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 make us unique and unmistakable:

Excellence

This is the core of everything that we do. We believe in being the best in everything that we do in terms of services, products and premises.

Integrity

We steadfastly adhere to high moral principles and professional standards, knowing that our success depends on our customer's trust.

Customer focus

We fully understand the needs of our customers and we adapt our products and services to meet them. We always strive to put 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.

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
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 Road*
17. - Capital Centre Branch, Mombasa Road*
18. - Cross Road Branch, Cross Road
19. - Diamond Plaza Branch, 4th Avenue Parklands*
20. - Eastleigh Branch, 7th Avenue Eastleigh
21. - Industrial Area Branch, Likoni Road
22. - JKIA Branch, Airport Trade Centre
23. - Karen Branch, Ngong Road
24. - Nation Centre Branch, Kimathi Street
25. - OTC Branch, Gwasi Lane, Off Racecourse Road
26. - Parklands Branch, 3rd Avenue Parklands
27. - Prestige Branch, Ngong Road
28. - T-Mall Branch, Langata Road
29. - Tom Mboya Branch, Mondlane/Tom Mboya Street*
30. - Upper Hill Branch, Kilimanjaro Road
31. - Village Market Branch, Limuru Road*
32. - Wabera Street Branch, Wabera Street
33. - Westgate Branch, Mwanzi Road*
34. Nakuru Branch, Kenyatta Avenue
35. Thika Branch, Kenyatta Highway
36. Voi Branch, Biashara Street

Uganda

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

Kampala

4. - Kampala Road Branch, Kampala Road
5. - Hotel Equatoria Branch, William Street*
6. - Industrial Area Branch, Kibiira Road
7. - Kikuubo Branch, Ben Kiwanuka Street*
8. - Kitintale Branch, Port Bell Road*
9. - Kyengera Branch, Masaka Road*
10. - Ndeeba Branch, Masaka Road
11. - Ntinda Branch, Kiira Road*
12. - Oasis Branch, Yusuf Lule Road
13. - Old Kampala Branch, Next to Old Kampala Mosque
14. - Wandegeya Branch, Bombo Road*
15. - Naalya Branch, off Northern Bypass*
16. - Nakivubo Branch, Channel Street*
17. - Nateete Branch, Mengo Kibuga
18. Lira Branch, Aputi Road
19. Malaba Branch, Kwapa Road*
20. Masaka Branch, Kampala Road
21. Mbale Branch, Bishop Wasike Road
22. 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. Masaki Branch, Haile Selassie/ Chole Road
11. Mbeya Branch, Lupa Way/ Market Street
12. Mwanza Branch, Kenyatta Road
13. Tanga Branch, Taifa Road
14. Zanzibar Branch, Forodhani Area

Burundi

Bujumbura

1. - Agence du Siège, 14 Chaussée Prince Louis Rwagasore
2. - Agence Marchè Central de Bunjumbura, 3688 Avenue de la Croix Rouge
3. - Agence Marchè De Ruvumera, Avenue Ntahangwa
4. - Agence Quartier Asiatique, 143 Avenue de la Ntahangwa

** 7 days Banking*

Enabling you to advance with confidence and success

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Company Information

BOARD OF DIRECTORS

Abdul Samji	Chairman
Nasim Devji *	Managing Director
Nauman Dar**	
Farid Hamir***	
Moez Jamal*	
Nizar Juma	
Amin Merali	
Mwaghazi Mwachofi	
Sukh Dev Nayyar****	
Jamaludin Shamji	

*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	Nasim Devji	Group CEO & Managing Director
	Shahzad Karim	Head of Corporate Banking
	Gopa Kumar	Head of Retail Banking
	Kennedy Nyakomitta	Head of Asset Finance & Western Kenya Region
	Joseph Mathai	Head of Coast Region
	Sathya Vadana	Head of Treasury
	Alkarim Jiwa	Head of Finance & Planning
	Nita Shah	Head of Risk Management
	Nizar Tundai	Head of Technology
	Laila Premji	Head of New Initiatives
	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 Gituro	Head of Compliance
	Gituku Kirika	Head of Products & Marketing
	Joe Maye	Head of Branches and Channel Sales
PRINCIPAL CORRESPONDENTS	London	Habib Allied Bank Standard Chartered Bank Plc Citibank N.A.
	New York	Habib Bank Limited Citibank N.A. Standard Chartered Bank Plc
	Stockholm	Swedbank AB
	Frankfurt	BHF Bank Commerzbank Standard Chartered Bank Plc
	Toronto	Citibank, Canada Bank of Montreal
	Johannesburg	Citibank, South Africa Standard Bank, South Africa HSBC
	Mumbai	ICICI Bank Development Credit Bank Limited
	Melbourne	ANZ Bank Melbourne, Australia
	Tokyo	Standard Chartered Bank Plc
	Dubai	Habib Bank Limited
	Hong Kong	HSBC
	Milan	Banca Intesa Sanpaolo

Five-Year Financial Review

	2011	2010	2009	2008	2007
Net interest income	6,826,952	4,882,762	3,519,513	2,438,734	1,720,661
Non-fund based income	2,744,867	2,874,831	1,548,417	1,230,067	633,656
Total income	9,571,819	7,757,593	5,067,930	3,668,801	2,354,317
Operating profit before provisions	4,896,202	4,020,853	2,225,544	1,794,823	1,121,793
Charge for impairment of loans	(588,789)	(557,854)	(295,682)	(190,527)	(66,523)
Profit before income tax	4,307,413	3,462,999	1,929,862	1,604,296	1,055,270
Profit after tax and non controlling inte rests	2,656,797	2,284,824	1,250,250	1,024,489	690,691
Advances to customers (net)	71,297,721	51,260,068	41,518,135	34,063,359	23,181,871
Total deposits (customers and banks)	88,131,356	68,604,930	54,885,695	45,853,320	29,347,307
Dividends for the year	332,596	260,859	252,708	228,252	228,252
Shareholders' funds	11,593,302	8,939,503	6,998,163	5,905,514	5,052,025
Total assets	107,765,064	83,600,177	66,679,080	56,145,697	35,997,571

Performance ratios

	2011	2010	2009	2008	2007
Earnings per share - basic	Shs. 13.58	Shs. 14.01	Shs.7.67	Shs.6.28	Shs. 4.72
-diluted	Shs. 13.58	Shs. 11.68	Shs.6.39	Shs. 5.24	Shs. 3.53
Dividend per share- basic	Shs. 1.70	Shs. 1.60	Shs. 1.55	Shs. 1.40	Shs. 1.40
-diluted	Shs. 1.70	Shs. 1.33	Shs. 1.29	Shs. 1.17	Shs. 1.17
Net loans to deposits	80.9%	74.7%	75.6%	74.3%	79.0%
Non performing loans to total loans (before provisions)	0.9%	1.3%	1.4%	1.2%	0.7%
Return on average assets	3.1%	3.3%	2.2%	2.4%	2.6%
Return on average shareholders' funds	25.9%	28.7%	19.4%	18.7%	17.5%
Non-fund based income to total income	28.7%	37.1%	30.6%	33.5%	26.9%
Number of branches	76	64	53	30	18
Number of employees	1,264	1,101	930	687	594
Expenditure on property and equipment	666,208	438,509	900,646	685,205	175,069

Other indicators (Bank only)

	2011	2010	2009	2008	2007
Core capital to customer deposits	13.7%	14.7%	14.5%	13.6%	17.5%
Core capital to total risk weighted assets	14.2%	15.3%	15.4%	15.6%	19.1%
Total capital to total risk weighted assets	16.8%	18.4%	19.0%	19.8%	19.1%

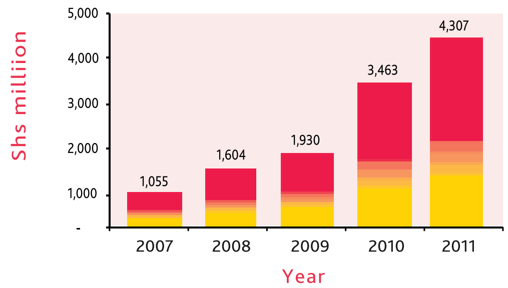
The extracts from the consolidated financial statements are stated in thousands of Kenya Shillings (Shs 000) except where otherwise indicated.

The results for Diamond Trust Bank 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.

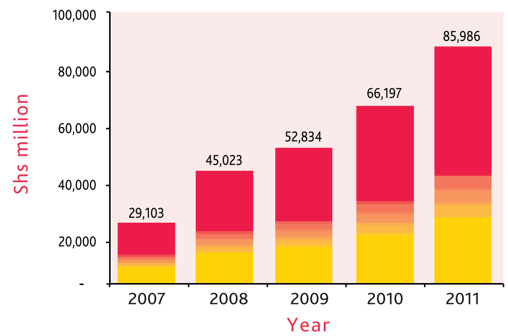
The results for Diamond Trust Bank Burundi S.A. and Diamond Trust Insurance Agency Limited have been accounted for as subsidiaries effective November 2008 and December 2008 respectively.

Financial Performance Charts

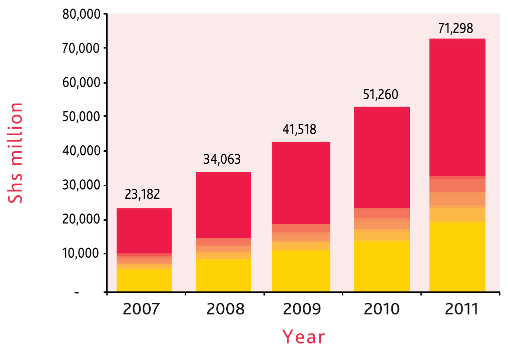
Group Profit before Tax



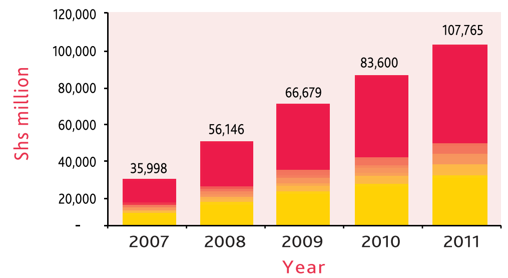
Customer Deposits



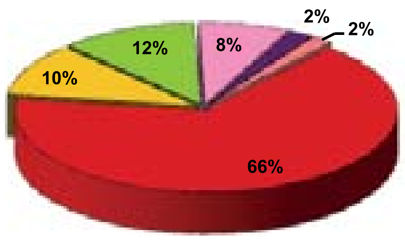
Advances



Total Assets

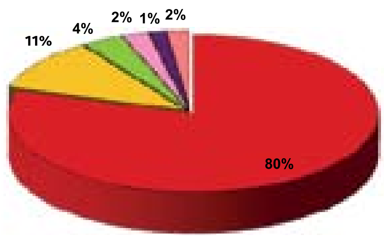


Distribution of Assets - 2011



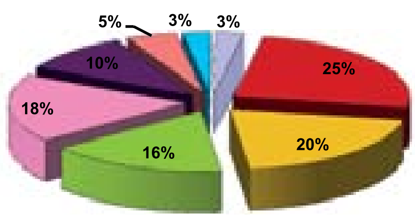
- Loans and advances to customers
- Government securities
- Deposits with banking institutions
- Cash and Central Bank balances
- Other assets
- Property and equipment

Liabilities composition and Shareholder's Equity - 2011



- Customer deposits
- Shareholders' equity
- Borrowed funds
- Other liabilities
- Non controlling interests
- Deposits from banking institutions

Distribution of Income - 2011



- Interest expense
- Other operating expenses
- Staff expenses
- Retention
- Income tax
- Impairment losses
- Shareholders' dividends
- Non controlling interests

The Board of Directors

Seated (left to right)

Mr. Nizar Juma | Mr. Abdul Samji (Chairman) | Ms. Nasim Devji (Group CEO & Managing Director) | Mr. Amin Merali

Standing (left to right)

Mr. Stephen Kodumbe (Company Secretary) | Mr. Sukh Dev Nayyar | Mr. Farid Hamir | Mr. Jamaludin Shamji | Mr. Moez Jamal

Mr. Nauman Dar | Mr. Mwaghazi Mwachofi

Directors' Profiles

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 the Chairman of the PDM Group of Companies and a director of the Kenya Tourist Board.

Mrs. Nasim Devji - Group CEO & Managing Director

Mrs. 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, Jubilee Insurance 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. Mrs. Devji was recognized as the "Leading African Woman in Business of the Year" at the 2010 Africa Investor Investment and Business Leader Awards. In 2011, she also received the "CEO of the Year" award during the Capital Markets Awards and the "Chief Executive of the Year" in the Banking awards organised by Think Business.

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 Head of International, Corporate and Investment Banking at HBL, which is the largest private sector bank in Pakistan. Between 2003 and 2011 he was the CEO of Habib Allied International Bank plc UK. Prior to joining the HBL Group, he worked in various senior positions with 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 held various senior positions with Credit Suisse in Zurich, New York and London 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' Profiles *(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 Acting General Manager 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 also 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 microfinance banks, in Pakistan, in Afghanistan, in Tajikistan, in Kyrygyzstan, in Syria and in Madagascar.

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 and is a director of various companies including A. Jiwa Shamji Limited, Sansora Bakers & Confectioners Limited and Associated Auto Centre Limited. Mr. Shamji has previously served on the Board of the Aga Khan Health Services Kenya and is currently a director of the Aga Khan Education Services Kenya. He is also the 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 Risk Management Committee*
Board Nomination and Human Resource Committee	*Board Credit Committee*
Board Audit Committee	

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FORTY SIXTH 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, 4 MAY 2012 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Forty Fifth Annual General Meeting held on 20 May 2011.
2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2011.
3. To approve payment of a final dividend of 42.5% on the Issued and Paid-up Share Capital of Shs. 783 million to the shareholders registered in our books as at 4 May 2012 on or about 15 June 2012, 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 2011, and to authorise the Directors to fix the Auditors' remuneration for the year 2012.
8. To transact any other Ordinary Business of an Annual General Meeting.

SPECIAL BUSINESS

Rights Issue

9. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

(i) That up to 24,455,566 ordinary shares of Shs.4 each in the capital of the Company be offered to the shareholders of the Company, subject to any required consent or authorisation, in proportion to their respective shareholding in the issued capital of the Company, upon such terms and conditions and for such consideration as the Directors think fit and notify the shareholders through the press.
(ii) That any rights not taken up be offered on terms and conditions as are determined by the Directors and notified to the shareholders through the press.
(iii) That the Directors be and are hereby authorized to obtain all the required consents and authorizations, including any approval required from the Capital Markets Authority, and generally to do and effect all acts and things required to give effect to the above Resolutions, and to deal with fractions in such manner as they think fit subject to the provisions of the Articles of Association of the Company.

By Order of the Board

Stephen Kodumbe
Company Secretary
29 February 2012
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

In 2011, the Kenyan economy witnessed turbulence across a range of macro-economic parameters. The year experienced heightened inflationary conditions, peaking at nearly 20% towards the end of the year. Inflationary pressures were fuelled by a steep rise in energy costs, on the back of a weak Shilling, and a hike in food prices, due to poor weather conditions. The high inflationary environment was further compounded by the robust growth in private sector credit during 2010/ 2011, causing the economy to overheat. The sustained rise in inflationary levels compelled the Central Bank of Kenya to take decisive monetary policy measures, in the fourth quarter of the year, characterised by a hike in the bench mark Central Bank Rate as well as in the yields offered on Government securities. These measures were aimed at mopping up excess liquidity, reversing the depreciation of the Shilling - which at one point had weakened by nearly 30% since the beginning of 2011 – and slowing down the growth in private sector credit. These stringent monetary policy initiatives taken by the Central Bank have resulted in the Shilling to strengthen to its previous level of 82- 83 to the US dollar; inflation has also begun to ease in 2012, falling from a high of 19.7% in November 2011 to 16.7% as at the end of February 2012. Provided food prices continue to fall in 2012, an outcome largely dependent on favourable weather conditions prevailing in the new year, and the economy does not suffer from exogenous factors such as a sustained hike in international oil prices, then the economy should continue on a disinflation trajectory this year, with inflation expected to return to within single digit levels by the end of 2012.

Despite these economic challenges, your Bank, once again, achieved a notable increase in profitability by recording a Group pre-tax profit of Shs 4.3 billion, an increase of 24% over the previous year. The total Group asset base surpassed the 100 billion shilling benchmark for the first time, closing at Shs 108 billion at the end of 2011, a 29% rise over the 2010 level of Shs 84 billion. The Group's customer deposit base grew by 30%, from Shs 66 billion in 2010 to Shs 86 billion over the corresponding period ending December 2011. The loan book for the Group went up by a significant 37%, to stand at Shs 71 billion up from Shs 52 billion, a year earlier; the total Group operating income rose to Shs 9.6 billion up from Shs 7.8 billion realized over the same period in the previous year.

The Group's subsidiaries in the region also registered favourable growth in 2011, with pre-tax profits rising by a significant 101% in Uganda and an impressive growth of 44% in Tanzania, over the previous year. Your Bank's subsidiary in Burundi has returned a profit in 2011, the second full year of its operations, whist the Bank's insurance agency subsidiary, Diamond Trust Insurance Agency Limited, also registered a favourable performance, with profits growing by 73%.

Following this performance, your Bank's Board of Directors has recommended a dividend of Shs 1.70 per share, compared to Shs 1.60 paid last year. As the proposed dividends will also be paid on the bonus shares issued to shareholders mid last year, this will translate into a 27.5% increase, year on year, in the amount of dividend payout for 2011.

In 2011, DTB Kenya invested an additional Shs 155 million in DTB Uganda, following a rights issue undertaken by the latter; in the process DTB Kenya increased its shareholding in the subsidiary from 51% to 54%, by taking up rights not subscribed for by one of DTB Uganda's shareholders. Your Bank also invested Shs 224 million, in the form of long-term subordinated debt lending, in DTB Tanzania. These capital raising initiatives have enabled DTB Uganda and DTB Tanzania to maintain their growth trajectory whilst complying with the statutory capital adequacy requirements. As the DTB subsidiaries in the region continue to grow, they will require additional capital in the future and DTB Kenya, as the parent Bank, will be required to increase its investments in these Banks in the form of capital injections.

During the year, the Group continued to implement its network expansion plans across East Africa. In 2011, the DTB's branch footprint in East Africa grew from 64 to 76. In Kenya, your Bank closed the year with 36 branches. Four new branches were opened in Kenya and a similar number in Uganda, increasing the latter's network to 22 branches. DTB Tanzania opened two branches in 2011, raising its branch network to 14, whilst in Burundi, DTB opened two new branches raising the network to four by year end.

In addition to branch expansion, your Bank continued to make significant investments in innovation as reflected in the growing suite of technology- based products and services offered to DTB customers. Following the launch of cash management services, mobile banking and enhanced online banking solutions in 2010, DTB has recently launched NationHela prepaid card in partnership with the Nation Media Group. This prepaid card service which offers a range of unique service propositions is targeted at the personal market and will mainly facilitate remittances from the Kenya Diaspora as well as inland money transfers.

I am also pleased to advise the shareholders that DTB Kenya will be relocating to a new corporate headquarters in Nairobi by the end of this year. Given the exponential growth DTB Kenya has experienced in recent years, the present premises at Nation Centre, Nairobi, which the Bank

Chairman's Statement *(Continued)*

occupies as a tenant, are no longer adequate to meet the needs of the Bank. In view of this, DTB has identified a suitable location in Nairobi to house its new Head Office. The purchase of the building is in the process of being finalised and will be fitted out for occupation in the second half of this year.

The year 2011 was a watershed year for your Bank as it marked the implementation of DTB's long term business strategy, dubbed as Vision 2020, which was approved by your Board in September last year. Vision 2020, which defines the Group's growth strategy over the ten year period 2011 to 2020, seeks to position DTB as a significant, Tier 1 commercial Bank by 2020 in each of the markets it operates in.

Vision 2020 is anchored on a number of existing and new strategic initiatives. These include:

- Deepening DTB's presence in its home markets in East Africa through continued expansion of its branch footprint across the sub-region
- Expanding the Group's presence in other countries within Sub- Saharan Africa, over the medium to long term
- Entrenching DTB's leading position within its primary customer base - the small and medium enterprise (SME) sector – through the provision of appropriately tailored, innovative products, services and channels which enhance customer convenience and access
- Broadening the Group's target customer segments by pursuing a financial inclusion strategy aimed at the micro-enterprise sector. This is a particularly exciting initiative for your Bank as it will enable DTB to not only reach out to and service the needs of a new customer segment but also enable the Group to play a leading and meaningful role in the transitioning economies in which it operates to support economic development, a key tenet of DTB's Vision 2020

For DTB to achieve the ambitious and exciting goals set out in Vision 2020, it has embarked on a number of initiatives to ensure the successful implementation of the strategy. These cover various areas including human capital, technology, innovation and last, but by no means least, funding. This last area, which essentially involves capital raising, is one in which your Board will be asking for the shareholders' active support. Plans to raise additional capital, via a rights issue, in the ratio of one share for every eight existing shares, have already been announced. Your Board will be asking shareholders at the forthcoming Annual General Meeting in May to consider and approve the planned rights issue.If approved by the shareholders and the market regulators, the rights issue will, upon full subscription, augment your Bank's capital base. It is expected to fulfill the goals outlined in Vision 2020 by propelling DTB's growth in Kenya and, through its subsidiaries, further strengthen the Group's current presence in East Africa, as well as explore investment opportunities in other new markets in the region over the medium- to long- term. The exemplary support shareholders have extended to your Bank during the past two sets of rights issues, in 2006 and 2007, gives your Board the confidence that the shareholders will, once again, wholeheartedly support the planned 2012 rights issue.

Before I come to the conclusion of my Statement, I would like to reiterate that the outstanding performance of the Bank over the years has been achieved, in large measure, through the dedication, professionalism and hard work of the Management and Staff, ably led by the Group CEO and Managing Director, Mrs. Nasim Devji. On behalf of the Shareholders and the Board, I would like to pay a special tribute to Nasim and the entire DTB team for the exceptional performance.

To my colleagues on the Board, I remain most grateful to them for their diligence in executing their responsibilities as directors and for their invaluable support and contribution during the year.

On behalf of the entire DTB family, I would like to take this opportunity to welcome new customers to the Bank and to thank our depositors and borrowers for their loyal support. We strive to repay this confidence by being responsive to the needs of all our customers and by providing an unrivalled service.

Finally I would also like to express our deepest appreciation to you , the Shareholders, for your ongoing support. We will continue to deliver in terms of return, value and service.

Abdul Samji
Chairman
29 February 2012

Taarifa ya Mwenyekiti

Mnamo 2011, uchumi wa Kenya uliyumbishwa na msukosuko mikubwa katika takribani nyanja zote kuu. Gharama ya maisha ilipanda huku ikifikia karibu asilimia 20 kuelekea mwishoni mwa mwaka sababu kubwa zikiwa kupanda maradufu kwa bei ya mafuta, kuzorota kwa shilingi na kuongezeka kwa bei ya vyakula, kutokana na kiangazi cha muda mrefu.Mfumko huo wa bei za bidhaa uliathiriwa zaidi na upungufu wamikopo iliyotolewa katika kipindi cha 2010/2011, na hivyo kuathiri uchumi wa nchi. Kuendelea kupanda kwa gharama ya maisha kulishindikiza Benki Kuu ya Kenya (CBK) kuanzisha sera za kifedha zenye lengo la kudhibiti mfumko huo. Mwishoni mwa mwaka uliopita, CBK ililazimika kupandishwa kiwango cha kukopesha benki zingine pamoja na viwango vya riba kutokana na hamana za Serikali. Hatua hizi zilinuia kupunguza kiwango cha fedha kilichokuwa kinasambazwa, na hivyo kukabiliana na kudidimia kwa thamani ya Shilingi- ambayo kwa wakati mmoja ilikuwa imepungua thamani yake kwa asilimia 30 tangu mwanzoni mwa 2011- jambo ambalo lilipunguza utoaji wa mikopo katika sekta ya kibinafsi. Sera hizi madhubuti za kifedha zilizochukuliwa na Benki Kuu zimefanikiwa kuimarisha Shilingi hadi kiwango chake cha awali cha kati ya 82-83 kwa dola moja; gharama ya maisha pia imeanza kupungua mnamo 2012, huku ikipungua kutoka kiwango cha juu cha asilimia 19.7 mnamo Novemba 2011 hadi asilimia 16.7 kufikia mwishoni mwa Februari 2012.

Ilmradi bei ya vyakula inaendelea kupungua 2012, hii itawezekana kwa kiwango kikubwa ikiwa tutapata hali nzuri ya hewa katika mwaka huu mpya, na pia uchumi wetu usiathiriwe na masuala kutoka nje ya nchi kama vile bei ya juu ya mafuta katika soko la kimataifa, basi mfumko wa bei za bidhaa utaendelea kupungua mwaka huu, huku kiwango cha gharama ya maisha kikitarajiwa kurejelea kile cha awali cha chini ya asilimia 10 kufikia mwisho wa 2012.

Licha ya changamoto hizi za kiuchumi, benki yenu, kwa mara nyingine, ilipata faida kubwa ya Shs 4.3 bilioni kabla ya ushuru, nyongeza ya asilimia 24 ikilinganishwa na mwaka uliopita. Jumla ya raslimali za Kampuni zilipitisha kiwango cha Shs 100 bilioni kwa mara ya kwanza, na hivyo kufikia Shs 108 bilioni kufikia mwishoni mwa 2011, ukuaji wa asilimia 29 ikilinganishwa na kiwango cha awali cha Shs 84 bilioni mwaka uliotangulia wa 2010. Akiba za wateja ziliongezeka kwa asilimia 30, kutoka Shs 66 bilioni mnamo 2010 hadi Shs 86 bilioni katika kipindi sawa na hicho kilichomalizika Desemba 2011. Mikopo iliyotolewa kwa wateja iliongezeka maradufu kwa asilimia 37, na kufikia Shs 71 bilioni, ikilinganishwa na Shs 52 bilioni za mwaka uliotangulia; mapato ya jumla ya Kampuni yalipanda hadi Shs 9.6 bilioni kutoka Shs 7.8 bilioni zilizopatikana katika kipindi sawa na hicho mwaka uliotangulia.

Matawi ya Kampuni katika eneo hili pia yaliimarisha matokeo yake mnamo 2011, huku faida kabla ya ushuru ikiongezeka kwa kiwango kikubwa cha asilimia 101 nchini Uganda na asilimia 44 nchini Tanzania, ikilinganishwa na mwaka uliopita. Tawi la Benki yenu nchini Burundi lilipata faida mnamo 2011, mwaka wake wa pili tangu lifunguliwe, ilhali kitengo cha bima cha Benki, Diamond Trust Insurance Agency Limited pia kilikuwa na matokeo bora, huku faida ikipanda kwa asilimia 73.

Kufuatia matokeo haya, Bodi yenu ya Wakurugenzi imependekeza mgao wa faida wa Shs 1.70 kwa kila hisa, ikilinganishwa na Shs 1.60 mwaka uliopita. Hii ni sawa na nyongeza ya asilimia 27.5 ikilinganishwa na mwaka uliopita, katika jumla ya mgao wa faida wa 2011 kwa kuwa faida hiyo pia itashirikisha hisa za bonasi zilizotolewa kwa wenyehisa katikati ya mwaka jana.

Mnamo 2011, DTB Kenya iliwekeza Shs 155 milioni zaidi katika DTB Uganda kufuatia toleo la nyongeza ya hisa kwa wanachama zilizotolewa na DTB Uganda; na kufuatia hali hiyo, DTB Kenya iliongeza kiwango cha hisa zake katika tawi hilo kutoka asilimia 51 hadi asilimia 54, kwa kuchukua hisa zaidi ambazo hazikuchukuliwa na mmoja wa wenyehisa wa DTB Uganda. Benki yenu pia iliwekeza Shs 224 milioni katika mkopo wa muda mrefu kwa DTB Tanzania. Mikakati hii ya kutafuta mtaji imewezesha DTB Uganda na DTB Tanzania kudumisha viwango vyao vya ukuaji huku zikidumisha mahitaji ya kisheria ya kuwa na kiwango fulani cha mtaji. Huku matawi ya DTB katika eneo hili yakiendelea kukua, yatahitaji mtaji zaidi siku sijazo na DTB Kenya, kama benki anzilishi, itahitajika kuongeza uwekezaji wake katika Benki hizi kwa kuongeza mtaji zaidi.

Katika mwaka uliomalizika, Kampuni iliendelea kutekeleza mipango yake ya kupanua mtandao wake wa matawi kote Afrika Mashariki. Mnamo 2011, idadi ya matawi ya DTB Afrika Mashariki yaliongezeka kutoka 64 hadi 76. Nchini Kenya, benki yenu ilikamilisha mwaka na matawi 36. Matawi manne mapya yalifunguliwa nchini Kenya na matawi sawa na hayo nchini Uganda na hivyo kufikisha jumla ya matawi ya DTB Uganda kuwa 22. DTB Tanzania nayo ilifungua matawi mawili mnamo 2011, na kufikisha jumla ya matawi yake 14 ilhali Burundi ilifungua matawi mapya mawili na kufikisha mtandao wa matawi yake kuwa manne kufikia mwishoni mwa mwaka.

Mbali na upanuzi wa matawi, Benki yenu iliendelea kuwekeza katika uvumbuzi, kama inavyodhihirishwa na mkusanyiko wa huduma na bidhaa za kiteknolojia zinazotolewa kwa wateja wa DTB. Kufuatia uzinduzi wa huduma za kusimamia pesa, kutuma pesa kwa njia ya simu na kuendesha akaunti kupitia kwa intaneti mnamo 2010, DTB hivi majuzi ilizindua kadi ya NationHela, kwa ushirikiano na Nation Media Group. Huduma hii ya kadi ya malipo hasa inawalenga Wakenya wanaoishi nchi za nje pamoja na kutuma na kupokea fedha nchini.

Nina furaha pia kuwashauri wenyehisa kuwa, DTB Kenya itahamia afisi zake kuu jijini Nairobi kufikia mwishoni mwa mwaka huu. Ikizingatiwa ukuaji mkubwa wa DTB Kenya ulioshuhudiwa katika miaka ya hivi punde, afisi za sasa katika Nation Centre, Nairobi ambazo benki imekodisha, haziwezi tena kutosheleza mahitaji ya Benki. Kufuatia hali hii, DTB imepata mahali panapofaa jijini Nairobi kuhudumu kama makao makuu yake.

Taarifa ya Mwenyekiti *(Inaendelea)*

Jengo hilo ambalo utaratibu wa kulinunua unaelekea kukamilika, litafanyiwa ukarabati ili lianze kutumika baadaye mwaka huu.

2011 ulikuwa mwaka muhimu kwa Benki yenu kwa kuwa ndipo mkakati wa kibiashara wa muda mrefu wa DTB, maarufu kama Vision 2020, ambao uliidhinishwa na Bodi yenu Septemba mwaka jana, ulitekelezwa. Vision 2020, ambayo inafafanua kuhusu mkakati wa ukuaji wa Kampuni katika muda wa miaka kumi kati ya 2011 na 2020, unalenga kuiweka DTB kama benki Nambari 1 ya kibiashara kufikia 2020 katika kila moja ya masoko inakohudumu.

Ufanikishaji wa Vision 2020 umejikita kwenye mikakati kadha mipya na ile iliyopo. Hii ni pamoja na: Kupanua mtandao wa matawi ya DTB katika mataifa inakohudumu Afrika Mashariki na eneo zima kwa jumla. Kusambaza huduma zake katika mataifa yaliyo kusini mwa jangwa la Sahara, katika muda wa miaka kadha ijayo.

Kudumisha hadhi ya DTB kama benki inayokuza sekta ya mashirika madogo ya kibiashara kupitia utoaji wa mikopo na huduma zinazowalenga wateja hao ili kuwawezesha kuzipata kwa haraka na kwa urahisi.

Kupanua aina tofauti ya wateja wanaolengwa na Kampuni kwa kufuata mkakati unaokumbatia zaidi sekta ya wenye biashara ndogo ndogo. Huu ni mpango wa kusisimua kwa Benki yenu kwa kuwa utawezesha DTB, sio tu kusambaza huduma zake na kutosheleza mahitaji ya wateja wapya bali kuwezesha Kampuni kutekeleza wajibu muhimu wa kukuza chumi za mataifa inakohudumu, ambayo ni nguzo kuu katika mpango wa DTB wa Vision 2020.

Ili DTB iafikie malengo makubwa na ya kusisimua yaliyofafanuliwa kwenye Vision 2020, imeanzisha mipango kadha kuhakikisha utekelezaji wa kufana wa mkakati huu. Hii inahusisha nyanja za wafanyikazi, teknolojia, uvumbuzi na mwisho, ufadhili. Fani hii ya mwisho, ambayo kimsingi inahusisha kutafuta mtaji zaidi, ni moja ya zile ambazo Bodi yenu itauliza wenyehisa kuunga mkono. Mipango ya kutafuta pesa zaidi, kupitia toleo la hisa zaidi kwa wanachama, kwa uwiano wa hisa moja kwa kila hisa nane zilizopo, tayari imetangazwa. Bodi yenu itawauliza wenyehisa kwenye Mkutano Mkuu wa kila Mwaka ujao mnamo Mei kuchunguza na kuidhinisha toleo la hisa zaidi. Ikiwa utaidhinishwa na wenyehisa na taasisi za kusimamia soko la hisa, toleo hilo la hisa, baada ya kukamilika, litasaidia kuinua mtaji wa Kampuni. Inatarajiwa kutimiza malengo yaliyofafanuliwa kwenye Vision 2020 kwa kuendesha ukuaji wa DTB nchini Kenya, na kupitia matawi yake, kudhibiti nafasi ya Kampuni katika eneo la Afrika Mashariki na kuwezesha kutafuta nafasi za kibiashara katika masoko mengine mapya katika kipindi cha muda mrefu. Kutokana na kuungwa mkono wa kipekee na wenyehisa wakati wa toleo la awali la hisa mnamo 2006 na 2007, Bodi ina imani kuwa wenyehisa, kwa mara nyingine, watasaidia kwa moyo mkunjufu toleo hilo linalopangwa la 2012.

Kabla ya kukamilisha Taarifa yangu, ningependa kurudia kuwa, matokeo mazuri ya Benki ambayo yamepatikana mwaka baada ya mwingine, ni kutokana na, kwa kiasi kikubwa, kujitolea, uadilifu na kumakinika kazini kwa Wasimamizi na Wafanyikazi, chini ya uongozi ufaao wa Afisa Mkuu Mtendaji na Mkurugenzi Mkuu, Bi Nasim Devji. Kwa niaba ya Wenyehisa na Bodi, ningependa kutoa shukrani zangu za dhati kwa Nasim na kundi zima la DTB kwa kazi ya kipekee.

Kwa wenzangu katika Bodi, nawashukuru kwa uadilifu wao wanapotekeleza majukumu yao kama wakurugenzi na usaidizi na mchango wao katika mwaka uliopita.

Kwa niaba ya kundi zima la DTB, ningechukua fursa hii kuwakaribisha wateja wapya kwa Benki na kuwashukuru wawekaji akiba na wakopeshaji kwa ushirikiano wao wa dhati. Tunajizatiti kurudisha imani hii kwa kuwajibika kwa mahitaji ya wateja wetu wote kwa kutoa huduma isiyo na kifani.

Mwisho, ningependa kutoa shukurani zangu za dhati kwenu, enyi Wenyehisa, kwa kuendelea kutuunga mkono. Tutaendelea kutosheleza matarajio yenu kupitia faida, thamani ya fedha zenu na huduma bora.

Abdul Samji
Mwenyekiti
Februari 29, 2012

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 13-14. 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 13-14. In the event of any dispute in the interpretation of the Kiswahili version, the English version shall be the authoritative version.

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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 polices on corporate governance.

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

Board of Directors

The Board fulfills its fiduciary obligations to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the 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 of the Chairman of the Board and three 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 of the Chairman of the Board and three other 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 of 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 membership of the BAC comprises of three non-executive and independent directors. The BAC meets at least once every quarter and 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 membership of the BRMC comprises of the five non-executive and independent directors. The BRMC meets at least once every quarter and its responsibilities 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 membership of the BCC comprises of the Chairman of the Board and three other non-executive and independent directors. It 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 2011 is tabulated below:

		Board Meetings			
	Name of Director	**9 March 2011**	**19 May 2011**	**21 September 2011**	**30 November 2011**
1	Abdul Samji	√	√	√	√
2	Nauman Dar	x	x	x	√
3	Nasim Devji	√	√	√	√
4	Farid Hamir	√	√	√	√
5	Moez Jamal	√	√	√	√
6	Nizar Juma	x	√	√	√
7	Amin Merali	√	√	√	√
8	Mwaghazi Mwachofi	√	√	√	√
9	Sukh Dev Nayyar	√	x	√	√
10	Jamuladin Shamji	√	√	√	√

√ - Attended.
x - Absent with apology and valid reason for non-attendance.

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 ten 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 include recommending to the Board the business strategy for IT and assigning priorities to IT projects that are to be implemented by the Bank.

Product committee ("PC")

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

Statement on Corporate Governance *(Continued)*

Relations With Shareholders

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

Shareholders have direct access to the Bank, its Company Secretary and the Shares Registrar who 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 2011 was as follows:

Range	No. of shareholders	No. of shares held	% Shareholding
Up to 500 shares	3,010	607,485	0.31
501 – 5,000 shares	5,007	11,222,521	5.74
5,001 – 10,000 shares	1,463	11,097,655	5.67
10,001 – 100,000 shares	1,625	38,464,712	19.66
100,001 – 1,000,000 shares	114	26,340,685	13.46
Over 1,000,000 shares	11	107,911,472	55.16
Total	**11,230**	**195,644,530**	**100**

The ten largest Shareholders of the Bank and their respective holdings as at 31 December 2011 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund For Economic Development	33,888,145	17.32
Habib Bank Limited	21,931,334	11.21
The Jubilee Insurance Company Limited	20,910,465	10.69
Standard Chartered Nominees a/c IFC	19,264,948	9.85
The Diamond Jubilee Investment Trust (U) Limited	3,660,633	1.87
Craysell Investments Limited	2,478,991	1.27
Mr. Amin Nanji Juma	1,805,821	0.92
Standard Chartered Nominees	1,374,392	0.70
Property Development and Management Limited	1,337,835	0.68
Phoenix of E A Assurance Co Limited	1,258,908	0.64

Corporate Social Responsibility

During the Kenyans for Kenya campaign, DTB employees contributed cash which the bank matched to make a total of Shs 2,000,000. This amount, together with boxes of clothes, shoes, and canned food was handed over to Red Cross CEO Abbas Gullet by Group CEO Nasim Devji. The DTB contribution will go towards putting up green houses in the affected areas.

DTB and Moneygram donated textbooks to 41 primary schools in Kisii County as part of DTB-MoneyGram Global Books Grant initiative. DTB's Sammy Kemmey handed over the books to Paul Nyagito of the DEO's Office for distribution.

Ufuoni Primary School in Mombasa received Shs 984,000 under the DTB- Western Union "Our World, our Family" programme. The money will cater for the needy pupil's uniforms books, and meals. DTB's Stella Mulandi hands over the cheque to Loise Chizano, the Head teacher.

Corporate Social Responsibility *(Continued)*

DTB in partnership with Moneygram carried out a traffic awareness campaign targeting motorcycle and tricycle operators famously known as the Boda Boda and Tuktuks. The training of over 1,500 operators by Kenya traffic police and Red Cross took place in Kisumu, Kakamega, Kitale, Kisii, Nakuru and Mombasa towns.

DTB staff planted trees during the launch of the AKDN-Lions Club tree planting partnership.

Uwezo Mpya Youth Initiative in Kariobangi South, Nairobi received a donation of Shs 800,000 courtesy of DTB and Western Union. The funds will be used in youth rehabilitation programmes to curb drug addiction, unemployment, and unwanted behavior within the society. Ignatius Mayero, the Project Coordinator received the cheque from Kennedy Nyangweso and Mercy Kinai of DTB.

Achievements

2011

- Best Bank in SME Banking (The Banking Awards)
- Best Bank in Asset Finance (The Banking Awards)
- CEO of the Year (The Banking Awards)
- CEO of the Year (Capital Markets Awards)
- Best GTFP issuing Bank for SME Transaction in Africa (Global Trade Finance Program)
- Best Location in Customer Service (Western Union Club 500 Awards)
- Agent of the Year (Money Gram International)

SME Toolkit Kenya

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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2011, 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 4.

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	4,307,413
Income tax expense	(1,310,687)
Profit for the year	2,996,726
Non controlling interests	(339,929)
Profit atrributable to owners of the bank	2,656,797
Dividends	(332,596)
Retained profit for the year	2,324,201

The directors recommend the approval of a final dividend of Shs 332,595,701 (2010: Shs 260,859,373).

Directors

The present membership of the Board is listed on page 4.

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Nauman Dar, Sukh Dev Nayyar and Moez Jamal retire by rotation and, being eligible, offer themselves for re-election.

Auditor

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

By order of the Board

Stephen Kodumbe
Company Secretary

29 February 2012
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
Chairman

Nasim Devji
Managing Director

29 February 2012

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 88. These financial statements comprise the consolidated statement of financial position at 31 December 2011, 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 2011 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 misstatements, 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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2011 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.

pwc

Certified Public Accountants - Nairobi

29 February 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	2011 Shs'000	2010 Shs'000
Interest income	5	10,039,098	7,364,179
Interest expense	6	(3,212,146)	(2,481,417)
Net interest income		**6,826,952**	**4,882,762**
Net fee and commission income	7	1,552,665	1,107,918
Foreign exchange income		996,483	683,208
Other operating income	8	195,719	1,083,705
Operating income		**9,571,819**	**7,757,593**
Operating expenses	9	(4,583,078)	(3,671,376)
Impairment loss on loans and advances	17	(588,789)	(557,854)
Profit from operations		**4,399,952**	**3,528,363**
Share of results of associate after tax	19	(483)	(1,452)
Finance costs	31 (d)	(92,056)	(63,912)
Profit before income tax		**4,307,413**	**3,462,999**
Income tax expense	11	(1,310,687)	(980,829)
Profit for the year		**2,996,726**	**2,482,170**
Profit attributable to:			
Owners of the bank		2,656,797	2,284,824
Non controlling interests		339,929	197,346
		2,996,726	**2,482,170**
Earnings per share (Shs per share)			
- basic and diluted	12	13.58	11.68

The notes on pages 37 to 88 are an integral part of these financial statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 Shs'000	2010 Shs'000
Profit for the year	**2,996,726**	**2,482,170**
Other comprehensive income		
Exchange differences on translating foreign operations	(111,688)	(133,822)
Fair value changes in Government securities	-	(32,034)
Recycling of fair value changes on maturity of Government securities	-	(4,341)
Deferred income tax relating to fair value changes in Government securities	-	10,912
Fair value changes in equity investment	(22,314)	1,913
Deferred income tax relating to fair value changes in equity investment.	6,694	(574)
Surplus on revaluation of properties	353,309	-
Other comprehensive income for the year, net of tax	**226,001**	**(157,946)**
Total comprehensive income for the year	**3,222,727**	**2,324,224**
Total comprehensive income attributable to:		
Owners of the bank	2,928,524	2,194,048
Non controlling interests	294,203	130,176
	3,222,727	2,324,224

The notes on pages 37 to 88 are an integral part of these financial statements

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 Shs'000	2010 Shs'000
Assets			
Cash and balances with Central Banks	14	8,281,501	6,465,148
Government securities	15	11,366,826	13,479,158
Deposits and balances due from banking institutions	16	12,507,416	7,930,638
Loans and advances to customers	17	71,297,721	51,260,068
Corporate bond	18	-	936,573
Investment in associate	19	1,940	2,599
Equity investments	20	37,614	59,928
Property and equipment	22 (a)	2,013,943	1,510,816
Intangible assets - software costs	23	281,030	249,599
Intangible assets - goodwill	25	173,372	173,372
Current income tax recoverable		6,206	15,827
Deferred income tax asset	26	459,092	284,966
Other assets	27	1,338,403	1,231,485
Total assets		**107,765,064**	**83,600,177**
Liabilities			
Balances due to Central Bank of Kenya	28	-	399,957
Customer deposits	29	85,986,399	66,196,600
Deposits and balances due to banking institutions	30	2,144,957	2,408,330
Current income tax payable		73,867	355,227
Long term borrowings	31	3,911,680	2,109,519
Other liabilities	32	2,399,342	1,870,865
Total liabilities		**94,516,245**	**73,340,498**
Shareholders' equity			
Share capital	33	782,578	652,148
Share premium	33	2,197,735	2,197,735
Retained earnings		7,796,631	5,627,348
Other reserves	34	368,471	86,122
Statutory loan loss reserve		115,291	115,291
Proposed dividend	13	332,596	260,859
Equity attributable to owners of the bank		**11,593,302**	**8,939,503**
Non controlling interests		1,655,517	1,320,176
Total equity		13,248,819	**10,259,679**
Total liabilities and equity		**107,765,064**	**83,600,177**

The financial statements on pages 28 to 88 were approved for issue by the Board of Directors on 29 February 2012 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Amin Merali
Director

Stephen Kodumbe
Secretary

The notes on pages 37 to 88 are an integral part of these financial statements

Bank Statement of Financial Position

As at 31 December 2011

	Notes	2011 Shs'000	2010 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	14	4,420,715	3,345,349
Government securities	15	8,086,583	9,487,775
Deposits and balances due from banking institutions	16	9,452,751	4,404,753
Loans and advances to customers	17	50,943,685	36,913,704
Corporate bond	18	-	936,573
Investments in subsidiaries and associates	19	1,273,795	1,118,867
Equity investments	20	37,614	59,928
Amounts due from group companies	21	426,157	202,032
Property and equipment	22 (b)	1,091,291	722,474
Intangible assets - software costs	23	235,356	180,156
Deferred income tax asset	26	408,121	245,330
Other assets	27	1,076,956	988,882
Total assets		**77,453,024**	**58,605,823**
Liabilities			
Balances due to Central Bank of Kenya	28	-	399,957
Customer deposits	29	59,772,275	44,903,973
Deposits and balances due to banking institutions	30	1,658,627	1,584,787
Current income tax payable		58,767	341,959
Long term borrowing	31	3,834,686	2,020,031
Other liabilities	32	1,762,195	1,297,739
Total liabilities		**67,086,550**	**50,548,446**
Shareholders' equity			
Share capital	33	782,578	652,148
Share premium	33	2,197,735	2,197,735
Retained earnings		6,573,480	4,814,103
Other reserves	34	364,794	17,241
Statutory loan loss reserve		115,291	115,291
Proposed dividend	13	332,596	260,859
Total shareholders' equity		**10,366,474**	**8,057,377**
Total liabilities and equity		**77,453,024**	**58,605,823**

The financial statements on pages 28 to 88 were approved for issue by the Board of Directors on 29 February 2012 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Amin Merali
Director

Stephen Kodumbe
Secretary

The notes on pages 37 to 88 are an integral part of these financial statements

Consolidated Statement of Changes In Equity

for the year ended 31 December 2010

	Notes	Share capital	Share premium	Retained earnings	Other reserves	Statutory loan loss reserves	Proposed dividend	Attributable to equity holders of the bank	Non controlling intrests	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
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 equity investments		-	-	-	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.

The notes on pages 37 to 88 are an integral part of these financial statements

Consolidated Statement of Changes In Equity

for the year ended 31 December 2011

	Notes	Share capital	Share premium	Retained earnings	Other reserves	Statutory loan loss reserves	Proposed dividend	Attributable to equity holders of the bank	Non controlling intrests	Total
		Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At start 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
Adjustment of reserves on adoption of IFRS 9	2 (a i)	-	-	(45,849)	25,463	-	-	(20,386)	-	(20,386)
		652,148	2,197,735	5,581,499	111,585	115,291	260,859	8,919,117	1,320,176	10,239,293
Comprehensive income										
Profit for the year		-	-	2,656,797	-	-	-	2,656,797	339,929	2,996,726
Other comprehensive income:										
Fair value changes in equity investments		-	-	-	(22,314)	-	-	(22,314)	-	(22,314)
Deferred tax on fair value changes		-	-	-	6,694	-	-	6,694	-	6,694
Translation adjustment	(i)	-	-	-	(65,962)	-	-	(65,962)	(45,726)	(111,688)
Surplus on revaluation of properties		-	-		353,309	-	-	353,309	-	353,309
Total comprehensive income		-	-	2,656,797	271,727	-	-	2,928,524	294,203	3,222,727
Bonus share issue	33	130,430	-	(130,430)	-	-	-	-	-	-
Write back of unclaimed dividends	(ii)	-	-	21,361	-	-	-	21,361	-	21,361
Issue of additional shares to non controlling interests		-	-	-	-	-	-	-	93,385	93,385
Acquisition of interests from non controlling interests in Diamond Trust Bank Uganda Limited.	35	-	-	-	(14,841)	-	-	(14,841)	(39,378)	(54,219)
Distributions to owners										
Dividends:										
- Final for 2010 paid	13	-	-	-	-	-	(260,859)	(260,859)	(12,869)	(273,728)
- Proposed for 2011	13	-	-	(332,596)	-	-	332,596	-	-	-
At end of year		**782,578**	**2,197,735**	**7,796,631**	**368,471**	**115,291**	**332,596**	**11,593,302**	**1,655,517**	**13,248,819**

(i) These differences arise on translation of opening reserves in subsidiary companies at the end of period exchange rates.
(ii) Dividends that have remained unclaimed for over six years as at 31 December 2011 were written back to retained earnings in line with the Bank's Articles of Association.

The notes on pages 37 to 88 are an integral part of these financial statements

Bank Statement of Changes In Equity

for the year ended 31 December 2010

	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Other reserves Shs'000	Statutory loan loss reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
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:								
Recycling of fair value gain on maturity of Government securities		-	-	-	(18,174)	-	-	(18,174)
Deferred tax on the fair value changes		-	-	-	5,452	-	-	5,452
Fair value changes in equity investments		-	-	-	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		-	-	-	-	-	(252,708)	(252,708)
- Proposed for 2010		-	-	(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.

Bank Statement of Changes In Equity

for the year ended 31 December 2011

	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Other reserves Shs'000	Statutory loan loss reserves Shs'000	Proposed dividend Shs'000	Total Shs'000
At start of year		652,148	2,197,735	4,814,103	17,241	115,291	260,859	8,057,377
Adjustment of reserves on adoption of IFRS 9	2(ai)	-	-	(45,849)	12,722	-	-	(33,127)
		652,148	2,197,735	4,768,254	29,963	115,291	260,859	8,024,250
Comprehensive income								
Profit for the year		-	-	2,246,891	-	-	-	2,246,891
Other comprehensive income:								
Fair value changes in equity investments		-	-	-	(22,314)	-	-	(22,314)
Deferred tax on fair value changes		-	-	-	6,694	-	-	6,694
Surplus on revaluation of properties		-	-	-	350,451	-	-	350,451
Total comprehensive income		-	-	2,246,891	334,831	-	-	2,581,722
Bonus share issue	33	130,430	-	(130,430)	-	-	-	-
Write back of unclaimed dividends	(i)	-	-	21,361	-	-	-	21,361
Distributions to owners								
Dividends:								
- Final for 2010 paid	13	-	-	-	-	-	(260,859)	(260,859)
- Proposed for 2011	13	-	-	(332,596)	-	-	332,596	-
At end of year		**782,578**	**2,197,735**	**6,573,480**	**364,794**	**115,291**	**332,596**	**10,366,474**

i) Dividends that have remained unclaimed for over six years as at 31 December 2011 were written back to retained earnings in line with the Bank's Articles of Association.

The notes on pages 37 to 88 are an integral part of these financial statements

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	2011 Shs'000	2010 Shs'000
Cash flows from operating activities			
Interest receipts		9,851,577	7,243,195
Interest payments		(2,943,926)	(2,521,208)
Net fee and commission receipts		1,697,804	1,214,509
Other income received		930,041	634,724
Proceeds from sale of investment securities		1,057,655	1,027,743
Recoveries from loans previously written off	17	42,525	13,223
Payments to employees and suppliers		(4,090,742)	(3,267,913)
Income tax paid		(1,742,845)	(777,237)
Cash flows from operating activities before changes in operating assets and liabilities		**4,802,089**	**3,567,036**
Changes in operating assets and liabilities:			
- cash reserve requirement		(933,607)	(689,715)
- Government securities		1,787,606	(5,074,241)
- loans and advances to customers		(20,407,606)	(10,199,393)
- customer deposits		19,549,049	13,424,960
- other assets net of prepaid lease rentals		(103,102)	(339,411)
- other liabilities		528,477	563,463
Net cash from operating activities		**5,222,906**	**1,252,699**
Cash flows from investing activities			
Purchase of property and equipment	22	(534,082)	(338,051)
Purchase of intangible assets - software costs	23	(132,126)	(100,458)
Purchase of shares in associate		-	(4,051)
Proceeds from sale of property and equipment		2,896	1,607
Dividend received		2,550	2,550
Net cash used in investing activities		**(660,762)**	**(438,403)**
Cash flows used in financing activities			
Proceeds from long term loan		1,802,000	28,770
Finance costs		(92,056)	(63,912)
Exchange difference in long term debt		10,000	127,250
Dividends paid to equity holders of the Bank		(260,859)	(252,708)
Dividends paid to non controlling interests		(12,869)	(10,298)
Net cash used in financing activities		**1,446,216**	**(170,898)**
Net increase in cash and cash equivalents		**6,008,360**	**643,398**
Cash and cash equivalents at start of year	39	8,283,756	7,727,215
Translation difference		(159,216)	(86,857)
		8,124,540	**7,640,358**
Cash and cash equivalents at end of year	39	**14,132,900**	**8,283,756**

The notes on pages 37 to 88 are an integral part of these financial statements

Notes to the Financial Statements (*Continued*)

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 4.

The shares of the Company are listed at the Nairobi Securities 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 policy and disclosures

(i) New and amended standards adopted by the Group

The following standards, amendments and interpretations which became effective in 2011 or were available for early adoption were adopted by the group in the period:

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments (IFRS 9) in 2011 in advance of its effective date. In accordance with the standard's transition rule, the adoption date is 1 January 2011 and has been applied prospectively. Comparative financial information has not been restated. The key features of the Standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification is based on contractual cash flow characteristics of the instruments.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the Company's business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- Equity instruments are to be measured at fair value. For equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than income statement. There is to be no recycling of fair value gains and losses to income statement. This election may be made on an instrument-by instrument basis. Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

Only financial assets that are classified as measured at amortised cost are tested for impairment. Dividends are to be presented in income statement, as long as they represent a return on investment.

Investments in Government securities are classified and measured at amortised cost except if the Government securities are held for trading and are designated by the Group as at fair value through profit and loss (FVTPL). The Group also holds equity investments that are designated

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

a) Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

i) New and amended standards adopted by the Group (Continued)

IFRS 9 Financial Instruments (Continued)

as at fair value through other comprehensive income (FVTOCI), all gains and losses, except for dividend income recognised in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to income statement.

The directors have reviewed and assessed all of the Group's existing financial assets as at the date of initial application of IFRS 9. As a result:

- The Group's investments in Government securities meeting the required criteria are measured at amortised cost.
- The Group's remaining investments in Government securities are measured at FVTPL.
- The Group's quoted equity investments not held for trading have been designated as at FVTOCI.

On adoption of IFRS 9 in 2011, fair value losses of Shs 25.4 million (Bank: Shs 12.7 million) were reclassified from fair value reserve to retained earnings for Government securities previously classified as available for sale. Other differences resulting after reclassifying the Government securities from available for sale to amortised costs of Shs 46 million (Group and Bank) were also charged against the retained earnings.

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2011.

Financial assets	Original measurement category IAS 39	New measurement category IFRS 9	Original carrying value Shs' 000	New carrying value Shs' 000
Quoted equity investments	Available for sale instruments	Financial assets at FVTOCI	59,928	59,928
Government securities	Available for sale	Financial assets at amortised cost	13,068,493	13,039,373
Government securities	Held for trading	Financial assets at FVTPL	410,665	410,665

All other financial assets were originally categorised under loans and receivables under IAS 39 and are now categorised as financial assets at amortised cost under IFRS 9. There was no change in the carrying values of these assets on adoption of IFRS 9.

Other amendments adopted by the group are set out below:

Standard	Title	Applicable for financial year beginning on/after
IAS 1	Presentation of financial statements	1 January 2011
IAS 24	Related party disclosures	1 January 2011
IFRS 7	Financial Instruments: Disclosures	1 January 2011
IAS 34	Interim financial reporting	1 January 2011

The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no impact as the Group was already disclosing the analysis of other comprehensive income in its statement of changes in equity.

The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for Government-related entities to disclose details of all transactions with the Government and other Government-related entities.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

a) Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

i) New and amended standards adopted by the Group (Continued)

The amended definition means that some entities will be required to make additional disclosures, e.g. an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

The amendments to IFRS 7, 'Financial Instruments - Disclosures' are part of the 2010 Annual Improvements and emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments have also removed the requirement to disclose the following;

- Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
- Fair value of collaterals; and
- Renegotiated loans that would otherwise be past due but not impaired.

The application of the above amendment simplified financial risk disclosures made by the Bank.
The amendments to IAS 34 provide guidance to illustrate how to apply disclosure principles and add disclosure requirements around:

- The circumstances likely to affect fair values of financial instruments and their classification;
- Transfers of financial instruments between different levels of the fair value hierarchy;
- Changes in classification of financial assets; and
- Changes in contingent liabilities and assets

ii) Standards amendments and interpretations issued but not yet effective

The following new standards, amendments to existing standards and interpretations have been issued and will be applicable for the Group's and Bank's accounting periods beginning on or after 1 January 2012.

Standard/ Interpretation	Key Requirements	Applicable for financial years beginning on/after
Amendment to IAS 1, Presentation of items of other comprehensive income (OCI)	The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to income statement in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges.	1-Jul-12
IFRS 10. 'Consolidated financial statements'	IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The revised definition of control focuses on the need to have both power and variable returns before control is present. All entities will need to consider the new guidance. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation.	1-Jan-13
IFRS 12, 'Disclosure of interests in other entities'	"IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 and it replaced the disclosure requirements currently found in IAS 28, 'Investments in associates'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.	1-Jan-13
IFRS 13, 'Fair value measurement'	IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements.	1-Jan-13

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

a) Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

iii) Early adoption of standards

The Group and Bank did not early-adopt new or amended standards in 2011 except for IFRS 9.

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 2011.

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 interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the 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.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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 statement of financial position 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

i) Transactions and balances

Foreign currency transactions that are transactions denominated or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

ii) Group companies

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:

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenya Shillings using exchange rates prevailing at the end of the reporting period. 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).

All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are reported as 'exchange differences on translation of foreign operations' and are recognised as other comprehensive income and accumulated in the translation reserve in 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.

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.

i) Property and equipment

Property and equipment are initially recorded at cost. Leasehold land and 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

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

i) Property and equipment *(Continued)*

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, 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 (FVTPL); equity investments designated as at fair value through other comprehensive income (FVTOCI) and financial assets at amortised cost. Management determines the appropriate classification of its investment at initial recognition.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

l) Financial assets *(Continued)*

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

ii) Equity investments designated as at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.
Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

iii) Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in investment revenue. Subsequent to initial recognition, the Group is required to reclassify financial assets from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected /life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

iv) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

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.

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

m) Impairment and uncollectability of financial assets *(Continued)*

i) Financial assets at amortised cost

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 reporting 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 income statement. 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 carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset at fair value through other comprehensive income is impaired, If any such evidence exists, 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 the income statement are recognised directly through other comprehensive income and transferred to retained earnings on disposal of the financial asset.

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 at amortised cost after they are purchased and are not negotiable/discounted during the tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

p) Statutory loan loss reserve

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

q) Leases

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

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

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) 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 reporting date. The entitlements to gratuity are only applicable for employees recruited prior to 2004 in Diamond Trust Bank Tanzania Limited.

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) 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.

v) 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.

w) 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.

x) 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. Translation gain or losses on foreign denominated items are recognised immediately in the income statement.

y) 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

Notes to the Financial Statements *(Continued)*

2. Summary of significant accounting policies *(Continued)*

y) Segment reporting *(Continued)*

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.

z) 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.

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(k). 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 local currency 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 sub-committee 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

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

Risk management principles *(Continued)*

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 its 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.
- 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 the effectiveness of the 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 at each group bank is managed by a centralized Credit Administration Department (CAD), reporting to the respective Risk Management function. CAD is also responsible for collateral/documents management including safe-keeping.

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

a) Credit risk management *(Continued)*

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 Bank 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, the Board Credit Committee 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.

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Financial assets that are past due or impaired				
Loans and advances are summarised as follows:				
Neither past due nor impaired	54,537,809	40,518,191	39,225,646	29,576,908
Past due but not impaired	17,757,844	11,220,580	12,544,759	7,738,808
Impaired	636,967	689,775	550,573	589,483
Gross	72,932,620	52,428,546	52,320,978	37,905,199
Less: Provision for impairment of loans and advances				
Identified impairment	(602,435)	(645,610)	(549,462)	(588,379)
Unidentified impairment	(1,032,464)	(522,868)	(827,831)	(403,116)
	71,297,721	51,260,068	50,943,685	36,913,704

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	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Past due up to 30 days	14,994,395	9,011,958	11,383,286	6,759,066
Past due 31 - 60 days	1,871,948	1,314,927	838,922	549,761
Past due 61 - 90 days	891,501	893,695	322,551	429,981
Total	17,757,844	11,220,580	12,544,759	7,738,808

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

a) Credit risk management *(Continued)*

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.

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 2011	*Shs '000*	*%*	*Shs '000*	*%*	*Shs '000*	*%*
Manufacturing	6,631,462	9%	873,203	8%	2,871,704	3%
Wholesale and retail trade	15,126,445	21%	1,848,744	18%	8,403,509	10%
Transport and communications	8,104,275	11%	572,358	5%	2,428,894	3%
Business and financial services	11,384,151	16%	435,340	4%	21,743,282	25%
Agriculture	2,963,318	4%	145,232	1%	664,807	1%
Building, construction and real estate	15,909,316	22%	3,829,928	37%	3,896,490	5%
Retail housing	592,274	1%	314,091	3%	-	0%
Tourism and hotels	7,365,669	10%	1,110,879	11%	3,207,531	4%
Individuals	3,682,395	5%	450,704	4%	41,748,417	48%
Other	1,173,315	1%	867,384	9%	1,021,765	1%
	72,932,620	100%	10,447,863	100%	85,986,399	100%

	Gross loans and advances		Credit commitments		Customer deposits	
	Shs '000	*%*	*Shs '000*	*%*	*Shs '000*	*%*
At 31 December 2010						
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, financial services	7,763,917	15%	780,037	7%	16,677,858	25%
Agriculture	2,210,239	4%	102,614	1%	603,117	1%
Building, construction and real estate	9,524,929	18%	4,059,688	36%	2,606,270	4%
Retail housing	434,190	1%	116,308	1%	-	0%
Tourism and hotels	5,010,707	10%	462,159	4%	575,113	1%
Individuals	2,415,435	5%	568,189	5%	30,912,578	46%
Other	682,374	1%	170,333	1%	3,756,544	6%
	52,428,546	100%	11,433,618	100%	66,196,600	100%

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

b) Concentration of risk *(Continued)*

Bank

	Gross loans and advances		Credit commitments		Customer deposits	
	Shs '000	%	Shs '000	%	Shs '000	%
At 31 December 2011						
Manufacturing	4,045,574	8%	773,394	8%	2,335,696	4%
Wholesale and retail trade	8,097,050	15%	1,345,092	14%	4,645,795	8%
Transport and communications	6,121,231	12%	476,756	5%	1,905,940	3%
Business and financial services	10,113,132	19%	366,076	4%	14,849,585	25%
Agriculture	1,841,960	4%	103,910	1%	350,710	1%
Building, construction and real estate	12,700,665	24%	3,742,957	40%	3,523,474	6%
Retail housing	523,548	1%	314,091	3%	-	0%
Tourism and hotels	5,215,230	10%	1,072,741	11%	2,934,328	5%
Individuals	3,000,222	6%	341,194	4%	29,097,853	48%
Others	662,366	1%	792,995	10%	128,894	0%
	52,320,978	100%	9,329,206	100%	59,772,275	100%

	Gross loans and advances		Credit commitments		Customer deposits	
	Shs '000	%	Shs '000	%	Shs '000	%
At 31 December 2010						
Manufacturing	3,377,762	9%	645,836	6%	1,714,860	4%
Wholesale and retail trade	7,180,042	19%	2,518,163	24%	3,065,465	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%	11,078,106	25%
Agriculture	1,266,682	3%	46,151	0%	320,367	1%
Building, construction and real estate	8,116,962	21%	4,037,660	38%	1,782,857	4%
Retail housing	421,945	1%	116,308	1%	-	0%
Tourism and hotels	3,012,377	8%	435,847	4%	1,249,472	3%
Individuals	1,818,969	5%	491,545	5%	23,310,773	51%
Other	129,711	0%	170,185	2%	572,743	1%
	37,905,199	100%	10,516,331	100%	44,903,973	100%

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

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 at fair value through other comprehensive income. The quoted shares held by the Bank are traded at the Nairobi Securities Exchange (NSE).

At 31 December 2011 if the NSE index had increased/decreased by 15% (2010- 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 5.6 million (2010 -Shs 8.9 million) higher/lower.

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.

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

c) Market Risk Management *(Continued)*

ii) Interest rate risk (Continued)

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	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
At 31 December 2011							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	8,281,501	**8,281,501**
Government securities	517,776	1,205,472	4,927,152	4,716,426	-	-	**11,366,826**
Deposits and balances due from banking institutions	9,099,052	1,645,430	131,003	-	-	1,631,931	**12,507,416**
Loans and advances to customers	70,742,643	188,960	354,493	11,625	-	-	**71,297,721**
Investment in associate	-	-	-	-	-	1,940	**1,940**
Equity investments	-	-	-	-	-	37,614	**37,614**
Other assets	-	-	-	-	-	1,061,050	**1,061,050**
Total financial assets	**80,359,471**	**3,039,862**	**5,412,648**	**4,728,051**	**-**	**11,014,036**	**104,554,068**
FINANCIAL LIABILITIES							
Customer deposits	34,753,871	22,899,306	20,309,694	501,471	7,522,057	-	85,986,399
Deposits and balances due to banking institutions	1,760,195	207,887	138,819	-	-	38,056	2,144,957
Long term borrowing	-	6,725	3,840,721	32,768	-	31,466	3,911,680
Other liabilities	-	-	-	-	-	1,696,484	1,696,484
Total financial liabilities	**36,514,066**	**23,113,918**	**24,289,234**	**534,239**	**7,522,057**	**1,766,006**	**93,739,520**
Interest sensitivity gap	**43,845,405**	**(20,074,056)**	**(18,876,586)**	**4,193,812**	**(7,522,057)**	**9,248,030**	**10,814,548**
At 31 December 2010							
Total financial assets	57,893,594	5,493,656	4,094,007	4,845,755	1,322,259	7,437,213	81,086,484
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**

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** *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*
At 31 December 2011							
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	4,420,715	4,420,715
Government securities	-	922,382	2,692,258	4,471,943	-	-	8,086,583
Deposits and balances due from banking institutions	7,832,552	1,620,199	-	-	-	-	9,452,751
Loans and advances to customers	50,474,298	176,194	293,193	-	-	-	50,943,685
Investments in subsidiaries and associates	-	-	-	-	-	1,273,795	1,273,795
Amounts due from group companies	-	-	426,157	-	-	-	426,157
Equity investments	-	-	-	-	-	37,614	37,614
Other assets	-	-	-	-	-	900,618	900,618
Total financial assets	**58,306,850**	**2,718,775**	**3,411,608**	**4,471,943**	**-**	**6,632,742**	**75,541,918**
FINANCIAL LIABILITIES							
Customer deposits	27,234,027	20,431,823	11,900,598	195,492	10,335	-	59,772,275
Deposits and balances due to banking institutions	1,381,725	139,558	137,344	-	-	-	1,658,627
Long term borrowing	-	-	3,834,686	-	-	-	3,834,686
Other liabilities	-	-	-	-	-	1,137,798	1,137,798
Total financial liabilities	28,615,752	20,571,381	15,872,628	195,492	10,335	1,137,798	66,403,386
Interest sensitivity gap	**29,691,098**	**(17,852,606)**	**(12,461,020)**	**4,276,451**	**(10,335)**	**5,494,944**	**9,138,531**
At 31 December 2010							
Total financial assets	38,991,634	3,705,158	3,899,122	4,026,763	1,322,260	5,336,702	57,281,639
Total financial liabilities	22,597,316	7,899,296	18,268,085	133,715	10,336	879,579	49,788,327
Interest sensitivity gap	**16,394,318**	**(4,194,138)**	**(14,368,963)**	**3,893,048**	**1,311,924**	**4,457,123**	**7,493,312**

Interest rate risk sensitivity analysis

The impact on financial assets, net of financial liabilities, of a 10% increase or decrease in interest rates would be as follows:

	Group		**Bank**	
	2011 *Shs'million*	**2010** *Shs'million*	**2011** *Shs'million*	**2010** *Shs'million*
+ 10% movement	1,010	670	840	580
- 10% movement	(1,010)	(670)	(840)	(580)

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

c) Market Risk Management *(Continued)*

(iii) Foreign exchange risk

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

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

The table below summarises the Group's and Bank's exposure to foreign currency exchange rate risk at 31 December 2011. 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 2011					
FINANCIAL ASSETS					
Cash and balances with Central banks	1,801,071	81,745	82,260	8,993	1,974,069
Deposits & balances due from banking institutions	6,988,594	519,218	468,751	154,863	8,131,426
Other assets	582,841	39,620	3,202	55	625,718
Loans and advances to customers	23,034,638	90,935	1,195,397	2	24,320,972
Total financial assets	**32,407,144**	**731,518**	**1,749,610**	**163,913**	**35,052,185**
FINANCIAL LIABILITIES					
Customer deposits	14,991,700	946,630	2,538,087	374,774	18,851,191
Deposits & balances due to banking institutions	9,286,067	265,000	80,181	42,293	9,673,541
Other liabilities	104,025	6,460	973	181	111,639
Long term borrowings	3,911,680	-	-	-	3,911,680
Total financial liabilities	**28,293,472**	**1,218,090**	**2,619,241**	**417,248**	**32,548,051**
Net balance sheet position	**4,113,672**	**(486,572)**	**(869,631)**	**(253,335)**	**2,504,134**
Net off balance sheet position	**(3,140,894)**	**836,081**	**(324,015)**	**67,532**	**(2,561,296)**
Overall net position	**972,778**	**349,509**	**(1,193,646)**	**(185,803)**	**(57,162)**

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

c) Market Risk Management *(Continued)*

***(iii) Foreign exchange risk** (Continued)*

Bank	**USD**	**GBP**	**EURO**	**OTHERS**	**TOTAL**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2011					
FINANCIAL ASSETS					
Cash and balances with Central banks	519,005	68,453	62,598	378	650,434
Deposits & balances due from banking institutions	4,565,661	151,352	328,724	134,617	5,180,354
Other assets	127,608	39,620	3,202	55	170,485
Loans and advances to customers	12,757,762	90,931	1,159,669	2	14,008,364
Amount due from group company	426,157	-	-	-	426,157
Total financial assets	**18,396,193**	**350,356**	**1,554,193**	**135,052**	**20,435,794**
FINANCIAL LIABILITIES					
Customer deposits	9,331,845	737,366	2,426,641	367,736	12,863,588
Deposits & balances due to banking institutions	1,384,305	73,235	482	42,293	1,500,315
Other liabilities	41,946	3,538	911	2	46,397
Long term borrowing	3,834,686	-	-	-	3,834,686
Total financial liabilities	**14,592,782**	**814,139**	**2,428,034**	**410,031**	**18,244,986**
Net balance sheet position	**3,803,411**	**(463,783)**	**(873,841)**	**(274,979)**	**2,190,808**
Net off balance sheet position	**(3,762,689)**	**467,289**	**884,399**	**281,394**	**(2,129,607)**
Overall net position	**40,722**	**3,506**	**10,558**	**6,415**	**61,201**

Currency risk sensitivity analysis

At 31 December 2011, 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**	
	2011	**2010**	**2011**	**2010**
	Shs'million	*Shs'million*	*Shs'million*	*Shs'million*
+ 5% movement	53	(107)	3	(0.3)
- 5% movement	(53)	107	(3)	0.3

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.

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

d) Liquidity risk management *(Continued)*

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 reporting date.

Group	Up to 1	1-3	3-12	1-5	Over 5	
	month	month	month	years	years	Total
At 31 December 2011	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
FINANCIAL ASSETS						
Cash and balances with Central Banks	6,920,286	852,192	493,767	13,293	750	8,280,288
Government securities	491,058	1,266,160	5,195,127	5,942,813	-	12,895,158
Deposits and balances due from banking institutions	11,057,304	1,654,941	86,114	-	-	12,798,359
Loans and advances to customers	5,385,851	9,875,116	25,785,579	33,989,435	13,265,395	88,301,376
Investment in associate	-	-	-	-	1,940	1,940
Equity investments	-	-	-	-	37,614	37,614
Other assets	1,015,169	1,511	1,298	43,072	-	1,061,050
Total financial assets	**24,869,668**	**13,649,920**	**31,561,885**	**39,988,613**	**13,305,699**	**123,375,785**
FINANCIAL LIABILITIES						
Customer deposits	42,355,223	23,609,734	21,653,540	736,008	28,919	88,383,424
Deposits and balances due to banking institutions	2,066,916	213,175	145,657	-	-	2,425,748
Long term borrowing	-	7,106	255,243	2,837,298	1,238,102	4,337,749
Other liabilities	1,083,779	181,248	106,622	278,583	46,252	1,696,484
Total financial liabilities	**45,505,918**	**24,011,263**	**22,161,062**	**3,851,889**	**1,313,273**	**96,843,405**
Net liquidity gap	**(20,636,250)**	**(10,361,343)**	**9,400,823**	**36,136,724**	**11,992,426**	**26,532,380**
At 31 December 2010						
Total financial assets	18,307,481	11,368,522	20,357,659	27,333,001	10,485,837	87,852,500
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**

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

d) Liquidity risk management *(Continued)*

Bank

At 31 December 2011	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	3,072,539	846,563	493,084	8,100	428	4,420,714
Government securities	-	937,496	2,785,330	5,672,339	-	9,395,165
Deposits and balances due from banking institutions	7,844,955	1,629,580	-	-	-	9,474,535
Loans and advances to customers	3,865,774	6,938,433	18,028,169	23,221,968	11,332,215	63,386,559
Investments in subsidiaries and associates	-	-	-	-	1,273,794	1,273,794
Equity investments	-	-	-	-	37,615	37,615
Amounts due from group companies	-	-	14,807	321,302	146,541	482,650
Other assets	857,477	69	-	43,072	-	900,618
Total financial assets	**15,640,745**	**10,352,141**	**21,321,390**	**29,266,781**	**12,790,593**	**89,371,650**
FINANCIAL LIABILITIES						
Customer deposits	27,371,040	21,129,389	12,780,385	229,657	22,335	61,532,806
Deposits and balances due to banking institutions	1,383,081	142,142	144,093	-	-	1,669,316
Long term borrowing	-	-	246,926	2,775,141	1,234,471	4,256,538
Other liabilities	530,664	180,407	103,753	276,722	46,252	1,137,798
Total financial liabilities	**29,284,785**	**21,451,938**	**13,275,157**	**3,281,520**	**1,303,058**	**68,596,458**
Net liquidity gap	**(13,644,040)**	**(11,099,797)**	**8,046,233**	**25,985,261**	**11,487,535**	**20,775,192**
At 31 December 2010						
Total financial assets	8,355,743	9,705,664	13,806,648	20,881,629	10,721,969	63,471,653
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**

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

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.

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	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Level 1	37,614	59,928	37,614	59,928
Level 2	-	13,419,230	-	9,487,775
	37,614	13,479,158	37,614	9,547,703

The fair value of Financial assets at FVTOCI at 31 December 2011 is estimated at Shs 37.6 million, Bank: Shs 37.6 million (2010: Group: Shs 59.9 million, Bank: Sh 59.9 million). The group had fair valued its entire investment in Government securities in 2010 resulting in values of Shs 13.4 million (Bank Shs 9.5 million). The fair values were reclassified to retained earnings upon adoption of IFRS 9. 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.

Notes to the Financial Statements *(Continued)*

4. Financial risk management *(Continued)*

g) Capital management *(Continued)*

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 700 million;

(b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%;

(c) maintain core capital of not less than 8% of total deposit liabilities; and

(d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

1. Tier 1 capital (core capital): share capital, share premium plus retained earnings.

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

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

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

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Tier 1 Capital	11,966,551	9,636,865	8,228,997	6,636,997
Tier 1 + Tier 2 Capital	13,373,128	10,574,160	9,718,306	7,972,638
Risk-weighted assets				
On-balance sheet	75,582,795	55,152,110	53,506,403	39,069,438
Off-balance sheet	6,187,847	5,121,342	4,391,383	4,179,414
Total risk-weighted assets	**81,770,642**	**60,273,452**	**57,897,786**	**43,248,852**
Basel ratio				
Tier 1 (CBK minimum - 8%; Bank of Tanzania (BOT) minimum - 10%; Bank of Uganda (BOU) minimum - 8%) Banque de la Republique du Burundi (minimum - 8%)	14.6%	16.0%	14.2%	15.3%
Tier 1 + Tier 2 (CBK, BOT, and BOU minimum-12%) Banque de la Republique du Burundi (minimum - 8%)	16.4%	17.5%	16.8%	18.4%

Notes to the Financial Statements *(Continued)*

	Group 2011 Shs'000	Group 2010 Shs'000
5. Interest income		
Loans and advances	8,927,719	6,193,158
Government securities	790,358	913,045
Placements and bank balances	321,021	257,976
	10,039,098	7,364,179
6. Interest expense		
Customer deposits	3,090,651	2,445,552
Deposits due to banking institutions	121,495	35,865
	3,212,146	2,481,417
7. Net fee and commission income		
Fee and commission income	1,587,566	1,136,151
Fee and commission expense:		
- Inter-bank transaction fees	(34,901)	(28,233)
Net fees and commissions	1,552,665	1,107,918
8. Other operating income		
Gain on sale of investment securities	117,128	1,017,421
Rental income	18,501	16,510
(Loss)/gain on sale of fixed assets	(912)	1,583
Other	61,002	48,191
	195,719	1,083,705
9. Operating expenses		
Operating expenses include:		
Staff costs (Note 10)	2,082,228	1,769,460
Depreciation (Note 22)	365,917	301,501
Amortisation of intangible assets-software costs (Note 23)	100,361	72,833
Operating lease rentals	301,985	221,378
Auditors' remuneration	11,536	9,998
10. Staff costs		
Salaries and allowances	1,829,019	1,553,403
Contribution to defined contribution retirement scheme	46,308	38,516
Accrual for gratuity pay	7,438	10,685
National Social Security Fund Contribution	58,143	46,569
Others including insurance and training expenses	141,320	120,287
	2,082,228	1,769,460

Notes to the Financial Statements *(Continued)*

11. Taxation

	Group 2011 Shs'000	Group 2010 Shs'000
a) Tax charge		
Current income tax	1,489,522	1,102,243
(Over)/under provision of income tax in previous year	(186)	12,361
Deferred income tax	(178,585)	(119,060)
Over provision of deferred tax credit in previous year	(64)	(14,715)
	1,310,687	980,829

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 2011 Shs'000	Group 2010 Shs'000
Profit before tax	4,307,413	3,462,999
Tax calculated at the statutory tax rate of 30% (2010: 30%)	1,292,224	1,038,900
Tax effect of:		
Income not subject to tax	(65,303)	(100,142)
Expenses not deductible for tax purposes	58,423	24,077
(Over)/under provision of current income tax in previous year	(186)	12,361
Over provision of deferred tax credit in previous year	(64)	(14,715)
Final tax on investment income	25,593	20,348
Tax charge	1,310,687	980,829

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.

	Group 2011 Shs'000	Group 2010 Shs'000
Profit attributable to shareholders (Shs thousands)	2,656,797	2,284,824
Weighted number of ordinary shares in issue (thousands)	195,644	195,644
Earnings per share (Shs per share) - basic and diluted	13.58	11.68

The earnings per share have been calculated on the basis of the number of ordinary shares issued as at 31 December 2011 for both year due to the bonus share issued as per note 39. There were no potentially dilutive shares outstanding at 31 December 2011.

Notes to the Financial Statements *(Continued)*

13. Dividends per share

At the Annual General Meeting to be held on 4 May 2012, a final dividend in respect of the year ended 31 December 2011 of Shs 1.70 per share amounting to a total of Shs 332,595,701 is to be proposed.

The total dividend for the year is Shs 1.70 per share (2010: Shs 1.33), amounting to a total of Shs 332,595,701 (2010: Shs 260,859,373). 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.

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
14. Cash and balances with Central Banks				
Cash in hand	2,027,630	1,463,220	1,225,856	836,618
Balances with Central Banks	6,253,871	5,001,928	3,194,859	2,508,731
	8,281,501	6,465,148	4,420,715	3,345,349
15. Government securities				
Treasury bills	2,451,011	4,682,973	234,624	2,776,670
Treasury bonds	8,915,815	8,796,185	7,851,959	6,711,105
Total Government securities	11,366,826	13,479,158	8,086,583	9,487,775

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 in 2010 as collateral for the balances due to the Central Bank disclosed on note 28.

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
16. Deposits and balances due from banking institutions				
Due from other banks	12,507,416	7,930,638	9,452,751	4,404,753

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

Notes to the Financial Statements *(Continued)*

17. Loans and advances to customers

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Finance leases	5,377,570	6,214,211	5,377,570	6,214,211
Loans and advances	67,555,050	46,214,335	46,943,408	31,690,988
Gross loans and advances	72,932,620	52,428,546	52,320,978	37,905,199
Less: Provision for impairment				
Identified impairment	(602,435)	(645,610)	(549,462)	(588,379)
Unidentified impairment	(1,032,464)	(522,868)	(827,831)	(403,116)
Net loans and advances	71,297,721	51,260,068	50,943,685	36,913,704

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

	Group Identified impairment Shs'000	Group Unidentified impairment Shs'000	Bank Identified impairment Shs'000	Bank Unidentified impairment Shs'000
Year 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 year 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
Year ended 31 December 2011				
At start of year	645,610	522,868	588,379	403,116
Provision for loan impairment	279,827	519,753	155,515	424,715
Loans written off during the year as uncollectible	(118,616)	-	(76,370)	-
Release of provision no longer required	(200,514)	-	(118,062)	-
Translation difference	(3,872)	(10,157)	-	-
At end of year	602,435	1,032,464	549,462	827,831

Notes to the Financial Statements *(Continued)*

17. Loans and advances to customers *(Continued)*

	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Charge to income statement (Group)			
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
Year ended 31 December 2011			
Provision for loan impairment	279,827	519,753	799,580
Release of provision no longer required	(200,514)	-	(200,514)
Net increase in provision	79,313	519,753	599,066
Amounts recovered previously written off	(42,525)	-	(42,525)
Loans written off through the income statement	32,248	-	32,248
Net charge to the income statement	69,036	519,753	588,789
Charge to income statement (Bank)			
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 income statement	2,801	-	2,801
Net charge to income statement	289,985	144,100	434,085
Year ended 31 December 2011			
Provision for loan impairment	155,515	424,715	580,230
Release of provision no longer required	(118,062)	-	(118,062)
Net increase in provision	37,453	424,715	462,168
Amounts recovered previously written off	(2,470)	-	(2,470)
Loans written off through income statement	30,669	-	30,669
Net charge to income statement	65,652	424,715	490,367

Notes to the Financial Statements *(Continued)*

17. Loans and advances to customers *(Continued)*

All non performing 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 2011, was Group: Shs 31,561,000, Bank: Shs 1,111,215 (2010 - Group: Shs 44,165,000, Bank: Shs 1,104,585).

Loans and advances to customers include finance leases receivables as follows:

	Group and Bank	
	2011	**2010**
	Shs'000	*Shs'000*
Gross investment in finance leases:		
Not later than 1 year	1,791,691	204,795
Later than 1 year and not later than 5 years	4,714,266	7,632,038
Later than 5 years	58,865	54,278
	6,564,822	7,891,111
Unearned future finance income on finance leases	(1,187,252)	(1,676,900)
Net investment in finance leases	5,377,570	6,214,211

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

Not later than 1 year	1,616,461	134,959
Later than 1 year and not later than 5 years	3,718,271	6,041,207
Later than 5 years	42,838	38,045
Net investment in finance leases	5,377,570	6,214,211

	Group and Bank	
	2011	**2010**
	Shs'000	*Shs'000*
18. Corporate bond	-	936,573

The corporate bond was sold during the year. The bond had a face value of Shs 917,100,000 and an effective interest rate of 12.5%.

	Group	
	2011	**2010**
	Shs'000	*Shs'000*

19. Investments in subsidiaries and associates

Associate		
At start of year	2,599	-
Investment in Jubilee Insurance Company of Burundi SA	-	4,051
Share of results after tax	(483)	(1,452)
Translation	(176)	-
At end of year	1,940	2,599

Notes to the Financial Statements *(Continued)*

19. Investments in subsidiaries and associates *(Continued)*

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

	Beneficial Ownership	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Subsidiaries					
Diamond Trust Bank Tanzania Limited	55.4%	-	-	337,584	337,584
Diamond Trust Bank Uganda Limited	54.1%	-	-	420,462	265,534
Diamond Trust Bank Burundi S.A.	67.3%	-	-	484,611	484,611
Diamond Trust Insurance Agency Limited	100%	-	-	2,000	2,000
Premier Savings and Finance Limited	100%	-	-	29,137	29,137
		-	-	1,273,794	1,118,866
Associates					
Services and Systems Limited	40%	1	1	1	1
Jubilee Insurance Company of Burundi SA	20%	3,841	3,841	-	-
Total investments in subsidiaries and associates		3,842	3,842	1,273,795	1,118,867

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

20. Equity investments

	Group and Bank 2011 Shs'000	Group and Bank 2010 Shs'000
At start of year	59,928	58,015
Fair value (loss)/gain (Note 34)	(22,314)	1,913
At end of year	37,614	59,928

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

	Bank 2011 Shs'000	Bank 2010 Shs'000
21. Amount due from group companies	426,157	202,032

The balances due from group companies relate to 7.5 year and 6 year loans issued in 2010 and 2011 respectively to two of the subsidiaries to enhance their capital base. The debts are redeemable on maturity and bear interest at a rate referenced to the six months libor.

Notes to the Financial Statements *(Continued)*

22. Property and equipment

(a) Group

At 1 January 2010	Freehold land *Shs'000*	Leasehold land *Shs'000*	Leasehold buildings *Shs'000*	Leasehold improvements *Shs'000*	Motor vehicles *Shs'000*	Furniture fittings & equipment *Shs'000*	Work in progress *Shs'000*	Total *Shs'000*
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**
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)*

(a) Group *(Continued)*

	Leasehold land	Leasehold 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*
Year ended 31 December 2011							
Opening net book amount	62,566	196,761	535,869	25,748	661,174	28,698	1,510,816
Translation difference	(157)	(3,068)	(7,482)	78	(3,491)	(340)	(14,460)
Additions	-	69,268	106,841	19,652	248,565	89,756	534,082
Transfers	-	12,601	(7,424)	-	8,861	(14,038)	-
Revaluation surplus	259,810	93,499	-	-	-	-	353,309
Disposals	-	-	(6,305)	(3,374)	(26,011)	-	(35,690)
Disposals - accumulated depreciation	-	-	3,584	3,374	24,845	-	31,803
Depreciation charge	(920)	(6,290)	(94,975)	(12,839)	(250,893)	-	(365,917)
Closing net book amount	**321,299**	**362,771**	**530,108**	**32,639**	**663,050**	**104,076**	**2,013,943**
At 31 December 2011							
Cost or valuation	321,645	368,523	825,027	73,351	1,657,595	104,076	3,350,217
Accumulated depreciation	(346)	(5,752)	(294,919)	(40,712)	(994,545)	-	(1,336,274)
Net book amount	**321,299**	**362,771**	**530,108**	**32,639**	**663,050**	**104,076**	**2,013,943**
At 31 December 2011							
Cost	67,692	228,476	825,027	73,351	1,657,595	104,076	2,956,217
Revaluation surplus	253,953	140,047	-	-	-	-	394,000
Cost or valuation	**321,645**	**368,523**	**825,027**	**73,351**	**1,657,595**	**104,076**	**3,350,217**

Notes to the Financial Statements *(Continued)*

22. Property and equipment *(Continued)*

(b) Bank

	Freehold land *Shs'000*	Leasehold land *Shs'000*	Leasehold buildings *Shs'000*	Leasehold improvements *Shs'000*	Motor vehicles *Shs'000*	fittings & equipment *Shs'000*	Work in progress *Shs'000*	Total *Shs'000*
At 1 January 2010								
Cost or valuation	57,630	-	115,000	238,007	26,914	657,465	172,985	1,268,001
Accumulated depreciation	-	-	(4,184)	(82,992)	(14,559)	(374,171)	-	(475,906)
Net book amount	**57,630**	**-**	**110,816**	**155,015**	**12,355**	**283,294**	**172,985**	**792,095**
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**

Notes to the Financial Statements *(Continued)*

22. Property and equipment *(Continued)*

(b) Bank *(Continued)*

	Leasehold land Shs'000	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Work in progress Shs'000	Total Shs'000
Year ended 31 December 2011							
Opening net book amount	59,262	108,722	172,508	19,085	348,859	14,038	722,474
Additions	-	1,967	49,165	-	140,337	23,754	215,223
Transfers - Cost	-	12,776	(7,599)	-	8,861	(14,038)	-
Revaluation	259,810	90,641	-	-	-	-	350,451
Disposals	-	-	(6,305)	(750)	(12,873)	-	(19,928)
Disposals - accumulated depreciation	-	-	3,584	750	12,242	-	16,576
Transfers - depreciation	-	(175)	175	-	-	-	-
Depreciation charge	(772)	(2,231)	(47,663)	(7,349)	(135,490)	-	(193,505)
Closing net book amount	**318,300**	**211,700**	**163,865**	**11,736**	**361,936**	**23,754**	**1,091,291**
At 31 December 2011							
Cost or revaluation	318,300	211,700	317,532	34,212	942,723	23,754	1,848,221
Accumulated depreciation	-	-	(153,667)	(22,476)	(580,787)	-	(756,930)
Net book amount	318,300	211,700	163,865	11,736	361,936	23,754	1,091,291
At 31 December 2011							
Cost	64,331	81,485	317,532	34,212	942,723	23,754	1,464,037
Revaluation surplus	253,969	130,215	-	-	-	-	384,184
Cost or valuation	318,300	211,700	317,532	34,212	942,723	23,754	1,848,221

Land and buildings for Diamond Trust Bank Kenya Limited and Buildings for Diamond Trust Bank Tanzania Limited were revalued as at 31 December 2011 by independent valuers, Mohamed Samji & Co 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, was credited to reserves in shareholders' equity. If leasehold land and buildings were stated at the historical cost basis, the amounts would be as follows:

	Group		Bank	
	2011 Shs'000	2010 Shs'000	2011 Shs'000	2010 Shs'000
Cost	296,168	217,524	145,816	131,073
Accumulated depreciation	(29,731)	(26,569)	(19,883)	(17,241)
Net book amount	**266,437**	**190,955**	**125,933**	**113,832**

Notes to the Financial Statements *(Continued)*

	Group		Bank	
	2011	2010	2011	2010
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*

23. Intangible assets-software costs

At start of year	249,599	135,434	180,156	53,152
Additions	132,126	100,458	122,496	89,371
Transfer from property and equipment (Note 22)	-	83,818	-	80,730
Amortisation charge for the year	(100,361)	(72,833)	(67,296)	(43,097)
Translation difference	(334)	2,722	-	-
At the end of year	281,030	249,599	235,356	180,156
Cost	671,399	539,607	469,608	347,112
Accumulated amortisation	(390,369)	(290,008)	(234,252)	(166,956)
Net book amount	281,030	249,599	235,356	180,156

24. Prepaid operating lease rentals

At start of year	-	6,863	-	3,422
Transfer to property and equipment (Note 22)	-	(6,863)	-	(3,422)
At the end of year	-	-	-	-

Long term leasehold land was transferred to property and equipment in 2010 following the amendments to IAS 17 on leases.

25. Intangible assets - goodwill

	Group	
	2011	2010
	Shs'000	*Shs'000*
Goodwill on acquisition of control in subsidiaries	173,372	173,372

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

Notes to the Financial Statements *(Continued)*

25. Intangible assets - goodwill *(Continued)*

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.

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% (2010:30%). The movement on the deferred tax account is as follows:

	Group		Bank	
Deferred tax asset	**2011**	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
At start of year	284,966	141,194	245,330	111,097
Charged through the income statement - current year	178,713	118,992	160,432	114,640
Overstatement of deferred tax in previous year	(64)	14,715	1,118	14,715
Charged through other comprehensive income	(3,688)	10,338	1,241	4,878
Translation difference	(835)	(273)	-	-
At end of the year	459,092	284,966	408,121	245,330
Deferred tax liability				
At start of year	-	(68)	-	-
Charged through the income statement current year	-	68	-	-
At end of the year	-	-	-	-
Net deferred tax asset				
At start of year	284,966	141,126	245,330	111,097
Charged through the income statement - current year	178,713	119,060	160,432	114,640
Overstatement of deferred tax in previous year	(64)	14,715	1,118	14,715
Charged through other comprehensive income	(3,688)	10,338	1,241	4,878
Translation difference	(835)	(273)	-	-
At end of the year	459,092	284,966	408,121	245,330

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

	1.1.2011	Charged to the income statement	Charged through other comprehensive income	31.12.2011
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property and equipment	7,888	(14,927)	-	(7,039)
Revaluation surplus	20,792	(981)	857	20,668
	28,680	(15,908)	857	13,629
Deferred income tax assets				
Provisions for loan impairment	(164,359)	(168,011)	-	(332,370)
Provisions for gratuity and staff bonus	(109,833)	(14,119)	-	(123,952)
Tax losses carried forward	(28,947)	21,858	-	(7,089)
Fair value changes in Government securities	(10,507)	(1,634)	2,831	(9,310)
	(313,646)	(161,906)	2,831	(472,721)
Net deferred income tax asset	(284,966)	(177,814)	3,688	(459,092)

Bank

	1.1.2011	Charged to the income statement	Charged through other comprehensive income	31.12.2011
Deferred income tax liabilities				
Property and equipment	(24,915)	(8,897)	-	(33,812)
Revaluation surplus	16,807	(109)	-	16,698
	(8,108)	(9,006)	-	(17,114)
Deferred income tax assets				
Provisions for loan impairment	(120,934)	(138,651)	-	(259,585)
Provisions for gratuity and staff bonus	(109,688)	(13,893)	-	(123,581)
Fair value changes in Government securities	(6,600)	-	(1,241)	(7,841)
	(237,222)	(152,544)	(1,241)	(391,007)
Net deferred income tax asset	(245,330)	(161,550)	(1,241)	(408,121)

Notes to the Financial Statements *(Continued)*

27. Other assets

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Uncleared effects	486,514	493,966	408,263	432,826
Items in the course of collection	104,375	124,320	104,375	124,320
Deposits and prepayments	277,353	279,213	176,338	176,324
Others	470,161	333,986	387,980	255,412
	1,338,403	1,231,485	1,076,956	988,882

28. Balances due to Central Bank of Kenya

Reverse repo	-	399,957	-	399,957

The reverse repo matured within four days after 31 December 2010 . The effective interest rate was 1.3%.

29. Customer deposits

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Current and demand deposits	26,178,778	20,636,342	16,847,147	12,568,792
Savings accounts	7,487,718	6,268,392	3,183,237	2,591,255
Fixed and call deposit accounts	52,319,695	39,291,658	39,741,683	29,743,718
Unredeemed bearer certificates of deposit	208	208	208	208
	85,986,399	66,196,600	59,772,275	44,903,973

30. Deposits and balances due to banking institutions

Deposits due to banking institutions	1,940,122	2,113,211	1,532,516	1,456,089
Current account balances due to banking institutions	204,835	295,119	126,111	128,698
	2,144,957	2,408,330	1,658,627	1,584,787

Notes to the Financial Statements *(Continued)*

31. Long term borrowing

a. Subordinated debt

The long-term subordinated debt (nine and a half years) was raised from the International Finance Corporation (IFC), which is a related party, to increase the Bank's supplementary capital, amounted to US$ 15 million (2010: 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 Group has two long-term senior loans (ten years and seven years respectively) raised from the International Finance Corporation (IFC), a related party, in 2011 and 2008 amounting to US$ 30 million (2010: 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	**2011**	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
At start of year	1,212,190	1,135,733	1,212,190	1,135,733
Accrued interest	39,429	35,452	39,429	35,452
Paid during the year	(39,693)	(38,061)	(39,693)	(38,061)
Translation difference	66,319	79,066	66,319	79,066
	1,278,245	1,212,190	1,278,245	1,212,190
Senior loan				
At start of year	807,841	756,977	807,841	756,977
Additions during the year	1,802,000	-	1,802,000	-
Accrued interest	44,432	20,873	44,432	20,873
Paid during the year	(40,280)	(19,442)	(40,280)	(19,442)
Translation difference	(57,552)	49,433	(57,552)	49,433
	2,556,441	807,841	2,556,441	807,841
Total due to International Finance Corporation	3,834,686	2,020,031	3,834,686	2,020,031
Administered funds				
Bank of Uganda	31,467	35,002	-	-
European Investment Bank	45,527	54,486	-	-
	76,994	89,488	-	-
Long term borrowing	3,911,680	2,109,519	3,834,686	2,020,031

Notes to the Financial Statements *(Continued)*

31. Long term borrowing *(Continued)*

d. Finance costs

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Subordinated debt	39,429	35,452	39,429	35,452
Senior loan	44,432	20,873	44,432	20,873
Administered funds	3,360	4,023	-	-
Amortised appraisal fees	4,835	3,564	4,835	3,564
	92,056	63,912	88,696	59,889

32. Other liabilities

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
Due to subsidiary company	-	-	79,560	79,560
Gratuity provision	16,939	61,582	3,850	50,624
Outstanding bankers' cheques	211,560	366,992	119,220	138,529
Accrued expenses	660,267	528,492	512,215	407,612
Deferred income	702,858	487,094	624,397	418,160
Other payables	807,718	426,705	422,953	203,254
	2,399,342	1,870,865	1,762,195	1,297,739

Movement in gratuity provision is as follows:

	Group 2011 Shs'000	Group 2010 Shs'000	Bank 2011 Shs'000	Bank 2010 Shs'000
At start of year	61,582	57,275	50,624	51,920
Increase during the year	7,315	10,589	5,009	4,729
Utilised during the year	(51,783)	(6,025)	(51,783)	(6,025)
Translation difference	(175)	(257)	-	-
At end of year	16,939	61,582	3,850	50,624

33. Share capital

	Number of shares *(Thousands)*	Share capital *Shs'000*	Share premium *Shs'000*
1 January 2011	163,037	652,148	2,197,735
Bonus share issue	32,607	130,430	-
31 December 2011	195,644	782,578	2,197,735

In the last Annual General Meeting held on 20 May 2011, the shareholders authorised the issue of bonus shares in the proportion of 1 new share for every 5 fully paid up ordinary shares held to the shareholders registered at the close of business on 20 May 2011. 32,607,000 new shares were allotted to shareholders in June 2011.

The total authorised number of ordinary shares is 250,000,000 (2010: 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	Fair value reserve on Government securities	Fair value 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 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 equity investments	-	-	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
Year ended 31 December 2011						
At start of year	50,155	(25,463)	(2,677)	8,003	56,104	86,122
Fair value changes in Government securities	-	36,376	-	-	-	36,376
Deferred tax on fair value loss	-	(10,913)	-	-	-	(10,913)
Fair value changes in equity investments	-	-	(22,314)	-	-	(22,314)
Deferred tax on fair value changes	-	-	6,694	-	-	6,694
Surplus on revaluation of properties	353,309	-	-	-	-	353,309
Translation adjustment	-	-	-	(65,962)	-	(65,962)
Increase in interest in Diamond Trust Bank Uganda Limited.	-	-	-	-	(14,841)	(14,841)
At end of year	403,464	-	(18,297)	(57,959)	41,263	368,471

Notes to the Financial Statements *(Continued)*

34. Other reserves *(Continued)*

Bank statement of changes in reserves

	Revaluation surplus	Fair value reserve on Government securities	Fair value reserve on equity investments	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Year ended 31 December 2010				
At start of year	32,795	-	(4,016)	28,779
Recycling of fair value on changes in Government securities	-	(18,174)	-	(18,174)
Deferred tax on fair value loss	-	5,452	-	5,452
Fair value changes in equity investments	-	-	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
Year ended 31 December 2011				
At start of year	32,640	(12,722)	(2,677)	17,241
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	-	-	(22,314)	(22,314)
Deferred tax on fair value changes	-	-	6,694	6,694
Surplus on revaluation of properties	350,451	-	-	350,451
At end of year	383,091	-	(18,297)	364,794

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. Transactions with non-controlling interests

On 11 November 2011, Diamond Trust Bank Kenya Limited acquired an additional 2.96% stake in Diamond Trust Bank Uganda Limited (DTBU) by taking up the rights of one of the shareholders who renounced their rights at a consideration of Shs 54,219,000. The Group now holds 54.07% from 51.11% before the rights issue. The carrying amount of the net assets the group acquired was Shs 39,378,000. The effect of changes in the ownership interest of DTBU in equity attributable to owners of the Bank during the year is summarised as follows:

	Group	
	2011	2010
	Shs'000	*Shs'000*
Carrying amount of non-controlling interests acquired	39,378	-
Consideration paid for the interests	(54,219)	-
Excess of consideration paid recognised in parent's equity	(14,841)	-

36. 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	
	2011	2010	2011	2010
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Contingent liabilities				
Acceptances and letters of credit	4,758,710	3,741,149	3,442,905	2,963,986
Guarantee and performance bonds	4,637,400	3,831,118	3,472,409	2,961,324
	9,396,110	7,572,267	6,915,314	5,925,310

Notes to the Financial Statements *(Continued)*

36. Off balance sheet financial instruments, contingent liabilities and commitments *(Continued)*

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.

Commitments

	Group		Bank	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn credit lines and other commitments to lend	10,447,863	11,433,618	9,329,206	10,516,331
Foreign exchange forward contracts	8,430,654	8,087,416	7,741,314	8,074,976
Foreign exchange spot transactions	2,487,076	1,218,220	1,704,781	670,321
Operating lease rentals (i)	1,139,357	1,097,733	643,379	590,128
Capital commitments	74,193	32,112	68,833	27,144
	22,579,143	21,869,099	19,487,513	19,878,900

(i) Operating lease rentals are analysed as follows:

Not later than 1 year	267,968	227,683	154,081	126,910
Later than 1 year and not later than 5 years	717,720	679,446	382,994	291,910
Later than 5 years	153,669	190,604	106,304	171,308
	1,139,357	1,097,733	643,379	590,128

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.

37. 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.

Notes to the Financial Statements *(Continued)*

37. Business segments information *(Continued)*

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, Diamond Trust Insurance Agency Limited.

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 2011	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	7,218,728	1,312,034	1,320,808	187,528	10,039,098		10,039,098
Other income from external customers	1,739,573	480,366	470,381	54,547	2,744,867		2,744,867
Total income from external customers	8,958,301	1,792,400	1,791,189	242,075	12,783,965		12,783,965
Share of results of associate after tax	-	-	-	(483)	(483)		(483)
Inter-segment income	9,485	216	259	1	9,961	(9,961)	-
Total income	8,967,786	1,792,616	1,791,448	241,593	12,793,443		12,783,482
Interest expense from external customers	(2,418,026)	(329,836)	(421,689)	(42,595)	(3,212,146)		(3,212,146)
Other expenses – external	(2,445,680)	(783,567)	(795,180)	(92,373)	(4,116,800)		(4,116,800)
Inter-segment expenses	(2,542)	(556)	(6,862)	(1)	(9,961)	9,961	-
Finance costs	(88,696)	-	(3,360)	-	(92,056)		(92,056)
Depreciation and amortisation	(261,314)	(80,685)	(80,596)	(43,683)	(466,278)		(466,278)
Provision for bad debts	(490,367)	(26,570)	(60,999)	(10,853)	(588,789)		(588,789)
Total expenses	(5,706,625)	(1,221,214)	(1,368,686)	(189,505)	(8,486,030)		(8,476,069)
Segment profit before tax	3,261,161	571,402	422,762	52,088	4,307,413		4,307,413
Current and deferred tax charge	(1,009,571)	(172,489)	(107,183)	(21,444)	(1,310,687)		(1,310,687)
Segment profit after tax	**2,251,590**	**398,913**	**315,579**	**30,644**	**2,996,726**		**2,996,726**
Segment assets	**77,592,704**	**17,096,793**	**13,420,004**	**1,566,635**	**109,676,136**	**(1,911,072)**	**107,765,064**
Segment liabilities	**67,103,425**	**15,276,082**	**12,074,536**	**876,162**	**95,330,205**	**(813,960)**	**94,516,245**

Notes to the Financial Statements *(Continued)*

37. Business segments information *(Continued)*

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)*

37. Business segments information *(Continued)*

b) Additions to non current assets

	Kenya	Tanzania	Uganda	Burundi	Total
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
At 31 December 2011					
Property and equipment	215,223	194,133	105,452	19,274	534,082
Intangible assets- software	122,496	-	6,782	2,848	132,126
	337,719	**194,133**	**112,234**	**22,122**	**666,208**
At 31 December 2010					
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**

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 2011					
Net interest income					
Loans and advances	6,479,319	1,144,287	1,146,853	157,260	8,927,719
Government securities	452,966	158,302	153,902	25,188	790,358
Placement and bank balances	286,443	9,445	20,053	5,080	321,021
Interest income	7,218,728	1,312,034	1,320,808	187,528	10,039,098
Customer deposits	2,377,303	282,172	388,571	42,595	3,090,641
Deposits due to banking institutions	40,723	47,664	33,118	-	121,505
Interest expense	2,418,026	329,836	421,689	42,595	3,212,146
Net interest income	**4,800,702**	**982,198**	**899,119**	**144,933**	**6,826,952**
Fee and commission income					
Fee and commission income	892,304	317,437	325,858	17,066	1,552,665
Foreign exchange income	656,021	160,657	144,106	35,699	996,483
Other income	191,248	2,272	417	1,782	195,719
Net fee and commission income	**1,739,573**	**480,366**	**470,381**	**54,547**	**2,744,867**

Notes to the Financial Statements *(Continued)*

37. Business segments information *(Continued)*

c) Revenue by product and services *(Continued)*

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)*

38. 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 2011 and 31 December 2010 were as follows:

	2011			2010		
	In Shs	*In US$*	*In GBP*	*In Shs*	*In US$*	*In GBP*
Assets						
Government securities	10.72%	-	-	6.29%	-	-
Deposits with banking institutions	27.81%	2.79%	-	2.92%	2.15%	-
Loans and advances to customers	23.56%	7.59%	5.02%	14.45%	8.18%	7.98%
Amounts due from group companies	-	3.27%	-	-	3.05%	-
Liabilities						
Customer deposits	11.44%	1.37%	1.35%	4.16%	0.18%	0.30%
Deposits due to banking institutions	16.63%	1.04%	2.50%	1.25%	1.48%	-
Subordinated debt	-	3.27%	-	-	3.05%	-
Senior loan 1	-	2.52%	-	-	2.47%	-
Senior loan 2	-	3.02%	-	-	-	-

39. Analysis of cash and cash equivalents as shown in the statement of cash flows

	Group	
	2011	2010
	Shs'000	*Shs'000*
Cash and balances with the central banks (Note 14)	8,281,501	6,465,148
Cash reserve requirement	(4,667,371)	(3,733,764)
Government securities maturing within 91 days at the point of acquisition	156,311	430,021
Deposits and balances due from banking institutions (Note 16)	12,507,416	7,930,638
Balances due to Central Bank of Kenya (note 28)	-	(399,957)
Deposits and balances due to banking institutions (Note 30)	(2,144,957)	(2,408,330)
	14,132,900	8,283,756

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 5.25% (2010: 4.75%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

Notes to the Financial Statements *(Continued)*

40. 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 liabilities 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	
	2011	**2010**	**2011**	**2010**
Group Companies	*Shs'000*	*Shs'000*	*Shs'000*	*Shs'000*
Amounts due to:				
Other group companies	-	-	302,310	570,176
Interest expense incurred	-	-	2,847	4,034
Amounts due from:				
Other group companies	-	-	436,026	207,522
Interest income received	-	-	7,114	2,821
Directors				
Loans to directors:				
At start of year	810	285	535	-
Advanced during the year	1,094	885	484	535
Repaid during the year	(638)	(325)	(102)	-
Translation adjustment	(9)	(35)	-	-
At end of year	1,257	810	917	535
Interest income earned from directors loans	24	17	-	-
Deposits by directors:				
At start of year	72,729	60,350	59,957	46,302
Net movement during the year	32,655	11,353	4,396	13,655
Translation adjustment	(637)	1,026	-	-
At end of year	104,747	72,729	64,353	59,957
Interest paid on directors' deposits	3,264	3,640	2,390	3,486

Other disclosures

At 31 December 2011, advances to companies related through control by a common shareholder, controlled by directors or their families amounted to Shs. 1,746,766,000 (2010: Shs. 1,024,001,000).

At 31 December 2011, advances to employees amounted to Shs. 405,678,000 (2010: Shs. 236,689,000).

Interest income earned on advances to companies related through control by a common shareholder, controlled by directors or their families and employees amounted to Shs. 83,142,000 (2010: Shs. 63,883,000).

Notes to the Financial Statements *(Continued)*

40. Related Party Transactions *(Continued)*

Other disclosures *(Continued)*

At 31 December 2011, 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. 197,949,000 (2010: Shs. 129,496,000).

At 31 December 2011, deposits by companies related through shareholding, common directorship and companies controlled by directors or their families amounted to Shs. 3,085,103,000 (2010: Shs.2,334,108,000).

At 31 December 2011, deposits by employees amounted to Shs. 171,806,000 (2010: Shs. 132,135,000).

Interest expense incurred on deposits by companies related through shareholding, common directorship, companies controlled by directors or their families and employees amounted to Shs. 141,266,000 (2010: Shs. 182,737,000).

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. 3,834,686,000 (2010: Shs. 2,020,031,000). Details of this are shown under Note 31.

At 31 December 2011, placements with companies related through common directorship amounted to Shs. 912,664,000 (2010: Shs. 565,842,000).

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	Shs'000	*Shs'000*	*Shs'000*	*Shs'000*
Key management compensation				
Salaries and other short-term employment benefits	472,793	359,766	287,715	225,878
Termination benefits	26,180	24,150	11,448	12,037
	498,973	383,916	299,163	237,915
Director's remuneration				
-fees for services as a director	7,968	8,671	3,600	4,055
-other emoluments (included in key management compensation above)	54,179	51,098	30,439	27,840
	62,147	59,769	34,039	31,895

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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, 4th May 2012 at 11:00 a.m., and at any adjournment thereof.

Dated this …………………………… day of ……………………………….. 2012.

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

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