ANNUAL REPORT 2012

GROWTH & EXPANSION

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,Eldoret
3 Kakamega Branch, Cannon Awori Road
4 Kericho Branch, Tengecha Road
5 Kisii Branch, Moi Highway
6 Kisumu Branch, Oginga Odinga Road
7 Kitale Branch, Kenyatta Street
8 Kitengela Branch, Kajiado Road
9 Meru Branch, Nchuri Njeke Street
10 Migori Branch, Migori Isebania Road
11 Nakuru Branch, Kenyatta Avenue
12 Thika Branch, Kenyatta Highway

Coast

13 Changamwe Branch, Airport Road,Mombasa
14 Diani Branch, Diani Beach Road
15 Jomo Kenyatta Branch,
Jomo Kenyatta Avenue, Mombasa
16 Lamu Branch, Kenyatta Road
17 Kilifi Branch, off Malindi - Mombasa Highway
18 Malindi Branch, FN Centre - Lamu Road
19 Mariakani Branch, Mombasa - Nairobi Road
20 Moi Avenue Branch, Moi Avenue, Mombasa
21 Mtwapa Branch, Mombasa-Malindi Road
22 Nyali Branch, Links Road, Mombasa
23 Shimanzi Branch, Dar es Salaam Road, Mombasa
24 Voi Branch, Biashara Street, Voi

Nairobi

25 Buru Buru Branch, South Mumias Road
26 Capital Centre Branch, Mombasa Road
27 Courtyard Branch, General Mathenge Road
28 Cross Road Branch, Cross Road
29 Diamond Plaza Branch, 4th Parklands Avenue
30 Eastleigh Branch, 7th Street
31 Industrial Area Branch, Likoni Road
32 JKIA Branch, Airport Trade Centre
33 Karen Branch, Ngong Road
34 Madina Mall Branch, Starehe/Pumwani Road
35 Nation Centre Branch, Kimathi Street
36 OTC Branch, Gwasi Lane, Off Racecourse Road
37 Parklands Branch, Aga Khan Hospital,
3rd Parklands Avenue
38 Prestige Branch, Ngong Road
39 T- Mall Branch, Langata Road
40 Tom Mboya Branch, Tom Mboya Street
41 Upper Hill Branch, Kilimanjaro Road
42 Village Market Branch, Limuru Road
43 Wabera Street Branch, Wabera Street
44 Westgate Branch, Mwanzi Road

TANZANIA

1 Dodoma Branch, 7th Street, Near Main Road
2 Mbeya Branch, Market Street junction
3 Mwanza Branch, Kenyatta Road
4 Moshi Branch, Old Moshi Road
5 Tanga Branch, Taifa Road
6 Zanzibar Branch, Forodhani Area

Arusha

7 Arusha City Branch, Sokoine Road
8 Main Branch, Moshi Road

Dar es Salaam

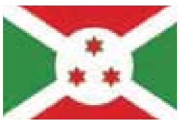
9 Kariakoo Branch, Msimbazi Street
10 Masaki Branch, Haile Sellasie Road Junction
11 Magomeni Branch, off Morogoro Road
12 Main Branch, Jamat / Mosque Street
13 Mbagala Branch, Kilwa Road
14 Mbezi Branch, Mbezi Beach, Old Bagamoyo Road
15 Morocco Branch, Ali Hasan Mwinyi Road
16 Nyerere Branch, Nyerere Road

UGANDA

1 Arua Branch, Avenue Road
2 Busia Branch, Sophia Lane
3 Jinja Branch, Main Street
4 Lira Branch, Aputi Road
5 Malaba Branch, Kwapa /Tororo Road
6 Malaba Customs Branch, Kwapa /Tororo Road
7 Mbale Branch, Bishop Wasike Road
8 Mbarara Branch, Mbaguta Road

Kampala

9 Bwaise Branch, Bombo Road
10 George Street Branch, George Street
11 Freedom City Branch, Entebbe Road
12 Hotel Equatoria Branch, William Street
13 Industrial Area Branch, Kibiira Road
14 Kampala Road Branch, Kampala Road
15 Kamwakya Branch, Kira Road
16 Kikuubo Branch, Ben Kiwanuka Street
17 Kitintale Branch, Port Bell Road
18 Kyengera Branch, Masaka Road
19 Masaka Branch, Kampala Road
20 Naalya Branch, off Northern Bypass
21 Nateete Branch, Masaka Road
22 Nakivubo Branch, Channel Street
23 Ndeeba Branch, Masaka Road
24 Ntinda Branch, Kiira Road
25 Oasis Mall Branch, Yusuf Lule Road
26 Old Kampala Branch, Old Kampala Road
27 Wandegeya Branch, Bombo Road



BURUNDI

Bujumbura

1 Main Branch, Head office 14, Chaussée Prince Louis Rwagasore
2 Central Market Branch 3688 Avenue de la Croix Roug Marche Central
3 Quartier Asiatique Branch, Avenue Ntahangwa 143 Avenue de la Ntahangwa Quartier Asiatique Bujumbura
4 Ruvumera Branch Buyenzi, Ruvumera Market

TABLE OF CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	Abdul Samji	Chairman
	Nasim Devji *	Managing Director
	Farid Hamir**	
	Moez Jamal*	
	Nizar Juma	
	Zakir Mahmood***	Appointed on 8 April 2013
	Amin Merali	
	Mwaghazi Mwachofi	
	Sukh Dev Nayyar****	
	Jamaludin Shamji	
	Nauman Dar***	Resigned on 19 September 2012
	*British **American *** Pakistani **** Indian	

COMPANY SECRETARY

Stephen Kodumbe

REGISTERED OFFICE

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower
Waiyaki Way / Chiromo 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

PRINCIPAL OFFICERS	Nasim Devji	Group CEO & Managing Director
	Stephen Kodumbe	Company Secretary & Head of Legal
	Shahzad Karim	Head of Corporate Banking
	Gopa Kumar	Head of Retail Banking
	Kennedy Nyakomitta	Head of Asset Finance & Western Region
	Shibu Jacob	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
	Suraj Shah	Head of Operations & Projects
	Hilda Gituro	Head of Compliance
	Gituku Kirika	Head of Products & Marketing
	Joe Maye	Head of Branches & Alternate Channels

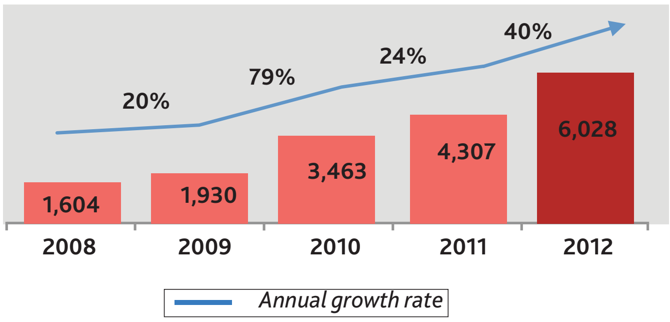
PRINCIPAL CORRESPONDENTS	London	Habib Allied Bank Standard Chartered Bank Plc Citibank N.A.
	New York	Habib Bank Limited Citibank N.A. Standard Chartered Bank Plc
	Stockholm	Swedbank AB
	Frankfurt	BHF Bank Commerzbank Standard Chartered Bank Plc
	Toronto	Citibank, Canada Bank of Montreal
	Johannesburg	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

	2012	2011	2010	2009	2008
Net interest income	9,246,386	6,826,952	4,882,762	3,519,513	2,438,734
Non-fund based income	3,074,041	2,744,867	2,874,831	1,548,417	1,230,067
Total income	12,320,427	9,571,819	7,757,593	5,067,930	3,668,801
Operating profit before provisions	7,012,595	4,896,202	4,020,853	2,225,544	1,794,823
Charge for impairment of loans	(984,696)	(588,789)	(557,854)	(295,682)	(190,527)
Profit before income tax	6,027,899	4,307,413	3,462,999	1,929,862	1,604,296
Profit after tax and non controlling interest	3,627,766	2,656,797	2,284,824	1,250,250	1,024,489
Advances to customers (net)	87,707,243	71,297,721	51,260,068	41,518,135	34,063,359
Total deposits (customers and banks)	109,702,558	88,131,356	68,604,930	54,954,890	45,853,320
Dividends for the year	418,190	332,596	260,859	252,708	228,252
Shareholders' funds	16,522,162	11,593,302	8,939,503	6,998,163	5,905,514
Total assets	135,461,412	107,759,818	83,600,177	66,679,080	56,145,697
Performance ratios					
Earnings per share - basic and diluted	Shs. 17.44	Shs. 13.15	Shs. 11.31	Shs. 6.19	Shs. 5.07
Dividend per share - basic	Shs. 1.90	Shs. 1.70	Shs. 1.60	Shs. 1.55	Shs. 1.40
- diluted	Shs. 1.90	Shs. 1.65	Shs. 1.29	Shs. 1.25	Shs. 1.13
Net loans to deposits	80.0%	80.9%	74.7%	75.5%	74.3%
Non performing loans to total loans (before provisions)	1.1%	0.9%	1.3%	1.4%	1.2%
Return on average assets	3.3%	3.1%	3.3%	2.2%	2.4%
Return on average shareholders' funds	25.8%	25.9%	28.7%	19.4%	18.7%
Non-fund based income to total income	25.0%	28.7%	37.1%	30.6%	33.5%
Number of branches	90	76	65	53	30
Number of employees	1,514	1,264	1,101	930	687
Expenditure on property and equipment	1,258,974	666,208	438,509	900,646	685,205
Other indicators (Bank only)					
Core capital to customer deposits	16.4%	13.7%	14.7%	14.5%	13.6%
Core capital to total risk weighted assets	17.7%	14.2%	15.3%	15.4%	15.6%
Total capital to total risk weighted assets	19.8%	16.8%	18.4%	19.0%	19.8%

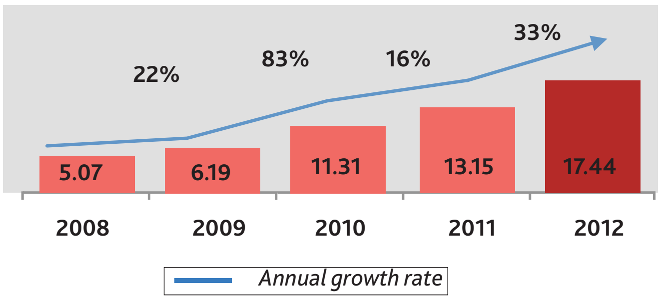
The extracts from the consolidated financial statements are stated in thousands of Kenya Shillings (Shs 000) except where otherwise indicated.

Group profit before tax (Shs Million)



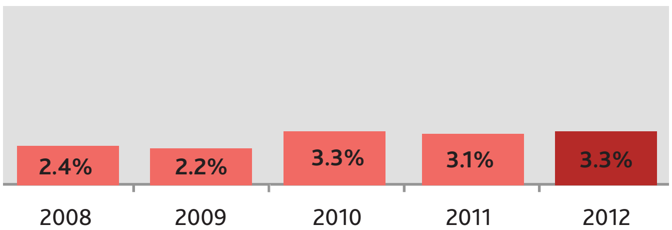
- Group's pre-tax profit grew by 40% from Shs 4.3 billion in 2011 to Shs 6.0 billion in 2012, with the Group's subsidiaries contributing 22.5% to the overall pre-tax profit.

Earning per share - basic and diluted (Shs)



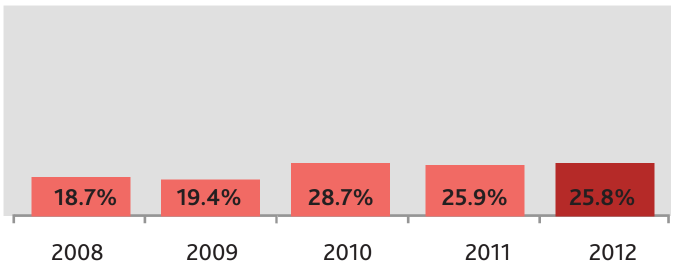
- EPS grew by 28% to Shs 17.44 on the back of strong revenue growth and effective cost management strategies adopted by the Group.
- Profit attributable to common shareholders increased by 37% while the average number of shares outstanding grew by 3%.

Return on Assets (%)



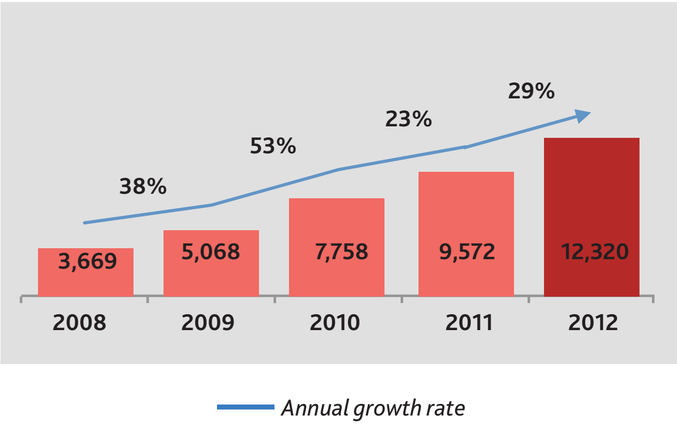
- RoA grew from 3.1% in 2011 to 3.3% in 2012, on the back of improved profitability.

Return on Equity (%)



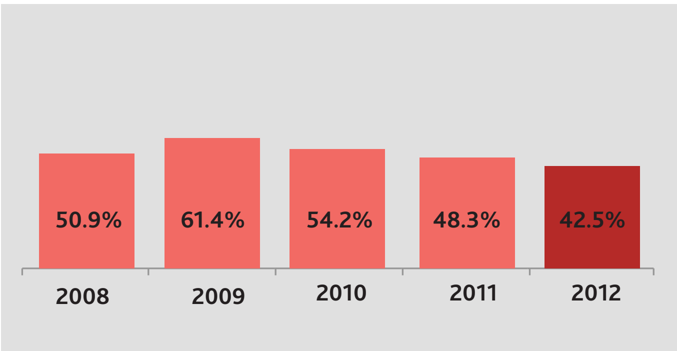
- RoE at 25.8% closed at 0.1% below 25.9% in 2011.
- Despite the increase in profitability, the RoE was marginally diluted by the additional capital raised through a rights issue in September 2012.

Operating income (Shs Million)



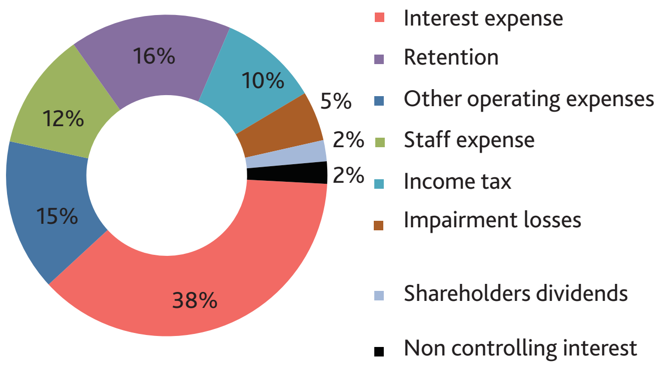
- Operating income grew by 29% from Shs 9.6 billion in 2011 to Shs 12.3 billion in 2012
- This is as a result of consistent growth in liabilities, funded business and diversification of non-fund business streams.

Cost to income ratio (%)

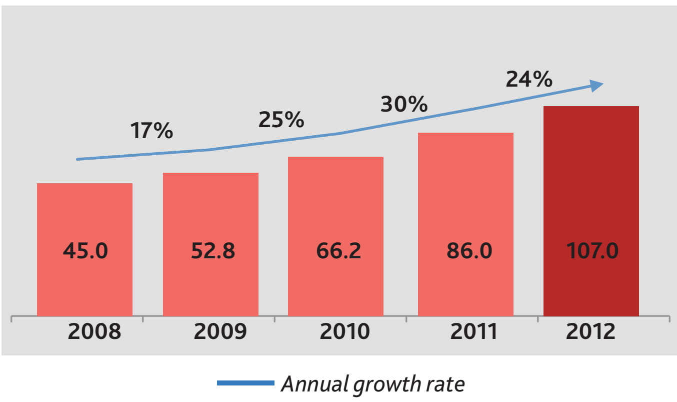


- Cost to income ratio was down to 42.5% from 48.3% in 2011, reflecting the effectiveness of the Group's continued cost management strategies.

Utilisation of income - 2012

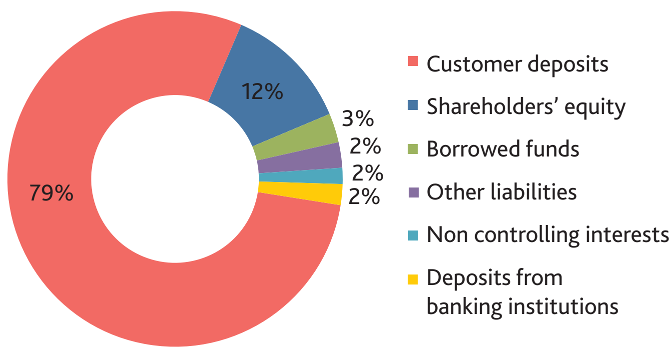


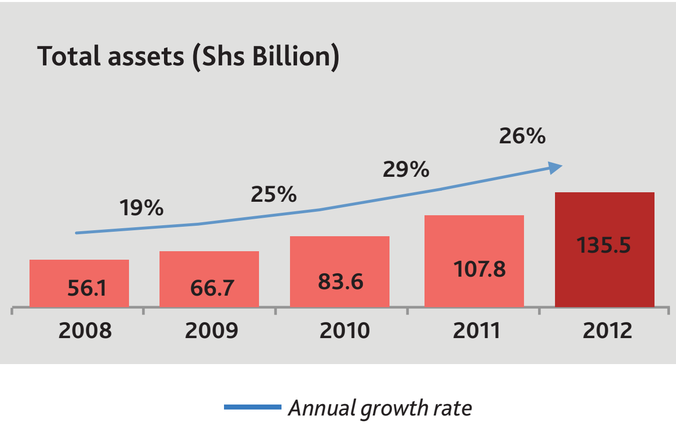
Customer deposits (Shs Billion)



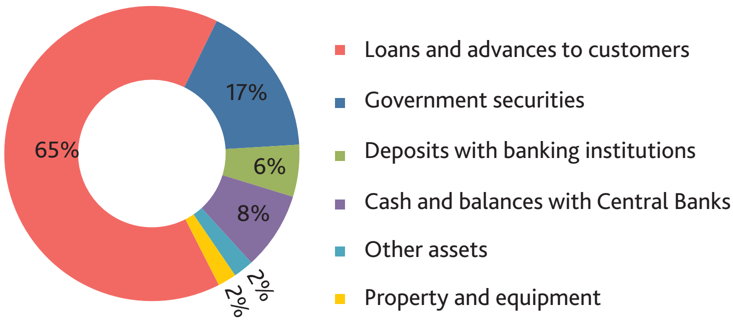
- The continous expansion of the Group's customer base has had a beneficial impact in acquiring additional customer deposits.

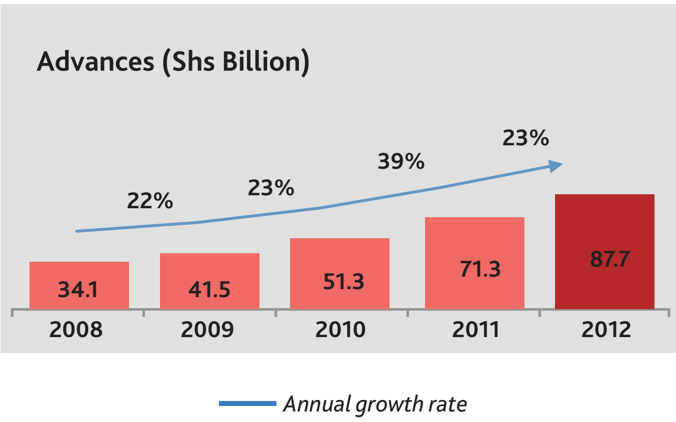
Composition of liabilities and shareholders' equity - 2012

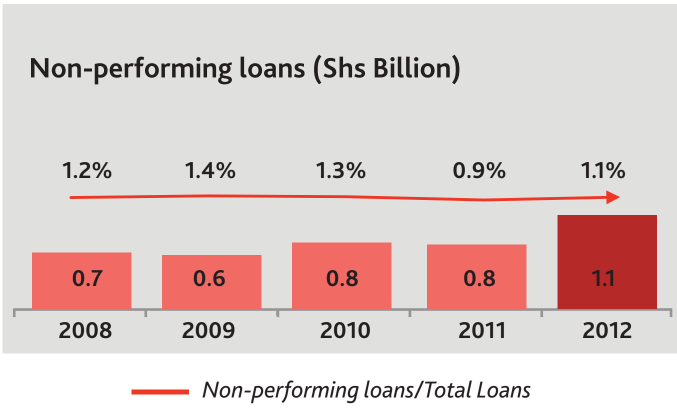


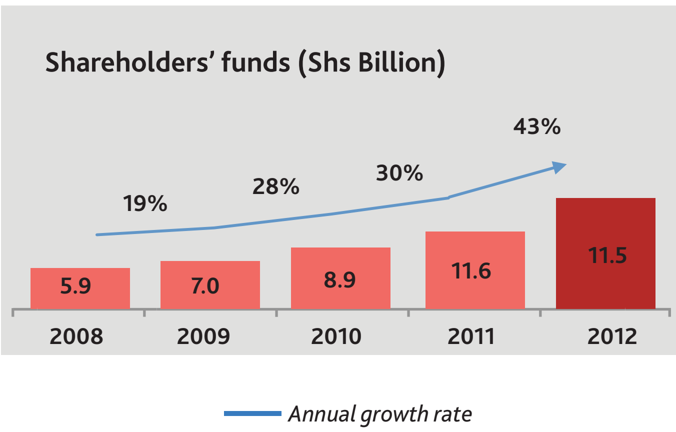


Composition of assets - 2012









BOARD OF DIRECTORS

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.

Mr. Samji is aged 65 years.

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. 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 both organized by "Think Business" Magazine. Mrs. Devji is aged 59 years.

Mr. Nizar Juma

Non-executive 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. Juma is aged 68 years.

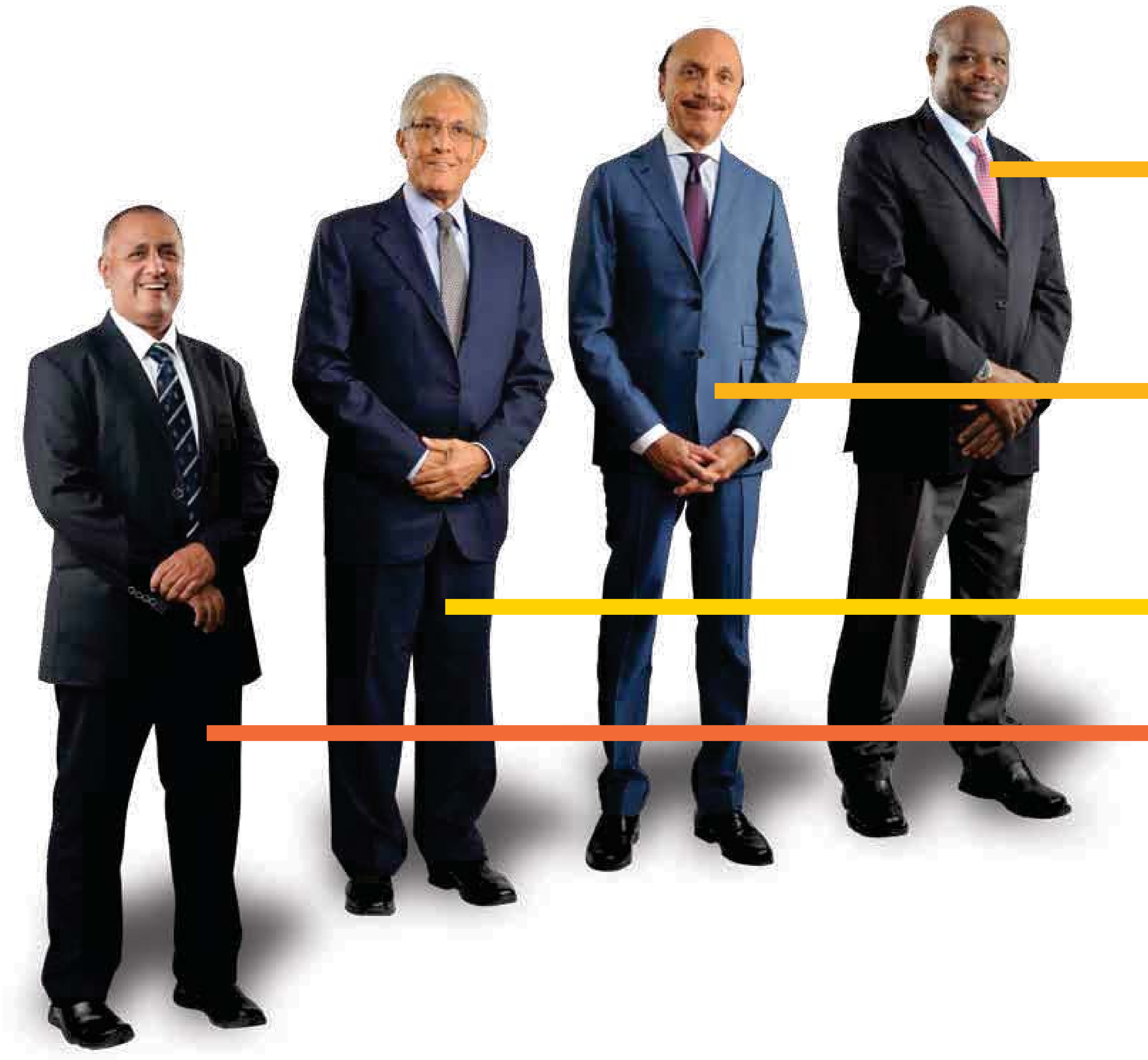
Mr. Amin Merali

Non-executive Director

Mr. Merali was appointed to the DTB Kenya Board in 1998. He is a prominent businessman and both the Chairman and Chief Executive of the Merali Group of Companies-which comprises of the Neptune Group of hotels in Kenya and Tanzania, bulk fuel haulage and property development in Kenya, Uganda and Tanzania. Mr. Merali is aged 68 years.

Member of :

- Board Executive Committee
- Board Nomination and Human Resource Committee
- Board Audit and Compliance Committee
- Board Risk Management Committee
- Board Credit Committee
- Board Information Technology Committee



Mr. Mwaghazi Mwachofi

Non-executive Director

Mr. Mwachofi was appointed to the DTB Kenya Board in May 2009. He is a former Permanent Secretary in the Ministry of Finance, Kenya and is currently the 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 worked with Celtel International BV before his current appointment. Mr. Mwachofi is a holder of an Honours Degree in Accounting from the University of Nairobi and an MBA in Finance from the Wharton Business School, University of Pennsylvania. He is currently a director of the First Microfinance Bank, Pakistan and other microfinance banks, in Afghanistan, Tajikistan, Kyrgyzstan, Syria, Egypt, West and Southern Africa. Mr. Mwachofi is aged 64 years.

Mr. Moez Jamal

Non-executive Director

Mr. Jamal was appointed to the DTB Kenya Board in December 2009. He has vast experience in banking and is currently a Director of Habib Bank Limited, Pakistan and Marcuard Family Office, Switzerland. He is also a Partner in JAAM AG in Zurich. Mr. Jamal has previously worked in various senior positions with Credit Suisse and Lloyds Bank International London/New York and his last assignment was as the Global Treasurer, Credit Suisse. Mr. Jamal is aged 57 years.

Mr. Jamaludin Shamji

Non-executive 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. Mr. Shamji is aged 50 years.

Mr. Farid Hamir

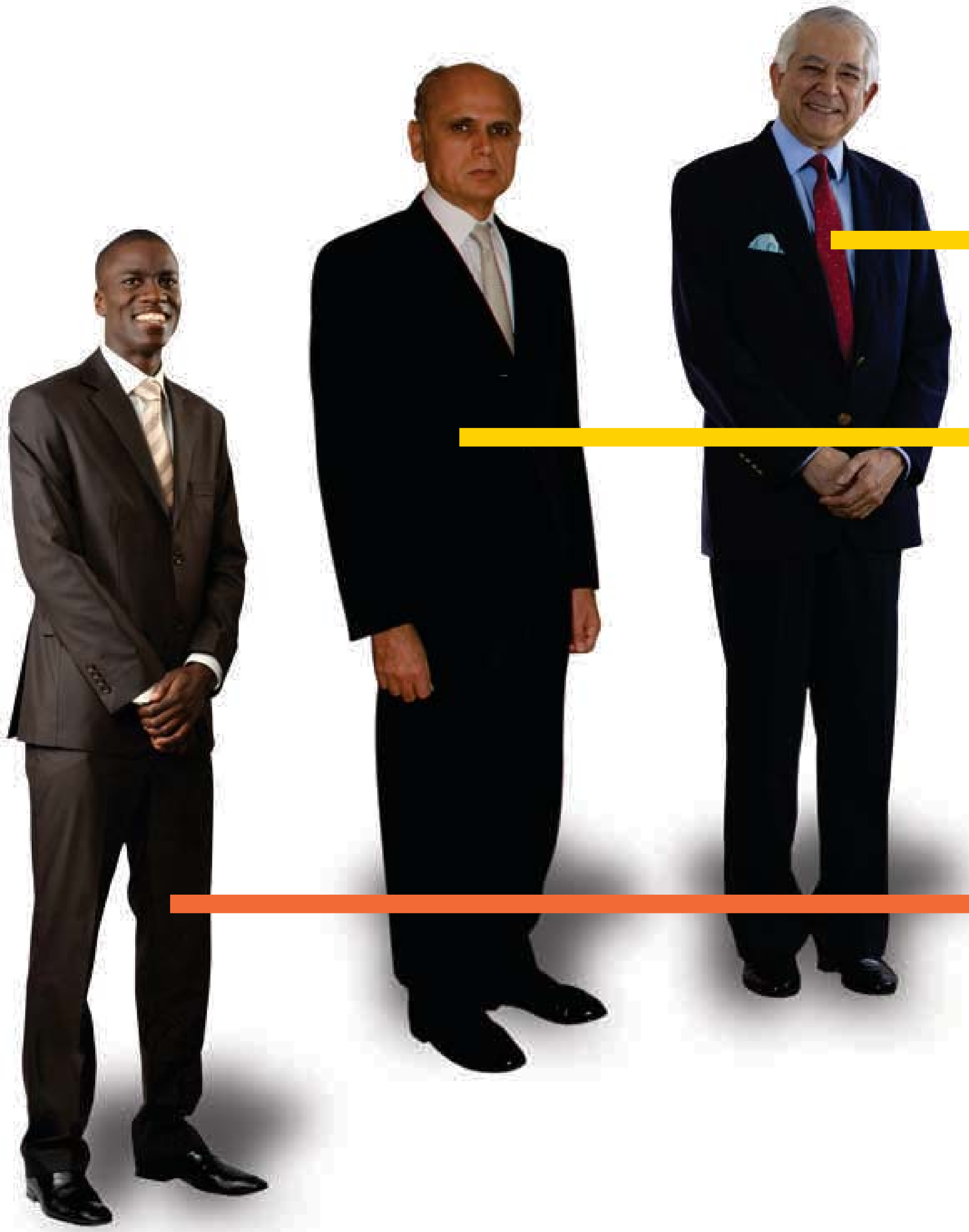
Non-executive Director

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. Hamir is aged 69 years.

Member of :

- Board Executive Committee
- Board Nomination and Human Resource Committee
- Board Audit and Compliance Committee
- Board Risk Management Committee
- Board Credit Committee
- Board Information Technology Committee

BOARD OF DIRECTORS (Continued)



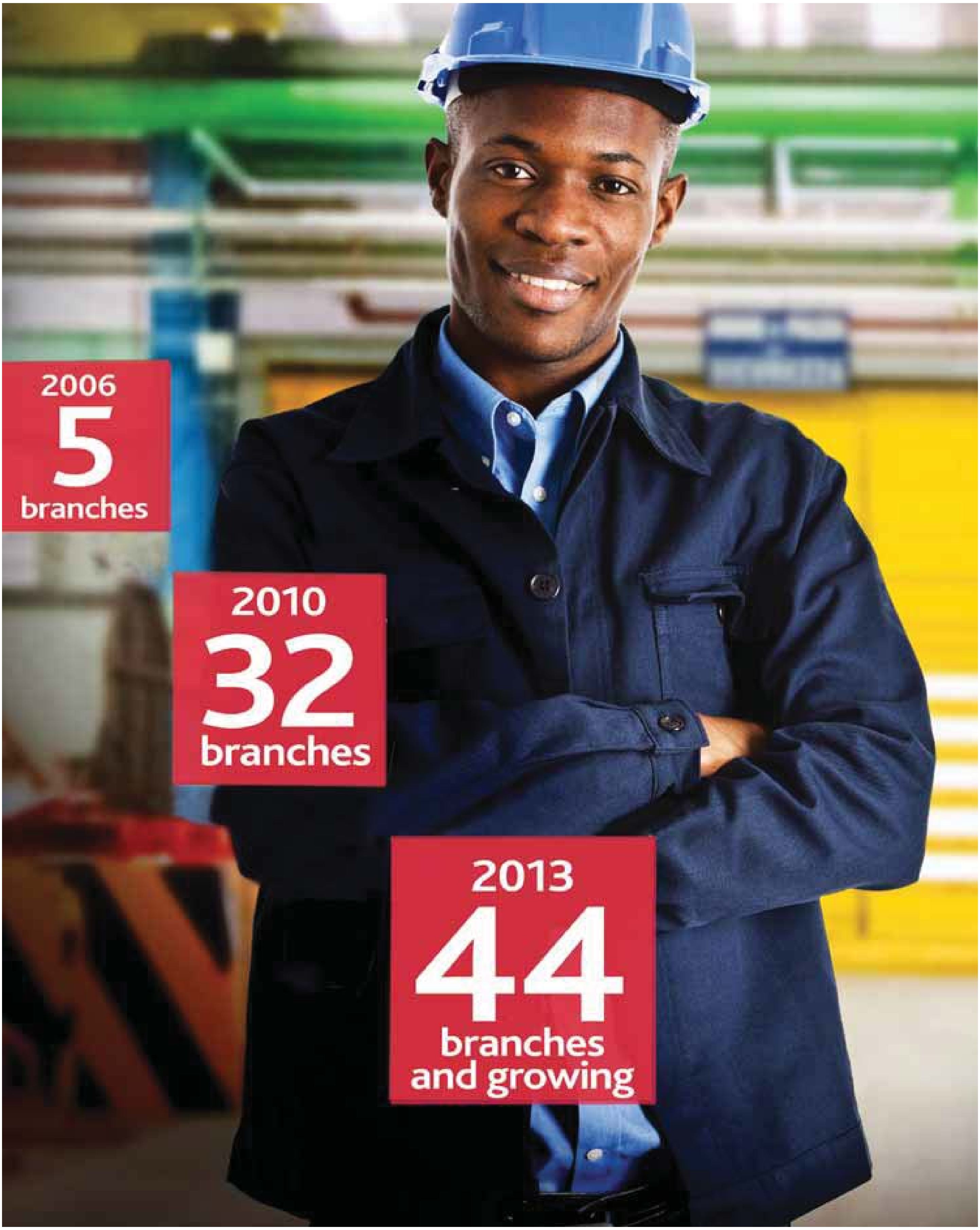
Mr. Sukh Dev Nayyar
Non-executive Director
Mr. Nayyar was appointed to the DTB Kenya Board in August 2009. He was an Associate of the Institute of Bankers, England and is knowledgeable in the area of risk management. Mr Nayyar has vast experience in banking and is currently a non-executive Director of Development Credit Bank, India, 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. Nayyar is aged 70 years.

Mr. Zakir Mahmood
Non-executive Director
Mr. Mahmood was appointed to the DTB Kenya Board in April 2013. He holds an MBA (Finance) and Masters, Electrical Engineering both from the University of California, Los Angeles, U.S.A. He also holds a BE, Electrical Engineering from NED College, University of Karachi. Mr. Mahmood has extensive experience in banking having served as the President and Chief Executive Officer of Habib Bank Limited, Karachi, Pakistan. He has also previously worked in several senior positions in the banking industry with Credit Agricole Indosuez, France and the Bank of America. He is the Chairman of Habib Allied International Bank Plc in the United Kingdom and is a director of various companies including Habib Bank Limited, Khushhali Bank Limited and Jubilee Insurance Pakistan and also serves as a Trustee of The Aga Khan University. Mr. Mahmood has served on several Government of Pakistan Commissions and as the Chair of the Global Agenda Council for Pakistan of the World Economic Forum. Mr. Mahmood is aged 61 years.

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. Mr. Kodumbe is aged 36 years.

Member of :

- Board Executive Committee
- Board Nomination and Human Resource Committee
- Board Audit and Compliance Committee
- Board Risk Management Committee
- Board Credit Committee
- Board Information Technology Committee


2006
5
branches
2010
32
branches
2013
44
branches
and growing

NOTICE IS HEREBY GIVEN THAT THE FORTY SEVENTH 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, 31 MAY 2013 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Forty Sixth Annual General Meeting held on 4 May 2012.

2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2012.

3. To approve payment of a final dividend of 47.5% on the Issued and Paid-up Share Capital of Shs 880 million to the shareholders registered in our books as at 31 May 2013 on or about 20 June 2013, 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 2012, and to authorise the Directors to fix the Auditors' remuneration for the year 2013.

8. To transact any other Ordinary Business of an Annual General Meeting.

SPECIAL BUSINESS

Amendment of the Company's Articles of Association

9. To consider and, if thought fit, to pass the following resolution as a special resolution:

   That the Articles of Association of the Company be amended by including the following new sections in Article 1 thereof:

   "Company" shall mean Diamond Trust Bank Kenya Limited.

   "Debenture" shall include debenture stock.

   "Kenya" shall mean the Republic of Kenya.

   "Shillings" and Shs. shall mean Kenya Shillings or the lawful currency of the Republic of Kenya.

   The expression "in writing" or "written" shall include words written, printed, lithographed or represented or reproduced in any other mode in visible form.

10. To consider and, if thought fit, to pass the following resolution as a special resolution:

    That the Articles of Association of the Company be amended by the deletion therefrom of Article 105 and the substitution therefor with the following new Article 105:

    "The Directors may meet together for the dispatch of business, adjourn, and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote. A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. It shall be necessary to give notice of a meeting of Directors to any Director for the time being absent from Kenya. A meeting of the Directors may be held by way of tele-conference, video-conference or such other suitable means of telecommunication provided that all Directors attending such meeting are able to hear and or see each other clearly throughout the meeting. A Director participating in this way is deemed to be present in person at the meeting and is counted in a quorum and entitled to vote at the meeting."

    Copies of the complete amended Articles of Association are available for inspection at the Company's Registered office - 8th Floor, Nation Centre, Kimathi Street, Nairobi.

By Order of the Board

Stephen Kodumbe

Company Secretary
13March 2013
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

The resilience of the Kenyan economy was extensively tested in 2012, on the back of heightened inflationary conditions which were prevalent from the last quarter of 2011. The Central Bank of Kenya continued to enforce a tight monetary policy, with the tone set by the Monetary Policy Committee which maintained the Central Bank Rate at an all-time high of 18% in the first half of the year, easing gradually to 11% by the end of the year, and further to 9.5% in early 2013. These stringent monetary policy initiatives were aimed at mopping up excess liquidity, stabilizing the Kenya Shilling and slowing down growth in private sector credit. These measures saw a return to stability of the key macro-economic fundamentals: the inflation level, which had peaked at nearly 20% towards the end of 2011, relented in 2012, falling to a low of 3.2% in December 2012. The Kenya Shilling, which had witnessed significant volatility in 2011–depreciating by up to 30% at one point in time-was range bound between 83-87 to the US dollar during the year.

Looking forward, there is much to be optimistic about in 2013: the key macro-economic indicators remain firm, with inflation at the sub 5% level and the Shilling holding at 85-87 to the US dollar in the first quarter of 2013. The peaceful outcome of the general elections-under pinned by the maturity exhibited throughout the process, by both the Kenyan people as well as the nascent and reformed institutions borne out of the new constitutional dispensation - is expected to augment confidence in the economy and add significant impetus to growth prospects in 2013 and beyond. Indeed, as per International Monetary Fund estimates, the country's GDP is set to grow by 5.8% in 2013, up from the 4.7% achieved last year.

DTB achieved a Group pre- tax profit of Shs 6 billion for the year ended 31st December 2012, representing an increase of 40% from the Shs 4.3 billion registered the previous year. This result marks a new record in the Group's performance and one that has been attained in the midst of a high interest rate environment prevalent across East Africa. The Group asset base went up by 26% to stand at Shs 135 billion up from Shs 108 billion in 2011. The Group's customer deposit base surpassed the 100 billion shilling benchmark for the first time, closing at Shs 107 billion at the end of 2012, a 24% rise over the 2011 level of Shs 86 billion. The loan book for the Group grew by a significant 23%, to stand at Shs 88 billion; the total Group operating income rose by 29% to Shs 12.3 billion, up from Shs 9.6 billion realized over the same period in the previous year.

Against the background of a challenging business environment, the Group was successful in confining its non-performing loan portfolio, which stood at Shs 957 million in December 2012, to 1.06% of the loan book, arguably one of the lowest in the industry. Notwithstanding the high quality of DTB's loan book, bad debt provisions were enhanced during the year, a reflection of the prudent provisioning practices adopted by the Group.

Following this performance, the Bank's Board of Directors has recommended a dividend of Shs 1.90 per share, compared to Shs 1.70 paid in the previous year. As the proposed dividends will also be paid on the additional shares issued to shareholders last year following the rights issue, this will translate into a 26% increase, year on year, in the amount of dividend payout for 2012.

To sustain and build on the growth momentum achieved in recent years, the Bank expanded its capital base in 2012 through a rights issue, its third since 2006. Following last year's rights issue, which was oversubscribed by 86%, DTB Kenya was able to raise Shs 1.8 billion in additional capital, increasing the Bank's core capital to Shs 12 billion as at the end of 2012. DTB Kenya plans to further augment its capital base over the next 12 months by raising long-term subordinated debt capital to the tune of US$ 40 million.

The enhanced capital base will, over the next few years, enable the Bank to continue to comply with the enhanced capital requirements and capital adequacy ratios stipulated by the Central Bank of Kenya in new prudential guidelines issued in late 2012. DTB will also leverage its expanded capital base to intermediate financial transactions through a wider network of domestic branches as well as invest in its existing operations in Eastern Africa and, in due course, in other countries in the Sub-Saharan African region.

In this respect, I am pleased to inform shareholders that in December 2012, the Bank increased its investment in DTB Tanzania from 55.4% to 62.9%. This was achieved by participation in a Rights Issue offering by DTB Tanzania to the tune of Shs 624 million. DTB Uganda also undertook a rights issue in February 2013, following which DTB Kenya's shareholding in DTB Uganda increased from 54.07% to 56.97%, at an additional investment of Shs 398 million.

During the year, and in line with its long term strategic blueprint - dubbed 'Vision 2020'-DTB continued to implement its network expansion plans across East Africa, buoyed by the favourable reception and patronage from its customers. In 2012, the Group opened 14 new branches across East Africa, capitalising on high-potential market opportunities; consequently, DTB's footprint stood at 90 branches by year end, with 43 branches in Kenya, 27 in Uganda, 16 in Tanzania and four in Burundi. Recognising the wide geographical spread of DTB's customer base, the Bank has entered into agency banking arrangements with nearly 300 retail, commercial outlets. These agents enable DTB to provide banking services in a manner which is convenient and accessible for its customers and yet cost effective for the Bank.

In addition to branch expansion and acquisition of bank agents, DTB is committed to availing convenient, accessible and efficient financial services within its expanding footprint, and is therefore continuing to commit substantial investments in technology. The Group's core banking system, Flexcube, which was implemented in 2004, is being upgraded to a new version in 2013. This state of the art system will propel the Group's ability to offer first class customer service as well as provide a platform on which a comprehensive range of innovative products and services can be anchored. As the new version of Flexcube is also being implemented in the Bank's subsidiaries in Tanzania and Uganda, following the completion of this region-wide project in late 2013, DTB will be in a pivotal position to avail its value proposition, comprising a full suite of products, services and channels, hosted on the enhanced core banking platform to all its customers in the region.

As mentioned in my Statement last year, DTB Kenya has invested in a new corporate headquarters in Nairobi. Presently, the property which is located along Mombasa Road, is being fitted out for occupation by the fourth quarter of this year. Once completed, the buildings will meet your Bank's space and facilities needs for the next several years.

The Bank is also keen to implement its financial inclusion strategy, a key tenet of the Bank's Vision 2020 long term business strategy. In this regard, I am pleased to inform you that DTB Kenya has set up a business unit dedicated to servicing the financing and banking needs of micro-entrepreneurs. In 2013, the Bank will be offering appropriately tailored products and services to cater for this market segment. DTB Kenya is also at an advanced stage of entering into a risk-sharing facility agreement to the tune of US$ 10 million with the International Finance Corporation, targeted at 'very small enterprises' or VSEs. Apart from increasing credit availability, this facility will also support job creation by financing the VSEs, which are a high impact sector, but with low access to finance. The Bank is very excited at servicing this segment of the market as it has the potential to have a high development impact on the targeted sector, a key objective of DTB's Vision 2020 strategy.

As we enter 2013, I am confident that with the foundation we have laid over the years through appropriate investments in technology, infrastructure, innovation and people – under-pinned by capital raising initiatives, as needed, and continuous, prudent risk management - we are well positioned to take advantage of the emerging opportunities ahead and well heeled to overcome any short term challenges that may arise in the business environment.

The many successes that I have enumerated above have been achieved through the dedication, professionalism and hard work of our Group CEO and Managing Director, Nasim Devji, and her management team with the enthusiastic support of all of our employees. On behalf of the Shareholders and Board, I therefore take this opportunity to sincerely thank them all for an exceptional year's performance.

This has also been a busy year for the Board members, who have participated fully and actively in decision making and monitoring the various new projects as well as the ongoing operations of the Bank. I therefore thank them for their valuable contribution to the positive performance of our institution. I would like to extend a warm welcome to Mr. Zakir Mahmood who joined the Board in April 2013. Mr. Mahmood served as President and CEO of Habib Bank Pakistan Limited for several years, until his retirement in September 2012. I am confident that the Bank will benefit immensely from the wealth of experience and knowledge Mr. Mahmood brings to the Board. I would also like to take this opportunity to sincerely thank Nauman Dar who resigned from the Board last September, following his appointment as President and CEO of Habib Bank Limited, Pakistan, as well as Farid Hamir and Sukh Dev Nayyar whose tenures will be coming to an end at the forthcoming Annual General Meeting. Messrs. Dar, Hamir and Nayyar have made tremendous contributions to the Board, serving diligently throughout their tenures. We thank them for their support and wish them the very best for the future.

I would also like to pay tribute to our primary regulator, the Central Bank of Kenya, for its invaluable support and contribution to the development of a sound banking sector. Our appreciation also goes out to the Capital Markets Authority and the Nairobi Securities Exchange for playing their respective roles in building confidence in and deepening the Kenyan Capital Markets.

On behalf of the entire DTB family, I would like to take this opportunity to recognise our foremost stakeholders: our customers. We welcome all new customers who joined the Group in 2012 and salute our depositors and borrowers for their unwavering support and confidence. As always, we will 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

AA Samji

Chairman

TAARIFA YA MWENYEKITI

Ustahimilivu wa uchumi wa Kenya ulijaribiwa sana mnamo mwaka 2012 wakati ambapo gharama ya maisha ilikuwa juu sana toka katika kipindi cha robo ya mwisho ya mwaka wa 2011. Benki kuu ya Kenya iliendeleza sera ngumu za kifedha, huku Kamati ya Sera ya Fedha ikiendelea kushikilia Kiwango cha Riba ya Benki Kuu cha asilimia 18 (18%) katika miezi sita ya mwanzo, na kupungua hadi asilimia 11 (11%) mwishoni mwa mwaka, na kisha asilimia 9.5 (9.5%) mwanzoni mwa 2013. Hali hizi ngumu za sera ya fedha zilinuiwa kumaliza fedha za ziada, kuiweka shilingi katika hali swari na kupunguza kiwango cha ukuaji wa mikopo ya kibinafsi. Hatua hizi ziliimarisha uthabiti wa vigezo muhimu vya kanuni za ukuaji wa uchumi: Kiwango cha mfumuko wa uchumi ambacho kilikuwa kimepanda hadi asilimia 20 (20%) kufikia mwisho wa mwaka wa 2011, ikapungua mnamo 2012 na kushuka hadi asilimia 3.2 (3.2%) kufikia Decemba 2012. Shilingi ya Kenya ambayo kwa kiwango kikubwa ilishuhudia hali ya mabadiliko mnamo 2011–na kushuka kwa asilimia 30 (30%) wakati mmoja, ilikuwa kati ya kiwango cha 83 na 87 kwa dola ya Marekani mwaka mzima.

Tukiendelea, kuna mengi ya kutarajia mwaka huu wa 2013: vigezo muhimu vya ukuaji wa uchumi vikiwa viko imara, mfumuko wa uchumi ukiwa katika kiwango cha chini cha asilimia 5 (5%) na kiwango cha shilingi dhidi ya dola ya Marekani kikibakia kati ya 85 na 87 katika robo ya kwanza ya mwaka wa 2013. Matokeo ya amani ya uchaguzi mkuu – ukisaidiwa na jinsi shughuli hiyo ilivyoendeshwa na Wakenya pamoja na taasisi zingine zilizowekwa baada ya katiba mpya–ni hali inayotarajiwa kuimarisha uchumi tena zaidi na hivyo kusababisha kukua kwa uchumi maradufu katika mwaka huu wa 2013 na baadaye. Kulingana na makadirio ya Hazina ya Kimataifa ya Fedha , uchumi wa nchi unatarajiwa kukua kwa kiwango cha ailimia 5.8 (5.8%) mnamo 2013 kutoka kwa kiwango cha asilimia 4.7 (4.7%) kilichofikiwa mwaka jana.

Kundi la DTB lilipata faida ya shilingi bilioni 6 kabla ya ushuru katika mwaka uliomalizika Decemba 2012 ambayo ni ongezeko la asilimia 40 (40%) ya faida kutoka shilingi bilioni 4.3 zilizopatikana mwaka uliopita. Matokeo haya ni rekodi mpya ya utendakazi wa Kundi na ambao umepatikana wakati wa mazingira ya viwango vya juu vya riba katika eneo zima la Afrika Mashariki. Mali ya Kundi iliongezeka kwa asilimia 26 (26%) na kufikia shilingi za Kenya bilioni 135 kutoka shilingi bilioni 108 mnamo 2011. Kiwango cha uwekaji fedha kwa benki cha wateja kilipita kiwango cha shilingi bilioni 100 kwa mara ya kwanza, tukifunga na shilingi bilioni 107 mwishoni mwa 2012, ambacho ni ongezeko la asilimia 24 (24%) ya kiwango cha shilingi bilioni 86 cha mwaka wa 2011. Kitabu cha mikopo cha Kundi kilikua kwa asilimia 23 (23%) na kufikia shilingi milioni 88; Kiwango cha matumizi ya Kundi kiliongezeka kwa asilimia 29 (29%) na kufikia bilioni 12.3 kutoka shilingi bilioni 9.6 zilizotumika katika kipindi kama hicho, mwaka uliopita.

Ingawa mazingira ya uchumi yalikuwa na changamoto chungu nzima, Kundi lilifanikiwa kuthibiti mikopo ambayo hailipwi iliyofikia shilling milioni 957 kufikia Desemba 2012 katika asiliamia 1.06 (1.06%) ya kitabu cha mikopo ambacho kwa kweli, ni kiwango cha chini sana katika kiwanda hiki cha uwekaji fedha. Licha ya kiwango hiki cha juu cha mikopo ya DTB, masharti ya utoaji na maangalizi ya mikopo mibaya uliimarishwa mwakani hali inayoonyesha kwamba Kundi limekuwa angalifu zaidi katika utoaji wa mikopo.

Kutokana na kazi hii nzuri, Halmashauri ya Wakurugenzi wa Benki imependekeza mgawo wa Hisa wa shilingi 1.90 kwa kila hisa ikilinganisha na shilingi 1.70 iliyolipwa mwaka jana. Kwa kuwa hisa inayopendekezwa italipwa hata kwa hisa za ziada zilizotolewa kwa wanahisa mwaka jana kutokana na uuzaji wa hisa, hii itakuwa ongezeko la asilimia 26 (26%) ya kiwango cha hisa kilicholipwa mwaka wa 2012.

Ili kuhimili na kuendelea kujenga mwendo wa ukuaji uliopatikana katika miaka ya hivi karibuni, Benki ilipanua kiwango chake cha fedha katika mwaka wa 2012 kupitia uuzaji wa hisa ambao ulikuwa wa tatu toka mwaka wa 2006. Kutokana na uuzaji huu wa hisa uliopita kiwango chake cha uuza kwa asilimia 86 (86%), DTB ilifanikiwa kuchangisha shilingi bilioni 1.8 kama ongezeko la fedha zake, fedha hizi zikiongeza kiwango kikuu cha fedha za benki na kukifanya kuwa shilingi bilioni 12 kufikia mwisho wa 2012. DTB ina mipango ya kuimarisha kiwango kikuu chake cha fedha kwa muda wa miezi 12 ijayo kupitia kuongeza viwango vya mikopo ya chini kufikia dola za Marekani milioni arobaini (40 milion).

Baada ya miaka kadhaa, kiwango cha fedha kilichoimarishwa kitawezesha Benki kuendelea kutimiza mahitaji ya kiwango cha fedha kilichoimarishwa na viwango vya fedha zinazotakikana na Benki Kuu ya Kenya kulingana na miongozo mipya iliyotolewa mwaka wa 2012. DTB itaimarisha kiwango chake cha fedha kilichopanuka kwa washirika wake wa kifedha kupitia mtandao wake mpana wa matawi yake pamoja na kuwekeza katika shughuli zake zilizomo katika Afika Mashariki na baadaye katika nchi zingine zilizomo katika eneo la Afrika ya Chini ya Sahara.

Kutokana na haya, ninafuraha kuwajulisha wanahisa kwamba mnamo Desemba 2012, Benki iliongeza uwekezaji wake katika Benki ya DTB Tanzania kutoka asilimia 55.4 (55.4%) hadi asilimia 62.9 (62.9%). Jambo hili lilitokana na kushiriki uuzaji wa hisa wa DTB Tanzania wa shilingi milioni 624. Benki ya DTB Uganda pia iliuza hisa mnamo February 2013, ambapo DTB Kenya iliongeza hisa zake kutoka asilimia 54.07 (54.07%) hadi asilimia 56.97 (56.97%) kwa ongezeko la shilingi milioni 398 zaidi.

Mwakani, na kulingana na mipango yake ya muda mrefu inayoitwa- "RUWAZA YA 2020"- DTB iliendelea kutekeleza upanuzi wa mtandao wake kote Afrika Mashariki ukiungwa mkono na mapokezi na uzalendo wa wateja wake. Mnamo 2012, Kundi lilifungua matawi mapya 14 kote katika eneo la Afrika Mashariki likitegemea nafasi zinazotolewa na masoko ya hali ya juu katika maeneo haya; ambapo; matawi yote ya Benki ya DTB yalifikia 90 kufikia mwishoni mwa mwaka, huku Kenya ikiwa na matawi 43, Uganda 27, Tanzania 16 na Burundi, matawi 4. Huku tukitambua upana wa kijiografia wa wateja wa Benki ya DTB, benki imeanzisha mipango ya huduma za uajenti na kwa sasa ina matawi karibu 300 ya uajenti wa rejareja. Maajenti hawa wanawezesha DTB kutoa huduma za uwekaji fedha kwa benki kwa njia isiyokuwa na usumbufu na inayopatikana kwa urahisi na wateja wake na ambayo sio ghali kwa benki.

Pamoja na kupanua matawi yake na kupata maajenti, DTB imejitolea kutoa huduma nzuri za kifedha na ambazo zinapatikana kwa urahisi na kwa njia bora katika upanuzi wake, na kwa hivyo, inaendelea kuwekeza katika teknolojia ya kisasa. Mfumo mkuu wa uwekezaji fedha kwa benki, Flexcube, uliotekelezwa mwaka wa 2004 unaimarishwa kwa kutolewa nakala mpya mwaka huu wa 2013. Mfumo huu wa hali ya juu utasukuma mbele uwezo wa Kundi wa kutoa huduma za hali ya juu kwa wateja wake na pia kutoa nafasi za kukuza bidhaa mbalimbali za ubunifu. Wakati nakala mpya ya Flexcube inapotekelezwa katika matawi ya DTB Tanzania na Uganda, na kufuatia kumalizika kwa mradi huu wa eneo zima mwishoni mwa mwaka wa 2013, DTB itaweza kutoa kiwango cha thamani yake, kikiwa kimejaa tele bidhaa za hali ya juu, huduma na njia mbalimbali, zitakazosheni katika jukwaa la utoaji huduma kwa wateja wake katika eneo zima.

Kama nilivyotaja katika Taarifa yangu ya mwaka jana, DTB Kenya imewekeza katika makao makuu mapya Mjini Nairobi. Kwa sasa, nyumba hii, iliyopo kando ya Barabara Kuu ya Mombasa, inatayarishwa ili iweze kutumika katika robo ya mwisho ya mwaka huu. Ikiisha, mijengo itakidhi mahitaji ya nafasi ya benki yenu kwa miaka kadhaa ijayo.

Benki imejitolea kutekeleza mikakati yake jumuishi ya kifedha, ambacho ni kipengee muhimu cha mkakati wa kibiashara wa Ruwaza 2020 ya Benki. Kulingana na hili, ninafuraha kuwajulisha kwamba DTB Kenya imeanzisha kitengo cha biashara kilichonuiwa kukidhi mahitaji ya benki ya utoaji wa huduma za kifedha na za uwekaji fedha kwa benki kwa wafanyi biashara ndogondogo. Katika mwaka huu wa 2013, Benki itatoa huduma na bidhaa zinazofaa za kitengo hiki cha biashara. DTB Kenya pia iko mbioni kuingia katika mkataba wa mgawo wa hatari (bima) na Shirika la Fedha la Kimataifa (International Finance Corporation) wa kiwango cha dola milioni 10 za Marekani ,unaolenga "biashara zile ndogo kabisa". Mbali na kuongeza nafasi za utoaji wa mikopo, biashara hizi pia zitazalisha nafasi za kazi kwa kutoa fedha kwa biashara hizi ambazo ni sekta ya hali ya juu, lakini zisizo na nafasi ya kufikia fedha. Benki inafurahia kutoa huduma za fedha kwa kitengo hiki cha biashara kwani kinanafasi ya kutoa athari nzuri za kibiashara kwa sekta lengwa, ambayo ni moja ya malengo muhimu ya mkakati wa benki ya DTB ya Ruwaza 2020.

Kadri tunavyoingia mwaka wa 2013, nina imani kwamba msingi tuliojenga katika miaka ya nyuma kupitia nafasi nzuri za uwekezaji wa teknolojia, miundo msingi, uvumbuzi na watu – ukisaidiwa na ari za uchangishaji fedha, kama inavyotakikana na kuendeleza kusimamia vyema hatari za kibiashara zilizopo – tunanafasi nzuri ya kuchukua nafasi zinazojitokeza mbele yetu na kuweza kushinda changamoto zozote za muda mfupi zitakazojitokeza katika mazingira ya kibiashara.

Mafanikio mengi niliyozungumzia yamepatikana kupitia kujitolea, weledi na kazi ngumu ya Afisa Mkuu Mtendaji wa Kundi aliye pia Mkurugenzi Mkuu, Nasim Devji, na kundi lake la wasimamizi na kujitolea kusikopimika kwa wafanyakazi wote. Kwa niaba ya Wanahisa wote na Halmashauri, nachukua nafasi hii kuwashukuru wote kwa kazi nzuri isiyokuwa na kifani ya mwaka mzima.

Mwaka huu pia umekuwa wa kazi nyingi kwa Wakurugenzi wa Halmashauri, ambao wameshiriki kikamilifu katika kufanya maamuzi na uangalizi wa miradi mipya pamoja na mipango inayoondelea ya Benki. Kwa hivyo, nawashukuru kwa mchango wao mkubwa uliowezesha kufanikiwa kwa taasisi yetu. Ningetaka pia kuchukua nafasi hii kumshukuru kwa dhati Nauman Dar, aliyestahafu kutoka kwa Halmashauri Septemba mwaka jana, kutokana na kuchanguliwa kwake kuwa Rais na Afisa Mkuu Mtendaji wa Habib Bank Limited, Pakistan, na Sukh Dev Nayyar ambaye nafasi yake ya kuhudumu inafikia ukingoni wakati wa Mkutano Mkuu wa Mwaka unaowadia. Bwana Dar na Bwana Nayyar wametoa michango mikubwa kwa Halmashauri, wakifanya kazi kwa Bidii wakati wao wote wa kuhudumu. Tunawashukuru sana kwa usaidizi wao na tunawatakia kila la heri katika shughuli zao za siku za usoni.

Ningetaka kutoa shukrani kwa mthibiti wetu wa kimsingi - Benki Kuu ya Kenya kwa usaidizi usiopimika na mchango wake kwa maendeleo ya sekta ya uwekaji fedha. Shukrani zetu pia ziendee Mamlaka ya Masoko ya Juu (Capital Markets Authority) na Nairobi Securities Exchange kwa kutekeleza majukumu yao kwa kujenga uaminifu na kuendeleza Masoko ya Juu ya Kenya.

Kwa niaba ya familia nzima ya DTB, ningetaka kuchukua nafasi hii kuwatambua wanahisa wetu: wateja wetu. Tunawakaribisha wateja wetu wapya waliojiunga na Kundi mnamo 2012 na kuwatambua wawekaji fedha na wanaochukua mikopo kwa msaada wao usiopimika na uaminifu wao. Kama kawaida, tutajitolea kulipa uaminifu huu kwa kukidhi mahitaji ya wateja wetu wote kwa kuwapatia huduma ya hali ya juu.

Mwisho, ningetaka kuwashukuru nyote, wahahisa, kwa msaada wenu. Tutaendelea kuwashuhulikia kwa kuwapa matokeo mema yenye thamani na huduma nzuri.

Abdul Samji

AA Samji

Mwenyekiti

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 18-19. 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 18-19. In the event of any dispute in the interpretation of the Kiswahili version, the English version shall be the authoritative version.

TANZANIA


2006
4
branches
2010
12
branches
2013
16
branches
and growing

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 guidelines 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 eight non- executive 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 maintain full and effective control over strategic, financial, operational and compliance issues.

Board Remuneration

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.

Details of the directors' fees for the non-executive directors and remuneration of the executive directors paid in 2012 are set out on page 90.

Directors' Shareholding

None of the directors at the end of year 2012 held shares in their individual capacity that was more than 1% of the Bank's total equity.

Business transactions with the directors or their related parties are disclosed on page 89 and 88.

The Board has set up various Board 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 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 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 and Compliance Committee ("BACC")

The membership of the BACC comprises of three non-executive directors. The BACC 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. The BACC also monitors management's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

Board Risk Management Committee ("BRMC")

The membership of the BRMC comprises four non-executive 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 four non-executive 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 Information Technology Committee ("BITC")

BITC was established in 2012. The membership of the BITC comprises three non-executive directors. The BITC meets at least once every quarter and its responsibilities include ensuring quality, integrity, effectiveness and reliability of the Bank's ICT risk management framework.

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 at Board and Board Committee Meetings

The attendance of Board and Board Committee Meetings by the Directors in 2012 is tabulated below:

Director	Classification		BOD	BACC	BRMC	BNHRC	BCC	BEC	BITC
Abdul Samji - Chairman	Non Executive	Membership	√			√	√	√	
		Attendance	4/4.			5/5.	4/4.	4/4.	
Nasim Devji – Managing Director	Executive	Membership	√						
		Attendance	4/4.	4/4***	4/4.***	5/5.***	4/4.***	4/4***.	2/2***.
Farid Hamir	Non Executive	Membership	√		√	√	√	√	√
		Attendance	4/4.		4/4.	5/5.	4/4.	4/4.	2/2.
Jamaludin Shamji	Non Executive	Membership	√	√		√	√	√	√
		Attendance	4/4.	4/4.		5/5.	4/4.	4/4.	2/2.
Amin Merali	Non Executive	Membership	√	√		√	√	√	
		Attendance	4/4.	4/4.		4/5.*	3/4.*	3/4.*	
Moez Jamal	Non Executive	Membership	√		√				√
		Attendance	4/4.		4/4.				2/2.
Mwaghazi Mwachofi	Non Executive	Membership	√	√	√				
		Attendance	4/4.	4/4.	4/4.				
Sukh Dev Nayyar	Non Executive	Membership	√		√				
		Attendance	3/4.*		3/4.*				
Nizar Juma	Non Executive	Membership	√						
			4//4.						
Nauman Dar	Non Executive	Membership	√		√				
		Attendance	1/2.**		**				

Notes:

BOD - Board of Directors

BACC - Board Audit and Compliance Committee

BRMC - Board Risk Management Committee

BNHRC - Board Nomination and Human Resource Committee

BCC - Board Credit Committee

BEC - Board Executive Committee

BITC - Board Information Technology Committee

√ - Member of respective committee

* - When a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Board Chairman or Chairman of the respective Board Committee in advance of the scheduled meeting.

** - Resigned on 19 September 2012

*** - The Managing Director is not a member of any of the Board Committees but attends by invitation

INTERNAL CONTROL SYSTEMS

The Bank has well defined written policies and procedures to ensure that best practices are followed when 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.

MANAGEMENT COMMITTEES

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 requirements.

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 BACC 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 BACC provides a framework that ensures 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 *ITSC* 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 *PC*, 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.

Human Resources Management Committee ("HRMC")

The HRMC reports to the BNHRC and is chaired by the Managing Director and has ten other members drawn from the Banks senior management staff. The principal objective of the HRMC are to review and recommend appropriate actions in respect of the Bank's Human Resources (HR) policies. These policies cover staff incentives, remuneration, compensation and benefits, promotions, recruitment, training and development, performance appraisals etc. The HRMC which meets at least once a quarter also deliberates on any other strategic HR functions requiring major policy decisions that will ensure overall efficient management of HR functions at the Bank.

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 correspondences on a wide range of issues received from shareholders.

SHAREHOLDING STRUCTURE

The distribution of the issued share capital of the Bank as at 31 December 2012 was as follows:

Range	No of shareholders	No of shares held	% Shareholding
Up to 500 shares	3,130	540,622	0.25
501 – 5,000 shares	4,930	11,046,403	5.02
5,001 – 10,000 shares	1,449	10,965,591	4.98
10,001 – 100,000 shares	1,682	41,366,131	18.79
100,001 – 1,000,000 shares	132	28,762,463	13.07
Over 1,000,000 shares	15	127,418,886	57.89
Total	**11,338**	**220,100,096**	**100.00**

SHAREHOLDERS' PROFILE

	No. of shareholders	Number of shares held	% Shareholding
Local individuals	5,667	32,113,806	14.59
Local institutions	2,160	55,429,100	25.18
Foreign individuals	682	23,037,162	10.47
Foreign institutions	22	94,995,570	43.16
East African individuals	2,783	13,827,834	6.28
East African institutions	24	696,624	0.32
Total	**11,338**	**220,100,096**	**100.00**

The ten largest shareholders of the Bank and their respective holdings as at 31 December 2012 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund For Economic Development	38,124,163	17.32
Habib Bank Limited	25,708,238	11.68
The Jubilee Insurance Company of Kenya Limited	23,099,772	10.50
Standard Chartered Nominees a/c A/CKE11752 (IFC)	21,673,066	9.85
The Diamond Jubilee Investment Trust (U) Limited	4,118,212	1.87
Standard Chartered Nominees A/C KE13180	2,362,561	1.07
Craysell Investments Limited	2,227,586	1.01
Mr. Amin Nanji Juma	2,031,548	0.92
Standard Chartered Nominees A/C 9230	1,642,441	0.75
PDM Holdings	1,505,064	0.68


2006
2
branches
2010
18
branches
2013
27
branches
and growing

The Bank is committed to its Vision of 'Enabling people to advance with confidence and success'. This Vision is extended to the Bank's corporate social responsibility (CSR) program which outlines the Bank's continued commitment to improve the living conditions and opportunities available to the disadvantaged in communities we operate in. As such, the Bank has chosen three pillars which embody its pledge to social and environmental concerns. These include:

(a) Education:

The Bank's CSR activities are geared towards improving the quality of basic education by ensuring better early care and learning environments for young children, increased access to education, lowering the school drop-out rate, and raising the levels of academic achievements.

(b) Health:

The Bank has a specific focus on improving the health status of vulnerable groups - especially women and children by helping to develop ways to enable disadvantaged communities, both rural and urban, to acquire the knowledge and skills needed to protect and promote good health.

(c) Environment:

The Bank continuously endeavors to ensure effective social and environmental management practices in all its activities, products and services. Further, it is committed towards ensuring that its customers comply with the applicable legislation on environment, health, safety and social issues.

These pillars reflect the Bank's values in meeting its social and environmental responsibilities. The initiatives taken and activities conducted in 2012 with regard to these pillars are outlined below:

Education

In 2012, staff from the Bank's branches across Kenya visited a number of children's homes. The aim was to provide these children with encouragement, guidance and support that would contribute towards their positive growth.

DTB Westgate Branch – Morning Star for Christ Children's Home

The Westgate branch team visited the 'Morning Star for Christ Children's Home' in Kiambu. The home houses orphaned children who are of primary and secondary school going ages, some of whom have special needs arising from their HIV positive status, epilepsy and autism. The home caters for the children's school fees as well as shelter and medical assistance for those with special needs. The home relies solely on donations from well-wishers. The Westgate branch team made donations and spent the day playing with the children at the home.

DTB Changamwe Branch – Baobab's Children's Home

The Bank's Changamwe team took time to visit 'Baobab Children's Home' which houses orphaned and neglected children. The Bank made a financial and food donation to the home, enabling it to improve both the children's learning environment as well as their diet. It was a stellar day out with entertainment from the kids and Zangalewa dance troupe who taught the Bank's staff some new dance moves.

DTB Meru Branch – AINA (Italian Association Nomads of Love)

The Bank's Meru branch team visited the 'Italian Association Nomads of Love (AINA)' an Italian secular charity which supports the implementation of children's rights in the developing world and further promotes child sponsorship. AINA has given life to the AINA's Children's Village a centre dedicated to the care and education of HIV positive children. The funds raised by the charity go to building classrooms and other educational facilities. The Bank contributed towards this worthy cause, while the Meru branch team spent time with the children at the Village.

DTB Kisii Branch – Komotobo Childrens Home

The Bank's Kisii branch team chose to visit the Komotobo Childrens Home (KCH). The home was started by Vivianne Asberg and Margaret Boberg, the first missionaries in Kisii, in 1972 and takes care of more than 600 orphans. KCH is sponsored by the Swedish organization Trosgnistan and every child is supported by one or more sponsors who see them through their life's journey even upon leaving the Home. Recognising the importance of good nutrition as a foundation to successful education, the Kisii branch staff donated food items to ensure these children get the adequate nutritional value to enable foster their education.

Greenhouses Initiative

In 2011, the Bank donated approximately Shs. 2 million to the Kenya Red Cross. In 2012, the Bank and Kenya Red Cross put these funds to work for the environment by identifying five schools in which to install greenhouses. These schools selected were Marigat High School, Lake Bogoria Secondary School, Mochongoi Secondary School in Marigat, and Malindi High School and Jilore Secondary School in Malindi. The greenhouses were installed in September 2012 at all the school, and later, the Bank's Malindi Branch staff with support from the other coast branches visited Jilore High School in Malindi to carry out the transplanting of seedlings at the greenhouses and interacted with the students of the schools to highlight the importance of health, education and environment.

Health

Mater Heart Run 2012

A healthy heart means a productive life and in cognisance of this, the Bank once again sponsored the annual Mater Heart Run. This event brought together more than 42,000 Kenyans from all walks of life with the aim of supporting the Mater Hospitals Cardiac Programme. In addition to raising funds, the event was aimed at enlightening participants on the value of a healthy heart, addressing the misconception amongst the youth that they are a low risk group and urging for regular exercise and a healthy lifestyle to prevent heart problems. Some 100 staff members partcipated in the event.

World AIDS Day at New Life Home Trust

World AIDS Day presents an opportunity for people worldwide to unite in the fight against HIV/AIDS, show their support for people living with HIV and to commemorate people who have died of AIDS. To mark World AIDS Day this year, the Bank arranged a visit to New Life Home Trust located in Kilimani, Nairobi. New Life Home Trust caters for abandoned and orphaned children particularly those infected and affected by HIV/AIDS. The Home has 45 babies aged between 0-3 months who come to the home from public and private hospitals with some sent in by the police. Monies raised amongst the Bank staff members were used to purchase various necessities for the Home and a number of staff members also made non-monetary donations of essentials. The Bank wellness champions consisting of staff members from head office and Nairobi branches went to the Home on Saturday December 1st to hand over all the donations and spend the afternoon entertaining and playing with the children.


2009
1
branch
2010
2
branches
2013
4
branches
and growing

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, 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

	2012	2011
	Shs'000	Shs'000
Group profit before income tax	6,027,899	4,307,413
Income tax expense	(1,959,921)	(1,310,687)
Profit for the year	4,067,978	2,996,726
Non controlling interests	(440,212)	(339,929)
Profit atrributable to owners of the Bank	3,627,766	2,656,797
Dividends	(418,190)	(332,596)
Retained profit for the year	**3,209,576**	**2,324,201**

The directors recommend the approval of a final dividend of Shs 418,190,182 (2011: Shs 332,595,701).

Directors

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

Mr. Nauman Dar resigned as a director on 19 September 2012. In accordance with Article No. 101 of the Bank's Articles of Association, Messrs. Jamaludin Shamji and Amin Merali retire by rotation and, being eligible, offer themselves for re-election. Mr. Farid Hamir also retires by rotation pursuant to Article No. 101, but does not offer himself for re-election.

In accordance with Article No. 100 of the Bank's Articles of Association, Mr. Sukh Dev Nayyar having attained the age of 70 years retires by virtue of Section 186(2) of the Companies Act (Cap 486).

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

13 March 2013
Nairobi

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 mis-statement.

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

AA Samji

Chairman
13 March 2013

Nasim Devji

N Devji

Managing Director

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 37 to 90. These financial statements comprise the consolidated statement of financial position at 31 December 2012, the income statement, 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 2012, income statement, statement of changes in equity and statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and such controls as directors determine necessary to enable the preparation of financial statements that are free from material mistatements, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 position of the Group and of the Company at 31 December 2012 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

iii) the Company's statement of financial position is in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants

Nairobi

13 March 2013

Bank 2012 Shs'000	Bank 2011 Shs'000		Notes	Group 2012 Shs'000	Group 2011 Shs'000
12,682,015	7,225,667	Interest income	5	16,579,014	10,039,098
(5,815,545)	(2,420,568)	Interest expense	6	(7,332,628)	(3,212,146)
6,866,470	**4,805,099**	**Net interest income**		**9,246,386**	**6,826,952**
985,720	891,841	Net fee and commission income	7	1,791,959	1,552,665
810,445	656,021	Foreign exchange income		1,186,297	996,483
68,417	159,247	Other operating income	8	95,785	195,719
8,731,052	**6,512,208**	**Operating income**		**12,320,427**	**9,571,819**
(3,062,600)	(2,684,671)	Operating expenses	9	(5,188,686)	(4,583,078)
(879,606)	(490,367)	Impairment loss on loans and advances	17	(984,696)	(588,789)
4,788,846	**3,337,170**	**Profit from operations**		**6,147,045**	**4,399,952**
-	-	Share of results of associate after tax	18	2,149	(483)
(119,183)	(88,696)	Finance costs	28 (d)	(121,295)	(92,056)
4,669,663	**3,248,474**	**Profit before income tax**		**6,027,899**	**4,307,413**
(1,600,970)	(1,001,583)	Income tax expense	11	(1,959,921)	(1,310,687)
3,068,693	**2,246,891**	**Profit for the year**		**4,067,978**	**2,996,726**
		Profit attributable to:			
3,068,693	2,246,891	Owners of the Bank		3,627,766	2,656,797
-	-	Non controlling interests		440,212	339,929
3,068,693	**2,246,891**			**4,067,978**	**2,996,726**
		Earnings per share (Shs per share)			
14.75	**11.13**	basic and diluted	12	**17.44**	**13.15**

The notes on pages 44 to 90 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

Bank				Group	
2012	2011		Notes	2012	2011
Shs'000	Shs'000			Shs'000	Shs'000
3,068,693	**2,246,891**	**Profit for the year**		**4,067,978**	**2,996,726**
		Other comprehensive income			
-	-	Exchange differences on translating foreign operations		86,047	(111,688)
26,777	(22,314)	Fair value changes in equity investment	31	26,777	(22,314)
(7,841)	6,694	Deferred tax on fair value changes	31	(7,841)	6,694
-	350,451	Surplus on revaluation of properties	31	-	353,309
18,936	**334,831**	**Other comprehensive income for the year, net of tax**		**104,983**	**226,001**
3,087,629	**2,581,722**	**Total comprehensive income for the year**		**4,172,961**	**3,222,727**
		Total comprehensive income attributable to:			
3,087,629	2,581,722	Owners of the Bank		3,585,997	2,928,524
-	-	Non controlling interests		586,964	294,203
3,087,629	**2,581,722**			**4,172,961**	**3,222,727**

The notes on pages 44 to 90 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

Bank 2012 Shs'000	Bank 2011 Shs'000		Notes	Group 2012 Shs'000	Group 2011 Shs'000
		Assets			
5,348,310	4,420,715	Cash and balances with Central Banks	14	11,508,861	8,281,501
18,402,894	8,086,583	Government securities	15	22,744,510	11,366,826
4,404,676	9,452,751	Deposits and balances due from banking institutions	16	7,722,752	12,507,416
59,930,459	50,943,685	Loans and advances to customers	17	87,707,243	71,297,721
1,897,572	1,273,795	Investments in subsidiaries and associates (Bank)	18	-	-
-	-	Investments in associates (Group)	18	5,938	1,940
64,391	37,614	Equity investments	19	64,391	37,614
431,118	426,157	Amounts due from Group companies	20	-	-
-	-	Current income tax recoverable		7,432	6,206
542,542	408,121	Deferred income tax asset	21	672,958	459,092
1,526,037	1,071,710	Other assets	22	1,869,483	1,333,157
178,389	235,356	Intangible assets - software costs	23	214,405	281,030
-	-	Intangible assets - goodwill	24	173,372	173,372
1,785,430	1,091,291	Property and equipment	25	2,770,067	2,013,943
94,511,818	**77,447,778**	**Total assets**		**135,461,412**	**107,759,818**
		Liabilities			
72,505,118	59,772,275	Customer deposits	26	106,975,254	85,986,399
1,002,394	1,658,627	Deposits and balances due to banking institutions	27	2,727,304	2,144,957
443,795	58,767	Current income tax payable		456,716	73,867
3,746,320	3,834,686	Long term borrowings	28	3,807,801	3,911,680
1,935,699	1,756,949	Other liabilities	29	2,867,416	2,394,096
79,633,326	**67,081,304**	**Total liabilities**		**116,834,491**	**94,510,999**
		Shareholders' equity			
880,400	782,578	Share capital	30	880,400	782,578
3,856,898	2,197,735	Share premium	30	3,856,898	2,197,735
9,229,632	6,573,480	Retained earnings	30	11,012,392	7,796,631
378,081	364,794	Other reserves	31	238,991	368,471
115,291	115,291	Statutory loan loss reserve	30	115,291	115,291
418,190	332,596	Proposed dividend	13	418,190	332,596
14,878,492	**10,366,474**	**Equity attributable to owners of the Bank**		**16,522,162**	**11,593,302**
-	-	Non controlling interests		2,104,759	1,655,517
14,878,492	**10,366,474**	**Total equity**		**18,626,921**	**13,248,819**
94,511,818	**77,447,778**	**Total liabilities and equity**		**135,461,412**	**107,759,818**

The financial statements on pages 37 to 90 were approved for issue by the Board of Directors on 13 March 2013 and signed on its behalf by:

Abdul Samji
Chairman

Nasim Devji
Managing Director

Amin Merali
Director

Stephen Kodumbe
Secretary

The notes on pages 44 to 90 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Statutory loan loss reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Attributable to equity holders of the Bank Shs'000	Non controlling interests Shs'000	Total Shs'000
At start of year		652,148	2,197,735	86,122	115,291	5,627,348	260,859	8,939,503	1,320,176	10,259,679
Adjustment of reserves on adoption of IFRS 9		-	-	25,463	-	(45,849)	-	(20,386)	-	(20,386)
		652,148	2,197,735	111,585	115,291	5,581,499	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		**-**	**-**	**271,727**	**-**	**2,656,797**	**-**	**2,928,524**	**294,203**	**3,222,727**
Bonus share issue	30	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	32	-	-	(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**	**368,471**	**115,291**	**7,796,631**	**332,596**	**11,593,302**	**1,655,517**	**13,248,819**

(i) These differences arise on translation of the financial statements of the foreign subsidiaries 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 44 to 90 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Statutory loan loss reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Attributable to equity holders of the Bank Shs'000	Non controlling interests Shs'000	Total Shs'000
At start of year		782,578	2,197,735	368,471	115,291	7,796,631	332,596	11,593,302	1,655,517	13,248,819
Comprehensive income										
Profit for the year		-	-	-	-	3,627,766	-	3,627,766	440,212	4,067,978
Other comprehensive income:										
Fair value changes in equity investments		-	-	26,777	-	-	-	26,777	-	26,777
Deferred tax on fair value changes		-	-	(7,841)	-	-	-	(7,841)	-	(7,841)
Transfer of excess depreciation		-	-	(6,185)	-	6,185	-	-	-	-
Translation adjustment	(i)	-	-	(60,705)	-	-	-	(60,705)	146,752	86,047
Total comprehensive income		-	-	**(47,954)**	-	**3,633,951**	-	**3,585,997**	**586,964**	**4,172,961**
Rights issue		97,822	1,659,163	-	-	-	-	1,756,985	-	1,756,985
Issue of additional shares to non controlling interests		-	-	-	-	-	-	-	48,428	48,428
Acquisition of interests from non controlling interests in Diamond Trust Bank Tanzania Limited	32	-	-	(81,526)	-	-	-	(81,526)	(171,132)	(252,658)
Distributions to owners										
Dividends:										
- Final for 2011 paid	13	-	-	-	-	-	(332,596)	(332,596)	(15,018)	(347,614)
- Proposed for 2012	13	-	-	-	-	(418,190)	418,190	-	-	-
At end of year		**880,400**	**3,856,898**	**238,991**	**115,291**	**11,012,392**	**418,190**	**16,522,162**	**2,104,759**	**18,626,921**

(i) These differences arise on translation of the financial statements of the foreign subsidiaries at the end of period exchange rates.

The notes on pages 44 to 90 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Statutory loan loss reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
At 1 January 2011		652,148	2,197,735	17,241	115,291	4,814,103	260,859	8,057,377
Adjustment of reserves on adoption of IFRS 9		-	-	12,722	-	(45,849)	-	(33,127)
		652,148	2,197,735	29,963	115,291	4,768,254	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		**-**	**-**	**334,831**	**-**	**2,246,891**	**-**	**2,581,722**
Bonus share issue	30	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 31 December 2011		**782,578**	**2,197,735**	**364,794**	**115,291**	**6,573,480**	**332,596**	**10,366,474**
At 1 January 2012		782,578	2,197,735	364,794	115,291	6,573,480	332,596	10,366,474
Comprehensive income								
Profit for the year		-	-	-	-	3,068,693	-	3,068,693
Other comprehensive income:								
Fair value changes in equity investments		-	-	26,777	-	-	-	26,777
Deferred tax on fair value changes		-	-	(7,841)	-	-	-	(7,841)
Transfer of excess depreciation		-	-	(5,649)	-	5,649	-	-
Total comprehensive income		**-**	**-**	**13,287**	**-**	**3,074,342**	**-**	**3,087,629**
Rights issue	30	97,822	1,659,163	-	-	-	-	1,756,985
Distributions to owners								
Dividends:								
- Final for 2011 paid	13	-	-	-	-	-	(332,596)	(332,596)
- Proposed for 2012	13	-	-	-	-	(418,190)	418,190	-
At 31 December 2012		**880,400**	**3,856,898**	**378,081**	**115,291**	**9,229,632**	**418,190**	**14,878,492**

(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 44 to 90 are an integral part of these financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2012

Bank 2012 Shs'000	Bank 2011 Shs'000		Notes	Group 2012 Shs'000	Group 2011 Shs'000
		Cash flows (used in)/from operating activities			
12,246,790	7,109,289	Interest receipts		16,190,267	9,851,577
(5,671,929)	(2,239,000)	Interest payments		(6,901,551)	(2,943,926)
1,029,184	902,304	Net fee and commission receipts		1,791,959	1,697,804
836,608	687,665	Other income received		1,250,376	930,041
22,068	1,057,655	Proceeds from sale of investment securities		22,068	1,057,655
41,213	2,470	Recoveries from loans previously written off	17	61,366	42,525
(2,754,154)	(2,434,107)	Payments to employees and suppliers		(4,549,858)	(4,090,742)
(1,358,204)	(1,446,325)	Income tax paid		(1,783,531)	(1,742,845)
4,391,576	**3,639,951**	Cash flows from operating activities before changes in operating assets and liabilities		**6,081,096**	**4,802,089**
		Changes in operating assets and liabilities:			
(1,171,555)	(520,254)	- cash reserve requirement		(3,975,945)	(933,607)
(7,727,392)	1,342,620	- Government securities		(8,710,608)	1,787,606
(9,830,063)	(14,375,540)	- loans and advances to customers		(17,333,680)	(20,407,606)
(4,961)	(224,126)	- Balances due from subsidiary companies		-	-
12,589,227	14,686,734	- customer deposits		20,612,118	19,549,049
(454,327)	(82,828)	- other assets		(548,156)	(97,856)
178,750	480,571	- other liabilities		492,063	523,231
(2,028,745)	**4,947,128**	**Net cash (used in)/from operating activities**		**(3,383,112)**	**5,222,906**
		Cash flows used in investing activities			
(912,234)	(215,223)	Purchase of property and equipment	25	(1,206,339)	(534,082)
(34,291)	(122,496)	Purchase of intangible assets - software costs	23	(52,635)	(132,126)
(623,777)	(154,928)	Purchase of shares in subsidiary/associate	18	(2,238)	-
2,097	1,664	Proceeds from sale of property and equipment		9,091	2,896
18,996	17,982	Dividend received		2,805	2,550
(1,549,209)	**(473,001)**	Net cash used in investing activities		**(1,249,316)**	**(660,762)**
		Cash flows from financing activities			
-	1,802,000	Proceeds from long term loan		-	1,802,000
(120,087)	(86,041)	Finance costs		(122,793)	(92,056)
(130,925)	-	Repayments of principal amount of senior loan		(130,925)	-
1,756,985	-	Net proceeds from rights isssues		1,805,413	-
(332,596)	(260,859)	Dividends paid to equity holders of the Bank	13	(332,596)	(260,859)
-	-	Dividends paid to non controlling interests		(15,018)	(12,869)
1,173,377	**1,455,100**	Net cash from financing activities		**1,204,081**	**1,436,216**
(2,404,577)	**5,929,227**	**Net (decrease)/ increase in cash and cash equivalents**		**(3,428,347)**	**5,998,360**
9,737,401	3,808,174	Cash and cash equivalents at start of year	36	14,132,900	8,283,756
-	-	Translation difference		(243,114)	(149,216)
9,737,401	**3,808,174**			**13,889,786**	**8,134,540**
7,332,824	**9,737,401**	**Cash and cash equivalents at end of year**	36	**10,461,439**	**14,132,900**

The notes on pages 44 to 90 are an integral part of these financial statements.

1 General information

Diamond Trust Bank Kenya Limited (the "Company"/"Bank") and its subsidiaries (together the "Group") provide banking, insurance agency and other related services to the general public. 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. Diamond Trust Bank Kenya Limited and its subsidiaries operate in Kenya, Tanzania, Uganda and Burundi through the subsidiaries Diamond Trust Insurance Agency, Diamond Trust Bank Tanzania Limited, Diamond Trust Bank Uganda Limited and Diamond Trust Bank Burundi SA.

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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that have a material impact on the Bank or Group.

(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 2013.

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-July-2012
IFRS 10. 'Consolidated financial statements'	IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.	1-Jan-2013

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(ii) Standards amendments and interpretations issued but not yet effective (Continued)

Standard/ Interpretation	Key Requirements	Applicable for financial years beginning on/after
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-2013
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances.	1-Jan-2013

(iii) Early adoption of standards

The Group and Bank did not early-adopt new or amended standards in 2012.

(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 2012.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. 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.

2 Summary of significant accounting policies (Continued)

(c) Investment in associates

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

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Equity accounting involves recognising in the 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 18.

(d) Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed in Note 18) 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.

(f) Translation of foreign currencies

(i) Transactions and balances

Foreign currency transactions 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

2 Summary of significant accounting policies (Continued)

(g) Interest income and expense (Continued)

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 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.

2 Summary of significant accounting policies (Continued)

(k) Intangible assets – goodwill (Continued)

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.

(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,

2 Summary of significant accounting policies (Continued)

(l) Financial assets (Continued)

(iv) Derecognition of financial assets (Continued)

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.

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.

(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.

Leaseshold land with periods of over 50 years have been included in property and equipment.

(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 and in accordance with the tax legislation for the respective subsidiaries. The tax expense for the period comprises

2 Summary of significant accounting policies (Continued)

(r) Income tax (Continued)

current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(s) Employee entitlements

Employee entitlements to gratuity 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

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, operating in the respective countries, 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.

(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 Group has determined the Board of Directors as its chief operating decision-maker. All transactions between business segments are conducted on commercial terms 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 24.

4 Financial risk management

Introduction

Effective risk management is fundamental to the business activities of the Group. Whilst we remain committed to the objective of increasing shareholder value by developing and growing our business in a way that is consistent with our board-determined risk appetite, we are also cognisant of the need to balance this objective with the interests of depositors, debt holders and our regulators. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment. Risk management is at the core of the operating structures of the Group. The Group seeks to limit adverse variations in earnings and equity by managing the risk exposures and capital within agreed levels of risk appetite. Managing and controlling risks, minimising undue concentrations of exposure and limiting potential losses from stress events are all essential elements of the Group's risk management and control framework. 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.

The Group defines risk as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Group appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and enhanced.

The Group operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from anticipated objectives. The Group has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organisation.

These risks are classified as follows;

- Credit risk
- Liquidity risk
- Market risks that fall within:
  - Interest rate risk
  - Price risk
  - Foreign exchange risk

4 Financial risk management (Continued)

The main pillars of the Group's risk management framework are set out below:

a) **Active Board and Senior Management Oversight**

The Board and the Senior management bear the responsibility of implementing strategies in a manner that limits risks associated with each strategy. Management is therefore fully involved in the activities of the Bank and possess sufficient knowledge of all major business lines to ensure that appropriate policies, procedures, controls and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.

b) **Adequate Policies, Procedures and Limits**

The Group's policies, procedures and limits provide for adequate and timely identification, measurement, monitoring, control and mitigation of the risks posed by its lending, investing, trading, off balance sheet and other significant activities at the business/functional line and bank-wide levels. These clearly delineate accountability and lines of authority across the bank's various business activities, and ensure there is a clear segregation between business/ functional lines and the risk function as well as escalate and address breaches of limits

c) **Adequate Risk Monitoring and Management Information Systems**

The Group maintains an effective MIS system that facilitates the bank's risk monitoring practices and avails risk reports that address all of its material risks for both management and board purposes

d) **Internal Controls**

The Group maintains a system of internal controls consistent to the type and level of risks posed by the nature and scope of its business activities. This also includes clearly delineated lines of authority and responsibility for monitoring adherence to policies, procedures and limits.

Risk management principles

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

- The Board of directors provides overall risk & capital management supervision of the bank. 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 procedures describe the facility types, aggregate facility exposures and conditions under which the Group is prepared to do business.
- The risk management function is independent of the Group's business and operating units. This function which is headed by the Head of Risk Management who manages Credit, Market, 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 and operational 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. The Internal audit department independently monitors the effectiveness of the risk management programs and internal controls through periodic testing of the design and operations of processes related to identification, measurement or assessment, monitoring, controlling and reporting of risks.

4 Financial risk management *(Continued)*

Risk management principles (Continued)

- External audit has a statutory duty to report its independent opinion on the group's financial statements to shareholders and acts as a third line of defence.

(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. It arises principally from, but is not limited to, commercial loans and advances, commitments from forward foreign exchange contracts , financial guarantees, letters of credit and acceptances, investments in debt securities and other exposures arising from trading and settlement activities with market counterparties.

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.

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.

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

	Group		Bank	
	2012	2011	2012	2011
	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	66,746,517	54,537,809	43,947,993	39,225,646
Past due but not impaired	22,417,307	17,757,844	17,225,681	12,544,759
Impaired	957,054	636,967	809,946	550,573
Gross	**90,120,878**	**72,932,620**	**61,983,620**	**52,320,978**
Less: Provision for impairment of loans and advances				
Identified impairment	(887,294)	(602,435)	(809,946)	(549,462)
Unidentified impairment	(1,526,341)	(1,032,464)	(1,243,215)	(827,831)
	87,707,243	**71,297,721**	**59,930,459**	**50,943,685**

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	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Past due up to 30 days	18,616,058	14,994,395	14,408,680	11,383,286
Past due 31 - 60 days	2,434,518	1,871,948	1,823,939	838,922
Past due 61 - 90 days	1,366,731	891,501	993,062	322,551
Total	**22,417,307**	**17,757,844**	**17,225,681**	**12,544,759**

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.

4 Financial risk management (Continued)

(a) Credit risk management (Continued)

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.

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 2012	**Shs'000**	**%**	**Shs'000**	**%**	**Shs'000**	**%**
Manufacturing	9,976,687	11%	597,254	6%	2,494,368	2%
Wholesale and retail trade	21,778,109	23%	2,804,518	28%	10,463,955	10%
Transport and communications	8,119,269	9%	1,376,595	14%	2,969,699	3%
Business and financial services	12,781,435	14%	532,187	5%	29,148,169	27%
Agriculture	3,268,550	4%	142,168	1%	630,913	1%
Building, construction and real estate	17,101,446	19%	2,856,261	29%	12,848,060	12%
Retail housing	4,325,344	5%	123,820	1%	-	0%
Tourism and hotels	7,871,721	9%	1,032,610	10%	1,262,077	1%
Individuals	4,209,697	5%	236,718	3%	40,903,256	38%
Other	688,620	1%	176,669	3%	6,254,757	6%
	90,120,878	**100%**	**9,878,800**	**100%**	**106,975,254**	**100%**
At 31 December 2011						
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	9%
Transport and communications	8,104,275	11%	572,358	6%	2,428,894	5%
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	21%	3,829,928	37%	3,896,490	4%
Retail housing	592,274	1%	314,091	3%	-	0%
Tourism and hotels	7,365,669	10%	1,110,879	11%	3,207,531	1%
Individuals	3,682,395	5%	450,704	4%	41,748,417	46%
Other	1,173,315	2%	867,384	8%	1,021,765	6%
	72,932,620	**100%**	**10,447,863**	**100%**	**85,986,399**	**100%**

4 Financial risk management (Continued)

(b) Concentration of risk (Continued)

Bank

	Gross loans and advances		Credit commitments		Customer deposits	
At 31 December 2012	**Shs'000**	**%**	**Shs'000**	**%**	**Shs'000**	**%**
Manufacturing	5,956,166	10%	299,429	4%	1,933,283	3%
Wholesale and retail trade	11,564,312	19%	2,185,793	27%	6,171,627	9%
Transport and communications	5,735,286	9%	1,245,137	15%	3,086,845	4%
Business and financial services	11,536,162	19%	430,000	5%	20,383,032	28%
Agriculture	2,243,678	4%	100,000	1%	592,494	1%
Building, construction and real estate	14,989,083	24%	2,760,183	34%	3,725,304	5%
Retail housing	748,053	1%	123,820	1%	-	0%
Tourism and hotels	5,884,599	9%	967,355	12%	976,100	1%
Individuals	3,293,971	5%	79,410	1%	34,141,546	47%
Others	32,310	0%	-	0%	1,494,888	2%
	61,983,620	**100%**	**8,191,127**	**100%**	**72,505,118**	**100%**
At 31 December 2011						
Manufacturing	4,083,949	8%	773,394	8%	2,335,696	4%
Wholesale and retail trade	8,507,086	16%	1,345,092	14%	4,645,795	8%
Transport and communications	6,358,829	12%	476,756	5%	1,905,940	3%
Business and financial services	10,379,493	20%	366,076	4%	14,849,585	25%
Agriculture	1,999,227	4%	103,910	1%	350,710	1%
Building, construction and real estate	12,477,347	24%	3,742,957	40%	3,523,474	6%
Retail housing	769,933	1%	314,091	3%	-	0%
Tourism and hotels	5,352,382	10%	1,072,741	11%	2,934,328	5%
Individuals	2,383,886	5%	341,194	4%	29,097,853	48%
Other	8,846	0%	792,995	10%	128,894	0%
	52,320,978	**100%**	**9,329,206**	**100%**	**59,772,275**	**100%**

(c) Market Risk Management

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

Market risk management is undertaken by the Treasury function under the supervision of ALCO, while Risk department maintains an overall oversight role. The Group carries a limited amount of market risk. Tolerance limits for market risk are approved by the Board. The limits are further allocated to the banking and trading books that are monitored at pre-defined frequencies. Risk measurement is currently based on sensitivity analysis and stress testing.

(i) Price risk

The Bank is exposed to equity securities price risk because of investments it holds in quoted shares classified at fair value through other comprehensive income. The quoted shares held by the Bank and Group are traded at the Nairobi Securities Exchange (NSE).

At 31 December 2012 if the NSE all share index had increased/decreased by 15% (2011- 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 9.7 million (2011 -Shs 5.6 million) higher/lower.

4 Financial risk management (Continued)

(c) Market Risk Management (Continued)

(ii) Interest rate risk

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

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

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

Group	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Total Shs'000
At 31 December 2012							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	11,508,861	**11,508,861**
Government securities	3,228,767	10,173,129	6,051,266	3,291,348	-	-	**22,744,510**
Deposits and balances due from banking institutions	3,429,803	2,414,978	244,300	-	-	1,633,671	**7,722,752**
Loans and advances to customers	27,916,816	59,292,962	497,465	-	-	-	**87,707,243**
Investment in associate	-	-	-	-	-	5,938	**5,938**
Equity investments	-	-	-	-	-	64,391	**64,391**
Other assets	-	-	-	-	-	1,471,233	**1,471,233**
Total financial assets	**34,575,386**	**71,881,069**	**6,793,031**	**3,291,348**	**-**	**14,684,094**	**131,224,928**
FINANCIAL LIABILITIES							
Customer deposits	27,072,589	27,111,621	20,904,843	517,619	10,435	31,358,147	**106,975,254**
Deposits and balances due to banking institutions	1,746,966	492,323	65,255	258,534	-	164,226	**2,727,304**
Long term borrowing	-	-	3,746,320	61,481	-	-	**3,807,801**
Other liabilities	-	-	-	-	-	2,179,157	**2,179,157**
Total financial liabilities	**28,819,555**	**27,603,944**	**24,716,418**	**837,634**	**10,435**	**33,701,530**	**115,689,516**
Interest sensitivity gap	**5,755,831**	**44,277,125**	**(17,923,387)**	**2,453,714**	**(10,435)**	**(19,017,436)**	**15,535,412**
At 31 December 2011							
Total financial assets	30,045,233	53,348,854	5,412,648	4,728,051	-	11,014,036	**104,548,822**
Total financial liabilities	17,841,764	23,113,918	24,289,234	534,239	10,335	27,944,784	**93,734,274**
Interest sensitivity gap	**12,203,469**	**30,234,936**	**(18,876,586)**	**4,193,812**	**(10,335)**	**(16,930,748)**	**10,814,548**

4 Financial risk management (Continued)

(c) Market risk management (Continued)

(ii) Interest rate risk (Continued)

Bank	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Total Shs'000
At 31 December 2012							
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	5,348,310	**5,348,310**
Government securities	2,586,671	9,419,709	3,977,791	2,418,723	-	-	**18,402,894**
Deposits and balances due from banking institutions	1,201,694	2,414,978	-	-	-	788,004	**4,404,676**
Loans and advances to customers	185,252	59,281,432	463,775	-	-	-	**59,930,459**
Investments in subsidiaries and associates	-	-	-	-	-	1,897,572	**1,897,572**
Amounts due from group companies	-	-	431,118	-	-	-	**431,118**
Equity investments	-	-	-	-	-	64,391	**64,391**
Other assets	-	-	-	-	-	1,277,088	**1,277,088**
Total financial assets	**3,973,617**	**71,116,119**	**4,872,684**	**2,418,723**	**-**	**9,375,365**	**91,756,508**
FINANCIAL LIABILITIES							
Customer deposits	18,287,708	23,076,051	10,688,420	186,015	10,435	20,256,489	**72,505,118**
Deposits and balances due to banking institutions	609,100	229,068	-	-	-	164,226	**1,002,394**
Long term borrowing	-	-	3,746,320	-	-	-	**3,746,320**
Other liabilities	-	-	-	-	-	1,347,490	**1,347,490**
Total financial liabilities	**18,896,808**	**23,305,119**	**14,434,740**	**186,015**	**10,435**	**21,768,205**	**78,601,322**
Interest sensitivity gap	**(14,923,191)**	**47,811,000**	**(9,562,056)**	**2,232,708**	**(10,435)**	**(12,392,840)**	**13,155,186**
At 31 December 2011							
Total financial assets	7,992,612	53,027,767	3,411,608	4,471,943	-	6,632,742	**75,536,672**
Total financial liabilities	11,763,359	20,571,381	15,872,628	195,492	10,335	17,984,945	**66,398,140**
Interest sensitivity gap	**(3,770,747)**	**32,456,386**	**(12,461,021)**	**4,276,451**	**(10,335)**	**(11,352,203)**	**9,138,532**

Interest rate risk sensitivity analysis

The impact on financial assets, net of financial liabilities, of a 5% increase or decrease in interest rates would be as follows:

	Group		Bank	
	2012 Shs'million	2011 Shs'million	2012 Shs'million	2011 Shs'million
+ 5% movement	143	261	301	410
- 5% movement	(143)	(261)	(301)	(410)

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 2012. Included in the table are the Group's and Bank's financial instruments, categorised by currency.

Group	USD Shs'000	GBP Shs'000	EURO Shs'000	OTHERS Shs'000	TOTAL Shs'000
At 31 December 2012					
FINANCIAL ASSETS					
Cash and balances with Central banks	2,366,867	154,781	153,428	14,905	2,689,981
Deposits and balances due from banking institutions	6,303,338	251,030	460,184	186,117	7,200,669
Other assets	199,846	70,351	17,767	441	288,405
Loans and advances to customers	33,845,913	62,237	1,260,642	30	35,168,822
Total financial assets	**42,715,964**	**538,399**	**1,892,021**	**201,493**	**45,347,877**
FINANCIAL LIABILITIES					
Customer deposits	29,710,410	1,476,144	3,765,695	208,242	35,160,491
Deposits and balances due to banking institutions	623,555	92,574	10,766	28,143	755,038
Other liabilities	178,113	4,538	452	1,085	184,188
Long term borrowings	3,807,801	-	-	-	3,807,801
Total financial liabilities	**34,319,879**	**1,573,256**	**3,776,913**	**237,470**	**39,907,518**
Net balance sheet position	8,396,085	(1,034,857)	(1,884,892)	(35,977)	5,440,359
Net off balance sheet position	(7,980,314)	1,034,232	1,784,618	61,696	(5,099,768)
Overall net position	**415,771**	**(625)**	**(100,274)**	**25,719**	**340,591**
At 31 December 2011					
Total financial assets	32,407,144	731,518	1,749,610	163,913	35,052,185
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**	**(2,561,297)**
Overall net position	**972,778**	**349,509**	**(1,193,646)**	**(185,803)**	**(57,163)**

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 2012					
FINANCIAL ASSETS					
Cash and balances with Central banks	292,962	68,701	113,953	2,421	478,037
Deposits and balances due from banking institutions	3,658,931	80,441	331,566	134,195	4,205,133
Other assets	149,983	70,401	17,115	471	237,970
Loans and advances to customers	18,787,464	62,181	1,225,468	-	20,075,113
Amount due from group companies	431,118	-	-	-	431,118
Total financial assets	**23,320,458**	**281,724**	**1,688,102**	**137,087**	**25,427,371**
FINANCIAL LIABILITIES					
Customer deposits	11,384,111	916,762	3,472,766	198,034	15,971,673
Deposits and balances due to banking institutions	85,849	92,560	1,381	28,143	207,933
Other liabilities	93,890	1,421	440	-	95,751
Long term borrowing	3,746,320	-	-	-	3,746,320
Total financial liabilities	**15,310,170**	**1,010,743**	**3,474,587**	**226,177**	**20,021,677**
Net balance sheet position	8,010,288	(729,019)	(1,786,485)	(89,090)	5,405,694
Net off balance sheet position	(7,906,217)	724,950	1,778,142	104,127	(5,298,998)
Overall net position	**104,071**	**(4,069)**	**(8,343)**	**15,037**	**106,696**
At 31 December 2011					
Total financial assets	18,396,193	350,356	1,554,193	135,052	20,435,794
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 2012, 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	
	2012	2011	2012	2011
	Shs'million	Shs'million	Shs'million	Shs'million
+ 5% movement	73	53	5.3	3.0
- 5% movement	(73)	(53)	(5.3)	(3.0)

4 Financial risk management (Continued)

(d) Liquidity risk management

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

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

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

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

Group	Up to 1	1-3	3-12	1-5	Over 5	
	month	months	months	years	years	Total
At 31 December 2012	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS						
Cash and balances with Central Banks	9,783,094	1,169,096	539,598	16,241	832	11,508,861
Government securities	3,236,812	10,524,529	6,665,697	3,845,001	-	24,272,039
Deposits and balances due from banking institutions	5,303,275	2,471,777	285,692	-	-	8,060,744
Loans and advances to customers	7,856,117	11,899,924	33,404,690	35,528,577	14,794,270	103,483,578
Investment in associate	-	-	-	-	5,938	5,938
Equity investments	-	-	-	-	64,391	64,391
Other assets	685,746	170,745	509,586	105,156	-	1,471,233
Total financial assets	**26,865,044**	**26,236,071**	**41,405,263**	**39,494,975**	**14,865,431**	**148,866,784**
FINANCIAL LIABILITIES						
Customer deposits	59,794,889	28,217,115	22,403,184	1,117,104	27,024	111,559,316
Deposits and balances due to banking institutions	2,716,627	334,418	81,833	41,734	-	3,174,612
Long term borrowing	-	-	725,837	3,248,382	70,844	4,045,063
Other liabilities	1,409,867	220,064	318,432	193,479	37,315	2,179,157
Total financial liabilities	**63,921,383**	**28,771,597**	**23,529,286**	**4,600,699**	**135,183**	**120,958,148**
Net liquidity gap	**(37,056,339)**	**(2,535,526)**	**17,875,977**	**34,894,276**	**14,730,248**	**27,908,636**
At 31 December 2011						
Total financial assets	24,864,422	13,649,920	31,561,885	39,988,613	13,305,699	123,370,539
Total financial liabilities	45,500,672	24,011,263	22,161,062	3,851,889	1,313,273	96,838,159
Net liquidity gap	**(20,636,250)**	**(10,361,343)**	**9,400,823**	**36,136,724**	**11,992,426**	**26,532,380**

4 Financial risk management (Continued)

(d) Liquidity risk management (Continued)

Bank

At 31 December 2012	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 years Shs'000	Over 5 years Shs'000	Total Shs'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	3,639,556	1,161,078	537,791	9,359	526	5,348,310
Government securities	2,606,567	9,600,528	4,488,664	2,781,102	-	19,476,861
Deposits and balances due from banking institutions	1,990,397	2,428,785	-	-	-	4,419,182
Loans and advances to customers	5,787,224	8,315,806	22,406,076	22,883,980	11,291,565	70,684,651
Investments in subsidiaries and associates	-	-	-	-	1,897,571	1,897,571
Equity investments	-	-	-	-	64,391	64,391
Amounts due from group companies	-	-	61,597	408,955	-	470,552
Other assets	502,094	160,725	509,113	105,156	-	1,277,088
Total financial assets	**14,525,838**	**21,666,922**	**28,003,241**	**26,188,552**	**13,254,053**	**103,638,606**
FINANCIAL LIABILITIES						
Customer deposits	38,727,886	23,626,361	11,484,614	229,631	21,233	74,089,725
Deposits and balances due to banking institutions	779,541	233,562	-	-	-	1,013,103
Long term borrowing	-	-	725,837	3,248,382	70,844	4,045,063
Other liabilities	578,200	220,064	318,432	193,479	37,315	1,347,490
Total financial liabilities	**40,085,627**	**24,079,987**	**12,528,883**	**3,671,492**	**129,392**	**80,495,381**
Net liquidity gap	**(25,559,789)**	**(2,413,065)**	**15,474,358**	**22,517,060**	**13,124,661**	**23,143,225**
At 31 December 2011						
Total financial assets	15,635,499	10,352,141	21,321,390	29,266,781	12,790,593	89,366,404
Total financial liabilities	29,279,539	21,451,938	13,275,157	3,281,520	1,303,058	68,591,212
Net liquidity gap	**(13,644,040)**	**(11,099,797)**	**8,046,233**	**25,985,261**	**11,487,535**	**20,775,192**

(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 and coordinated on an overall basis by the bank's compliance function.

4 Financial risk management (Continued)

f) Fair values of financial assets and liabilities

IFRS 7 requires that for financial instruments that are measured in the statement of financial position at fair value, the disclosure should be by level of the following fair value measurement hierarchy:

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

	Group		Bank	
	2012 Shs'000	**2011 Shs'000**	**2012 Shs'000**	**2011 Shs'000**
Level 1	64,391	37,614	64,391	37,614
Level 2	-	-	-	-
	64,391	**37,614**	**64,391**	**37,614**

The fair value of Financial assets at FVTOCI at 31 December 2012 is estimated at Shs 64.4 million, Bank: Shs 64.4 million (2011: Group: Shs 37.6 million, Bank: Shs 37.6 million). The fair values of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in the previous maturity analysis.

(g) Capital management

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

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

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

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

(a) hold the minimum level or regulatory capital of Shs 1 billion ;

(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.

4 Financial risk management (Continued)

(g) Capital management (Continued)

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

	Group		Bank	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Tier 1 Capital	17,255,575	11,966,551	12,029,483	8,228,997
Tier 1 + Tier 2 Capital	18,778,870	13,373,128	13,510,704	9,718,306
Risk-weighted assets				
On-balance sheet	92,026,804	75,582,795	62,746,389	53,506,403
Off-balance sheet	8,124,620	6,187,847	5,350,054	4,391,383
Total risk-weighted assets	**100,151,424**	**81,770,642**	**68,096,443**	**57,897,786**
Basel ratio				
Tier 1 (CBK minimum - 8%)	17.2%	14.6%	17.7%	14.2%
Tier I + Tier II (CBK minimum - 12%)	18.8%	16.4%	19.8%	16.8%

The capital adequacy ratios for the subsidiaries are summarised below;

	2012	2011
Tier 1		
DTB Tanzania - Bank of Tanzania (BOT) minimum - 10%;	17.2%	15.0%
DTB Uganda - Bank of Uganda (BOU) minimum - 8%	12.1%	14.5%
Tier I + Tier II		
DTB Tanzania (BOT) minimum - 12%;	19.3%	17.6%
DTB Uganda - (BOU) minimum -12%	14.6%	17.6%
DTB Burundi - Banque de la Republique du Burundi minimum - 8%	50.5%	48.0%

New prudential guidelines

With effect from 1 January 2013, the Central Bank of Kenya (CBK) issued revised prudential guidelines introducing some elements of Basel II principles in the measurement and assessment of capital adequacy requirements, mainly incorporating operational risk and market risk. The key features of the revised guideline relating to capital adequacy are as follows:

1 **Introduction of Basel II principles in the measurement and assessment of capital adequacy requirements (CARs).**
Kenyan banks have been computing the CARs based on Basel methodology i.e. restricted to credit risk measurement of assets only. In the revised guideline, some principles of Basel II measurement of capital adequacy have been introduced. This will require Kenyan banks to also take into account capital charges for:

   a. Operational risk –using the Basic Indicator Approach
   b. Market risk - both specific and general market risks to be calculated using the Standardized management approach

2 **Higher minimum capital adequacy requirements:**

The minimum capital adequacy ratios (CARs) have been raised as follows by creating a "capital conservation buffer" of 250 bps over the current minimum CAR:

   a. Core capital / Total risk weighted assets ratio from 8% to 10.5%

   b. Core capital/ Deposits ratio from 8% to 10.5%

   c. Total capital/ Total risk weighted assets ratio from 12% to 14.5%

As at 31 December 2012, the bank has met all the new requirements as shown below;

Core capital / Total risk weighted assets ratio (CBK revised minimum - 10.5%)	14.8%
Total capital/ Total risk weighted assets ratio (CBK revised minimum - 14.5%)	16.6%
Core capital/ Deposits ratio (CBK revised minimum - 10.5%)	16.4%

	Group		Bank	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
5 Interest income				
Loans and advances	13,783,269	8,927,719	10,374,522	6,479,319
Government securities	2,319,756	790,358	2,062,918	452,966
Placements and bank balances	475,989	321,021	244,575	293,382
	16,579,014	**10,039,098**	**12,682,015**	**7,225,667**
6 Interest expense				
Customer deposits	7,166,937	3,090,651	5,727,639	2,379,845
Deposits due to banking institutions	165,691	121,495	87,906	40,723
	7,332,628	**3,212,146**	**5,815,545**	**2,420,568**
7 Net fee and commission income				
Fee and commission income	1,843,217	1,587,566	1,027,394	918,181
Inter-bank transaction fees	(51,258)	(34,901)	(41,674)	(26,340)
Net fees and commissions	**1,791,959**	**1,552,665**	**985,720**	**891,841**
8 Other operating income				
Gain on sale of investment securities	22,068	117,128	22,068	121,082
Rental income	21,905	18,501	21,448	18,003
Gain/(loss) on sale of fixed assets	2,112	(912)	1,190	(1,688)
Other	49,700	61,002	23,711	21,850
	95,785	**195,719**	**68,417**	**159,247**
9 Operating expenses				
Operating expenses include:				
Staff costs (Note 10)	2,308,649	2,082,228	1,440,827	1,275,701
Depreciation (Note 25)	420,570	365,917	217,188	193,505
Amortisation of software costs (Note 23)	121,454	100,361	91,258	67,296
Operating lease rentals	378,138	301,985	209,957	162,595
Auditors' remuneration	11,724	11,007	5,185	4,938
10 Staff costs				
Salaries and allowances	2,094,567	1,829,019	1,345,550	1,174,370
Contribution to defined contribution retirement scheme	50,532	46,308	49,366	45,165
Accrual for gratuity pay	4,209	7,438	-	5,009
National Social Security Fund Contribution	67,908	58,143	1,994	2,046
Others including insurance and training expenses	91,433	141,320	43,917	49,111
	2,308,649	**2,082,228**	**1,440,827**	**1,275,701**

11 Taxation

a) Tax charge

	Group 2012 Shs'000	Group 2011 Shs'000	Bank 2012 Shs'000	Bank 2011 Shs'000
Current income tax	2,175,551	1,489,522	1,743,232	1,163,133
Under/(over) provision of income tax in previous year	12,300	(186)	-	-
Deferred income tax (note 21)	(176,024)	(178,585)	(142,262)	(160,432)
Over provision of deferred tax credit in previous year (note 21)	(51,906)	(64)	-	(1,118)
	1,959,921	1,310,687	1,600,970	1,001,583

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 2012 Shs'000	Group 2011 Shs'000	Bank 2012 Shs'000	Bank 2011 Shs'000
Profit before tax	6,027,899	4,307,413	4,669,663	3,248,474
Tax calculated at the statutory tax rate of 30% (2011: 30%)	1,808,370	1,292,224	1,400,899	974,543
Tax effect of:				
Income not subject to tax	(76,853)	(65,303)	(5,718)	(22,252)
Expenses not deductible for tax purposes	224,102	58,423	205,789	50,410
Under/(over) provision of current income tax in previous year	12,300	(186)	-	-
Over provision of deferred tax credit in previous year	(51,906)	(64)	-	(1,118)
Final tax on investment income	43,908	25,593	-	-
Tax charge	1,959,921	1,310,687	1,600,970	1,001,583

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 2012	Group 2011	Bank 2012	Bank 2011
Profit attributable to shareholders (Shs thousands)	3,627,766	2,656,797	3,068,693	2,246,891
Weighted average number of ordinary shares in issue (thousands)	208,008	201,962	208,008	201,962
Earnings per share (Shs per share) - diluted	17.44	13.15	14.75	11.13

The earnings per share have been calculated on the basis of the number of weighted ordinary shares issued as at 31 December 2012. There were no potentially dilutive shares outstanding at 31 December 2012.

13 Dividends per share

At the Annual General Meeting to be held on 31 May 2013, a final dividend in respect of the year ended 31 December 2012 of Shs 1.90 per share amounting to a total of Shs 418,190,182 is to be proposed.

The total dividend for the year is Shs 1.90 per share (2011: Shs 1.70), amounting to a total of Shs 418,190,182 (2011: Shs 332,595,701).

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 all other shareholders.

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
14 Cash and balances with Central Banks				
Cash in hand	2,614,455	2,027,630	1,671,539	1,225,856
Balances with Central Banks	8,894,406	6,253,871	3,676,771	3,194,859
	11,508,861	**8,281,501**	**5,348,310**	**4,420,715**
15 Government securities - at amortised cost				
Treasury bills	11,956,778	2,451,011	8,390,530	234,624
Treasury bills under repo purchase agreement	749,573	-	749,573	-
Treasury bonds	10,038,159	8,915,815	9,262,791	7,851,959
Total Government securities	**22,744,510**	**11,366,826**	**18,402,894**	**8,086,583**

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 maturity profile of Government securities is as follows:

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Included in cash and cash equivalents	2,475,019	156,311	2,231,225	-
Less than 1 year	16,254,343	5,281,495	13,752,946	3,614,639
1-5 years	4,015,148	5,929,020	2,418,723	4,471,944
Over 5 years	-	-	-	-
	22,744,510	11,366,826	18,402,894	8,086,583
16 Deposits and balances due from banking institutions				
Due from other banks	7,722,752	12,507,416	4,404,676	9,452,751

All deposits due from banking institutions are due within 91 days.

17 Loans and advances to customers

	Group		Bank	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Loans and advances	85,115,619	67,555,050	56,978,361	46,943,408
Finance leases	5,005,259	5,377,570	5,005,259	5,377,570
Gross loans and advances	90,120,878	72,932,620	61,983,620	52,320,978
Less: Provision for impairment				
Identified impairment	(887,294)	(602,435)	(809,946)	(549,462)
Unidentified impairment	(1,526,341)	(1,032,464)	(1,243,215)	(827,831)
Net loans and advances	**87,707,243**	**71,297,721**	**59,930,459**	**50,943,685**

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

	Group		Bank	
	Identified Impairment Shs'000	Unidentified impairment Shs'000	Identified Impairment Shs'000	Unidentified impairment Shs'000
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**
Year ended 31 December 2012				
At start of year	602,435	1,032,464	549,462	827,831
Provision for loan impairment	756,757	496,436	666,444	415,384
Loans written off during the year as uncollectible	(257,737)	-	(240,938)	-
Release of provision no longer required	(212,800)	-	(165,022)	-
Translation difference	(1,361)	(2,559)	-	-
At end of year	**887,294**	**1,526,341**	**809,946**	**1,243,215**

Charge to income statement (Group)	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
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**
Year ended 31 December 2012			
Provision for loan impairment	756,757	496,436	1,253,193
Release of provision no longer required	(212,800)	-	(212,800)
Net increase in provision	543,957	496,436	1,040,393
Amounts recovered previously written off	(61,366)	-	(61,366)
Loans written off through the income statement	5,669	-	5,669
Net charge to the income statement	**488,260**	**496,436**	**984,696**

17 Loans and advances to customers (Continued)

	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Charge to income statement (Bank)			
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**
Year ended 31 December 2012			
Provision for loan impairment	666,444	415,384	1,081,828
Release of provision no longer required	(165,022)	-	(165,022)
Net increase in provision	501,422	415,384	916,806
Amounts recovered previously written off	(41,213)	-	(41,213)
Loans written off through income statement	4,013	-	4,013
Net charge to income statement	**464,222**	**415,384**	**879,606**

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 2012, was Group: Shs 67,666,000, Bank: Shs nil (2011 - Group: Shs 31,561,000, Bank: Shs 1,111,215).

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

	Group and Bank	
	2012 Shs'000	**2011 Shs'000**
Gross investment in finance leases:		
Not later than 1 year	755,020	1,791,691
Later than 1 year and not later than 5 years	5,179,023	4,714,266
Later than 5 years	52,194	58,865
	5,986,237	6,564,822
Unearned future finance income on finance leases	(980,978)	(1,187,252)
Net investment in finance leases	**5,005,259**	**5,377,570**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	708,540	1,616,461
Later than 1 year and not later than 5 years	4,249,485	3,718,271
Later than 5 years	47,234	42,838
Net investment in finance leases	**5,005,259**	**5,377,570**

18 Investments in subsidiaries and associates

	Group	
	2012	2011
	Shs'000	Shs'000
Associate-Jubilee Insurance Company of Burundi S. A.		
At start of year	1,940	2,599
Additional investment in the year	2,238	-
Share of results after tax	2,149	(483)
Translation	(389)	(176)
At end of year	**5,938**	**1,940**

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

	Beneficial Ownership		Group		Bank	
	2012	2011	2012	2011	2012	2011
	%	%	Shs'000	Shs'000	Shs'000	Shs'000
Subsidiaries						
Diamond Trust Bank Tanzania Limited	62.9%	55.40%	-	-	961,361	337,584
Diamond Trust Bank Uganda Limited	54.1%	54.1%	-	-	420,462	420,462
Diamond Trust Bank Burundi S. A.	67.3%	67.3%	-	-	484,611	484,611
Diamond Trust Insurance Agency Limited	100%	100%	-	-	2,000	2,000
Premier Savings and Finance Limited	100%	100%	-	-	29,137	29,137
			-	-	**1,897,571**	**1,273,794**
Associates						
Services and Systems Limited	40%	40%	1	1	1	1
Jubilee Insurance Company of Burundi S. A.	20%	20%	6,079	3,841	-	-
Total investments in subsidiaries and associates			**6,080**	**3,842**	**1,897,572**	**1,273,795**

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

19 Equity investments

	Group and Bank	
	2012	2011
	Shs'000	Shs'000
At start of year	37,614	59,928
Fair value gain/(loss) (Note 31)	26,777	(22,314)
At end of year	**64,391**	**37,614**

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	
	2012	2011
	Shs'000	Shs'000
20 Amount due from Group companies	**431,118**	**426,157**

The balances due from Group companies relate to 7.5 year and 6 .5 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.

21 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% (2011:30%). The movement on the deferred tax account is as follows:

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred tax asset				
At start of year	459,092	284,966	408,121	245,330
Charged through the income statement - current year	176,024	178,585	142,262	160,432
Overstatement of deferred tax in previous year	51,906	64	-	1,118
Charged through other comprehensive income	(7,841)	1,241	(7,841)	1,241
Translation difference	(6,223)	(5,764)	-	-
At end of the year	**672,958**	**459,092**	**542,542**	**408,121**

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	Shs'000	Charged to the income statement Shs'000	Charged through other comprehensive income Shs'000	31.12.2012 Shs'000
Deferred income tax liabilities				
Unrealised foreign exchange gain	-	(26,808)	-	(26,808)
Revaluation surplus	(5,761)	1,476	-	(4,285)
	(5,761)	(25,332)	-	(31,093)
Deferred income tax assets				
Property and equipment	(7,868)	45,438	-	37,570
Provisions for loan impairment	332,370	150,598	-	482,968
Provisions for gratuity and staff bonus	123,952	22,924	-	146,876
Investment credit carried forward	8,558	28,079	-	36,637
Fair value changes	7,841	-	(7,841)	-
	464,853	247,039	(7,841)	704,051
Net deferred income tax asset	**459,092**	**221,707**	**(7,841)**	**672,958**
Bank				
Deferred income tax assets/(liabilities)				
Property and equipment	17,114	31,772	-	48,886
Provisions for loan impairment	259,585	113,379	-	372,964
Provisions for gratuity and staff bonus	123,581	23,919	-	147,500
Unrealised foreign exchange gain	-	(26,808)	-	(26,808)
Fair value changes	7,841	-	(7,841)	-
Net deferred tax asset	**408,121**	**142,262**	**(7,841)**	**542,542**

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
22 Other assets				
Uncleared effects	941,558	590,889	819,341	512,638
Deposits and prepayments	398,250	277,353	248,949	176,338
Others	529,675	464,915	457,747	382,734
	1,869,483	**1,333,157**	**1,526,037**	**1,071,710**
23 Intangible assets-software costs				
At start of year	281,030	249,599	235,356	180,156
Additions	52,635	132,126	34,291	122,496
Transfer from work in progress (note 25)	4,468	-	-	-
Amortisation charge for the year	(121,454)	(100,361)	(91,258)	(67,296)
Translation difference	(2,274)	(334)	-	-
At the end of year	214,405	281,030	178,389	235,356
Cost	726,228	671,399	503,899	469,608
Accumulated amortisation	(511,823)	(390,369)	(325,510)	(234,252)
Net book amount	**214,405**	**281,030**	**178,389**	**235,356**

24 Intangible assets - goodwill

	Group	
	2012	2011
	Shs'000	Shs'000
Goodwill on acquisition of control in subsidiaries	173,372	173,372

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

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to subsidiaries. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a three-year period and discounted at rates comparable to that earned from risk assets.

Based on the above, the Group does not consider the goodwill impaired.

25 Property and equipment

(a) Group

	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
At 1 January 2011							
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**
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**

25 Property and equipment (Continued)

(a) Group (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 2012							
Opening net book amount	321,299	362,771	530,108	32,639	663,050	104,076	2,013,943
Translation difference	(368)	(4,058)	(9,513)	58	(7,896)	(481)	(22,258)
Additions	-	711,395	180,860	16,423	263,907	33,754	1,206,339
Transfer from work in progress	-	-	15,837	-	10,988	(26,825)	-
Transfer to intangible assets (note 23)	-	-	-	-	-	(4,468)	(4,468)
Disposals	-	-	(5,511)	(12,704)	-	-	(18,215)
Disposals - accumulated depreciation	-	-	4,794	10,502	-	-	15,296
Depreciation charge	(3,569)	(13,982)	(105,266)	(16,511)	(281,242)	-	(420,570)
Closing net book amount	**317,362**	**1,056,126**	**611,309**	**30,407**	**648,807**	**106,056**	**2,770,067**
At 31 December 2012							
Cost or valuation	321,277	1,075,860	1,006,700	77,128	1,924,594	106,056	4,511,615
Accumulated depreciation	(3,915)	(19,734)	(395,391)	(46,721)	(1,275,787)	-	(1,741,548)
Net book amount	**317,362**	**1,056,126**	**611,309**	**30,407**	**648,807**	**106,056**	**2,770,067**
At 31 December 2012							
Cost	67,324	935,813	1,006,700	77,128	1,924,594	106,056	4,117,615
Revaluation surplus	253,953	140,047	-	-	-	-	394,000
Cost or valuation	**321,277**	**1,075,860**	**1,006,700**	**77,128**	**1,924,594**	**106,056**	**4,511,615**

25 Property and equipment (Continued)

(b) Bank	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
At 1 January 2011							
Cost or valuation	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**
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 valuation	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**

25 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'00
Year ended 31 December 2012							
Opening net book amount	318,300	211,700	163,865	11,736	361,936	23,754	1,091,291
Additions	-	711,395	57,581	9,212	116,176	17,870	912,234
Transfers - Cost	-	-	14,774	-	8,696	(23,470)	-
Disposals	-	-	-	(2,850)	(8,460)	-	(11,310)
Disposals - accumulated depreciation	-	-	-	2,316	8,087	-	10,403
Depreciation charge	(3,443)	(7,815)	(48,498)	(8,159)	(149,273)	-	(217,188)
Closing net book amount	**314,857**	**915,280**	**187,722**	**12,255**	**337,162**	**18,154**	**1,785,430**
At 31 December 2012							
Cost or revaluation	318,300	923,095	389,887	40,574	1,059,135	18,154	2,749,145
Accumulated depreciation	(3,443)	(7,815)	(202,165)	(28,319)	(721,973)	-	(963,715)
Net book amount	**314,857**	**915,280**	**187,722**	**12,255**	**337,162**	**18,154**	**1,785,430**
At 31 December 2012							
Cost	64,331	792,880	389,887	40,574	1,059,135	18,154	2,364,961
Revaluation surplus	253,969	130,215	-	-	-	-	384,184
Cost or valuation	**318,300**	**923,095**	**389,887**	**40,574**	**1,059,135**	**18,154**	**2,749,145**

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	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Cost	951,354	268,039	857,211	145,816
Accumulated depreciation	(32,441)	(30,189)	(26,860)	(20,341)
Net book amount	**918,913**	**237,850**	**830,351**	**125,475**

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
26 Customer deposits				
Current and demand deposits	31,350,973	26,178,778	20,256,281	16,847,147
Savings accounts	9,808,232	7,487,718	4,159,547	3,183,237
Fixed and call deposit accounts	65,815,841	52,319,695	48,089,082	39,741,683
Unredeemed bearer certificates of deposit	208	208	208	208
	106,975,254	**85,986,399**	**72,505,118**	**59,772,275**
27 Deposits and balances due to banking institutions				
Deposits due to banking institutions	2,159,068	1,940,122	591,166	1,532,516
Current account balances due to banking institutions	568,236	204,835	411,228	126,111
	2,727,304	**2,144,957**	**1,002,394**	**1,658,627**

28 Long term borrowings

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 (2011: 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 six months Libor.

b. Senior loan

The Group has two long-term senior loans (ten years and six and a half years respectively) raised from the International Finance Corporation (IFC), a related party, in 2011 and 2008 amounting to US$ 30 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.

28 Long term borrowings (Continued)

	Group		Bank	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Subordinated debt				
At start of year	1,278,245	1,212,190	1,278,245	1,212,190
Accrued interest	42,054	39,429	42,054	39,429
Paid during the year	(42,641)	(39,693)	(42,641)	(39,693)
Translation difference	15,463	66,319	15,463	66,319
	1,293,121	**1,278,245**	**1,293,121**	**1,278,245**
Senior loan				
At start of year	2,556,441	807,841	2,556,441	807,841
Additions during the year	-	1,802,000	-	1,802,000
Accrued interest	71,959	44,432	71,959	44,432
Paid during the year	(204,442)	(40,280)	(204,442)	(40,280)
Translation difference	29,241	(57,552)	29,241	(57,552)
	2,453,199	**2,556,441**	**2,453,199**	**2,556,441**
Total due to International Finance Corporation	**3,746,320**	**3,834,686**	**3,746,320**	**3,834,686**
Administered funds				
Bank of Uganda	27,420	31,467	-	-
European Investment Bank	34,061	45,527	-	-
	61,481	**76,994**	**-**	**-**
Long term borrowings	**3,807,801**	**3,911,680**	**3,746,320**	**3,834,686**
d. Finance costs				
Subordinated debt	42,053	39,429	42,053	39,429
Senior loan	71,959	44,432	71,959	44,432
Administered funds	2,112	3,360	-	-
Amortised appraisal fees	5,171	4,835	5,171	4,835
	121,295	**92,056**	**119,183**	**88,696**
29 Other liabilities				
Due to subsidiary company	-	-	79,560	79,560
Gratuity provision	13,090	16,939	-	3,850
Outstanding bankers' cheques	232,453	211,560	188,008	119,220
Accrued expenses	737,092	660,267	577,741	512,215
Revenue collected on behalf of Uganda Revenue Authority	438,600	241,165	-	-
Deferred income	688,259	702,858	588,209	624,397
Other payables	757,922	561,307	502,181	417,707
	2,867,416	**2,394,096**	**1,935,699**	**1,756,949**
Movement in gratuity provision is as follows:				
At start of year	16,939	61,582	3,850	50,624
Increase during the year	1,083	7,315	-	5,009
Utilised during the year	(5,209)	(51,783)	(3,850)	(51,783)
Translation difference	277	(175)	-	-
At end of year	**13,090**	**16,939**	**-**	**3,850**

30 Share capital and reserves

a) Share capital and Share premiums

	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
1 January 2012	195,644	782,578	2,197,735
Rights issue (net of expenses)	24,456	97,828	1,659,163
31 December 2012	220,100	880,400	3,856,898

The total authorised number of ordinary shares is 250,000,000 (2011: 250,000,000) with a par value of Shs 4 per share. The issued shares as at 31 December 2012 are 220,100,096 (2011 - 195,644,530) and are fully paid.

During the Annual General Meeting held on 4 May 2012, the shareholders approved the increase in the bank's issued share capital through the issuance of a further 24,455,566 ordinary shares, with a par value of Shs 4 each, by way of a rights issue at Shs 74 per share.

The rights issue proceeds of Shs 1,809,711,884 have been applied as follows:

	Note	Shs'000
Share capital		97,822
Share premium before Rights Issue expenses		1,711,890
Total Rights Issue proceeds		1,809,712
Share premium before Rights Issue expenses		1,711,890
Rights Issue expenses	i)	52,727
Share premium net of Rights Issue expenses		1,659,163
i) Rights Issue expenses		
Professional fees		23,903
Placing and listing fees		19,817
Communication costs		5,803
Printing expenses		3,204
Total Rights Issue expenses		52,727

b) *Revaluation surplus on property*
Revaluation reserve is made up of the periodic adjustments arising from the fair valuation of buildings, net of the related deferred taxation. The reserve is not available for distribution to the shareholders.

c) *Fair value reserves on equity investments*
This represents the unrealized increase or decrease in the fair value of equity investments designated as at fair value through other comprehensive income, excluding impairment losses. The reserve is not available for distribution to the shareholders.

d) *Translation reserve*
The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operation in Tanzania, Uganda and Burundi from their functional currency to the Group's presentation currency (Kenya Shillings). These differences are recognised directly through other comprehensive income and accumulated in the translation reserve.

e) *Statutory loan loss reserve*
Where impairment losses required by prudential guidelines issued by the banking regulators exceed those computed under the International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation from revenue reserves. The reserve is not available for distribution to the shareholders.

f) *Retained earnings*
This represents undistributed profits from current and previous years.

31 Other reserves

Consolidated statement of changes in other reserves

	Revaluation surplus Shs'000	Fair value reserve on Government securities Shs'000	Fair value reserve on equity investments Shs'000	Translation reserve Shs'000	Other reserves Shs'000	Total Shs'000
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 changes	-	(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**
Year ended 31 December 2012						
At start of year	403,464	-	(18,297)	(57,959)	41,263	368,471
Fair value changes in equity investments	-	-	26,777	-	-	26,777
Deferred tax on fair value changes	-	-	(7,841)	-	-	(7,841)
Excess depreciation	(6,185)	-	-	-	-	(6,185)
Translation adjustment	-	-	-	(60,705)	-	(60,705)
Increase in interest in Diamond Trust Bank Tanzania Limited.	-	-	-	-	(81,526)	(81,526)
At end of year	**397,279**	**-**	**639**	**(118,664)**	**(40,263)**	**238,991**

31 Other reserves (Continued)

Bank statement of changes in reserves

	Revaluation surplus Shs'000	Fair value reserve on Government securities Shs'000	Fair value reserve on equity investments Shs'000	Total Shs'000
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 changes in Government securities	-	(5,452)	-	(5,452)
Fair value changes in equity investments	-	-	(22,314)	(22,314)
Deferred tax on fair value changes in equity investments	-	-	6,694	6,694
Surplus on revaluation of properties	350,451	-	-	350,451
At end of year	**383,091**	**-**	**(18,297)**	**364,794**
Year ended 31 December 2012				
At start of year	383,091	-	(18,297)	364,794
Fair value changes in equity investments	-	-	26,777	26,777
Deferred tax on fair value changes in equity investments	-	-	(7,841)	(7,841)
Transfer of excess depreciation	(5,649)	-	-	(5,649)
At end of year	**377,442**	**-**	**639**	**378,081**

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

32 Transactions with non-controlling interests

a) Diamond Trust Bank Tanzania Limited

On 31 December 2012, Diamond Trust Bank Kenya Limited acquired an additional 7.53% stake in Diamond Trust Bank Tanzania Limited (DTBT) by subscribing for the untaken rights of other shareholders at a consideration of Shs 252,658,057. The Group now holds 62.93% from 55.40% before the rights issue. The carrying amount of the net assets the Group acquired was Shs171,132,156

b) Diamond Trust Bank Uganda Limited

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 and DTBT in equity attributable to owners of the bank in 2012 and 2011 is summarised as follows:

	2012 Shs'000	2011 Shs'000
Carrying amount of non-controlling interests acquired	171,132	39,378
Consideration paid for the interests	(252,658)	(54,219)
Excess of consideration paid recognised in parent's equity	**(81,526)**	**(14,841)**

33 Off balance sheet financial instruments, contingent liabilities and commitments

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

	Group		Bank	
	2012	2011	2012	2011
Contingent liabilities	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Acceptances and letters of credit	5,711,189	4,758,710	4,659,222	3,442,905
Guarantee and performance bonds	4,821,361	4,637,400	4,090,359	3,472,409
	10,532,550	**9,396,110**	**8,749,581**	**6,915,314**

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	
	2012	2011	2012	2011
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Undrawn credit lines and other commitments to lend	9,878,800	10,447,863	8,191,127	9,329,206
Foreign exchange forward contracts	16,359,271	8,430,654	14,713,287	7,741,314
Foreign exchange spot transactions	1,703,725	2,487,076	1,586,985	1,704,781
Operating lease rentals (i)	1,307,857	1,139,357	712,739	643,379
Capital commitments	60,044	74,193	48,155	68,833
	29,309,697	**22,579,143**	**25,252,293**	**19,487,513**
(i) Operating lease rentals are analysed as follows:				
Not later than 1 year	324,369	267,968	174,450	154,081
Later than 1 year and not later than 5 years	792,511	717,720	404,179	382,994
Later than 5 years	190,977	153,669	134,110	106,304
	1,307,857	**1,139,357**	**712,739**	**643,379**

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.

34 Business segments information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance. Information reported to the Group's Board for the purposes of resource allocation and assessment of segment performance is focused on geographical regions. Although the Burundi segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported as it is closely monitored by the Board.
The reportable operating segments derive their revenue primarily from banking services including current, savings and deposits accounts, credit cards, asset finance, money transmission, treasury and commercial lending. The parent Bank also operates a fully owned insurance agency in Kenya. The assets and profit of the agency are not material and make up less than 10% of the combined assets and profit of the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.
For management and reporting purposes, Diamond Trust Bank is organised into the following business segments;

Diamond Trust Bank Tanzania Limited, which became a subsidiary company in June 2007, operates in Tanzania. Diamond Trust Bank Uganda Limited, which became a subsidiary company in October 2008, operates in Uganda. Network Insurance Agency Limited, which is a wholly owned subsidiary of Diamond Trust Bank Uganda Limited, operates in Uganda. Diamond Trust Bank Burundi S.A., which was set up as a subsidiary company in November 2008, operates in Burundi. Kenya is the home country of the parent Bank and its fully owned insurance agency, 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 2012

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000	Consolidated adjustments Shs'000	Group Shs'000
Interest income from external customers	12,667,308	1,679,261	2,035,979	196,466	16,579,014		16,579,014
Other income from external customers	1,883,726	518,591	642,342	29,382	3,074,041		3,074,041
Total income from external customers	14,551,034	2,197,852	2,678,321	225,848	19,653,055		19,653,055
Share of results of associate after tax	-	-	-	2,149	2,149		2,149
Inter-segment income	21,437	222	188	67	21,914	(21,914)	-
Total income	14,572,471	2,198,074	2,678,509	228,064	19,677,118		19,655,204
Interest expense from external customers	(5,807,704)	(531,793)	(937,825)	(55,306)	(7,332,628)		(7,332,628)
Other expenses – external	(2,766,570)	(832,077)	(935,716)	(95,860)	(4,630,223)	(16,439)	(4,646,662)
Inter-segment expenses	(7,203)	(7,675)	(7,036)	-	(21,914)	21,914	-
Finance costs	(119,183)	(8,039)	(10,512)	-	(137,734)	16,439	(121,295)
Depreciation and amortisation	(309,079)	(97,238)	(96,442)	(39,265)	(542,024)		(542,024
Provision for bad debts	(879,606)	(76,444)	(8,018)	(20,628)	(984,696)		(984,696)
Total expenses	(9,889,345)	(1,553,266)	(1,995,549)	(211,059)	(13,649,219)		(13,627,305)
Segment profit before tax	4,683,126	644,808	682,960	17,005	6,027,899		6,027,899
Current and deferred tax charge	(1,610,141)	(203,652)	(179,634)	33,506	(1,959,921)		(1,959,921)
Segment profit after tax	**3,072,985**	**441,156**	**503,326**	**50,511**	**4,067,978**		**4,067,978**
Segment assets	**94,669,809**	**21,716,706**	**20,103,291**	**1,650,765**	**138,140,571**	**(2,679,159)**	**135,461,412**
Segment liabilities	**79,648,029**	**18,775,436**	**18,359,041**	**997,685**	**117,780,191**	**(945,700)**	**116,834,491**

34 Business segments information (Continued)

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	**77,587,458**	**17,096,793**	**13,420,004**	**1,566,636**	**109,670,891**	**(1,911,073)**	**107,759,818**
Segment liabilities	**67,098,179**	**15,276,082**	**12,074,536**	**876,162**	**95,324,959**	**(813,960)**	**94,510,999**

34 Business segments information (Continued)

(b) Additions to non current assets

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
At 31 December 2012					
Property and equipment	912,258	106,380	185,722	1,979	1,206,339
Intangible assets- software	34,291	9,772	5,657	2,915	52,635
	946,549	**116,152**	**191,379**	**4,894**	**1,258,974**
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**

(c) Revenue by products

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

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
At 31 December 2012					
Interest income					
Loans and advances	10,360,449	1,467,341	1,783,671	171,808	13,783,269
Government securities	2,062,918	20,588	223,651	12,599	2,319,756
Placement and bank balances	244,575	190,756	28,599	12,059	475,989
	12,667,942	**1,678,685**	**2,035,921**	**196,466**	**16,579,014**
Interest expense					
Customer deposits	5,720,913	490,208	900,885	54,931	7,166,937
Deposits due to banking institutions	87,906	40,787	36,690	308	165,691
	5,808,819	**530,995**	**937,575**	**55,239**	**7,332,628**
Net interest income	**6,859,123**	**1,147,690**	**1,098,346**	**141,227**	**9,246,386**
Non interest income					
Fee and commission income	985,720	368,735	419,298	18,206	1,791,959
Foreign exchange income	810,445	148,762	218,339	8,751	1,186,297
Other income	87,561	1,094	4,705	2,425	95,785
	1,883,726	**518,591**	**642,342**	**29,382**	**3,074,041**

34 Business segments information (Continued)

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

	Kenya Shs'000	Tanzania Shs'000	Uganda Shs'000	Burundi Shs'000	Total Shs'000
At 31 December 2011					
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
	7,218,728	**1,312,034**	**1,320,808**	**187,528**	**10,039,098**
Interest expense					
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
	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**
Non interest 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
	1,739,573	**480,366**	**470,381**	**54,547**	**2,744,867**

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

In the opinion of the directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out in Note 4.

The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December 2012 and 31 December 2011 were as follows;

	2012			2011		
	In Shs	**In US$**	**In GBP**	**In Shs**	**In US$**	**In GBP**
Assets						
Government securities	13.59%	-	-	10.72%	-	-
Deposits with banking institutions	10.00%	2.86%	-	27.81%	2.79%	-
Loans and advances to customers	18.50%	8.25%	6.92%	23.56%	7.59%	5.02%
Amounts due from group companies	-	3.01%	-	-	3.27%	-
Liabilities						
Customer deposits	7.61%	1.92%	1.93%	11.44%	1.37%	1.35%
Deposits due to banking institutions	7.37%	0.54%	0.00%	16.63%	1.04%	0.025
Subordinated debt	-	3.01%	-	-	3.27%	-
Senior loan 1	-	2.26%	- -	2.52%	-	
Senior loan 2	-	2.76%	-	-	3.02%	-

36 Analysis of cash and cash equivalents as shown in the statement of cash flows

	Group		Bank	
	2012	**2011**	**2012**	**2011**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Cash and balances with the central banks (Note 14)	11,508,861	8,281,501	5,348,310	4,420,715
Cash reserve requirement	(8,517,889)	(4,667,371)	(3,648,993)	(2,477,438)
Government securities maturing within 91 days at the point of acquisition	2,475,019	156,311	2,231,225	-
Deposits and balances due from banking institutions (Note 16)	7,722,752	12,507,416	4,404,676	9,452,751
Deposits and balances due to banking institutions (Note 27)	(2,727,304)	(2,144,957)	(1,002,394)	(1,658,627)
	10,461,439	**14,132,900**	**7,332,824**	**9,737,401**

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 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 % (2011: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

37 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial or operational decisions.

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

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

	Group		Bank	
	2012	2011	2012	2011
Group Companies	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Amounts due to:				
Other group companies	-	-	426,835	302,310
Interest expense incurred	-	-	7,202	2,847
Amounts due from:				
Other group companies	-	-	439,305	436,026
Interest income received	-	-	14,711	7,114
Directors				
Loans to directors:				
At start of year	1,257	810	917	535
Advanced during the year	1,083	1,527	1,083	917
Repaid during the year	(1,007)	(1,071)	(917)	(535)
Translation adjustment	(19)	(9)	-	-
At end of year	**1,314**	**1,257**	**1,083**	**917**
Interest income earned from directors loans	51	24	-	-
Deposits by directors:				
At start of year	75,752	74,388	64,353	59,957
Net movement during the year	39,773	3,591	34,145	4,396
Translation adjustment	(5,090)	(2,227)	-	-
At end of year	**110,435**	**75,752**	**98,498**	**64,353**
Interest paid on directors' deposits	9,542	3,264	7,249	2,390
Other disclosures				
Advances to other related parties				
- Advances to companies related through control by a common shareholder, controlled by directors or their families	1,889,731	1,746,766	1,620,892	1,387,716
- Advances to employees of the Group	439,477	405,678	341,001	316,774
- Contingent liabilities including letters of credit and guarantees issued for the account of companies related through shareholding, common directorship and companies controlled by directors or their families	329,566	197,949	284,893	143,680
- Interest income earned from related companies and employees of the Group.	150,008	83,142	111,988	56,170

37 Related party transactions (Continued)

	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Other disclosures (Continued)				
Deposits with other related parties				
- Deposits by companies related through shareholding, common directorship and companies controlled by directors or their families	3,112,982	3,085,103	2,597,907	1,635,686
- Deposits by employees of the Group	202,560	171,806	179,431	145,158
- Interest expense incurred on deposits by related companies and employees of the Group	168,858	141,266	163,153	113,143

Long-term borrowings in the form of subordinated debt and senior loan raised from the International Finance Corporation, a party related through shareholding, amounted to Shs. 3,746,320 (2011:Shs. 3,834,686,000). Details of this are shown under Note 28.

At 31 December 2012, placements and/ or deposits with companies related through common directorship amounted to Shs.5,647,121 (2011: Shs. 912,664,000).

	Group		Bank	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Key management compensation				
Salaries and other short-term employment benefits	465,004	472,793	279,599	287,715
Termination benefits	19,242	26,180	10,932	11,448
	484,246	**498,973**	**290,531**	**299,163**
Director's remuneration				
- fees for services as a director	8,640	7,968	4,095	3,600
- other emoluments (included in key management compensation above)	57,284	54,179	28,581	30,439
	65,924	**62,147**	**32,676**	**34,039**

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, 31 May 2013 at 11:00 a.m., and at any adjournment thereof.

Dated this …………………………… day of ……………………………….. 2013

Signature: ………………………………………………..

Important Notes

If you are unable to attend this meeting personally, this Proxy Form should be completed and returned to The Company Secretary, Diamond Trust Bank Kenya Limited, P.O. Box 61711, City Square 00200, Nairobi, so as to reach him not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

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

In the case of a member being a corporation, the Proxy Form must be under the Common Seal or under the hand of an officer or Attorney duly authorised in writing.

FOLD HERE

AFFIX POSTAGE
STAMP HERE

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

FOLD HERE

www.dtbafrica.com