholders who are citizens of East Africa Partner States and 10% for the others.

Notes to the Financial Statements (Continued)

13. Cash and balances with Central Banks

	Group		Bank	
	2009	2008	2009	2008
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Cash in hand	1,019,586	791,015	414,605	318,920
Balances with Central Banks	3,551,075	3,069,802	1,849,442	1,801,619
	4,570,661	**3,860,817**	**2,264,047**	**2,120,539**

14. Government securities held-to-maturity

Treasury bills	4,710,123	6,802,141	1,951,939	3,924,673
Treasury bonds	4,516,577	109,273	4,028,388	-
Treasury bills under repo purchase agreement	-	27,985	-	27,985
	9,226,700	**6,939,399**	**5,980,327**	**3,952,658**

Government securities available-for-sale

Treasury bonds	-	3,249,284	-	3,249,284
Total Government securities	**9,226,700**	**10,188,683**	**5,980,327**	**7,201,942**

Treasury bills and bonds are debt securities issued by the Republic of Kenya in the case of the Bank, as well as the United Republic of Tanzania, Republique du Burundi and Republic of Uganda, in the case of the Group. Treasury bills and bonds are classified as held-to-maturity.

15. Deposits and balances due from banking institutions

Due from other banks	7,392,025	5,455,435	5,638,340	4,304,969

All deposits due from banking institutions are due within 90 days

16. Loans and advances to customers

Finance leases	5,454,412	4,826,884	5,454,412	4,826,884
Other loans and advances	36,727,292	29,850,293	24,825,166	21,179,834
Gross loans and advances	**42,181,704**	**34,677,177**	**30,279,578**	**26,006,718**
Less: Provision for impairment of loans and advances				
Identified impairment	(337,389)	(283,133)	(320,283)	(244,724)
Unidentified impairment	(326,180)	(330,685)	(259,016)	(301,716)
Net loans and advances	**41,518,135**	**34,063,359**	**29,700,279**	**25,460,278**

Notes to the Financial Statements (Continued)

16. Loans and advances to customers (Continued)

Movements in provisions for impairment of loans and advances are as follows:

	Group		Bank	
	Identified Impairment	Unidentified Impairment	Identified Impairment	Unidentified Impairment
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Period ended 31 December 2008				
At start of year	108,802	300,369	85,717	300,369
Balance relating to subsidiary	5,224	22,634	-	-
Provision for loan impairment	245,783	7,682	205,766	1,347
Loans written off during the period as uncollectible	(19,386)	-	(16,251)	-
Release of provision no longer required	(57,290)	-	(30,508)	-
At end of year	**283,133**	**330,685**	**244,724**	**301,716**
Period ended 31 December 2009				
At start of year	283,133	330,685	244,724	301,716
Provision for loan impairment	303,575	-	270,867	-
Loans written off during the period as uncollectible	(160,379)	-	(129,217)	-
Release of provision no longer required	(87,545)	(4,776)	(66,091)	(42,700)
Translation difference	(1,395)	271	-	-
At end of year	**337,389**	**326,180**	**320,283**	**259,016**

	Identified Impairment	Unidentified Impairment	Total
Charge to profit and loss account (Group)	*Shs '000*	*Shs '000*	*Shs '000*
Year ended 31 December 2008			
Provision for loan impairment	245,783	7,682	253,465
Release of provision no longer required	(57,290)	-	(57,290)
Net increase in provision	188,493	7,682	196,175
Amounts recovered previously written off	(6,412)	-	(6,412)
Loans written off through profit and loss account	764	-	764
Net charge to profit and loss account	182,845	7,682	190,527
Year ended 31 December 2009			
Provision for loan impairment	303,606	-	303,606
Release of provision no longer required	(87,576)	(4,776)	(92,352)
Net increase/(decrease) in provision	216,030	(4,776)	211,254
Amounts recovered previously written off	(3,235)	-	(3,235)
Loans written off through profit and loss account	87,663	-	87,663
Net charge to profit and loss account	300,458	(4,776)	295,682

Notes to the Financial Statements (Continued)

16 Loans and advances to customers (Continued)

	Identified Impairment	Unidentified Impairment	Total
Charge to profit and loss account (Bank)	*Shs '000*	*Shs '000*	*Shs '000*
Year ended 31 December 2008			
Provision for loan impairment	205,766	1,347	207,113
Release of provision no longer required	(30,508)	-	(30,508)
Net increase in provision	175,258	1,347	176,605
Amounts recovered previously written off	(6,412)	-	(6,412)
Loans written off through profit and loss account	402	-	402
Net charge to profit and loss account	169,248	1,347	170,595
Year ended 31 December 2009			
Provision for loan impairment	270,867	-	270,867
Release of provision no longer required	(66,091)	(42,700)	(108,791)
Net increase/(decrease) in provision	204,776	(42,700)	162,076
Amounts recovered previously written off	(3,235)	-	(3,235)
Loans written off through profit and loss account	16,776	-	16,776
Net charge to profit and loss account	218,317	(42,700)	175,617

All loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans, net of provision for impairment losses, at 31 December 2009, was Group: Shs 255,134,000; Bank: Shs 248,247,000 (2008 : Group: Shs 111,793,000; Bank: Shs 24,479,000).

Loans and advances to customers include finance leases receivables, which may be analysed as follows:

	Group and Bank	
	2009	**2008**
	Shs '000	*Shs '000*
Gross investment in finance leases:		
Not later than 1 year	922,403	842,716
Later than 1 year and not later than 5 years	6,088,046	4,747,762
Later than 5 years	-	8,342
	7,010,449	5,598,820
Unearned future finance income on finance leases	(1,556,037)	(771,936)
Net investment in finance leases	5,454,412	4,826,884

The net investment in finance leases may be analysed as follows:

Net investment in finance leases:		
Not later than 1 year	731,914	792,866
Later than 1 year and not later than 5 years	4,722,498	4,028,481
Later than 5 years	-	5,537
Net investment in finance leases	5,454,412	4,826,884

Notes to the Financial Statements (Continued)

	Group and Bank 2009	2008
	Shs'000	Shs'000
17. Corporate bond - held to maturity	933,746	-

The bond has a face value of Shs 917,100,000 and has an effective interest rate of 12.5%. It has a moratorium period of 2 years and matures after 10 years on 31 October 2019.

18. Investments in subsidiaries and associates

At start of year	-	97,843
Adjustment upon gaining control of Diamond Trust Bank Uganda Limited	-	(103,673)
Share of results after tax	-	8,765
Translation adjustment	-	(2,935)
At end of year	-	-

The cost of the investment in the subsidiaries and the associates are listed below together with the interests held.

	Beneficial Ownership	Group 2009 Shs'000	Group 2008 Shs'000	Bank 2009 Shs'000	Bank 2008 Shs'000
Subsidiaries					
Diamond Trust Bank Tanzania Limited	55.40%	-	-	337,584	337,584
Diamond Trust Bank Uganda Limited	51.00%	-	-	265,534	265,534
Diamond Trust Bank Burundi S.A.	67.34%	-	-	262,971	262,971
Diamond Trust Insurance Agency Limited	100.00%	-	-	2,000	2,000
Premier Savings and Finance Limited	100.00%	-	-	29,137	29,137
		-	-	897,226	897,226
Associates					
Comtech Systems Limited	29.00%	-	-	-	1
Services and Systems Limited	40.00%	-	-	1	1
		-	-	1	2
Total investments in subsidiaries and associates		**-**	**-**	**897,227**	**897,228**

Premier Savings and Finance Limited, which is incorporated in Kenya, is dormant.

	Group and Bank 2009	2008
19. Equity investments - available for sale	Shs'000	Shs'000
At start of year	45,902	-
Additions (quoted investments)	-	63,753
Fair value gain/(loss) on available-for-sale investments (Note 32)	12,113	(17,851)
At end of year	58,015	45,902

The quoted shares are valued annually at the close of business on 31 December by reference to the prices quoted on the Nairobi Stock Exchange.

Notes to the Financial Statements (Continued)

20. Property and equipment

(a) Group	Freehold land	Leasehold buildings	Leasehold improvements	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
	Shs '000	Shs '000	Shs '000	Sh '000	Shs '000	Shs '000	Shs '000
At 1 January 2008							
Cost or valuation	-	154,387	176,658	19,112	487,574	-	837,731
Accumulated depreciation	-	(800)	(46,831)	(14,965)	(287,071)	-	(349,667)
Cost or valuation	-	153,587	129,827	4,147	200,503	-	488,064
Year ended 31 December 2008							
Opening net book amount	-	153,587	129,827	4,147	200,503	-	488,064
Relating to subsidiary	-	-	25,916	3,226	24,723	15,110	68,975
Translation difference	-	3,195	(2,511)	162	10,633	-	11,479
Additions	57,630	27,365	180,542	8,554	305,631	31,201	610,923
Disposals	-	-	(1,843)	(257)	(1,895)	-	(3,995)
Depreciation charge	-	(3,795)	(32,974)	(4,140)	(85,248)	-	(126,157)
Closing net book amount	57,630	180,352	298,957	11,692	454,347	46,311	1,049,289
At 31 December 2008							
Cost or valuation	57,630	184,950	381,190	33,358	886,189	46,311	1,589,628
Accumulated depreciation	-	(4,598)	(82,233)	(21,666)	(431,842)	-	(540,339)
Cost or valuation	57,630	180,352	298,957	11,692	454,347	46,311	1,049,289
At 31 December 2008							
Cost	57,630	122,047	381,190	33,358	886,189	46,311	1,526,725
Revaluation surplus	-	62,903	-	-	-	-	62,903
Cost or valuation	57,630	184,950	381,190	33,358	886,189	46,311	1,589,628
Year ended 31 December 2009							
Opening net book amount	57,630	180,352	298,957	11,692	454,347	46,311	1,049,289
Translation difference	-	(2,885)	(4,192)	(90)	(5,542)	95	(12,614)
Additions	-	28,945	149,799	18,040	294,685	313,841	805,310
Transfer from work in progress	-	-	127,660	-	47,751	(175,411)	-
Transfer to intangible assets	-	-	-	-	-	(456)	(456)
Disposals	-	-	-	(3,227)	(14,931)	-	(18,158)
Disposals - accumulated depreciation	-	-	-	3,208	12,834	-	16,042
Depreciation charge	-	(5,126)	(55,314)	(8,280)	(163,791)	-	(232,511)
Closing net book amount	57,630	201,286	516,910	21,343	625,353	184,380	1,606,902
At 31 December 2009							
Cost or valuation	57,630	211,010	654,457	48,081	1,208,152	184,380	2,363,710
Accumulated depreciation	-	(9,724)	(137,547)	(26,738)	(582,799)	-	(756,808)
Cost or valuation	57,630	201,286	516,910	21,343	625,353	184,380	1,606,902
At 31 December 2009							
Cost	57,630	148,107	654,457	48,081	1,208,152	184,380	2,300,807
Revaluation surplus	-	62,903	-	-	-	-	62,903
Cost or valuation	57,630	211,010	654,457	48,081	1,208,152	184,380	2,363,710

20. Property and equipment (Continued)

(b) Bank	Freehold land	Leasehold buildings	Leasehold improvements	Motor vehicles	Furniture fittings & equipment	Work in progress	Total
	Shs '000	*Shs '000*	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
At 1 January 2008							
Cost or valuation	-	115,000	111,523	13,782	393,444	-	633,749
Accumulated depreciation	-	-	(36,246)	(11,588)	(236,606)	-	(284,440)
Net book amount	-	115,000	75,277	2,194	156,838	-	349,309
Year ended 31 December 2008							
Opening net book amount	-	115,000	75,277	2,194	156,838	-	349,309
Additions	57,630	-	38,455	6,981	125,513	6,589	235,168
Disposals	-	-	(1,843)	-	(1,895)	-	(3,738)
Depreciation charge	-	(2,092)	(21,775)	(1,516)	(59,620)	-	(85,003)
Closing net book amount	57,630	112,908	90,114	7,659	220,836	6,589	495,736
At 31 December 2008							
Cost	57,630	115,000	147,739	18,510	514,365	6,589	859,833
Accumulated depreciation	-	(2,092)	(57,625)	(10,851)	(293,529)	-	(364,097)
Net book amount	57,630	112,908	90,114	7,659	220,836	6,589	495,736
At 31 December 2008							
Cost	57,630	66,742	147,739	18,510	514,365	6,589	811,575
Revaluation surplus	-	48,258	-	-	-	-	48,258
Cost or valuation	57,630	115,000	147,739	18,510	514,365	6,589	859,833
Year ended 31 December 2009							
Opening net book amount	57,630	112,908	90,114	7,659	220,836	6,589	495,736
Additions	-	-	88,532	9,430	138,569	173,427	409,958
Transfer from work in progress	-	-	1,736	-	4,839	(6,575)	-
Transfer to intangible assets	-	-	-	-	-	(456)	(456)
Disposals	-	-	-	(1,026)	(212)	-	(1,238)
Disposals - accumulated depreciation	-	-	-	1,026	61	-	1,087
Depreciation charge	-	(2,092)	(25,367)	(4,734)	(80,799)	-	(112,992)
Closing net book amount	57,630	110,816	155,015	12,355	283,294	172,985	792,095
At 31 December 2009							
Cost	57,630	115,000	238,007	26,914	657,561	172,985	1,268,097
Accumulated depreciation	-	(4,184)	(82,992)	(14,559)	(374,267)	-	(476,002)
Cost or valuation	57,630	110,816	155,015	12,355	283,294	172,985	792,095
At 31 December 2009							
Cost	57,630	66,742	238,007	26,914	657,561	172,985	1,219,839
Revaluation surplus	-	48,258	-	-	-	-	48,258
Cost or valuation	57,630	115,000	238,007	26,914	657,561	172,985	1,268,097

Leasehold buildings for Diamond Trust Bank Kenya Limited and Diamond Trust Bank Tanzania Limited were revalued as at 31 December 2007 and 1 July 2007, by independent valuers, Knight Frank and Let Consultants respectively. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus, net of deferred tax, was credited to reserves in shareholders' equity.

If leasehold buildings were stated at the historical cost basis, the amounts would be as follows:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Cost	148,107	122,048	66,742	66,742
Accumulated depreciation	(16,101)	(11,955)	(12,172)	(10,302)
Net book value	132,006	110,093	54,570	56,440

Notes to the Financial Statements (Continued)

21. Intangible assets-software costs

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
At start of year	79,499	36,500	48,222	28,281
Balance relating to subsidiary	-	1,447	-	-
Additions	95,336	74,282	23,835	41,122
Transfer from work in progress	456	-	456	-
Amortisation charge for the year	(39,170)	(32,730)	(19,361)	(21,181)
Translation difference	(687)	-	-	-
At the end of year	135,434	79,499	53,152	48,222
Cost	352,609	257,504	177,011	152,719
Accumulated amortisation	(217,175)	(178,005)	(123,859)	(104,497)
Net book value	135,434	79,499	53,152	48,222

22. Prepaid operating lease rentals

At start of year	10,886	12,742	3,661	3,850
Additions during the year	37,628	19,931	-	-
Amortisation charge for the year	(32,804)	(22,524)	(239)	(189)
Translation difference	610	737	-	-
At the end of year	16,320	10,886	3,422	3,661
Cost	102,564	64,326	6,701	6,701
Accumulated amortisation	(86,244)	(53,440)	(3,279)	(3,040)
	16,320	10,886	3,422	3,661

These balances are included in other assets in note 25.

23. Intangible assets - goodwill

Goodwill on acquisition of control in subsidiaries

	2009	**2008**
	Shs '000	*Shs '000*
At start of year	173,372	60,521
Recognised on increase in investment in subsidiaries during the year	-	112,851
At end of year	173,372	173,372

The above goodwill is attributable to strong position and profitability of Diamond Trust Bank Tanzania Limited and Diamond Trust Bank Uganda Limited in their respective markets.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to subsidiaries.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period.

Based on the above the group does not consider the goodwill impaired.

Notes to the Financial Statements (Continued)

24. Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2008:30%). The movement on the deferred tax account is as follows:

Deferred tax asset	**Group**		**Bank**	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
At start of year	126,990	111,715	126,990	114,122
Balance relating to subsidiary	-	(200)	-	-
Charged through profit and loss account current year	35,460	5,321	(4,867)	5,321
Under (over)/ statement of deferred tax in previous year	(3,209)	2,607	(3,209)	-
Charged/(credit) through other comprehensive income	(7,817)	7,547	(7,817)	7,547
Translation difference	(10,230)	-	-	-
At end of the period	141,194	126,990	111,097	126,990
Deferred tax liability				
At start of year	(9,324)	-	-	-
Balance relating to subsidiary	-	(2,815)	-	-
(Credit)/charged through profit and loss account current year	8,817	(2,505)	-	-
Overstatement of deferred tax in previous year	-	(2,607)	-	-
Charged through other comprehensive income	-	(1,397)	-	-
Translation difference	439	-	-	-
At end of the period	(68)	(9,324)	-	-
Net deferred tax asset				
At start of year	117,666	111,715	126,990	114,122
Balance relating to subsidiary	-	(3,015)	-	-
Charged through profit and loss account				
-current year	44,277	2,816	(4,867)	5,321
-(Over)/under statement of deferred tax in previous year	(3,209)	-	(3,209)	-
Charged/(credit) through other comprehensive income	(7,817)	6,150	(7,817)	7,547
Translation difference	(9,791)	-	-	-
At end of the period	141,126	117,666	111,097	126,990

Notes to the Financial Statements (Continued)

24. Deferred income tax (Continued)

Consolidated deferred income tax assets and liabilities, deferred tax charge in the profit and loss account and deferred tax charge in equity are attributable to the following items:

Group	1.1.2009	Charged to profit & loss A/c	Charged through other comprehensive income	31.12.2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Deferred income tax liabilities				
Accelerated income on tax depreciation	16,430	23,642	-	40,072
Revaluation surplus	19,059	(684)	-	18,375
	35,489	22,958	-	58,447
Deferred income tax assets				
Provisions for loan impairment	(103,463)	(5,967)	-	(109,430)
Provisions for gratuity and staff bonus	(31,307)	(11,269)	-	(42,576)
Tax losses	(8,846)	(39,821)	-	(48,667)
Fair value changes in Government securities	(9,539)	2,822	7,817	1,100
	(153,155)	(54,235)	7,817	(199,573)
Net deferred income tax asset	(117,666)	(31,277)	7,817	(141,126)

Bank

Deferred income tax liabilities				
Accelerated income on tax depreciation	(4,350)	2,508	-	(1,842)
Revaluation surplus	14,188	-	-	14,188
	9,838	2,508	-	12,346
Deferred income tax assets				
Provisions for loan impairment	(94,474)	12,507	-	(81,967)
Provisions for gratuity and staff bonus	(32,815)	(9,761)	-	(42,576)
Fair value changes in Government securities	(9,539)	2,822	7,817	1,100
	(136,828)	5,568	7,817	(123,443)
Net deferred income tax asset	(126,990)	8,076	7,817	(111,097)

Notes to the Financial Statements (Continued)

25. Other assets

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Uncleared effects	332,965	344,939	294,828	326,931
Prepaid operating lease rentals (Note 22)	16,320	10,886	3,422	3,661
Items in the course of collection	144,707	341,632	141,583	341,632
Deposits and prepayments	157,288	100,276	109,309	61,307
Receivable from related parties (Note 37)	-	116,428	-	-
Others	241,766	185,658	169,300	156,712
	893,046	1,099,819	718,442	890,243

26. Balances due to Central Bank of Kenya

Reverse repo	399,878	-	399,878	-

The reverse repo matures within four days after 31 December 2009. The effective interest rate was 3.7%.

27. Customer deposits

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Current and demand deposits	13,984,912	10,006,719	8,555,223	5,771,108
Savings accounts	4,541,634	3,015,248	1,689,985	1,291,082
Fixed deposit accounts	34,307,641	32,001,011	26,028,664	25,626,810
Unredeemed bearer certificates of deposit	208	208	208	208
	52,834,395	45,023,186	36,274,080	32,689,208

28 Deposits and balances due to banking institutions

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Deposits due to banking institutions	1,937,673	499,038	1,148,652	342,519
Current account balances due to banking institutions	182,822	331,096	162,109	315,515
	2,120,495	830,134	1,310,761	658,034

Notes to the Financial Statements (Continued)

29. Long-term borrowing

a. Subordinated debt

The long-term subordinated debt (nine and a half years) was raised from the International Finance Corporation, which is a related party, to increase the Bank's supplementary capital, amounted to US$ 15 million (2008: US$ 15 million).

The subordinated debt is an unsecured 9.5 year loan capital issued by the International Finance Corporation in October 2008 to enhance the Bank's capital base. The debt obligation of the bank ranks ahead of the interest of holders of equity and is redeemable on maturity. These notes bear interest at rates referenced to the Libor.

b. Senior loan

The long-term senior loan (ten years) raised from the International Finance Corporation, which is a related party, amounted to US$ 10 million (2008: US$ 10 million).

Finance costs of Shs 80.1 million (2008: Shs 31.3 million), (related to the above borrowings), have been included in the profit and loss account.

	Group and Bank	
Subordinated debt	**2009**	**2008**
	Shs'000	*Shs'000*
At start of year	1,174,920	-
Additions during the year	-	1,172,250
Net movement in accrued interest	49,252	18,422
Paid during the year	(49,921)	(15,752)
Translation difference	(38,518)	-
	1,135,733	1,174,920
Senior loan		
At start of year	783,095	-
Additions during the year	-	781,500
Net movement in accrued interest	28,922	9,965
Paid during the year	(29,391)	(8,370)
Translation difference	(25,649)	-
	756,977	783,095
Long term borrowing	1,892,710	1,958,015

30. Other liabilities

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Due to subsidiary company	-	-	79,562	79,562
Gratuity provision	57,275	57,342	51,920	52,588
Outstanding bankers' cheques	228,787	451,055	154,536	282,826
Rights issue balances to be refunded	1,422	1,448	1,422	1,448
Provisions and expense accruals	199,536	178,756	151,830	139,705
Others	820,382	580,910	531,600	355,354
	1,307,402	1,269,511	970,870	911,483

30. Other liabilities (Continued)

Movement in gratuity provision is as follows:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
At start of year	57,342	48,185	52,588	44,565
Relating to the subsidiary	-	299	-	-
Increase during the year	4,750	9,447	3,925	8,023
Utilised during the year	(4,593)	(589)	(4,593)	-
Translation difference	(224)	-	-	-
At end of year	57,275	57,342	51,920	52,588

31. Share capital

	Number of shares (Thousands)	**Share capital** *Shs'000*	**Share premium** *Shs'000*
Balance at 31 December 2008, 1 January 2009 and 31 December 2009	163,037	652,148	2,197,735

The total authorised number of ordinary shares is 250,000,000 (2008: 250,000,000) with a par value of Shs 4 per share.

Notes to the Financial Statements (Continued)

32. Other reserves

Consolidated statement of charges in other reserves

	Revaluation surplus	Revaluation reserves on Government securities	Revaluation reserve on equity investments	Translation reserve	Other reserves	Total
Year ended 31 December 2008	*Shs' 000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
At start of year	103,988	(4,647)	-	37,027	159,777	296,145
Fair value changes in available for sale equity investment	-	-	(17,851)	-	-	(17,851)
Deferred tax on fair value changes	-	-	5,355	-	-	5,355
Recycling of fair value on changes in Government securities	-	4,647	-	-	-	4,647
Fair value changes in Government securities	-	(13,946)	-	-	-	(13,946)
Deferred tax on fair value changes	-	4,184	-	-	-	4,184
Capitalisation of associate's retained earnings on consolidation	-	-	-	-	(103,673)	(103,673)
Translation adjustment	-	-	-	30,537	-	30,537
At end of year	103,988	(9,762)	(12,496)	67,564	56,104	205,398
Year ended 31 December 2009						
At start of year	103,988	(9,762)	(12,496)	67,564	56,104	205,398
Recycling of fair value on changes in Government securities	-	13,946	-	-	-	13,946
Deferred tax on fair value loss	-	(4,184)	-	-	-	(4,184)
Fair value changes in available for sale equity investment	-	-	12,113	-	-	12,113
Deferred tax on fair value changes	-	-	(3,633)	-	-	(3,633)
Translation adjustment	-	-	-	(44,432)	-	(44,432)
Transfer of excess depreciation to retained earnings	(1,864)	-	-	-	-	(1,864)
Deferred tax on excess depreciation	559	-	-	-	-	559
At end of year	102,683	-	(4,016)	23,132	56,104	177,903

32. Other reserves (continued)

Bank statement of changes in reserves

Year ended 31 December 2008	**Revaluation surplus** *Shs '000*	**Revaluation reserves on Government securities** *Shs '000*	**Revaluation reserve on equity investments** *Shs '000*	**Total** *Shs '000*
At start of year	33,106	(4,647)	-	28,459
Recycling of fair value on changes in Government securities	-	4,647	-	4,647
Fair value changes in Government securities	-	(13,946)	-	(13,946)
Deferred tax on fair value changes	-	4,184	-	4,184
Fair value changes in equity investments available for sale	-	-	(17,851)	(17,851)
Deferred tax on fair value changes	-	-	5,355	5,355
At end of year	33,106	(9,762)	(12,496)	10,848
Year ended 31 December 2009				
At start of year	33,106	(9,762)	(12,496)	10,848
Recycling of fair value on changes in Government securities	-	13,946	-	13,946
Deferred tax on fair value loss	-	(4,184)	-	(4,184)
Fair value changes in equity investments available for sale	-	-	12,113	12,113
Deferred tax on fair value changes	-	-	(3,633)	(3,633)
Transfer of excess depreciation to retained earnings	(444)	-	-	(444)
Deferred tax on excess depreciation	133	-	-	133
At end of year	32,795	-	(4,016)	28,779

The revaluation surplus represents solely the surplus on the revaluation of leasehold buildings net of income tax and is non distributable.

Notes to the Financial Statements (Continued)

33. Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Group conducts business involving acceptances, guarantees, performance bonds and letters of credit. The majority of these facilities are offset by corresponding obligations of third parties.

	Group		Bank	
	2009	**2008**	**2009**	**2008**
Contingent liabilities	*Shs '000*	*Shs '000*	*Shs '000*	*Shs '000*
Acceptances and letters of credit	2,003,718	1,769,228	1,627,429	1,332,219
Guarantee and performance bonds	2,057,842	1,148,793	1,243,556	763,269
	4,061,560	2,918,021	2,870,985	2,095,488

Nature of contingent liabilities

An acceptance is an undertaking by a group to pay a bill of exchange drawn on a customer. The group expects the acceptances to be presented and 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 a customer to third parties. The group will only be required to meet these obligations in the event of the customer's default.

Commitments	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Undrawn credit lines and other commitments to lend	8,041,486	5,279,712	7,216,174	4,328,998
Foreign exchange forward contracts	8,597,391	5,729,223	8,487,170	5,585,678
Foreign exchange spot transactions	933,198	1,543,143	843,346	1,543,143
Operating lease rentals (i)	537,663	374,955	401,241	293,652
Capital commitments	34,890	11,067	25,435	11,067
	18,144,628	12,938,100	16,973,366	11,762,538

(i) Operating lease rentals are analysed as follows:

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Not later than 1 year	101,503	88,966	78,059	69,090
Later than 1 year and not later than 5 years	346,240	216,655	264,672	155,229
Later than 5 years	89,920	69,334	58,510	69,333
	537,663	374,955	401,241	293,652

Nature of commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

Notes to the Financial Statements (Continued)

34. Business segments information

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance. Information reported to the Group's Board for the purposes of resource allocation and assessment of segment performance is focused on geographical regions. Although the Burundi segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board.

The reportable operating segments derive their revenue primarily from banking services including current, savings and deposits accounts, credit cards, asset finance, money transmission, treasury and commercial lending. The parent Bank also operates a fully owned insurance agency in Kenya. The assets and profit of the agency are not material and make up less than 10% of the combined assets and profit of the group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.
For management and reporting purposes, Diamond Trust Bank is organised into the following business segments;
Diamond Trust Bank Tanzania Limited, which became a subsidiary company in June 2007, operates in Tanzania.
Diamond Trust Bank Uganda Limited, which became a subsidiary company in October 2008, operates in Uganda.
Network Insurance Agency Limited, which is a wholly owned subsidiary of Diamond Trust Bank Uganda Limited, operates in Uganda.
Diamond Trust Bank Burundi S.A., which was set up as a subsidiary company in November 2008, operates in Burundi.
Kenya is the home country of the parent Bank and its fully owned insurance agency. The following is the geographical segment information:
The group did not have any single customer who represented more than 10% of its revenues.

	Kenya	Tanzania	Uganda	Burundi	Total	Consolidation adjustment	Groups
At 31 December 2009	*Shs '000*	*Shs '000*	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
Interest income from external customers	4,871,609	891,175	686,316	12,353	6,461,453	-	6,461,453
Other income from external customers	1,013,819	261,164	269,606	3,828	1,548,417	-	1,548,417
Total income from external customers	5,885,428	1,152,339	955,922	16,181	8,009,870	-	8,009,870
Inter-segment income	341	165	1,832	3	2,341	(2,341)	-
Total income	5,885,769	1,152,504	957,754	16,184	8,012,211	-	8,009,870
Interest expense from external customers	(2,351,790)	(312,044)	(276,353)	(1,753)	(2,941,940)	-	(2,941,940)
Other expenses – external	(1,594,538)	(455,222)	(488,347)	(32,598)	(2,570,705)	-	(2,570,705)
Inter-segment expenses	(2,151)	(122)	(68)	-	(2,341)	2,341	-
Depreciation and amortisation	(132,950)	(58,754)	(60,667)	(19,310)	(271,681)	-	(271,681)
Provision for bad debts	(175,617)	(26,209)	(90,564)	(3,292)	(295,682)	-	(295,682)
Total expenses	(4,257,046)	(852,351)	(915,999)	(56,953)	(6,082,349)	-	(6,080,008)
Segment profit before tax	1,628,723	300,153	41,755	(40,769)	1,929,862	-	1,929,862
Current and deferred tax charge	(496,228)	(94,509)	1,970	13,340	(575,427)	-	(575,427)
Segment profit after tax	**1,132,495**	**205,644**	**43,725**	**(27,429)**	**1,354,435**	**-**	**1,354,435**
Segment assets	**47,243,979**	**11,550,738**	**8,301,364**	**555,445**	**67,651,526**	(972,446)	**66,679,080**
Segment liabilities	**40,889,515**	**10,239,242**	**7,500,912**	**209,803**	**58,839,472**	(248,590)	**58,590,882**

Notes to the Financial Statements (Continued)

34. Business segments information (Continued)

	Kenya	Tanzania	Uganda	Burundi	Total	Consolidation adjustment	Groups
At 31 December 2008	*Shs '000*	*Shs '000*	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
Interest income from external customers	3,884,795	660,924	150,266	-	4,695,985	-	4,695,985
Other income from external customers	894,040	251,076	84,951	-	1,230,067	-	1,230,067
Share of results of associates after tax	8,765	-	-	-	8,765	-	8,765
Total income from external customers	4,787,600	912,000	235,217	-	5,934,817	-	5,934,817
Inter-segment income	816	2,568	2,227	-	5,611	(5,611)	-
Total income	4,788,416	914,568	237,444	-	5,940,428	-	5,934,817
Interest expense from external customers	(1,966,130)	(223,614)	(67,508)	-	(2,257,252)	-	(2,257,252)
Other expenses – external	(1,242,719)	(381,768)	(99,958)	(733)	(1,725,178)	-	(1,725,178)
Inter-segment expenses	(4,616)	(384)	(611)	-	(5,611)	5,611	-
Depreciation and amortisation	(104,364)	(43,251)	(9,949)	-	(157,564)	-	(157,564)
Provision for bad debts	(170,595)	(13,242)	(6,690)	-	(190,527)	-	(190,527)
Total expenses	(3,488,424)	(662,259)	(184,716)	(733)	(4,336,132)	-	(4,330,521)
Segment profit before tax	1,299,992	252,309	52,728	(733)	1,604,296	-	1,604,296
Current and deferred tax charge	(400,015)	(83,359)	5,211	332	(477,831)	-	(477,831)
Segment profit after tax	**899,977**	**168,950**	**57,939**	**(401)**	**1,126,465**	**-**	**1,126,465**
Segment assets	**41,677,816**	**9,358,121**	**5,823,029**	**415,877**	**57,274,843**	(1,129,146)	**56,145,697**
Segment liabilities	**36,264,573**	**8,170,290**	**5,070,791**	**28,004**	**49,533,658**	(408,378)	**49,125,280**

Notes to the Financial Statements (Continued)

34. Business segments information (Continued)

(b) Additions to non current assets

	Kenya	Tanzania	Uganda	Burundi	Total
At 31 December 2009	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
Property and equipment	411,002	120,581	183,337	90,390	805,310
Intangible assets- software	24,957	4,949	-	65,430	95,336
	435,959	125,530	183,337	155,820	900,646
At 31 December 2008					
Property and equipment	235,168	124,994	223,396	27,365	610,923
Intangible assets- software	41,122	21,246	11,700	214	74,282
	276,290	146,240	235,096	27,579	685,205

(c) Revenue by product and services

An analysis of revenue by product and service from external customers is presented below:

	Kenya	Tanzania	Uganda	Burundi	Total
At 31 December 2009	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
Net interest income					
Loans and advances	4,018,163	713,194	565,098	9,658	5,306,113
Government securities	723,903	10,129	108,094	1,317	843,443
Placement and bank balances	129,543	167,852	13,124	1,378	311,897
Interest income	4,871,609	891,175	686,316	12,353	6,461,453
Customer deposits	2,319,933	307,292	263,550	1,753	2,892,528
Deposits due to banking institutions	31,667	4,874	12,871	-	49,412
Interest expense	2,351,600	312,166	276,421	1,753	2,941,940
Net interest income	**2,520,009**	**579,009**	**409,895**	**10,600**	**3,519,513**
Fee and commission income					
Fee and commission income	510,486	150,057	185,025	2,295	847,863
Foreign exchange income	407,594	119,710	81,734	1,536	610,574
Other income	85,801	1,332	2,847	-	89,980
Net fee and commission income	**1,003,881**	**271,099**	**269,606**	**3,831**	**1,548,417**

Notes to the Financial Statements (Continued)

34. Business segments information (Continued)

An analysis of revenue by product and service from external customers is presented below:

	Kenya	Tanzania	Uganda	Burundi	Total
At 31 December 2008	*Shs '000*	*Sh '000*	*Shs '000*	*Shs '000*	*Shs '000*
Net interest income					
Loans and advances	3,232,032	533,457	108,515	-	3,874,004
Government securities	465,911	83,252	37,575	-	586,738
Placement and bank balances	186,852	44,215	4,176	-	235,243
Interest income	3,884,795	660,924	150,266	-	4,695,985
Customer deposits	1,946,148	219,734	67,439	-	2,233,321
Deposits due to banking institutions	19,982	3,880	68	-	23,930
Interest expense	1,966,130	223,614	67,507	-	2,257,251
Net interest income	**1,918,665**	**437,310**	**82,759**	**-**	**2,438,734**
Fee and commission income					
Fee and commission income	498,038	159,175	51,481	-	708,694
Foreign exchange income	365,914	89,365	32,655	-	487,934
Other income	30,089	2,535	815	-	33,439
Net fee and commission income	**894,041**	**251,075**	**84,951**	**-**	**1,230,067**

Notes to the Financial Statements (Continued)

35. Fair values and effective interest rates of financial assets and liabilities

In the opinion of the directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out in Note 4.
The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December 2009 and 31 December 2008 were as follows:

		2009			2008	
	In Shs	**In US$**	**In GBP**	**In Shs**	**In US$**	**In GBP**
Assets						
Government securities	9.24%	-	-	8.94%	-	-
Deposits with banking institutions	4.50%	1.93%	0.32%	6.54%	3.25%	2.19%
Loans and advances to customers	15.71%	9.13%	7.50%	15.08%	10.71%	10.44%
Liabilities						
Customer deposits	7.48%	0.31%	0.52%	7.76%	2.94%	4.04%
Deposits due to banking institutions	3.97%	1.10%	-	4.52%	-	2.20%
Amounts due to group companies	-	0.42%	-	3.37%	0.38%	-
Subordinated debt	-	2.96%	-	-	4.82%	-
Senior loan	-	2.46%	-	-	4.32%	-

36. Analysis of cash and cash equivalents as shown in the cash flow statement

	Group	
	2009	**2008**
	Shs'000	*Shs'000*
Cash and balances with the central banks (Note 13)	4,570,661	3,860,817
Cash reserve requirement	(3,044,049)	(3,080,090)
Treasury bills under repo purchase agreement	-	926,390
Government securities maturing within 91 days at the point of acquisition	1,259,756	752,875
Deposits and balances due from banking institutions (Note 15)	7,392,025	5,455,435
Balances due to Central Bank of Kenya	(399,878)	-
Deposits and balances due to banking institutions (Note 28)	(2,120,495)	(830,134)
	7,658,020	7,085,293

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including: cash and balances with Central Banks, treasury bills and bonds and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Banks.

Banks are required to maintain a prescribed minimum cash balance with the Central Banks that is not available to finance the banks' day-to-day activities. In the case of the Bank, the amount is determined as 4.5% (2008: 5%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

Notes to the Financial Statements (Continued)

37. 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 the financial or operational decisions.

The group holds deposits from directors, companies associated with directors and employees. Advances to customers include advances and loans to directors, companies associated with directors and employees. Contingent liabilties include guarantees and letters of credit for companies associated with the directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs '000	*Shs '000*	*Shs '000*	*Shs '000*
Group Companies				
Amounts due to:				
Other group companies	-	-	165,619	111,094
Interest expense incurred	-	-	2,151	578
Amounts due from:				
Minority shareholders	-	116,428	-	-
Directors				
Loans to directors:				
At start of year	14,141	7,405	12,956	7,302
On acquisition of subsidiary	-	-	-	-
Advanced during the year	1,416	14,827	20	12,837
Repaid during the year	(10,372)	(8,090)	(8,073)	(7,183)
Balances relating to directors who resigned or retired during the year	(4,903)	-	(4,903)	-
Translation adjustment	3	-	-	-
At end of year	285	14,141	-	12,956
Interest income earned from directors loans	104	1,181	30	1,087
Deposits by directors:				
At start of year	67,556	53,752	67,167	53,436
On acquisition of subsidiary	-	581	-	-
Net movement during the year	(19,679)	13,223	(20,865)	13,731
Translation adjustment	1	-	-	-
At end of year	47,878	67,556	46,302	67,167
Interest paid on directors' deposits	2,513	174	2,416	174

Other disclosures

At 31 December 2009, advances to companies controlled by directors or their families amounted to Shs 745,765,000 (2008: Shs 703,064,000).
At 31 December 2009, advances to employees amounted to Shs 220,568,000 (2008: Shs 174,453,000).

Interest income earned on advances to companies controlled by directors or their families and employees amounted to Shs 58,670,000 (2008: Shs 74,682,000).

Notes to the Financial Statements (Continued)

37. Related party transactions (Continued)

Other disclosures (Continued)

At 31 December 2009, contingent liabilities include letters of credit and guarantees issued for the account of companies related through common directorship amounting to Shs 59,004,000 (2008: Shs 24,582,000).

At 31 December 2009, deposits by companies related through common directorship and companies controlled by directors or their families amounted to Shs 1,688,593,000 (2008: Shs 2,708,984,000).

At 31 December 2009, deposits by employees amounted to Shs 123,450,000 (2008: Shs 119,559,000).

Interest expense incurred on deposits by companies related through common directorship, companies controlled by directors or their families and employees amounted to Shs 323,712,000 (2008: Shs 126,367,000).

Long-term borrowing in the form of subordinated debt and senior loan raised from the International Finance Corporation, a party related through shareholding, amounted to Shs 1,892,710,000 (2008: Shs 1,958,015,000). Details of this are shown under Note 29.

At 31 December 2009, placements with companies related through common directorship amounted to Shs 1,591,243,000 (2008: Shs 636,423,000).

	Group		Bank	
	2009	**2008**	**2009**	**2008**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Key management compensation				
Salaries and other short-term employment benefits	296,255	242,729	182,220	157,332
Termination benefits	16,093	12,501	10,720	9,145
	312,348	255,230	192,940	166,477
Director's remuneration				
-fees for services as a director	8,317	6,628	3,770	3,149
-other emoluments (included in key management compensation above)	44,167	36,964	26,272	21,968
	52,484	43,592	30,042	25,117

Proxy Form

I/We (in block letters) ……

of P.O. Box ……

being a member/members of DIAMOND TRUST BANK KENYA LIMITED

hereby appoint ………

of P.O. Box ……

or failing him/her ……

of P.O. Box ………………………………………………………………..……………………………………………………

as my/our proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the Aberdares Hall, Kenyatta International Conference Centre, Harambee Avenue, Nairobi, on Thursday, 27th May 2010 at 11:00 a.m., and at any adjournment thereof.

Dated this …………………………… day of ……………………………….. 2010.

Signature: ………………………………………………..

Important Notes

1. If you are unable to attend this meeting personally, this Proxy Form should be completed and returned to The Company Secretary, Diamond Trust Bank Kenya Limited, P.O. Box 61711, City Square 00200, Nairobi, so as to reach him not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
2. The person appointed as proxy need not be a shareholder of the Company.
3. In the case of a member being a corporation, the Proxy Form must be under the Common Seal or under the hand of an officer or Attorney duly authorised in writing.

FOLD HERE

AFFIX POSTAGE
STAMP HERE

The Company Secretary
Diamond Trust Bank Kenya Limited
P.O. Box 61711, City Square 00200
Nairobi, Kenya

FOLD HERE