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.

Our Regional Branch network

Kenya

1. Bungoma Branch, Moi Avenue
2. Eldoret Branch, Uganda Road
3. Kakamega Branch, Canon Awori Road
4. Kericho Road, Tengecha Road
5. Kisii Branch, Moi Highway
6. Kisumu Branch, Oginga Odinga Road
7. Kitale Branch, Kenyatta Street
8. Kitengela Branch, Kajiado Road
9. Malindi Branch, Lamu Road
10. Meru Branch, Njuri Ncheke Road

Mombasa

11. - Changamwe Branch, Magongo Road
12. - Diani Branch, Diani Beach Road
13. - Jomo Kenyatta Branch, Jomo Kenyatta Avenue
14. - Mombasa Branch, Moi Avenue
15. - Shimanzi Branch, Dar-es Salaam Road

Nairobi

16. - Buru Buru Branch, Off Mumias South Road*
17. - Capital Centre Branch, Mombasa Road*
18. - Diamond Plaza Branch, 4th Avenue Parklands*
19. - Eastleigh Branch, 2nd Avenue Eastleigh
20. - Industrial Area Branch, Likoni Road
21. - Karen Branch, Ngong Road
22. - Nation Centre Branch, Kimathi Street
23. - OTC Branch, Gwasi Lane, Off Racecourse Road
24. - Parklands Branch, 3rd Avenue Parklands
25. - Prestige Branch, Ngong Road
26. - T-Mall Branch, Langata Road
27. - Tom Mboya Branch, Mondlane/Tom Mboya Street*
28. - Upper Hill Branch, Kilimanjaro Road
29. - Village Market Branch, Limuru Road*
30. - Wabera Street Branch, Wabera Street
31. - Westgate Branch, Mwanzi Road*
32. Nakuru Branch, Kenyatta Avenue
33. Thika Branch, Kenyatta Highway
34. Voi Branch, Biashara Street

Uganda

1. Arua Branch, Avenue Road
2. Busia Branch, Sophia Lane*
3. Jinja Branch, Main Street

Kampala

4. - Hotel Equatoria Branch, William Street
5. - Industrial Area Branch, Kibiira Road
6. - Kampala Road Branch, Kampala Road
7. - Kikuubo Branch, Ben Kiwanuka Street*
8. - Kitintale Branch, Port Bell Road*
9. - Ndeeba Branch, Masaka Road
10. - Ntinda Branch, Kiira Road*
11. - Oasis Branch, Yusuf Lule Road
12. - Old Kampala Branch, Next to Old Kampala Mosque
13. - Wandegeya Branch, Bombo Road
14. Lira Branch, Aputi Road
15. Malaba Branch, Kwapa Road*
16. Masaka Branch, Kampala Road
17. Mbale Branch, Bishop Wasike Road
18. Mbarara Branch, Mbaguta Road

Tanzania

Arusha

1. - City Branch, Sokoine Road
2. - Main Branch, Sekei Road

Dar es Salaam

3. - Kariokoo Branch, Msimbazi Street
4. - Magomeni Branch, Off Morogoro Road
5. - Main Branch, Jamat /Mosque street
6. - Mbagala Branch, Kilwa Road
7. - Morocco Branch, Ali Hasan Mwinyi Road
8. - Nyerere Branch, Nyerere Road
9. Dodoma Branch, Hapipu Avenue
10. Mwanza Branch, Kenyatta Road
11. Tanga Branch, Taifa Road
12. Zanzibar Branch, Forodhani Area

Burundi

Bujumbura

1. - Agence du Siège, 14 Chaussée Prince Louis Rwagasore
2. - Agence Marche Centrale, Avenue de la Croix Rouge
3. - Agence Quartier Asiatique Branch, Avenue Ntahangwa

** 7 days Banking*

Enabling you to advance with confidence and success

Table of Contents

Financial statements:

Others

Company Information

Board Of Directors	Abdul Samji	Chairman
	Nasim Devji *	Managing Director
	Nauman Dar**	
	Farid Hamir***	Appointed on 12 April 2010
	Moez Jamal*	
	Nizar Juma	
	Amin Merali	
	Mwaghazi Mwachofi	
	Sukh Dev Nayyar****	
	Jamaludin Shamji	Appointed on 17 March 2010
	Kabir Hyderally **	Retired on 27 May 2010
	Mahmood Manji	Retired on 27 May 2010

*British ** Pakistani *** American **** Indian

Company Secretary	Stephen Kodumbe
Registered Office	Nation Centre Kimathi Street P.O. Box 61711 - 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)*

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
	Joe Maye	Head of Channel Sales
	Gituku Kirika	Head of Product Development

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

	2010	2009	2008	2007	2006
Net interest income	4,882,762	3,519,513	2,438,734	1,720,661	1,078,864
Non-fund based income	2,874,831	1,548,417	1,230,067	633,656	431,255
Total income	7,757,593	5,067,930	3,668,801	2,354,317	1,510,119
Operating profit before provisions	4,020,853	2,225,544	1,794,823	1,121,793	743,720
Charge for impairment of loans	(557,854)	(295,682)	(190,527)	(66,523)	(58,813)
Profit before income tax	3,462,999	1,929,862	1,604,296	1,055,270	684,907
Profit after tax and non controlling interests	2,284,824	1,250,250	1,024,489	690,691	487,830
Advances to customers (net)	51,260,068	41,518,135	34,063,359	23,181,871	13,832,756
Total deposits (customers and banks)	68,604,930	54,885,695	45,853,320	29,347,307	16,952,462
Dividends for the year	260,859	252,708	228,252	228,252	139,746
Shareholders' funds	8,939,503	6,998,163	5,905,514	5,052,025	2,868,090
Total assets	83,600,177	66,679,080	56,145,697	35,997,571	21,737,391
Performance Ratios					
Earnings per share - basic	Shs. 14.01	Shs. 7.67	Shs. 6.28	Shs. 4.72	Shs. 3.38
- Diluted	Shs. 11.68	Shs. 6.39	Shs. 5.24	Shs. 3.53	Shs. 2.49
Dividend per share	Shs. 1.60	Shs. 1.55	Shs. 1.40	Shs. 1.40	Shs. 1.00
Net loans to deposits	77.4%	75.5%	74.3%	79.0%	81.6%
Non performing loans to total loans (before provisions)	1.3%	1.4%	1.2%	0.7%	0.8%
Return on average assets	3.3%	2.0%	2.2%	2.4%	2.6%
Return on average shareholders funds	28.7%	19.4%	18.7%	17.5%	21.6%
Non-fund based income to total income	37.1%	30.6%	33.5%	26.9%	28.6%
Number of branches	64	53	30	18	11
Number of employees	1,101	930	687	594	415
Expenditure on property and equipment and software costs	438,509	900,646	685,205	175,069	74,241
Other Indicators (Bank only)					
Core capital to customer deposits	14.7%	14.5%	13.6%	17.5%	15.1%
Core capital to total risk weighted assets	15.3%	15.4%	15.6%	19.1%	16.5%
Total capital to total risk weighted assets	18.4%	19.0%	19.8%	19.1%	19.7

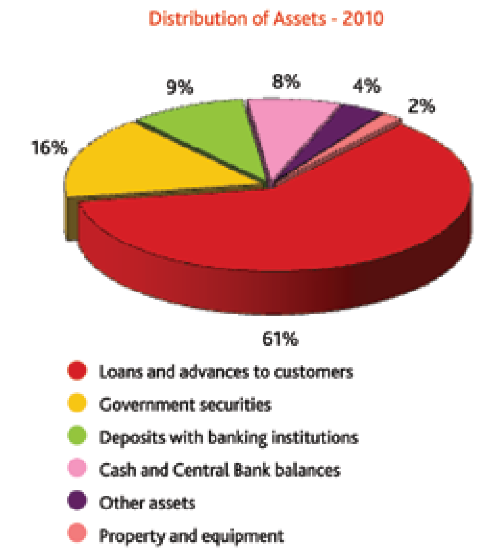
The extracts from the consolidated financial statements are stated in thousands of Kenya Shillings (Shs 000) except where otherwise indicated.

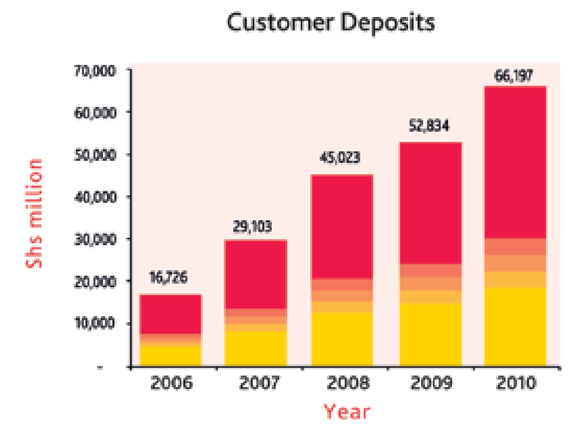
The results for Diamond Trust Bank Tanzania Limited which had previously been accounted for as an associate, have been accounted for as a subsidiary from 15 June 2007. This follows the increase in the Bank's shareholding in Diamond Trust Bank Tanzania Limited from 33.4% to 55.4% on the same date.

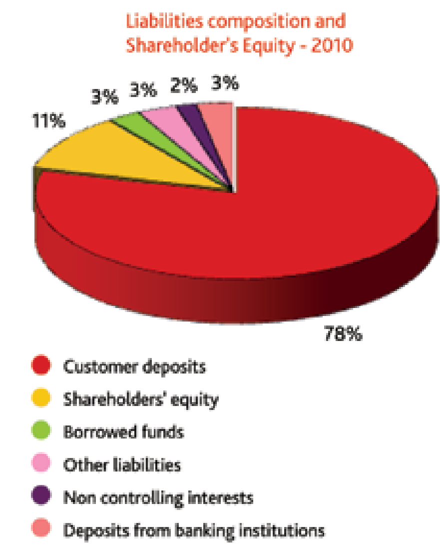
The results for Diamond Trust Bank Uganda Limited (DTBU), which had previously been accounted for as an associate,have been accounted for as a subsidiary from 6 October 2008. This follows the increase of the Bank's shareholding in DTBU from 26.7% to 51% on the same date.

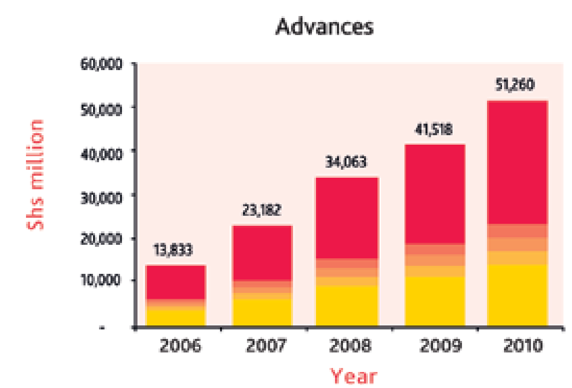
The results for Diamond Trust Bank Burundi S.A. and Diamond Trust Insurance Agency Limited have been accounted for as subsidiaries effective November 2008 and December 2008 respectively.

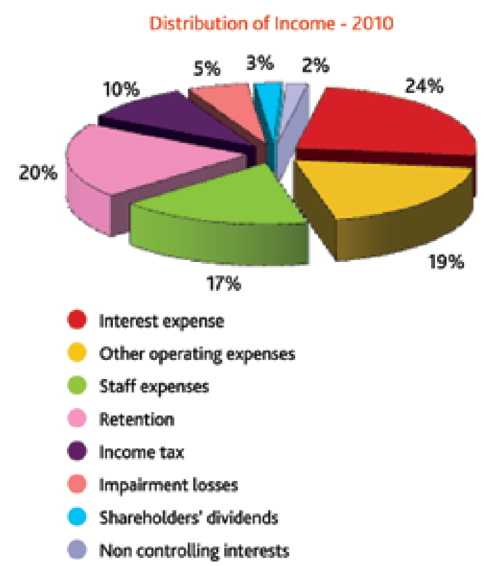
Financial Performance Charts

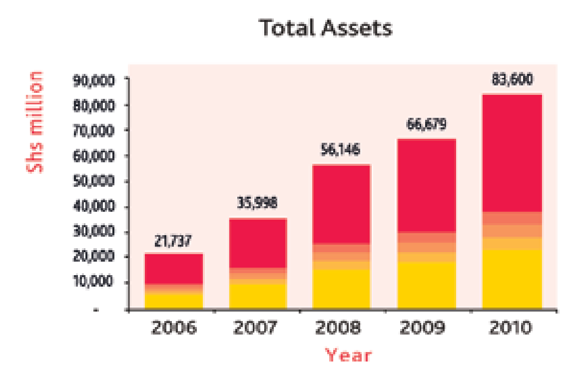












The Board of Directors

FROM LEFT TO RIGHT

Mr. Stephen Kodumbe, Mr. Sukh Dev Nayyar, Mr. Farid Hamir, Mr. Amin Merali, Mrs. Nasim Devji (Group CEO & Managing Director), Mr. Abdul Samji (Chairman), Mr. Moez Jamal, Mr. Jamaludin Shamji and Mr. Mwaghazi Mwachofi

Not in the picture

Mr. Nizar Juma

Mr. Nauman Dar

Directors' Profile

Mr. Abdul Samji - Chairman

Mr. Samji was appointed the Chairman of the DTB Group in May 2010 after having been appointed to the DTB Kenya Board in 1997. He 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 is a B.Com (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.

Ms. Nasim Devji - Group CEO & Managing Director

Ms. Devji joined the DTB Group in 1996 following which she was appointed Group Chief Executive Officer of Diamond Trust Banks in East Africa in 2001. She 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 member of the Deposit Protection Fund Board, Kenya and a director of Development Credit Bank Limited, India.

Mr. Nauman Dar - Director

Mr. Dar was appointed to the DTB Kenya Board in May 2009. He 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, Corporate and Investment 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. Farid Hamir-Director

Mr. Hamir was appointed to the DTB Kenya Board in April 2010. He has had a longstanding commitment to social and educational development in the region. He served as a director and Chairman of the Board of the Aga Khan Education Services, Kenya for 13 years. He also served two terms on the Kenyatta University Governing Council. His business interests in the country include shipping, supply chain management and sourcing of petroleum by-products. Mr. Hamir has a Bachelor of Science from the Polytechnic Institute of New York University. Prior to his return to Kenya, he held senior management and technical positions with multinational corporations in the United States.

Mr. Moez Jamal - 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.

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.

Directors' Profile *(Continued)*

Mr. Nizar Juma - Director

Mr. Juma is a Kenyan businessman. 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 honours 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 - 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 - 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 a director of the First Microfinance Bank, Pakistan.

Mr. Sukh Dev Nayyar- 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. Jamaludin Shamji - Director

Mr. Shamji was appointed to the DTB Kenya Board in March 2010. He holds a B.A. (Honors) in Business Administration from Washington State University, U.S.A. and has undertaken courses towards an M.B.A.(Strategic Management) from Drexel University, U.S.A. He is a prominent businessman based in Kisii, Kenya and is a director of various companies including A. Jiwa Shamji Limited, Sansora Bakers & Confectioners Limited and Associated Auto Centre Limited. Mr. Shamji has also served on the Board of the Aga Khan Health Services, Kenya and is currently a director of the Aga Khan Education Services, Kenya. Mr. Shamji chairs the Board Finance Sub-Committee of the Kisii Level 5 Referral Hospital, is Chairman of the Board of Governors of Kisii Special School for the Mentally Handicapped, and is a member of the Institute of Directors, Kenya.

Member of:

- *Board Executive Committee*
- *Board Nomination and Human Resource Committee*
- *Board Audit Committee*
- *Board Risk Management Committee*
- *Board Credit Committee*

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FORTY FIFTH 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 FRIDAY, 20 MAY 2011 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Forty Fourth Annual General Meeting held on 27 May 2010.
2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2010.
3. To approve payment of a final dividend of 40% on the Issued and Paid-up Share Capital of Shs 652 million to the shareholders registered in our books as at 20 May 2011 on or about 30 June 2011, 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 2010, and to authorise the Directors to fix the Auditors' remuneration for the year 2011.
8. To transact any other Ordinary Business of an Annual General Meeting.

SPECIAL BUSINESS

9. To consider and, if deemed appropriate, adopt the following which will be proposed as an ordinary resolution:

(a) THAT it is desirable to capitalize a sum of Shs. 130.4 million being part of the amount standing to the credit of revenue reserves and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the company in the share register as at the date of the closure of the register, on the condition that the same be not paid in cash but applied in paying up in full at par 32.6 million of the unissued ordinary shares of Shs. 4 each in the authorized share capital of the company, and that such 32.6 million shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one of such new share for every five of existing 163 million shares then held by such shareholders respectively (fraction of a share to be disregarded) and that the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the company held by each such shareholder and not as income and further that such shares shall rank *pari passu* for all purposes with the existing shares in the capital of the company and the directors be and are hereby authorised and directed to give effect to this resolution.

(b) THAT should any of the said 32.6 million bonus shares not be issued by reason of fractions of a share being disregarded the directors be and are hereby authorised to allot and issue the same to such person and upon such terms and conditions as they may think fit.

By Order of the Board

Stephen Kodumbe
Company Secretary
15 April 2011
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

I am delighted to present DTB's Annual Report & Financial Statements for 2010, a year in which your Bank delivered not only record profits, but also registered noteworthy achievements in numerous areas. Underpinned by an improved macro-economic environment, DTB Group successfully leveraged its growing balance sheet strength and widening branch footprint to further expand its business across East Africa.

Group pre-tax profit swelled to a record Shs 3.46 billion, a growth of 79% from Shs 1.93 billion in 2009. During the year, the Group asset base grew by 25% to stand at Shs 84 billion up from Shs 67 billion in 2009. DTB group's customer deposit base rose by 25%, from Shs 53 billion in 2009 to Shs 66 billion over the corresponding period to December 2010. The loan book for the group also went up by 23%, to stand at Shs 51 billion at the end of 2010. The total group operating income in 2010 rose markedly to Shs 7.8 billion up from Shs 5 billion realized over the same period in the previous year, with the 2010 earnings benefiting to the tune Shs 1 billion from the trading of fixed income bonds.

These trading gains, whilst contributing positively to the 2010 profitability by Shs 1 billion, were of an exceptional nature (given the then prevalent interest rate conditions) and are not likely to be achieved again in 2011.

In light of the exemplary financial performance last year, your Directors have recommended a bonus share issue at the rate of one bonus share for every five held, coupled with a dividend at the rate of 40%, equating to Shs 1.60 per share, compared to a dividend rate of 38.75% or Shs 1.55 per share in the previous year.

In 2010, the Kenyan economy has seen the return to higher growth, having overcome the quadruple shocks in 2008 and 2009 of post- election violence, drought, global food and financial crises. Favourable weather conditions last year led to the recovery of agriculture and also contributed to more reliable energy supply, positively impacting the manufacturing sector. Also, the economic stimulus program which came into full effect in 2010, contributed to the economic rebound. According to World Bank estimates, at about 5%, Kenya's GDP growth rate in 2010 will equal the Sub Saharan African average. Despite early warnings of dry weather conditions, the depreciation of the Kenyan Shilling in recent weeks and spike in oil prices in reaction to events in North Africa, all pointing to renewed inflationary pressures, the economic outlook for 2011 remains promising; World Bank growth forecasts are in the region of 5.3% - 6%, possibly the highest growth rate levels since 2007. This will be underpinned by Government maintaining its strong credentials in macroeconomic management, the positive impact of the significant infrastructure investment and absence of weather-related shocks.

The banking industry has flourished in 2010 in the midst of an enabling environment. Whilst DTB has evolved into a leading player in the Kenyan banking industry, it recognises that, in the midst of an increasingly competitive banking environment, significant investments will need to be made, on a sustained basis, to drive innovation and efficient service delivery so as to remain ahead of competition. In this regard, the Group has continued to implement its network expansion plans across Eastern Africa. In 2010, the DTB Group increased its branch footprint in the region from 53 to 64. In Kenya, your Bank had 32 branches as at the end of 2010, placing it amongst the top 7 banks in terms of branch network. Four new branches were opened during the year: in Voi, Meru, Eldoret and one at the T- Mall shopping complex in Nairobi.

DTB Uganda increased its network from 15 to 18 during the year, with all three branches being located outside Kampala. The Group's Tanzanian subsidiary also opened three new branches in 2010, increasing the footprint to 12. Diamond Trust Bank Burundi SA, the group's newest member which started operations in June 2009, also widened its footprint with the opening of a second branch in Bujumbura during the year.

Chairman's Statement *(Continued)*

With the continuing emphasis on branch expansion, the Group is on course to achieve its target of operating a 100 - branch footprint, across Eastern Africa, in the next two years.

Apart from channeling service delivery to customers through its branch network, DTB also recognises the growing importance of providing customers with access to banking products and services through alternative, technology- based channels. In this regards, I am pleased to inform you that last year your Bank made strides in furthering its alternative channel strategy by launching a suite of technology- anchored products and services. These included enhanced on- line banking services, mobile banking services targeting the personal banking market and a current account targeting mainly small- and medium- sized businesses embedded with a host of features, including an exciting range of innovative cash management solutions, etc.

The Group's subsidiaries in the region also registered favourable growth in 2010, with pre-tax profits rising by a significant 430% in Uganda and, albeit more muted, but impressive growth of 30% in Tanzania, over the previous year. Your Bank's subsidiary in Burundi achieved break even status, on a month- on- month basis, in July 2010, just thirteen months after starting operations, and has maintained this profitable trend since then. Your Bank's insurance agency subsidiary, Diamond Trust Insurance Agency Limited, also registered a favourable performance, with profits growing by 140% - albeit from a small base- in 2010, the second year of its operations.

During the year, DTB Kenya invested an additional Shs 222 million in DTB Burundi, representing its share of capital contribution following a rights issue undertaken by the latter. The rights issue was precipitated by the revision in the minimum core capital requirement instituted by the Burundi banking regulator in 2010. Your Bank also invested US$ 2.5 million in the form of long-term subordinated debt lending to DTB Uganda. This qualified as Tier II Capital for the Ugandan subsidiary and in the face of rapid growth experienced by DTB Uganda, this funding has enabled it to comply with its total capital to total risk weighted assets ratio stipulated by the Bank of Uganda as well as provide additional capacity to propel future growth. Over time, as DTB's subsidiaries in the region continue on their growth trajectory, they will require additional capital to sustain this growth and DTB Kenya, as the parent bank, will be required to increase its investments in these banks in the form of capital injections and subordinated debt financing.

These significant investments that DTB Kenya continues to make to fund its own growth – in the form of continuing network expansion, new products and services, related technology, etc - and as well as the growth of its subsidiaries, will require your Bank to enhance its capital base, from time to time. In this respect, I wish to advise Shareholders that your Directors will 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 DTB's expansion plans.

Your Bank has made phenomenal progress in the recent past, in terms of growth in its business, profitability, infrastructure and product development. It is fair to say that the banking market and public at large have become more aware of DTB, with its increasingly powerful brand playing a pivotal role in steering new business acquisition as well as entrenching existing customer relationships. DTB's profile has also been raised with the well- deserved recognition and notable awards which our Group CEO and Managing Director, Nasim Devji, received during the year. In October 2010, Nasim emerged as the winner of the "Africa Investor" publication's prestigious "Leading African Woman in Business" awards at the Africa Investors Investment and Business Leaders Awards ceremony held in Washington DC. In January 2011, she was awarded the CEO of the Year Award in the Kenyan Capital Markets Authority Awards organized by Nairobi- based "Think Business" Magazine. Nasim added this string of achievements to the "Lifetime Achievement Award", an honour she was selected for by peer CEOs within the banking sector during the 2009 Kenyan Banking Awards.

Chairman's Statement *(Continued)*

The successes that DTB has achieved have been as a direct result of the dedication, professionalism and hard work of Nasim and her management team with the enthusiastic support of all of our employees. On behalf of the Shareholders and Board I therefore take this opportunity of thanking them all sincerely for an exceptional year's performance.

This has also been a busy year for your Directors, who have participated fully and actively in decision making and monitoring involved in the various new projects as well as the ongoing operations of the Bank. I therefore thank them for their valuable contribution to the positive performance of our institution.

I would now like to turn to the changes in the composition of your Board. I took over as Chairman from Mahmood Manji at the end of May 2010. Mahmood was Chairman of the bank for five years, having taken over at a time when the bank was beginning to re-position itself from a niche market player to a broad- based retail banking operation across the region. It is therefore a tribute to his guidance and leadership that, by the time he retired, DTB had emerged as a leading retail banking group in East Africa and I would like to take this opportunity of thanking him, on behalf of all the stakeholders of the bank, for his valuable contribution.

Finally I also take the opportunity of thanking you, the Shareholders, for your ongoing support, as well as our wide range of loyal customers. We will continue to deliver in terms of return, value and service.

Abdul Samji
Chairman
9 March 2011

Taarifa ya Mwenyekiti

Nina furaha kuwasilisha Ripoti na Taarifa ya Kifedha ya kila Mwaka ya 2010 ya DTB, kipindi ambacho Benki yenu iliafikia sio tu faida ya kihistoria, bali pia ufanisi mkubwa katika nyanja mbalimbali.
Ikichangiwa na kuimarika kwa hali ya kiuchumi, DTB iliweza kuimarisha mapato yake na kuongezea matawi yake kwa minajili ya kupanua shughuli zake za kibiashara Afrika Mashariki.

Faida ya Kampuni kabla ya ushuru iliongezeka kwa kiwango cha kihistoria cha Shilingi bilioni 3.46, ambao ni ukuaji wa asilimia 79 kutoka Shilingi bilioni 1.93 mnamo 2009. Katika kipindi hicho, jumla ya raslimali ya Kampuni yaliongezeka kwa asilimia 25, kutoka Shilingi bilioni 53 mnamo 2009 hadi Shilingi bilioni 66 katika kipindi hicho hadi Desemba 2010. Jumla ya mikopo ya Kampuni iliongezeka kwa asilimia 23 na kufikia Shilingi bilioni 51 kufikia mwisho wa 2010. Jumla ya mtaji wa Kampuni mnamo 2010 uliimarika maradufu hadi Shilingi bilioni 7.8 kutoka kiwango cha awali cha Shilingi bilioni 5 kilichopatikana katika kipindi sawa na hicho mwaka uliotangulia, huku mapato ya 2010 yakiongezeka kwa jumla ya Shilingi bilioni 1 kutokana na mauzo ya dhamana za mapato.

Mapato haya ya kibiashara, ingawa yalichangia kikamilifu kwa jumla ya faida ya 2010 kwa Shilingi bilioni 1, yalikuwa ya kipekee (ikizingatiwa hali ya viwango vya riba wakati huo) na haitarajiwi kuafikiwa tena 2011.

Kutokana na matokeo hayo ya kifedha ya kipekee mwaka uliopita, Wakurugenzi wenu wamependekeza mgao wa bonasi wa hisa kwa kiwango cha bonasi ya hisa moja kwa kila hisa tano, pamoja na mgao wa faida wa asilimia 40, sawa na Shilingi 1.60 kwa kila hisa, ikilinganishwa na kiwango cha mgao wa faida cha asilimia 38.75 au Shilingi 1.55 kwa kila hisa mwaka uliotangulia.

Mnamo 2010, uchumi wa Kenya ulianza kuimarika, baada ya kuepuka msukosuko uliotokea 2008, 2009 na ghasia za baada ya uchaguzi, kiangazi, majanga ya uhaba wa chakula na kudorora kwa uchumi kimataifa. Hali nzuri ya hali ya hewa mwaka uliopita ilichangia ufufuzi wa kilimo na pia kuchangia uzalishaji wa kutegemewa wa umeme na hivyo kunufaisha sekta ya uteng'enezaji bidhaa. Pia Mpango wa kuchochea msisimko wa kiuchumi ambao ulitekelezwa kikamilifu 2010, ulichangia kuimarika kwa uchumi. Kulingana na makadirio ya Benki ya Dunia, katika asilimia 5, kiwango cha wastani cha ukuaji wa jumla ya mapato ya Kenya (GDP), kiwango cha ukuaji cha Kenya cha asilimia 5 ni sawa na kiwango cha wastani katika mataifa mengi ya Kusini mwa Jangwa la Sahara. Licha ya tahadhari kuhusu hali ya kiangazi, kupungua kwa thamani ya Shilingi katika siku za hivi karibuni na kupanda kwa bei ya mafuta kutokana na vurumai Kaskazini mwa Afrika, na hivyo kuashiria kupanda kwa gharama ya maisha, hali ya kiuchumi kwa 2011 inatoa matumaini; Benki ya Dunia inakaridia kuwa uchumi huenda ukaimarika kwa kati ya asilimia 5.3 na asilimia 6, pengine viwango vya juu zaidi tangu 2007.
Hii itategemea usimamizi bora wa nguzo za kiuchumi, matokeo bora kutokana na uwekezaji kwenye miundomsingi na ukosefu wa misukosuko itokanayo na hali ya hewa.

Sekta ya benki iliimarika mnamo 2010 kwenye mazingira yaafayo. Ingawa DTB imeibuka kwenye mstari wa mbele katika sekta ya benki nchini, inatambua kuwa, katika mazingira yenye ushindani mkubwa, uwekezaji mkubwa utahitajika kufanywa, kwa muda mrefu, kuwa wabunifu na utoaji huduma kwa njia madhubuti ili kuwa mbele ya washindani wetu. Kutokana na hali hii, Kampuni inaendelea kutekeleza mipango ya kupanua mtandao wa matawi yake kote Afrika Masharki. Mnamo 2010, DTB iliongeza idadi ya matawi yake katika eneo hili kutoka 53 hadi 64. Nchini Kenya, benki yenu ilikuwa na matawi 32 kufikia mwisho wa 2010, na hivyo kuifanya miongoni mwa benki saba bora kutokana na mtandao wa matawi yake. Matawi manne mapya yalifunguliwa mwaka uliomalizika: ikiwemo Voi, Meru, Eldoret na jingine katika jumba la T-Mall, Nairobi.

DTB Uganda iliongeza matawi yake kutoka 15 hadi 18 mwaka uliopita, huku matawi yote matatu yakiwa nje ya Kampala. Kitengo cha Tanzania cha Kampuni pia kilifungua matawi mapya matatu mnamo 2010 na hivyo kufikisha jumla ya matawi

Taarifa ya Mwenyekiti *(Inaendelea)*

yote kuwa 12. Kampuni ya Diamond Trust Bank Burundi SA, ambayo ndiyo kampuni tanzu mpya kabisa baada ya kuanza huduma zake mnamo Juni 2009, pia iliongeza tawi la pili Bujumbura mwaka uliomalizika.
Huku Kampuni ikitilia umuhimu mkubwa katika shughuli ya ufunguzi wa matawi, imo njiani kuafikia lengo lake la kuendesha matawi 100 katika eneo la Afrika Mashariki katika muda wa miaka miwili ijayo.

Mbali na kupeleka huduma zetu karibu na wateja kupitia mtandao wake wa matawi, DTB pia inatambua umuhimu wa kuwezesha wateja kunufaika na huduma za benki kupitia njia badali za kitekinolojia. Kufuatia hali hii, nina furaha kuwafahamisha kuwa mwaka uliopita, Benki yenu ilipiga hatua katika mikakati yake ya kutumia njia badali kwa kuzindua huduma na bidhaa zinazotegemea teknolojia. Hii ni pamoja na huduma za benki kupitia mtandao, huduma za benki kupitia simu ya rununu zinazolenga wenye akaunti binafsi na walio na biashara ndogo na za wastani ambazo ziliambatana na huduma za kusisimua kama vile njia za kufikia fedha zao kwa urahisi.

Matawi ya Kampuni pia katika eneo hili yalipata ufanisi mkubwa mnamo 2010, huku faida kabla ya ushuru ikiongezeka kwa kiwango kikubwa cha asilimia 430 Uganda na kiwango cha kadri lakini cha kutia moyo cha asilimia 30 nchini Tanzania katika mwaka uliotangulia. Tawi la Benki yenu nchini Burundi lilianza kupata faida, mwezi baada ya mwingine, mnamo Julai 2010, miezi 13 tu baada ya kuanzisha huduma zake na limeendelea na mkondo huo wa faida tangu wakati huo. Kitengo cha Bima cha Benki yenu, Diamond Trust Insurance Agency Limited, pia kilipata matokeo bora, huku faida ikiongezeka kwa asilimia 140 ingawa kutoka kwa mapato madogo 2010 katika mwaka wa pili wa huduma zake.

Katika mwaka uliopita, DTB Kenya iliwekeza kiasi cha ziada cha Shilingi milioni 222 katika DTB Burundi, na hivyo kuwakilisha mchango wake wa mtaji kufuatia toleo la dhamana lililoandaliwa na DTB Burundi. Toleo hilo lilichochewa na mabadiliko kwenye kiwango cha chini kabisa cha mtaji kilichowekwa na taasisi inayosimamia sekta ya benki Burundi mnamo 2010.
Benki yenu pia iliwekeza Dola milioni 2.5 kama deni la mkopo wa muda mrefu kwa DTB Uganda. Hii ilipitishwa kama Mtaji II kwa tawi la Uganda na kutokana na ukuaji mkubwa unaoshuhudiwa katika DTB Uganda, ufadhili huu umeiwezesha kutimiza uwiano wa jumla ya mtaji na jumla ya raslimali zake uliowekwa na Benki ya Uganda pamoja na kutoa fedha zaidi kwa ukuaji wa siku za usoni.

Kwa muda sasa, huku Kampuni tanzu za DTB katika eneo hili zikiendelea na mkondo wao wa ukuaji, zitahitaji mtaji zaidi kudumisha ukuaji huo na DTB Kenya, ambayo ndio kampuni mama, itahitajika kuongeza uwekezaji wake katika benki hizi kupitia mtaji zaidi na kusimamia madeni yao.

Uwekezaji huu mkubwa ambao DTB Kenya inaendelea kufanya kudhamini ukuaji wake- kwa njia ya upanuzi wa mtandao wake, bidhaa na huduma mpya, teknolojia ya kisasa pamoja na upanuzi wa kampuni tanzu, utahitaji Benki yenu kuimarisha mtaji wake, mara kwa mara. Kufuatia hali hii, ningependa kushauri Wenyehisa kuwa Wakurugenzi wenu wataendelea kuchunguza kwa makini mtaji wa Benki yenu na watapendekeza hatua zifaazo, inapohitajika, kuhakikisha kiwango cha mtaji ni sambamba na mipango ya upanuzi ya DTB.

Benki yenu imepiga hatua kubwa ajabu katika siku za hivi punde, kuhusiana na ukuaji wa biashara zake, faida, ustawi wa miundomsingi na bidhaa zake. Ni vyema kutaja kuwa sekta ya benki na umma kwa jumla wametambua zaidi kuwepo kwa DTB, huku sifa zake zikituwezesha kuanzisha matawi mapya na pia kuimarisha uhusiano wetu na wateja wetu wa sasa.

Hadhi ya DTB imeimarishwa kutokana na kutambuliwa na tuzo alizopokea Afisa Mkuu Mtendaji na Mkurugenzi MKuu wetu Nasim Devji, mwaka uliopita. Mnamo Oktoba 2010, Nasim aliibuka mshindi wa jarida "Africa Investor," kitengo cha

Taarifa ya Mwenyekiti *(Inaendelea)*

"Mwanamke Bora Afrika katika Biashara" kwenye sherehe ya kutoa tuzo za Viongozi Bora wa Kiafrika wa Biashara na Uwekezaji zilizofanyika Washington DC. Mnamo Januari 2011. Bi Nasim pia, alitunukiwa tuzo la Afisa Mkuu Mtendaji wa Mwaka katika Tuzo za Halmashauri ya Masoko ya Mtaji kwenye sherehe zilizoandaliwa na gazeti la Nairobi la "Think Business."

Nasim pia aliongezea johari kwenye msururu wa ufanisi wake na "Tuzo la Ufanisi Maishani," hadhi aliyotunukiwa na Maafisa Wakuu Watendaji wenzake katika sekta ya Benki kwenye tuzo za 2009 za benki Kenya.

Ufanisi ambao DTB imeupata umetokana moja kwa moja kutokana na kujitolea, uadilifu na kazi nzuri ya Nasim na kundi la maafisa wakuu na wafanya kazi wetu wote. Kwa niaba ya Wenyehisa na Bodi ya Wakurugenzi, ninachukua fursa hii kuwashukuru wote kwa moyo mkunjufu kwa matokeo hayo bora.

Mwaka huu pia umekuwa wenye shughuli nyingi kwa Wakurugenzi wenu, ambao walishiriki kikamilifu kufanya maamuzi na kusimamia miradi mipya tofauti pamoja na shughuli zinazoendelea za Benki. Ningependa kuwashukuru wote kwa mchango wao muhimu uliochangia matokeo bora ya taasisi yetu.

Ningependa kuangazia sasa mabadiliko kwenye wanachama wa Bodi yenu. Nilichukua usimamizi kama Mwenyekiti kutoka kwa Mahmood Manji mwishoni mwa Mei 2010. Mahmood alikuwa mwenyekiti wa benki kwa miaka mitano, baada ya kuchukua hatamu za uongozi wakati ambapo benki ilikuwa inajiandaa kuchukua mwelekeo mpya kutoka benki inayohudumia kundi maalumu la wateja na kukumbatia operesheni za kutoa huduma za jumla za benki kote katika eneo hili. Ni kutokana na mwongozo wake na usimamizi, kufikia wakati wa kustaafu kwake, ambapo DTB iliibuka kama kiongozi katika kitengo cha utoaji huduma za jumla za benki Afrika Masharki na ningependa kuchukua fursa hii kumshukuru, kwa niaba ya wenyehisa wote wa benki, kwa mchango wake mkubwa.

Mwisho, ninachukua fursa hii kuwashukuru Wenyehisa, kwa usaidizi wenu wa mara kwa mara, pamoja na wateja wetu waaminifu. Tutaendelea kutekeleza wajibu wetu kikamilifu kupata faida, thamani ya fedha zetu na huduma bora.

Abdul Samji
Mwenyekiti
Machi 9, 2011

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 11-13. 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 11-13. 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 the Bank's 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 policies on corporate governance.

Board of Directors

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.

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 Bank's Managing Director to conduct the day-to-day business of the Bank.

The Board consists of nine 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 once every quarter, 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 the BEC comprises the Chairman of the Board and four other non-executive and independent directors. The BEC is the link between the Board and management and assists the Board in reviewing and overseeing the operational and financial matters of the Bank during the intra-meeting periods, which then assists management discharge its duties and responsibilities for the day-to-day business of the Bank. The BEC meets at least once a quarter.

Board Nomination and Human Resource Committee ("BNHRC")
The membership of the BNHRC comprises three non-executive and independent directors. The BNHRC is responsible for proposing new nominees for directorship 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 BNHRC is also mandated to oversee all human resources matters on behalf the Board and recommend to the full Board the remuneration and incentives for the executive directors and senior management. The BNHRC meets at least once a quarter.

Board Audit Committee ("BAC")
The BAC consists of three non-executive and independent directors. The BAC, which meets at least once every quarter, 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.

Statement on Corporate Governance *(Continued)*

Board Risk Management Committee ("BRMC")
The BRMC is made up of five non- executive and independent directors who meet at least once every quarter. The responsibilities of the BRMC include ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework except for credit risk management which is reviewed by the Board Credit Committee. It is also charged with setting out the nature, role, responsibility and authority of the risk management function of the Bank and 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.

Board Credit Committee ("BCC")
The BCC comprises four non-executive and independent directors, and formally meets at least once every quarter. Its primary purpose is to oversee and monitor the credit function of the Bank and further to ensure that it is professionally and effectively managed for business growth and in compliance with internal policy and external and statutory regulations.

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

Attendance of Board Meetings

The attendance of Board Meetings by the Directors in 2010 is tabulated below:

	Board Meetings				
	Name of Director	**17 March 2010**	**26 May 2010**	**26 August 2010**	**1 December 2010**
1	Abdul Samji	√	√	√	√
2	Nauman Dar	√	x	√	√
3	Nasim Devji	√	√	√	√
4	Farid Hamir	**	√	√	√
5	Moez Jamal	√	√	√	√
6	Nizar Juma	√	x	√	x
7	Amin Merali	√	√	√	√
8	Mwaghazi Mwachofi	√	√	√	√
9	Sukh Dev Nayyar	√	√	√	√
10	Jamuladin Shamji	**	√	√	√
11	Kabir Hyderally	x	√	Retired*	Retired*
12	Mahmood Manji	√	√	Retired*	Retired*

√ - Attended.
x - Absent with apology and valid reason for non-attendance.
* Retired at the Annual General Meeting of 27 May 2010.

** Messrs Jamaludin Shamji and Farid Hamir were appointed to the Board on 17 March 2010 and 12 April 2010 respectively.

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 DTB 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, the MCC, 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, within 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")
The ALCO, which reports to the BRMC, is chaired by the Managing Director and has nine other members drawn from the Bank's senior management staff. The ALCO, which meets regularly, 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 has nine other members drawn from the Bank's 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.

Compliance and Audit Coordination Team ("CACT")
The CACT, which reports to the BAC and BRMC, is chaired by the Managing Director and has seven other members drawn from the Bank's risk, compliance, internal audit and branch monitoring functions. CACT meets once every month in line with its Board approved Terms of Reference. The Committee provides a framework to ensure that the four respective functions are effective in coordinating and complementing their duties and optimising on synergies.

IT Steering Committee ("ITSC")
The IT Steering Committee, which reports to the BRMC is chaired by the Managing Director and has seven other members drawn from the Bank's senior management staff. The committee meets once every quarter and is charged with the responsibility of ensuring that IT is operating in a manner that meets the needs of the business and that the IT Strategy is aligned to the Bank's overall Business Strategy. The ITSC's main functions also includes recommending to the Board the business strategy for IT and assigning priorities to IT projects that are to be implemented at the bank.

Product Committee ("PC")
The Committee, which is chaired by the Managing Director, has eight members drawn from senior management who are stakeholders in business and support functions. The Committee's main function is the determination and implementation of new products and regular review of the Bank's product portfolio. The PC meets every six weeks and reports to BRMC.

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.

Statement on Corporate Governance *(Continued)*

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

Shareholding Structure
The distribution of issued share capital of the Bank as at 31 December 2010 was as follows:

Range	No of shareholders	No of shares held	% Shareholding
Up to 500 shares	3,163	600,943	0.37
501 – 5,000 shares	5,135	10,798,200	6.62
5,001 – 10,000 shares	1,550	11,584,780	7.11
10,001 – 100,000 shares	1,246	31,035,771	19.04
100,001 – 1,000,000 shares	91	20,030,911	12.28
Over 1,000,000 shares	12	88,986,503	54.58
Total	11,197	163,037,108	100.00

The ten largest Shareholders of the Bank and their respective holdings as at 31 December 2010 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund for Economic Development	28,240,121	17.32
The Jubilee Insurance Company Limited	16,331,439	10.02
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
Craysell Investments Ltd	2,250,091	1.38
Noorali Mohan Manji	1,642,290	1.01
Mr. Amin Nanji Juma	1,504,851	0.92
Standard Chartered Nominees	1,445,327	0.89
Property Development and Management Limited	1,114,863	0.68

Corporate Social Responsibility

Kericho Branch Manager Dennis Onduko presents a cheque to Kids Home International. Kids Home International is a non-profit humanitarian organization that seeks to improve the quality of lives of the homeless and orphaned kids in Kericho.

DTB Eldoret Branch Manager Bilal Jamil hands over a cheque to Mr. John Green, Director of Testimony Faith Homes in Eldoret. The Home strives to improve the lives of street children in Eldoret, Kenya by empowering them with hope, knowledge, skills, opportunities, and resources necessary for them to find a healthy alternative to street life.

Mr. Francis Muthoma, coordinator In charge at Ripples International receives a cheque from DTB Meru Branch Manager Joshua Ngari. Ripples International offers cares for abandoned children as well as children with HIV/AIDS in Meru Kenya.

Corporate Social Responsibility *(Continued)*

With the UN declaring 2010 as the year for environmental awareness, on 10 October, 2010, staff from DTB Bungoma Branch joined hands with JATONET and Chiefs from the Greater Bungoma County to celebrate, plant trees, & create awareness on this day.

DTB has consistently supported the Heart Run every year since 2003. In 2010, the bank was a Silver Sponsor for the Mater Heart Run 2010; with a team of 100 staff from Nairobi branches and the Head Office.

Achievements

2010	DTB CEO awarded Chief Executive of the Year (Capital Markets Awards)
2010	DTB awarded Best Location in Customer Service for 5th time – Europe, Middle East, Africa, & Asia Pacific region (Western Union Club 500 Awards)
2010	DTB CEO awarded Leading Business Woman in Africa (Africa Investment and Business Leaders Awards)
2010	DTB awarded 1st Runners-Up in Asset Finance (Banking Awards)

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2010, 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 2.

Principal Activities

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

Results and Dividend

	Shs'000
Group profit before income tax	3,462,999
Income tax expense	(980,829)
Profit for the year	2,482,170
Non controlling interests	(197,346)
	2,284,824
Dividends	(260,859)
Retained profit for the year	2,023,965

The directors recommend the approval of a final dividend of Shs 260,859,373 (2009: Shs 252,707,517).

Issue of Bonus Shares

The directors recommend, subject to regulatory approvals and that of the shareholders, to make a bonus issue in the proportion of 1 new ordinary share for every 5 fully paid up ordinary shares then held, to the shareholders registered at the close of business on 20 May 2011. Such new shares will rank *pari passu* in all respects with the existing shares in the capital of the Company except for the aforementioned dividends and any further dividend paid prior to the Bonus Issue.

Directors

The present membership of the Board is listed on page 2.

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Nizar Juma, Abdul Samji and Mwaghazi Mwachofi 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

9 March 2011
Nairobi

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.

Abdul Samji	Nasim Devji
Chairman	*Managing Director*

9 March 2011

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 83. These financial statements comprise the consolidated statement of financial position at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2010 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 and such controls as directors determine necessary to enable the preparation of financial statements that are free from material mistatements, whether due to fraud or error.

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 entity'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 2010 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 statement of financial position is in agreement with the books of account.

PRICEWATERHOUSECOOPERS

Certified Public Accountants - Nairobi	9 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Interest income	5	7,364,179	6,461,453
Interest expense	6	(2,481,417)	(2,935,906)
Net interest income		**4,882,762**	**3,525,547**
Net fee and commission income	7	1,107,918	847,863
Foreign exchange income		683,208	610,574
Other operating income	8	1,083,705	89,980
Operating income		**7,757,593**	**5,073,964**
Operating expenses	9	(3,671,376)	(2,762,283)
Impairment loss on loans and advances	17	(557,854)	(295,682)
Profit from operations		**3,528,363**	**2,015,999**
Share of results of associate after tax	19	(1,452)	-
Finance costs	31 (d)	(63,912)	(86,137)
Profit before income tax		**3,462,999**	**1,929,862**
Income tax expense	11	(980,829)	(575,427)
Profit for the year		**2,482,170**	**1,354,435**
Profit attributable to:			
Owners of the bank		2,284,824	1,250,250
Non controlling interests		197,346	104,185
		2,482,170	1,354,435
Earnings per share (Shs per share)			
- basic	12	14.01	7.67
- diluted	12	11.68	6.39

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 Shs'000	2009 Shs'000
Profit for the year	**2,482,170**	**1,354,435**
Other comprehensive income		
Exchange differences on translating foreign operations	(133,822)	(76,644)
Fair value changes in Government securities available for sale	(32,034)	-
Recycling of fair value changes on maturity of Government securities	(4,341)	13,946
Deferred tax relating to fair value changes in Government securities	10,912	(4,184)
Fair value changes in available for sale equity investment	1,913	12,113
Deferred tax relating to fair value changes in available for sale equity investment.	(574)	(3,633)
Other comprehensive income for the year, net of tax	**(157,946)**	**(58,402)**
Total comprehensive income for the year	**2,324,224**	**1,296,033**
Total comprehensive income attributable to:		
Owners of the bank	2,195,816	1,224,060
Non controlling interests	128,408	71,973
	2,324,224	1,296,033

Consolidated Statement of Financial Position

as at 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Assets			
Cash and balances with Central Banks	14	6,465,148	4,570,661
Government securities	15	13,479,158	9,226,700
Deposits and balances due from banking institutions	16	7,930,638	7,392,025
Loans and advances to customers	17	51,260,068	41,518,135
Corporate bond	18	936,573	933,746
Investment in associate	19	2,599	-
Equity investments - available-for-sale	20	59,928	58,015
Property and equipment	22 (a)	1,510,816	1,606,902
Intangible assets - software costs	23	249,599	135,434
Intangible assets - goodwill	25	173,372	173,372
Current income tax recoverable		15,827	29,850
Deferred income tax asset	26	284,966	141,194
Other assets	27	1,231,485	893,046
Total assets		**83,600,177**	**66,679,080**
Liabilities			
Balances due to Central Bank of Kenya	28	399,957	399,878
Customer deposits	29	66,196,600	52,834,395
Deposits and balances due to banking institutions	30	2,408,330	2,051,300
Current income tax payable		355,227	35,934
Deferred income tax liability	26	-	68
Long term borrowing	31	2,109,519	1,961,905
Other liabilities	32	1,870,865	1,307,402
Total liabilities		**73,340,498**	**58,590,882**
Shareholders' equity			
Share capital	33	652,148	652,148
Share premium	33	2,197,735	2,197,735
Retained earnings		5,627,348	3,628,298
Other reserves	34	86,122	177,903
Statutory loan loss reserve		115,291	89,371
Proposed dividend	13	260,859	252,708
Equity attributable to owners of the bank		**8,939,503**	**6,998,163**
Non controlling interests		1,320,176	1,090,035
Total equity		**10,259,679**	**8,088,198**
Total liabilities and equity		**83,600,177**	**66,679,080**

The financial statements on pages 28 to 83 were approved for issue by the Board of Directors on 9 March 2011 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Amin Merali
Director

Stephen Kodumbe
Secretary

Bank Statement of Financial Position

as at 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	14	3,345,349	2,264,047
Government securities	15	9,487,775	5,980,327
Deposits and balances due from banking institutions	16	4,404,753	5,638,340
Loans and advances to customers	17	36,913,704	29,700,279
Corporate bond	18	936,573	933,746
Investments in subsidiaries and associates	19	1,118,867	897,227
Equity investments - available-for-sale	20	59,928	58,015
Amounts due from group company	21	202,032	-
Property and equipment	22 (b)	722,474	792,095
Intangible assets - software costs	23	180,156	53,152
Deferred income tax asset	26	245,330	111,097
Other assets	27	988,882	718,442
Total assets		**58,605,823**	**47,146,767**
Liabilities			
Balances due to Central Bank of Kenya	28	399,957	399,878
Customer deposits	29	44,903,973	36,274,080
Deposits and balances due to banking institutions	30	1,584,787	1,310,761
Current income tax payable		341,959	35,147
Long term borrowing	31	2,020,031	1,892,710
Other liabilities	32	1,297,739	970,870
Total liabilities		**50,548,446**	**40,883,446**
Shareholders' equity			
Share capital	33	652,148	652,148
Share premium	33	2,197,735	2,197,735
Retained earnings		4,814,103	3,042,580
Other reserves	34	17,241	28,779
Statutory loan loss reserve		115,291	89,371
Proposed dividend	13	260,859	252,708
Total shareholders' equity		**8,057,377**	**6,263,321**
Total liabilities and equity		**58,605,823**	**47,146,767**

The financial statements on pages 28 to 83 were approved for issue by the Board of Directors on 9 March 2011 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Amin Merali
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 Shs'000	Non controlling interests Shs'000	Total 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:										
Fair value changes 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.

Consolidated Statement of Changes in Equity *(Continued)*

	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 Shs'000	Non controlling interests Shs'000	Total Shs'000
Year ended 31 December 2010										
At start 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
Comprehensive income										
Profit for the year		-	-	2,284,824	-	-	-	2,284,824	197,346	2,482,170
Other comprehensive income:										
Fair value loss on Government securities		-	-	-	(36,375)	-	-	(36,375)	-	(36,375)
Deferred tax on fair value changes		-	-	-	10,912	-	-	10,912	-	10,912
Fair value changes in available for sale securities		-	-	-	1,913	-	-	1,913	-	1,913
Deferred tax on fair value changes		-	-	-	(574)	-	-	(574)	-	(574)
Translation adjustment	(i)	-	-	-	(66,652)	-	-	(66,652)	(67,170)	(133,822)
Transfer of excess depreciation to retained earnings		-	-	1,437	(1,437)	-	-	-	-	-
Deferred tax on excess depreciation		-	-	(432)	432	-	-	-	-	-
Statutory loan loss reserve	(ii)	-	-	(25,920)	-	25,920	-	-	-	-
Total comprehensive income		-	-	2,259,909	(91,781)	25,920	-	2,194,048	130,176	2,324,224
Issue of additional shares to non controlling interests		-	-	-	-	-	-	-	110,263	110,263
Distributions to owners										
Dividends:										
- Final for 2009 paid	13	-	-	-	-	-	(252,708)	(252,708)	(10,298)	(263,006)
- Proposed for 2010	13	-	-	(260,859)	-	-	260,859	-	-	-
At end of year		**652,148**	**2,197,735**	**5,627,348**	**86,122**	**115,291**	**260,859**	**8,939,503**	**1,320,176**	**10,259,679**

(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 Shs'000	Share premium Shs'000	Retained earnings Shs'000	Other reserves Shs'000	Statutory loan loss reserve Shs'000	Proposed dividend Shs'000	Total Shs'000
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:								
Fair value gain on 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	(i)	-	-	(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		-	-	-	-	-	(228,252)	(228,252)
- Proposed for 2009		-	-	(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**
Year ended 31 December 2010								
At start of year		652,148	2,197,735	3,042,580	28,779	89,371	252,708	6,263,321
Comprehensive income								
Profit for the year		-	-	2,058,147	-	-	-	2,058,147
Other comprehensive income:								
Fair value loss on Government securities		-	-	-	(18,174)	-	-	(18,174)
Deferred tax on the fair value changes		-	-	-	5,452			5,452
Fair value changes in available for sale equity investment		-	-	-	1,913	-	-	1,913
Deferred tax on fair value changes		-	-	-	(574)	-	-	(574)
Transfer of excess depreciation		-	-	222	(222)	-	-	-
Deferred tax on excess depreciation		-	-	(67)	67	-	-	-
Statutory loan loss reserve	(i)	-	-	(25,920)	-	25,920	-	-
Total comprehensive income		-	-	2,032,382	(11,538)	25,920	-	2,046,764
Distributions to owners								
Dividends:								
- Final for 2009 paid	13	-	-	-	-	-	(252,708)	(252,708)
- Proposed for 2010	13	-	-	(260,859)	-	-	260,859	-
At end of year		**652,148**	**2,197,735**	**4,814,103**	**17,241**	**115,291**	**260,859**	**8,057,377**

i) 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

for the year ended 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Cash flows from operating activities			
Interest receipts		7,243,195	6,441,018
Interest payments		(2,521,208)	(2,893,990)
Net fee and commission receipts		1,214,509	967,572
Other income received		634,724	473,866
Proceeds from sale of investment securities		1,027,743	52,614
Recoveries from loans previously written off	17	13,223	3,235
Payments to employees and suppliers		(3,267,913)	(2,544,919)
Income tax paid		(777,237)	(622,459)
Cash flows from operating activities before changes in operating assets and liabilities		**3,567,036**	**1,876,937**
Changes in operating assets and liabilities:			
- cash reserve requirement		(689,715)	(36,041)
- Government securities		(5,074,241)	535,584
- loans and advances to customers		(10,199,393)	(7,631,217)
- corporate bond		-	(933,746)
- customer deposits		13,424,960	7,765,226
- other assets net of prepaid lease rentals		(339,411)	206,773
- other liabilities		563,463	37,891
Net cash from operating activities		**1,252,699**	**1,821,407**
Cash flows from investing activities			
Purchase of property and equipment	22	(338,051)	(805,310)
Purchase of intangible assets - software costs	23	(100,458)	(95,336)
Purchase of shares in associate		(4,051)	-
Proceeds from sale of property and equipment		1,607	3,701
Dividend received		2,550	11,686
Net cash used in investing activities		**(438,403)**	**(885,259)**
Cash flows used in financing activities			
Proceeds from long term loan		28,770	69,195
Finance costs		(63,912)	(86,137)
Exchange loss on long term debt		127,250	(65,305)
Dividends paid to equity holders of the bank		(252,708)	(228,252)
Dividends paid to non controlling interests		(10,298)	(9,812)
Net cash used in financing activities		**(170,898)**	**(320,311)**
Net increase in cash and cash equivalents		**643,398**	**615,837**
Cash and cash equivalents at start of year	38	7,727,215	7,085,293
Translation difference		(86,857)	26,085
		7,640,358	**7,111,378**
Cash and cash equivalents at end of year	38	**8,283,756**	**7,727,215**

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 2.

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

(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 policies and disclosures

(i) New and amended standards adopted by the Group

The following standards, amendments and interpretations which became effective in 2010 were adopted in the period, as relevant to the Group:

IAS 1, 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period. The application of the amendment does not have any impact on the Group's or Bank's financial statements.

IAS 17, 'Leases. The amendment clarifies that when a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. Following the adoption of the amendment, the long term leasehold land has been treated as a finance lease and disclosed under property and equipment.

IAS 36, 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, ' Operating Segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have any impact on the Group's or Bank's financial statements.

IFRS 8, 'Operating Segments'. The amendment removes the requirement to provide a measure of total assets for each reportable segment. Instead a measure of total assets and total liabilities should be provided if such amounts are regularly provided to the Chief Operating Decision Maker (CODM). The application of the amendment does not have a significant impact on the Group or Bank's financial statements as total assets and liabilities are regularly reported to the Board of Directors and have been disclosed in these financial statements under segment information (Note 36) .

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations issued but not relevant to the operations of the Group.

In 2010, the following standards, amendments and interpretations became effective for the first time but are not relevant to the operations of the Group.

Standard/ Interpretation	Title	Applicable for financial years beginning on/after
IFRS 1	First-time Adoption of International Financial Reporting Standards - Additional exemptions for first-time adopters	1-Jul-09
IFRS 2 (amended)	Share-based payment – Group cash-settled share - based payment transactions	1-Jan-10
IFRS 2	Share-based Payment (part of Annual Improvement Project 2009) - Scope of IFRS 2 and revised IFRS 3	1-Jul-09
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (part of Annual Improvement Project 2009) – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	1-Jan-10
IAS 38	Intangible assets (part of Annual Improvement Project 2009) - Additional consequential amendments arising from revised IFRS 3	1-Jul-09
IAS 39	Financial Instruments: Recognition and Measurement (part of Annual Improvement Project 2009)	1-Jan-10
	(i) Treating loan prepayment penalties as closely related embedded derivatives	
	(ii) Scope exemption for business combination contracts	
IFRIC 9 & IAS 39	Reassessment of embedded derivatives & Financial Instruments: Recognition and Measurement	30-Jun-09
IFRIC 18	Transfers of assets from customers	1-Jul-09

(iii) Standards amendments and interpretations issued but not yet effective

The following new standards, amendments to existing standards and interpretations have been issued and are mandatory for the Group's and bank's accounting periods beginning on or after 1 January 2011.

Standard/ Interpretation	Title	Applicable for financial years beginning on/after
IFRS 9	Financial instruments: Classification and measurement	1-Jan-13
IAS 24 (amended)	Related party disclosures	1-Jan-11
IAS 32 (amended)	Financial instruments: Presentation – Classification of rights issue	1-Feb-10
IFRIC 14 (amended)	IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction	1-Jan-11
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1-Jul-10

(iv) Early adoption of standards

The Group and Bank did not early-adopt new or amended standards in 2010.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(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 2010.

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 non controlling interests. 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 income 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.

(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 income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associates is carried in the statement of financial position 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 19.

(d) Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed in note 19) 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 income statement.

(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.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(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 income statement 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) the resulting differences from conversion 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 income statement 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 income statement in the year in which they arise. Exchange differences resulting from translation of opening net assets of foreign associates are dealt with in other comprehensive income.

(g) Interest income and expense

Interest income and expense are recognised in the income statement 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 and accumulated impairment losses. All other property and equipment are stated at historical cost less depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the income statement in the year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited in other comprehensive income and accumulated in equity in a revaluation reserve. Decreases that offset previous increases of the same asset are charged in other comprehensive income; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) 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 land and 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. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

(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,

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(k) Intangible assets – goodwill (Continued)

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.

(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 the income statement.

Regular purchases and sales of financial assets at fair value through the income statement, 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 the income statement 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 the income statement are included in the income statement 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 income statement. Dividends on available for sale equity instruments are recognised in the income statement when the banks right to receive payment is established.

Notes to the Financial Statements *(Continued))*

2. Summary of significant accounting policies (Continued)

(l) Financial assets (Continued)

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 management's 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 income statement.

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 income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement, 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 income statement.

(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 using the effective interest method. Financial liabilities are derecognised when extinguished.

(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.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(o) Sale and repurchase agreements (Continued)

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.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies (Continued)

(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 income statement 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.

(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 income statement.

(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 income statement, 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 17.

Notes to the Financial Statements *(Continued)*

3. Critical accounting estimates and judgements in applying accounting policies (Continued)

(ii) 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.

(iii) 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 LCY lending rates 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 25.

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 who manages Credit, Market, Operational, Reputational, Strategic and Regulatory risks 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 Risk Management Committee (BRMC) and managed by a well-represented Asset and Liabilities Committee (ALCO). The Members of ALCO are the Chief Executive Officer and the heads of Risk, Treasury, Finance and business units.

- The compliance function is an independent function reporting to the Board Audit Committee on a quarterly basis. The function on a pro-active basis, identifies and assesses the compliance risks associated with the Bank's business. It helps management accomplish it's objectives by addressing the current and prospective risk to earnings or capital arising from violations or on non-conformance with laws, rules, regulations, prescribed practice or ethical standards issued by the Board and the regulator from time to time.

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

Risk management principles (Continued)

- 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 respectively.

- Independent review of effectiveness of overall risk framework is undertaken 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)

	Group		Bank	
	2010	2009	2010	2009
(a) Credit risk management (continued)	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Maximum exposure to credit risk before collateral held				
Balances with Central Banks	5,001,928	3,551,075	2,508,731	1,849,442
Government securities	13,479,158	9,226,700	9,487,775	5,980,327
Deposits and balances due from banking institutions	7,930,638	7,392,025	4,404,753	5,638,340
Loans and advances to customers	51,260,068	41,518,135	36,913,704	29,700,279
Corporate bond	936,573	933,746	936,573	933,746
Uncleared effects	493,966	332,965	432,826	294,829
Items in the course of collection	124,320	144,707	124,320	141,583
Credit risk exposures relating to off-balance sheet items:				
- Acceptances and letters of credit	3,741,149	2,003,718	2,963,986	1,627,429
- Guarantee and performance bonds	3,831,118	2,057,842	2,961,324	1,243,556
	86,798,918	**67,160,913**	**60,733,992**	**47,409,531**

Financial assets that are past due or impaired

	Group 2010	Group 2009	Bank 2010	Bank 2009
Loans and advances are summarised as follows:				
Neither past due nor impaired	40,518,191	32,702,426	29,576,908	23,581,994
Past due but not impaired	11,220,580	8,886,755	7,738,808	6,129,053
Impaired	689,775	592,523	589,483	568,531
Gross	52,428,546	42,181,704	37,905,199	30,279,578
Less: Provision for impairment of loans and advances				
Identified impairment	(645,610)	(337,389)	(588,379)	(320,283)
Unidentified impairment	(522,868)	(326,180)	(403,116)	(259,016)
	51,260,068	41,518,135	36,913,704	29,700,279

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	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Past due up to 30 days	9,011,958	6,070,471	6,759,066	4,049,219
Past due 31 - 60 days	1,314,927	1,932,673	549,761	1,400,351
Past due 61 - 90 days	893,695	883,611	429,981	679,483
Total	11,220,580	8,886,755	7,738,808	6,129,053

Collateral, other credit enhancements and interest on impaired loans

Impaired loans and advances are backed by collateral in the form of cash, properties, motor vehicles and corporate and personal guarantees. Interest accruing on the impaired loans is not recognised in the income statement but is suspended until such a time when the loans are recovered or the loans starts performing.

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Fair value of collateral	961,689	647,639	816,699	622,561

Notes to the Financial Statements *(Continued)*

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 Group'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	
	2010	**2009**	**2010**	**2009**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Hire purchase and term loans	1,229,494	2,426,322	1,018,742	2,049,207

Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. 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 2010	*Shs '000*	*%*	*Shs '000*	*%*	*Shs '000*	*%*
Manufacturing	4,908,800	9%	798,977	7%	2,148,820	3%
Wholesale and retail trade	12,122,804	23%	2,890,206	25%	5,887,889	9%
Transport and communications	7,355,151	14%	1,485,107	13%	3,028,411	5%
Business and financial services	7,763,917	15%	780,037	7%	16,677,857	25%
Agriculture	2,210,239	4%	102,614	1%	603,117	1%
Building and construction and real estate	9,238,974	18%	4,109,768	36%	5,858,075	9%
Tourism and hotels	5,604,097	11%	458,035	4%	1,105,726	2%
Individuals	2,542,189	5%	638,541	6%	27,130,160	41%
Other	682,375	1%	170,333	1%	3,756,545	5%
	52,428,546	100%	11,433,618	100%	66,196,600	100%
At 31 December 2009						
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 and hotels	2,902,832	7%	209,539	3%	159,761	0%
Individuals	3,050,783	7%	331,294	4%	19,024,579	35%
Other	998,776	3%	22,993	0%	3,984,393	8%
	42,181,704	100%	7,552,186	100%	52,834,395	100%

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(b) Concentration of risk (Continued)

Bank

At 31 December 2010	Gross loans and advances Shs '000	%	Credit commitments Shs '000	%	Customer deposits Shs '000	%
Manufacturing	3,377,762	9%	645,836	6%	1,714,849	4%
Wholesale and retail trade	7,180,042	19%	2,518,163	24%	3,029,466	7%
Transport and communications	5,932,431	16%	1,448,012	14%	1,809,330	4%
Business and financial services	6,648,318	18%	606,624	6%	11,419,331	25%
Agriculture	1,266,682	3%	46,151	0%	452,793	1%
Building and construction and real estate	8,287,105	22%	4,037,660	38%	1,918,779	4%
Tourism	3,012,377	8%	435,847	4%	186,904	1%
Individuals	2,070,771	5%	607,853	6%	21,173,388	47%
Other	129,711	0%	170,185	2%	3,199,133	7%
	37,905,199	100%	10,516,331	100%	44,903,973	100%
At 31 December 2009						
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	7%
	30,279,578	100%	6,386,132	100%	36,274,080	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 2010 if the NSE index had increased/decreased by 15% (2009 - 15%) 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 8.9 million (2009 - Shs 8.7 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.

Group At 31 December 2010	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
FINANCIAL ASSETS							
Cash and balances with Central Banks	67,531	-	-	-	-	6,397,617	**6,465,148**
Government securities	518,964	3,634,846	4,074,434	4,387,205	863,709	-	**13,479,158**
Deposits and balances due from banking institutions	6,047,031	1,858,810	-	-	-	24,797	**7,930,638**
Loans and advances to customers	51,260,068	-	-	-	-	-	**51,260,068**
Corporate bond	-	-	19,573	458,550	458,550	-	**936,673**
Investment in associate	-	-	-	-	-	2,599	**2,599**
Equity investments - available-for-sale securities	-	-	-	-	-	59,928	**59,928**
Other assets	-	-	-	-	-	952,272	**952,272**
Total financial assets	**57,893,594**	**5,493,656**	**4,094,007**	**4,845,755**	**1,322,259**	**7,437,213**	**81,086,484**
FINANCIAL LIABILITIES							
Balances due to Central Bank of Kenya	399,957	-	-	-	-	-	**399,957**
Customer deposits	33,470,051	10,574,245	21,753,046	399,258	-	-	**66,196,600**
Deposits and balances due to banking institutions	2,408,330	-	-	-	-	-	**2,408,330**
Long term borrowing	-	6,333	2,025,492	42,692	35,002	-	**2,109,519**
Other liabilities	-	-	-	-	-	1,870,865	**1,870,865**
Total financial liabilities	**36,278,338**	**10,580,578**	**23,778,538**	**441,950**	**35,002**	**1,870,865**	**72,985,271**
Interest sensitivity gap	**21,615,256**	**(5,086,922)**	**(19,684,531)**	**4,403,805**	**1,287,257**	**5,566,348**	**8,101,213**
At 31 December 2009							
Total financial assets	49,222,840	1,878,336	2,701,337	2,873,527	2,394,566	5,364,434	64,435,040
Total financial liabilities	26,942,183	9,018,483	20,694,967	581,510	10,335	1,307,402	58,554,880
Interest sensitivity gap	**22,280,657**	**(7,140,147)**	**(17,993,630)**	**2,292,017**	**2,384,231**	**4,057,032**	**5,880,160**

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(c) Market risk management (Continued)

(ii) Interest rate risk (Continued)

Bank	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	Sh'000	*Sh'000*	*Sh'000*	*Sh'000*	*Sh'000*	*Sh'000*	*Sh'000*
At 31 December 2010							
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	3,345,349	**3,345,349**
Government securities	199,889	1,593,620	3,262,343	3,568,213	863,710	-	**9,487,775**
Deposits and balances due from banking institutions	2,626,600	1,778,153	-	-	-	-	**4,404,753**
Loans and advances to customers	36,913,704	-	-	-	-	-	**36,913,704**
Corporate bond	-	-	19,573	458,550	458,550	-	**936,673**
Investments in subsidiaries and associates	-	-	-	-	-	1,118,867	**1,118,867**
Amounts due from group company	-	-	202,032	-	-	-	**202,032**
Equity investments - available-for-sale	-	-	-	-	-	59,928	**59,928**
Other assets	-	-	-	-	-	812,558	**812,558**
Total financial assets	**39,740,193**	**3,371,773**	**3,483,948**	**4,026,763**	**1,322,260**	**5,336,702**	**57,281,639**
FINANCIAL LIABILITIES							
Balances due to Central Bank of Kenya	399,957	-	-	-	-	-	**399,957**
Customer deposits	20,612,572	7,899,296	16,248,054	133,715	10,336	-	**44,903,973**
Deposits and balances due to banking institutions	1,584,787	-	-	-	-	-	**1,584,787**
Long term borrowing	-	-	2,020,031	-	-	-	**2,020,031**
Other liabilities	-	-	-	-	-	1,297,739	**1,297,739**
Total financial liabilities	**22,597,316**	**7,899,296**	**18,268,085**	**133,715**	**10,336**	**1,297,739**	**50,206,487**
Interest sensitivity gap	**17,142,877**	**(4,527,523)**	**(14,784,137)**	**3,893,048**	**1,311,924**	**4,038,963**	**7,075,152**
At 31 December 2009							
Total financial assets	35,537,583	492,724	1,260,250	2,567,569	2,394,566	3,828,422	46,081,114
Total financial liabilities	17,281,425	6,865,835	15,450,772	269,062	10,335	970,870	40,848,299
Interest sensitivity gap	**18,256,158**	**(6,373,111)**	**(14,190,522)**	**2,298,507**	**2,384,231**	**2,857,552**	**5,232,815**

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	
	2010	**2009**	**2010**	**2009**
	Shs'million	*Shs'million*	*Shs'million*	*Shs'million*
+ 1% movement	67	55	58	46
- 1% movement	(67)	(55)	(58)	(46)

(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.

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(c) Market risk management (Continued)

(iii) Foreign exchange risk (Continued)

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 2010. Included in the table are the Group's and Bank's financial instruments, categorised by currency.

Group	USD	GBP	EURO	OTHERS	TOTAL
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2010					
FINANCIAL ASSETS					
Cash and balances with Central banks	1,149,047	48,248	77,462	9,674	1,284,431
Deposits and balances with banking institutions	6,464,490	191,956	225,844	159,816	7,042,106
Other assets	226,175	60,629	35,585	2,714	325,103
Loans and advances to customers	16,616,810	104,413	1,037,852	21,241	17,780,316
Total financial assets	24,456,522	405,246	1,376,743	193,445	26,431,956
FINANCIAL LIABILITIES					
Customer deposits	10,105,384	947,376	1,420,683	121,238	12,594,681
Deposits and balances with banking institutions	7,765,761	94,623	96,778	374,608	8,331,770
Other liabilities	163,387	9,195	6,883	3,630	183,095
Long term borrowing	2,020,031	-	-	-	2,020,031
Total financial liabilities	20,054,563	1,051,194	1,524,344	499,476	23,129,577
Net balance sheet position	**4,401,959**	**(645,948)**	**(147,601)**	**(306,031)**	**3,302,379**
Net off balance sheet position	**(4,539,149)**	**645,727**	**103,857**	**318,287**	**(3,471,278)**
Overall net position	**(137,190)**	**(221)**	**(43,744)**	**12,256**	**(168,899)**

Bank	USD	GBP	EURO	OTHERS	TOTAL
At 31 December 2010					
FINANCIAL ASSETS					
Cash and balances with Central banks	237,936	35,657	58,856	820	333,269
Deposits and balances with banking institutions	3,505,228	41,137	161,318	152,271	3,859,954
Other assets	54,994	60,627	35,584	2,714	153,919
Amounts due from group company	202,032	-	-	-	202,032
Loans and advances to customers	9,032,980	104,405	1,003,542	21,241	10,162,168
Total financial assets	**13,033,170**	**241,826**	**1,259,300**	**177,046**	**14,711,342**
FINANCIAL LIABILITIES					
Customer deposits	6,075,627	865,584	1,332,824	113,941	8,387,976
Deposits and balances with banking institutions	733,469	13,968	54,619	374,407	1,176,463
Other liabilities	31,777	5,913	6,879	2,835	47,404
Long term borrowing	2,020,031	-	-	-	2,020,031
Total financial liabilities	**8,860,904**	**885,465**	**1,394,322**	**491,183**	**11,631,874**
Net balance sheet position	**4,172,266**	**(643,639)**	**(135,022)**	**(314,137)**	**3,079,468**
Net off balance sheet position	**(4,193,081)**	**655,548**	**132,752**	**318,827**	**(3,085,954)**
Overall net position	**(20,815)**	**11,909**	**(2,270)**	**4,690**	**(6,486)**

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(c) Market risk management (Continued)

Currency risk sensitivity analysis

At 31 December 2010, 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	
	2010	**2009**	**2010**	**2009**
	Shs'million	*Shs'million*	*Shs'million*	*Shs'million*
+ 5% movement	(107)	(97)	(0.3)	(90)
- 5% movement	107	97	0.3	90

(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, BRMC 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 BRMC 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.

Group

At 31 December 2010	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Cash and balances with Central Banks	5,361,523	379,141	730,108	16,600	1,159	6,488,531
Government securities	542,782	2,581,285	5,307,541	4,884,943	1,550,694	14,867,245
Deposits and balances due from banking institutions	6,119,031	1,869,657	-	-	-	7,988,688
Loans and advances to customers	5,654,300	6,509,561	14,097,932	21,430,800	8,262,426	55,955,019
Corporate bond	-	-	134,111	816,691	587,416	1,538,218
Investment in associate	-	-	-	-	2,599	2,599
Equity investments - available-for-sale	-	-	-	-	59,928	59,928
Other assets	629,845	28,878	87,967	183,967	21,615	952,272
Total financial assets	**18,307,481**	**11,368,522**	**20,357,659**	**27,333,001**	**10,485,837**	**87,852,500**
FINANCIAL LIABILITIES						
Balances due to Central Bank of Kenya	400,000	-	-	-	-	400,000
Customer deposits	33,626,529	10,752,469	22,555,262	439,249	4,208	67,377,717
Deposits and balances due to banking institutions	2,664,885	32,663	-	-	-	2,697,548
Long term borrowing	-	6,333	68,023	1,201,591	1,096,467	2,372,414
Other liabilities	1,338,422	438,163	46,333	23,836	25,133	1,871,887
Total financial liabilities	**38,029,836**	**11,229,628**	**22,669,618**	**1,664,676**	**1,125,808**	**74,719,566**
Net liquidity gap	**(19,722,355)**	**138,894**	**(2,311,959)**	**25,668,325**	**9,360,029**	**13,132,934**
At 31 December 2009						
Total financial assets	16,662,835	9,000,660	20,535,884	20,372,688	8,290,456	74,862,523
Total financial liabilities	28,746,057	9,296,772	19,917,801	666,296	1,933,841	60,560,767
Net liquidity gap	**(12,083,222)**	**(296,112)**	**618,083**	**19,706,392**	**6,356,615**	**14,301,756**

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(d) Liquidity risk management (Continued)

Bank

At 31 December 2010	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Cash and balances with Central Bank of Kenya	2,286,850	344,212	708,010	5,827	450	3,345,349
Government securities	200,014	2,710,972	2,297,115	3,946,073	1,550,694	10,704,868
Deposits and balances due from banking institutions	2,626,951	1,788,999	-	-	-	4,415,950
Loans and advances to customers	2,673,546	4,842,686	10,585,145	15,868,428	7,273,964	41,243,769
Corporate bond	-	-	134,111	816,691	587,416	1,538,218
Investments in subsidiaries and associates	-	-	-	-	1,118,867	1,118,867
Equity investments - available-for-sale	-	-	-	-	59,928	59,928
Amounts due from group company	-	-	6,331	108,831	117,134	232,296
Other assets	568,382	18,795	75,936	135,779	13,516	812,408
Total financial assets	**8,355,743**	**9,705,664**	**13,806,648**	**20,881,629**	**10,721,969**	**63,471,653**
FINANCIAL LIABILITIES						
Balances due to Central Bank of Kenya	400,000	-	-	-	-	400,000
Customer deposits	20,703,278	8,060,860	16,955,946	155,567	23,535	45,899,186
Deposits and balances due to banking institutions	1,553,592	32,663	-	-	-	1,586,255
Long term borrowing	-	-	56,880	1,136,171	1,089,876	2,282,927
Other liabilities	854,543	404,261	26,282	12,653	-	1,297,739
Total financial liabilities	**23,511,413**	**8,497,784**	**17,039,108**	**1,304,391**	**1,113,411**	**51,466,107**
Net liquidity gap	**(15,155,670)**	**1,207,880**	**(3,232,460)**	**19,577,238**	**9,608,558**	**12,005,546**
At 31 December 2009						
Total financial assets	11,315,293	5,167,837	15,308,789	15,923,435	7,989,743	55,705,097
Total financial liabilities	18,389,090	7,054,006	14,382,603	338,761	1,933,841	42,098,301
Net liquidity gap	**(7,073,797)**	**(1,886,169)**	**926,186**	**15,584,674**	**6,055,902**	**13,606,796**

(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 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

IFRS 7 requires that for financial instruments that are measured in the statement of financial position at fair value, the disclosure should be 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).

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Level 1	9,547,703	58,015	9,547,703	58,015
Level 2	3,931,455	-	-	-
	13,479,158	58,015	9,547,703	58,015

The fair value of available-for-sale investment securities at 31 December 2010 is estimated at Shs. 13.5 million , Bank: Shs. 9.5 million (2009: Group: Shs. 58 million, Bank: Shs. 58 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. 500 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.

Notes to the Financial Statements *(Continued)*

4. Financial risk management (Continued)

(g) Capital management (Continued)

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 Repulique 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	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Tier 1 Capital	9,636,865	7,664,318	6,636,997	5,279,080
Tier 1 + Tier 2 Capital	10,574,160	8,630,663	7,972,638	6,512,383
Risk-weighted assets				
On-balance sheet	55,152,110	48,532,429	39,069,438	32,309,624
Off-balance sheet	5,121,342	3,328,696	4,179,414	2,014,273
Total risk-weighted assets	**60,273,452**	**51,861,125**	**43,248,852**	**34,323,897**
Basel ratio				
Tier 1	16.0%	14.8%	15.3%	15.4%
(CBK minimum - 8%;				
Bank of Tanzania (BOT) minimum - 10%;				
Bank of Uganda (BOU) minimum - 8%;				
Banque de la Repulique du Burundi minimum - 8%)				
Tier 1 + Tier 2	17.5%	16.6%	18.4%	19.0%
(CBK, BOT, and BOU minimum-12%;				
Banque de la Repulique du Burundi minimum - 8%)				

Notes to the Financial Statements *(Continued)*

	Group	
	2010	2009
	Shs'000	*Shs'000*
5. Interest income		
Loans and advances	6,193,158	5,306,113
Government securities	913,045	843,443
Placements and bank balances	257,976	311,897
	7,364,179	6,461,453
6. Interest expense		
Customer deposits	2,445,552	2,892,528
Deposits due to banking institutions	35,865	43,378
	2,481,417	2,935,906
7. Net fee and commission income		
Fee and commission income:	1,136,151	864,897
Fee and commission expense:		
Inter-bank transaction fees	(28,233)	(17,034)
Net fees and commissions	1,107,918	847,863
8. Other operating income		
Gain on sale of investment securities	1,017,421	52,614
Rental income	16,510	14,628
Gain on sale of fixed assets	1,583	1,585
Other	48,191	21,153
	1,083,705	89,980
9. Operating expenses		
Operating expenses include:		
Staff costs (Note 10)	1,769,460	1,324,068
Depreciation (Note 22)	301,501	232,511
Amortisation of intangible assets-software costs (Note 23)	72,833	39,170
Operating lease rentals	221,378	183,219
Auditors' remuneration	9,998	9,546
10. Staff costs		
Salaries and allowances	1,553,403	1,182,223
Contribution to defined contribution retirement scheme	38,516	32,375
Accrual for gratuity pay	10,685	6,567
National Social Security Fund Contribution	46,569	39,143
Others including insurance and training expenses	120,287	63,760
	1,769,460	1,324,068

Notes to the Financial Statements *(Continued)*

	Group	
	2010	2009
	Shs'000	*Shs'000*
11. Taxation		
a) Tax charge		
Current income tax	1,102,243	616,420
Under provision of income tax in previous year	12,361	75
Deferred income tax	(119,060)	(44,277)
Under provision of deferred tax credit in previous year	(14,715)	3,209
	980,829	575,427

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

	Group	
	2010	2009
	Shs'000	*Shs'000*
Profit before tax	3,462,999	1,929,862
Tax calculated at the statutory tax rate of 30% (2009: 30%)	1,038,900	578,958
Tax effect of:		
Income not subject to tax	(100,142)	(45,632)
Expenses not deductible for tax purposes	24,077	21,090
Under provision of current income tax in previous year	1 2,361	75
Under provision of deferred tax credit in previous year	(14,715)	3,209
Final tax on investment income	20,348	17,727
Tax charge	980,829	575,427

12. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated on the basis of the number of ordinary shares issued, adjusted for all potential dilutive ordinary shares outstanding as at 31 December 2010.

The directors recommend, subject to regulatory approvals and that of the shareholders, to make a bonus issue in the proportion of 1 new ordinary share of every 5 fully paid up ordinary shares held, to the shareholders registered at the close of business on 20 May 2011. There are therefore 32,607,000 potentially dilutive shares outstanding at 31 December 2010, which have been added to the ordinary shares issued to compute the diluted earnings per share.

	Group	
	2010	2009
Profit attributable to shareholders (Shs thousands)	2,284,824	1,250,250
Weighted number of ordinary shares in issue (thousands)	163,037	163,037
Weighted number of ordinary shares that will be in issue after bonus issue (thousands)	195,644	195,644
Earnings per share (Shs per share) - basic	14.01	7.67
- diluted	11.68	6.39

Notes to the Financial Statements *(Continued)*

13. Dividends per share

At the Annual General Meeting to be held on 20 May 2011, a final dividend in respect of the year ended 31 December 2010 of Shs. 1.60 per share amounting to a total of Shs. 260,859,373 is to be proposed.

The total dividend for the year is Shs. 1.60 per share (2009: Shs. 1.55), amounting to a total of Shs. 260,859,373 (2009: Shs. 252,707,517).

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.

14. Cash and balances with Central Banks

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Cash in hand	1,463,220	1,019,586	836,618	414,605
Balances with Central Banks	5,001,928	3,551,075	2,508,731	1,849,442
	6,465,148	4,570,661	3,345,349	2,264,047

15. Government securities

	Group		Bank	
Held to maturity				
Treasury bills	-	4,710,123	-	1,951,939
Treasury bonds	-	4,516,577	-	4,028,388
	-	9,226,700	-	5,980,327
Available for sale				
Treasury bills	4,682,973	-	2,776,670	-
Treasury bonds	8,385,520	-	6,300,440	-
	13,068,493	-	9,077,110	-
Held for trading				
Treasury bonds	410,665	-	410,665	-
Total Government securities	13,479,158	9,226,700	9,487,775	5,980,327

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, Republic of Uganda and Republique du Burundi in the case of the Group.

The Group had pledged Government bonds worth Shs 500 million (2009: 500 million) as collateral for the balances due to the Central Bank disclosed on note 28.

16. Deposits and balances due from banking institutions

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Due from other banks	7,930,638	7,392,025	4,404,753	5,638,340

All deposits due from banking institutions are due within 90 days.

Notes to the Financial Statements *(Continued)*

17. Loans and advances to customers

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Finance leases	6,214,211	5,454,412	6,214,211	5,454,412
Other loans and advances	46,214,335	36,727,292	31,690,988	24,825,166
Gross loans and advances	52,428,546	42,181,704	37,905,199	30,279,578
Less: Provision for impairment of loans and advances				
Identified impairment	(645,610)	(337,389)	(588,379)	(320,283)
Unidentified impairment	(522,868)	(326,180)	(403,116)	(259,016)
Net loans and advances	51,260,068	41,518,135	36,913,704	29,700,279

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 2009				
At start of year	283,133	330,685	244,724	301,716
Provision for loan impairment	303,409	-	270,867	-
Loans written off during the period as uncollectible	(160,380)	-	(129,217)	-
Release of provision no longer required	(87,285)	(4,776)	(66,091)	(42,700)
Translation difference	(1,488)	271	-	-
At end of year	337,389	326,180	320,283	259,016
Period ended 31 December 2010				
At start of year	337,389	326,180	320,283	259,016
Provision for loan impairment	474,795	204,216	367,340	144,100
Loans written off during the period as uncollectible	(52,569)	-	(30,703)	-
Release of provision no longer required	(110,841)	-	(68,541)	-
Translation difference	(3,164)	(7,528)	-	-
At end of year	645,610	522,868	588,379	403,116

Charge to profit and loss account (Group)

	Identified Impairment	Unidentified impairment	Total
	Shs'000	*Shs'000*	*Shs'000*
Year ended 31 December 2009			
Provision for loan impairment	303,575	-	303,575
Release of provision no longer required	(87,545)	(4,776)	(92,321)
Net increase 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
Year ended 31 December 2010			
Provision for loan impairment	474,795	204,216	679,011
Release of provision no longer required	(110,841)	-	(110,841)
Net increase in provision	363,954	204,216	568,170
Amounts recovered previously written off	(13,223)	-	(13,223)
Loans written off through the income statement	2,907	-	2,907
Net charge to the income statement	353,638	204,216	557,854

Notes to the Financial Statements *(Continued)*

17. Loans and advances to customers (Continued)

Charge to profit and loss account (Bank)	Identified impairment *Shs'000*	Unidentified impairment *Shs'000*	Total *Shs'000*
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 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
Year ended 31 December 2010			
Provision for loan impairment	367,340	144,100	511,440
Release of provision no longer required	(68,541)	-	(68,541)
Net increase in provision	298,799	144,100	442,899
Amounts recovered previously written off	(11,615)	-	(11,615)
Loans written off through profit and loss account	2,801	-	2,801
Net charge to profit and loss account	289,985	144,100	434,085

All loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans, net of provision for identified impairment losses, at 31 December 2010, was Group:Shs. 44,165,000, Bank: Shs. 1,104,585 (2009 -Group: Shs. 255,134,000, Bank :Shs. 248,248,000).

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

	Group and Bank 2010 *Shs'000*	Group and Bank 2009 *Shs'000*
Gross investment in finance leases:		
Not later than 1 year	204,795	922,403
Later than 1 year and not later than 5 years	7,632,038	6,088,046
Later than 5 years	54,278	-
	7,891,111	7,010,449
Unearned future finance income on finance leases	(1,676,900)	(1,556,037)
Net investment in finance leases	6,214,211	5,454,412

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

	2010 *Shs'000*	2009 *Shs'000*
Not later than 1 year	134,959	731,914
Later than 1 year and not later than 5 years	6,041,207	4,722,498
Later than 5 years	38,045	-
Net investment in finance leases	6,214,211	5,454,412

Notes to the Financial Statements *(Continued)*

	Group and Bank 2010 *Shs'000*	Group and Bank 2009 *Shs'000*
18. Corporate bond	936,573	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 9 years on 31 October 2019.

19. Investments in subsidiaries and associates

	Group 2010 *Shs'000*	Group 2009 *Shs'000*
At start of year	-	-
Investment in Jubilee Insurance Company of Burundi SA	4,051	-
Share of results after tax	(1,452)	-
At end of year	2,599	-

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

	Beneficial Ownership	Group 2010 *Shs'000*	Group 2009 *Shs'000*	Bank 2010 *Shs'000*	Bank 2009 *Shs'000*
Subsidiaries					
Diamond Trust Bank Tanzania Limited	55.4%	-	-	337,584	337,584
Diamond Trust Bank Uganda Limited	51.1%	-	-	265,534	265,534
Diamond Trust Bank Burundi S.A.	67.3%	-	-	484,611	262,971
Diamond Trust Insurance Agency Limited	100%	-	-	2,000	2,000
Premier Savings and Finance Limited	100%	-	-	29,137	29,137
		-	-	1,118,866	897,226
Associates					
Services and Systems Limited	40%	1	1	1	1
Jubilee Insurance Company of Burundi SA	20%	4,051	-	-	-
Total investments in subsidiaries and associates		4,052	1	1,118,867	897,227

Premier Savings and Finance Limited and Services and Systems Limited, which are incorporated in Kenya, are dormant.

20. Equity investments

	Group 2010 *Shs'000*	Group 2009 *Shs'000*	Bank 2010 *Shs'000*	Bank 2009 *Shs'000*
At start of year	58,015	45,902	58,015	45,902
Fair value gain (Note 34)	1,913	12,113	1,913	12,113
At end of year	59,928	58,015	59,928	58,015

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.

	Bank 2010 *Shs'000*	Bank 2009 *Shs'000*
21. Amount due from group company	202,032	-

The balance due from group company relates to a 7.5 year loan issued to one of the subsidiaries to enhance their capital base. The debt is redeemable on maturity and bears interest at a rate referenced to the six months US$ Libor.

Notes to the Financial Statements *(Continued)*

22. Property and equipment

(a) Group

	Freehold Land	Buildings	Leasehold improvements	Motor Vehicles	Furniture fittings & equipment	Work in Progress	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 1 January 2009							
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
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)
Net book amount	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

Notes to the Financial Statements *(Continued)*

22. Property and equipment (Continued)

(a) Group (Continued)

	Freehold land	Leasehold land	Buildings	Leasehold improvements	Motor vehicles	Furniture fittings & equipment	Work in Progress	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Year ended 31 December 2010								
Opening net book amount	57,630	-	201,286	516,910	21,343	625,353	184,380	1,606,902
Translation difference	-	-	2,834	(33,621)	68	(20,426)	(1,396)	(52,541)
Additions	-	-	-	118,561	13,784	188,439	17,267	338,051
Transfer from work in progress	-	-	-	-	-	90,937	(90,937)	-
Reclassification of freehold land to leasehold land	(57,630)	57,630	-	-	-	-	-	-
Transfer from prepaid operating leases (Note 24)	-	6,863	-	-	-	-	-	6,863
Transfer to intangible assets (Note 23)	-	-	-	-	-	(3,202)	(80,616)	(83,818)
Disposals	-	-	(1,266)	-	(4,938)	(34,229)	-	(40,433)
Disposals - accumulated depreciation	-	-	32	-	4,938	32,323	-	37,293
Depreciation charge	-	(1,927)	(6,125)	(65,981)	(9,447)	(218,021)	-	(301,501)
Closing net book amount	-	62,566	196,761	535,869	25,748	661,174	28,698	1,510,816
At 31 December 2010								
Cost or valuation	-	67,849	212,578	739,397	56,995	1,429,671	28,698	2,535,188
Accumulated depreciation	-	(5,283)	(15,817)	(203,528)	(31,247)	(768,497)	-	(1,024,372)
Net book amount	-	62,566	196,761	535,869	25,748	661,174	28,698	1,510,816
At 31 December 2010								
Cost	-	67,849	149,675	739,397	56,995	1,429,671	28,698	2,472,285
Revaluation surplus	-	-	62,903	-	-	-	-	62,903
Cost or valuation	-	67,849	212,578	739,397	56,995	1,429,671	28,698	2,535,188

Notes to the Financial Statements *(Continued)*

22. Property and equipment (Continued)

(b) Bank

	Freehold land	Buildings	Leasehold improvements	Motor Vehicles	Furniture fittings & equipment	Work in Progress	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 1 January 2009							
Cost or valuation	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
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)
Net book amount	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

Notes to the Financial Statements *(Continued)*

22. Property and equipment (Continued)

(b) Bank (Continued)

	Freehold land	Leasehold land	Buildings	Leasehold improvements	Motor Vehicles	Furniture fittings & equipment	Work in Progress	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Year ended 31 December 2010								
Opening net book amount	57,630	-	110,816	155,015	12,355	283,294	172,985	792,095
Additions	-	-	-	44,264	12,986	90,387	12,606	160,243
Transfer from work in progress	-	-	-	-	-	90,937	(90,937)	-
Reclassification of freehold land to leasehold land	(57,630)	57,630	-	-	-	-	-	-
Transfer from prepaid operating leases (Note 24)	-	3,422	-	-	-	-	-	3,422
Transfer to intangible assets (Note 23)	-	-	-	-	-	(114)	(80,616)	(80,730)
Disposals	-	-	-	-	(4,938)	(32,277)	-	(37,215)
Disposals - accumulated depreciation	-	-	-	-	4,938	32,277	-	37,215
Depreciation charge	-	(1,790)	(2,094)	(26,771)	(6,256)	(115,645)	-	(152,556)
Closing net book amount	-	59,262	108,722	172,508	19,085	348,859	14,038	722,474
At 31 December 2010								
Cost	-	64,331	115,000	282,271	34,962	806,398	14,038	1,317,000
Accumulated depreciation	-	(5,069)	(6,278)	(109,763)	(15,877)	(457,539)	-	(594,526)
Net book amount	-	59,262	108,722	172,508	19,085	348,859	14,038	722,474
At 31 December 2010								
Cost	-	64,331	66,742	282,271	34,962	806,398	14,038	1,268,742
Revaluation surplus	-	-	48,258	-	-	-	-	48,258
Cost or valuation	-	64,331	115,000	282,271	34,962	806,398	14,038	1,317,000

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 2010	Group 2009	Bank 2010	Bank 2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Cost	149,675	148,107	66,742	66,742
Accumulated depreciation	(21,286)	(16,101)	(14,042)	(12,172)
Net book amount	128,389	132,006	52,700	54,570

Notes to the Financial Statements *(Continued)*

23. Intangible assets-software costs

	Group 2010 Shs'000	Group 2009 Shs'000	Bank 2010 Shs'000	Bank 2009 Shs'000
At start of year	135,434	79,499	53,152	48,222
Additions	100,458	95,336	89,371	23,835
Transfer from property and equipment (Note 22)	83,818	456	80,730	456
Amortisation charge for the year	(72,833)	(39,170)	(43,097)	(19,361)
Translation difference	2,722	(687)	-	-
At the end of year	249,599	135,434	180,156	53,152
Cost	539,607	352,609	347,112	177,011
Accumulated amortisation	(290,008)	(217,175)	(166,956)	(123,859)
Net book value	249,599	135,434	180,156	53,152

24. Prepaid operating lease rentals

	Group 2010 Shs'000	Group 2009 Shs'000	Bank 2010 Shs'000	Bank 2009 Shs'000
At start of year	16,320	10,886	3,422	3,661
Additions during the year	47,715	37,628	-	-
Transfer to property and equipment (Note 22)	(6,863)	-	(3,422)	-
Amortisation charge for the year	(42,309)	(32,804)	-	(239)
Translation difference	485	610	-	-
At the end of year	15,348	16,320	-	3,422
Cost	143,901	102,564	-	6,701
Accumulated amortisation	(128,553)	(86,244)	-	(3,279)
	15,348	16,320	-	3,422

These balances are included in other assets in note 27. Long term leasehold land has been transferred to property and equipment following the amendments to IAS 17 on leases during the year.

25. Intangible assets - goodwill

	Group 2010 Shs'000	Group 2009 Shs'000
Goodwill on acquisition of control in subsidiaries	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 the Board of Directors covering a three-year period and discounted at rates comparable to that earned from risk assets. Based on the above the Group does not consider the goodwill impaired.

Notes to the Financial Statements *(Continued)*

26. 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% (2009:30%). The movement on the deferred tax account is as follows:

Deferred tax asset	Group 2010 Shs'000	Group 2009 Shs'000	Bank 2010 Shs'000	Bank 2009 Shs'000
At start of year	141,194	126,990	111,097	126,990
Charged through the income statement - current year	118,992	35,460	114,640	(4,867)
Overstatement of deferred tax in previous year	14,715	(3,209)	14,715	(3,209)
Charged/(credit) through other comprehensive income	10,338	(7,817)	4,878	(7,817)
Translation difference	(273)	(10,230)	-	-
At end of the year	284,966	141,194	245,330	111,097

Deferred tax liability	Group 2010 Shs'000	Group 2009 Shs'000	Bank 2010 Shs'000	Bank 2009 Shs'000
At start of year	(68)	(9,324)	-	-
Charged through the income statement current year	68	8,817	-	-
Translation difference	-	439	-	-
At end of the year	-	(68)	-	-

Net deferred tax asset	Group 2010 Shs'000	Group 2009 Shs'000	Bank 2010 Shs'000	Bank 2009 Shs'000
At start of year	141,126	117,666	111,097	126,990
Charged through the income statement - current year	119,060	44,277	114,640	(4,867)
Overstatement of deferred tax in previous year	14,715	(3,209)	14,715	(3,209)
Charged/(credit) through other comprehensive income	10,338	(7,817)	4,878	(7,817)
Translation difference	(273)	(9,791)	-	-
At end of the year	284,966	141,126	245,330	111,097

Notes to the Financial Statements *(Continued)*

26. Deferred income tax (Continued)

Consolidated deferred income tax assets and liabilities, deferred tax charge in the income statement and deferred tax charge through other comprehensive income are attributable to the following items:

Group

	1.1.2010	Charged to the income statement	Charged through other comprehensive income	31.12.2010
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Deferred income tax liabilities				
Property and equipment	40,072	(32,184)	-	7,888
Revaluation surplus	18,375	2,417	-	20,792
	58,447	(29,767)	-	28,680
Deferred income tax assets				
Provisions for loan impairment	(109,430)	(54,929)	-	(164,359)
Provisions for gratuity and staff bonus	(42,576)	(67,257)	-	(109,833)
Tax losses carried forward	(48,667)	19,720	-	(28,947)
Fair value changes in Government securities	1,100	(1,269)	(10,338)	(10,507)
Translation difference	-	(273)	-	-
	(199,573)	(104,008)	(10,338)	(313,646)
Net deferred income tax asset	(141,126)	(133,775)	(10,338)	(284,966)

Bank

	1.1.2010	Charged to the income statement	Charged through other comprehensive income	31.12.2010
Deferred income tax liabilities				
Property and equipment	(1,842)	(23,073)	-	(24,915)
Revaluation surplus	14,188	2,619	-	16,807
	12,346	(20,454)	-	(8,108)
Deferred income tax assets				
Provisions for loan impairment	(81,967)	(38,967)	-	(120,934)
Provisions for gratuity and staff bonus	(42,576)	(67,112)	-	(109,688)
Fair value changes in Government securities	1,100	(2,822)	(4,878)	(6,600)
	(123,443)	(108,901)	(4,878)	(237,222)
Net deferred income tax asset	(111,097)	(129,355)	(4,878)	(245,330)

Notes to the Financial Statements *(Continued)*

27. Other assets

	Group 2010	Group 2009	Bank 2010	Bank 2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Uncleared effects	493,966	332,965	432,826	294,828
Prepaid operating lease rentals (Note 24)	15,348	16,320	-	3,422
Items in the course of collection	124,320	144,707	124,320	141,583
Deposits and prepayments	263,865	157,288	176,324	109,309
Others	333,986	241,766	255,412	169,300
	1,231,485	893,046	988,882	718,442

28. Balances due to Central Bank of Kenya

	Group 2010	Group 2009	Bank 2010	Bank 2009
Reverse repo	399,957	399,878	399,957	399,878

The reverse repo matures within four days after 31 December . The effective interest rate was 1.3% (2009 - 3.7%).

29. Customer deposits

	Group 2010	Group 2009	Bank 2010	Bank 2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Current and demand deposits	20,636,342	13,984,912	12,568,792	8,555,223
Savings accounts	6,268,392	4,541,634	2,591,255	1,689,985
Fixed deposit accounts	39,291,658	34,307,641	29,743,718	26,028,664
Unredeemed bearer certificates of deposit	208	208	208	208
	66,196,600	52,834,395	44,903,973	36,274,080

30. Deposits and balances due to banking institutions

	Group 2010	Group 2009	Bank 2010	Bank 2009
Deposits due to banking institutions	2,113,211	1,868,478	1,456,089	1,148,652
Current account balances due to banking institutions	295,119	182,822	128,698	162,109
	2,408,330	2,051,300	1,584,787	1,310,761

Notes to the Financial Statements *(Continued)*

31. Long term borrowing

a. Subordinated debt

The long-term subordinated debt (nine and a half years) raised from the International Finance Corporation (IFC), which is a related party, to increase the Bank's supplementary capital, amounted to US$ 15 million (2009 - 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 (2009 - US$ 10 million).

c. Administered funds

The administered funds relate to long term loans from Bank of Uganda (BoU) and European Investment Bank (EIB) to Diamond Trust Bank Uganda Limited. These funds were advanced to the Group to lend to the agriculture and the real estate sectors respectively. The BoU loan is interest free and has a tenor of seven years. The EIB funding was disbursed in 2008 and attracts an interest rate of 5.52%. The funds are repayable over a period of six years.

	Group		Bank	
Subordinated debt	**2010**	**2009**	**2010**	**2009**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
At start of year	1,135,733	1,174,920	1,135,733	1,174,920
Accrued interest	35,452	49,252	35,452	49,252
Paid during the year	(38,061)	(49,921)	(38,061)	(49,921)
Translation difference	79,066	(38,518)	79,066	(38,518)
	1,212,190	1,135,733	1,212,190	1,135,733
Senior loan				
At start of year	756,977	783,095	756,977	783,095
Accrued interest	20,873	28,922	20,873	28,922
Paid during the year	(19,442)	(29,391)	(19,442)	(29,391)
Translation difference	49,433	(25,649)	49,433	(25,649)
	807,841	756,977	807,841	756,977
Total due to IFC	2,020,031	1,892,710	2,020,031	1,892,710
Administered funds				
Bank of Uganda	35,002	7,988	-	-
European Investment Bank	54,486	61,207	-	-
	89,488	69,195	-	-
Long term borrowing	2,109,519	1,961,905	2,020,031	1,892,710

Notes to the Financial Statements *(Continued)*

31. Long term borrowing (Continued)

d. Finance costs

	Group		Bank	
	2010	**2009**	**2010**	**2009**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Subordinated debt	35,452	49,252	35,452	49,252
Senior loan	20,873	28,922	20,873	28,922
Administered funds	4,023	6,034	-	-
Amortised appraisal fees	3,564	1,929	3,564	1,929
	63,912	86,137	59,889	80,103

32. Other liabilities

	Group 2010	Group 2009	Bank 2010	Bank 2009
Due to subsidiary company	-	-	79,560	79,562
Gratuity provision	61,582	57,275	50,624	51,920
Outstanding bankers' cheques	366,992	228,787	138,529	154,536
Rights issue balances to be refunded	1,422	1,422	1,422	1,422
Accrued expenses	528,492	224,602	407,612	151,830
Deferred income	487,094	273,087	418,160	233,687
Other payables	425,283	522,229	201,832	297,913
	1,870,865	1,307,402	1,297,739	970,870

Movement in gratuity provision is as follows:

	Group 2010	Group 2009	Bank 2010	Bank 2009
At start of year	57,275	57,342	51,920	52,588
Increase during the year	10,589	4,750	4,729	3,925
Utilised during the year	(6,025)	(4,593)	(6,025)	(4,593)
Translation difference	(257)	(224)	-	-
At end of year	61,582	57,275	50,624	51,920

33. Share capital

	Number of shares	**Share capital**	**Share premium**
	(Thousands)	*Shs'000*	*Shs'000*
Balance at 31 December 2009, 1 January 2010 and 31 December 2010	163,037	652,148	2,197,735

The total authorised number of ordinary shares is 250,000,000 (2009: 250,000,000) with a par value of Shs 4 per share.

Notes to the Financial Statements *(Continued)*

34.Other reserves

Consolidated statement of changes in other reserves

	Revaluation surplus	Revaluation reserves on Government securities	Revaluation reserve on equity investments	Translation reserve	Other reserves	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Year ended 31 December 2009						
At start of year	52,465	(9,762)	(12,496)	119,087	56,104	205,398
Recycling of fair value on changes in Government securities	-	13,946	-	-	-	13,946
Deferred tax on fair value changes	-	(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)
Transfer of excess depreciation to retained earnings	(1,864)	-	-	-	-	(1,864)
Deferred tax on excess depreciation	559	-	-	-	-	559
Translation adjustment	-	-	-	(44,432)	-	(44,432)
At end of year	51,160	-	(4,016)	74,655	56,104	177,903
Year ended 31 December 2010						
At start of year	51,160	-	(4,016)	74,655	56,104	177,903
Fair value changes in Government securities	-	(36,375)	-	-	-	(36,375)
Deferred tax on fair value loss	-	10,912	-	-	-	10,912
Fair value changes in available for sale equity investment	-	-	1,913	-	-	1,913
Deferred tax on fair value changes	-	-	(574)	-	-	(574)
Transfer of excess depreciation to retained earnings	(1,437)	-	-	-	-	(1,437)
Deferred tax on excess depreciation	432	-	-	-	-	432
Translation adjustment	-	-	-	(66,652)	-	(66,652)
At end of year	50,155	(25,463)	(2,677)	8,003	56,104	86,122

Notes to the Financial Statements *(Continued)*

34. Other reserves (Continued)

Bank statement of changes in other reserves

	Revaluation surplus	Revaluation reserves on Government securities	Revaluation reserve on equity investments	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
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
Year ended 31 December 2010				
At start of year	32,795	-	(4,016)	28,779
Fair value changes in Government securities	-	(18,174)	-	(18,174)
Deferred tax on fair value loss	-	5,452	-	5,452
Fair value changes in equity investments available for sale	-	-	1,913	1,913
Deferred tax on fair value changes	-	-	(574)	(574)
Transfer of excess depreciation to retained earnings	(222)	-	-	(222)
Deferred tax on excess depreciation	67	-	-	67
At end of year	32,640	(12,722)	(2,677)	17,241

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)*

35. 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	
	2010	2009	2010	2009
Contingent liabilities	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Acceptances and letters of credit	3,741,149	2,003,718	2,963,986	1,627,429
Guarantee and performance bonds	3,831,118	2,057,842	2,961,324	1,243,556
	7,572,267	4,061,560	5,925,310	2,870,985

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects the acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank 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.

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Commitments				
Undrawn credit lines and other commitments to lend	11,433,618	8,041,486	10,516,331	6,386,132
Foreign exchange forward contracts	8,087,416	8,597,391	8,074,976	8,487,170
Foreign exchange spot transactions	1,218,220	933,198	670,321	843,346
Operating lease rentals (i)	1,097,733	860,643	590,128	401,241
Capital commitments	32,112	34,890	27,144	25,435
	21,869,099	18,467,608	19,878,900	16,143,324

(i) Operating lease rentals are analysed as follows:

Not later than 1 year	227,683	153,685	126,910	78,059
Later than 1 year and not later than 5 years	679,446	617,038	291,910	264,672
Later than 5 years	190,604	89,920	171,308	58,510
	1,097,733	860,643	590,128	401,241

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)*

36. Business segments information

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 group did not have any single customer who represented more than 10% of its revenues. The following is the segment information:

At 31 December 2010	Kenya	Tanzania	Uganda	Burundi	Total	Consolidation adjustments	Group
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Interest income from external customers	5,399,126	1,001,197	883,193	80,663	7,364,179		7,364,179
Other income from external customers	2,132,775	375,664	343,677	22,715	2,874,831		2,874,831
Total income from external customers	7,531,901	1,376,861	1,226,870	103,378	10,239,010		10,239,010
Share of results of associate after tax	-	-	-	(1,452)	(1,452)		(1,452)
Inter-segment income	3,001	2,516	956	34	6,507	(6,507)	-
Total income	7,534,902	1,379,377	1,227,826	101,960	10,244,065		10,237,558
Interest expense from external customers	(1,903,037)	(275,436)	(279,557)	(23,387)	(2,481,417)		(2,481,417)
Other expenses – external	(2,120,202)	(582,886)	(602,156)	(55,710)	(3,360,954)		(3,360,954)
Inter-segment expenses	(3,312)	(131)	(3,018)	(46)	(6,507)	6,507	-
Depreciation and amortisation	(196,237)	(69,671)	(71,822)	(36,604)	(374,334)		(374,334)
Provision for bad debts	(434,085)	(63,789)	(55,187)	(4,793)	(557,854)		(557,854)
Total expenses	(4,656,873)	(991,913)	(1,011,740)	(120,540)	(6,781,066)		(6,774,559)
Segment profit before tax	2,878,029	387,464	216,086	(18,580)	3,462,999		3,462,999
Current and deferred tax charge	(818,428)	(118,862)	(49,229)	5,690	(980,829)		(980,829
Segment profit after tax	**2,059,601**	**268,602**	**166,857**	**(12,890)**	**2,482,170**		**2,482,170**
Segment assets	**58,726,441**	**14,581,862**	**10,223,954**	**1,622,032**	**85,154,289**	**(1,554,112)**	**83,600,177**
Segment liabilities	**50,566,392**	**13,089,459**	**9,354,358**	**923,517**	**73,933,726**	**(593,228)**	**73,340,498**

Notes to the Financial Statements *(Continued)*

36. Business segments information (Continued)

	Kenya	Tanzania	Uganda	Burundi	Total	Consolidation adjustments	Group
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2009							
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)	(270,319)	(1,753)	(2,935,906)		(2,935,906)
Other expenses – external	(1,594,538)	(455,222)	(494,381)	(32,598)	(2,576,739)		(2,576,739)
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)*

36. Business segments information (Continued)

(b) Additions to non current assets

At 31 December 2010

	Kenya	Tanzania	Uganda	Burundi	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Property and equipment	160,518	73,458	86,979	17,096	338,051
Intangible assets- software	89,610	10,333	-	515	100,458
	250,128	**83,791**	**86,979**	**17,611**	**438,509**
At 31 December 2009					
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**

(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
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2010					
Net interest income					
Loans and advances	4,514,442	866,112	740,117	72,487	6,193,158
Government securities	652,556	130,120	123,865	6,504	913,045
Placement and bank balances	232,128	4,965	19,211	1,672	257,976
Interest income	5,399,126	1,001,197	883,193	80,663	7,364,179
Customer deposits	1,877,272	271,613	273,280	23,387	2,445,552
Deposits due to banking institutions	25,765	3,823	6,277	-	35,865
Interest expense	1,903,037	275,436	279,557	23,387	2,481,417
Net interest income	**3,496,089**	**725,761**	**603,636**	**57,276**	**4,882,762**
Fee and commission income					
Fee and commission income	665,555	197,087	233,367	11,909	1,107,918
Foreign exchange income	402,418	164,324	107,357	9,109	683,208
Other income	**1,064,802**	**14,253**	**2,953**	**1,697**	**1,083,705**
Net fee and commission income	**2,132,775**	**375,664**	**343,677**	**22,715**	**2,874,831**

Notes to the Financial Statements *(Continued)*

36. Business segments information (Continued)

(c) Revenue by product and services (Continued)

	Kenya	Tanzania	Uganda	Burundi	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2009					
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	257,516	1,753	2,886,494
Deposits due to banking institutions	31,667	4,874	12,871	-	49,412
Interest expense	2,351,600	312,166	270,387	1,753	2,935,906
Net interest income	**2,520,009**	**579,009**	**415,929**	**10,600**	**3,525,547**
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)*

37. 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 2010 and 31 December 2009 were as follows:

	2010			2009		
	In Shs	*In US$*	*In GBP*	*In Shs*	*In US$*	*In GBP*
Assets						
Government securities	6.29%	-	-	9.24%	-	-
Deposits with banking institutions	2.92%	2.15%	-	4.50%	1.93%	0.32%
Loans and advances to customers	14.45%	8.18%	7.98%	15.71%	9.13%	7.50%
Liabilities						
Customer deposits	4.16%	0.18%	0.30%	7.48%	0.31%	0.52%
Deposits due to banking institutions	1.25%	1.48%	-	3.97%	1.10%	-
Amounts due to group companies	-	0.30%	-	-	0.42%	-
Subordinated debt	-	3.05%	-	-	3.83%	-
Senior loan	-	2.47%	-	-	3.33%	-

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

	2010	2009
	Shs'000	*Shs'000*
Cash and balances with the central banks (Note 14)	6,465,148	4,570,661
Cash reserve requirement	(3,733,764)	(3,044,049)
Government securities maturing within 91 days at the point of acquisition	430,021	1,259,756
Deposits and balances due from banking institutions (Note 16)	7,930,638	7,392,025
Balances due to Central Bank of Kenya (note 28)	(399,957)	(399,878)
Deposits and balances due to banking institutions (Note 30)	(2,408,330)	(2,051,300)
	8,283,756	7,727,215

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 % (2009 - 4.5%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

Notes to the Financial Statements *(Continued)*

39. 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	
	2010	2009	2010	2009
Group Companies	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Amounts due to:				
Other group companies	-	-	570,176	165,619
Interest expense incurred	-	-	4,034	2,151
Directors				
Loans to directors:				
At start of year	285	14,141	-	12,956
Advanced during the year	885	1,416	535	20
Repaid during the year	(325)	(10,372)	-	(8,073)
Balances relating to directors who resigned or retired during the year	-	(4,903)	-	(4,903)
Translation adjustment	(35)	3	-	-
At end of year	810	285	535	-
Interest income earned from directors loans	17	104	-	30
Deposits by directors:				
At start of year	60,350	67,556	46,302	67,167
Net movement during the year	11,353	(7,208)	13,655	(20,865)
Translation adjustment	1,026	2	-	-
At end of year	72,729	60,350	59,957	46,302
Interest paid on directors' deposits	3,640	4,524	3,486	2,416

Other disclosures

At 31 December 2010, advances to companies controlled by directors or their families amounted to Shs. 1,024,001,000 (2009 - Shs. 745,765,000).

At 31 December 2010, advances to employees amounted to Shs. 236,689,000 (2009 - Shs. 220,568,000).

Interest income earned on advances to companies controlled by directors or their families and employees amounted to Shs. 63,883,000 (2009 - Shs. 58,670,000).

Notes to the Financial Statements *(Continued)*

39. Related Party Transactions (Continued)

Other disclosures (continued)

At 31 December 2010, contigent liabilities include letters of credit and guarantees issued for the account of companies related through shareholding, common directorship and companies controlled by directors or their families amounting to Shs. 129,496,000 (2009 - Shs. 59,004,000).

At 31 December 2010, deposits by companies related through shareholding, common directorship and companies controlled by directors or their families amounted to Shs. 2,334,108,000 (2009 -Shs. 1,688,593,000).

At 31 December 2010, deposits by employees amounted to Shs. 132,135,000 (2009 - 123,450,000).

Interest expense incurred on deposits by companies related through shareholding, common directorship, companies controlled by directors or their families and employees amounted to Shs. 182,737,000 (2009 - Shs. 323,712,000).

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. 2,020,031,000 (2009 - Shs. 1,892,710,000). Details of this are shown under Note 31.

At 31 December 2010, placements with companies related through common directorship amounted to Shs. 565,842,000 (2009 - Shs. 1,591,243,000).

	Group		Bank	
	2010	2009	2010	2009
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Key management compensation				
Salaries and other short-term employment benefits	359,766	296,255	225,878	182,220
Termination benefits	24,150	16,154	12,037	10,720
	383,916	312,409	237,915	192,940
Director's remuneration				
- fees for services as a director	8,671	8,317	4,055	3,770
- other emoluments (included in key management compensation above)	51,098	44,167	27,840	26,272
	59,769	52,484	31,895	30,042

Notes

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 Friday, 20th May 2011 at 11:00 a.m., and at any adjournment thereof.

Dated this …………………………… day of ……………………………….. 2011.

Signature: ………………………………………………..

Important Notes

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.

The person appointed as proxy need not be a shareholder of the Company.

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