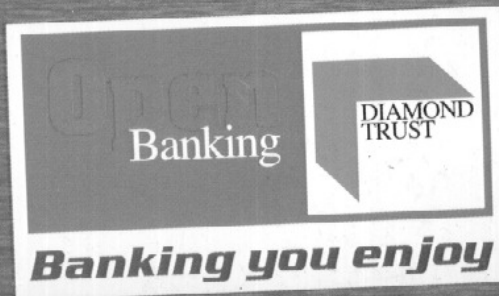
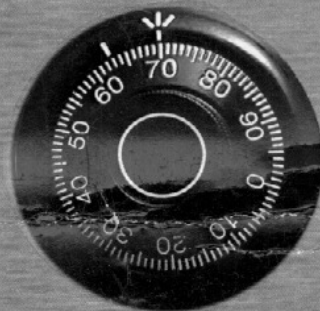


2005

Diamond Trust Bank Kenya Limited Annual Report and Financial Statements



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Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FORTIETH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF DIAMOND TRUST BANK KENYA LIMITED WILL BE HELD AT THE NAIROBI SERENA HOTEL, ON FRIDAY 26 MAY 2006 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Thirty Ninth Annual General Meeting held on 24 May 2005.
2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2005.
3. To approve payment of a final dividend of 17.5% on the Issued and Paid-up Share Capital of Shs 496.9 million to the shareholders registered in our books as at 26 May 2006 on or about 26 June 2006, 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 2005, and to authorise the Directors to fix the Auditors' remuneration for the year 2006.

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

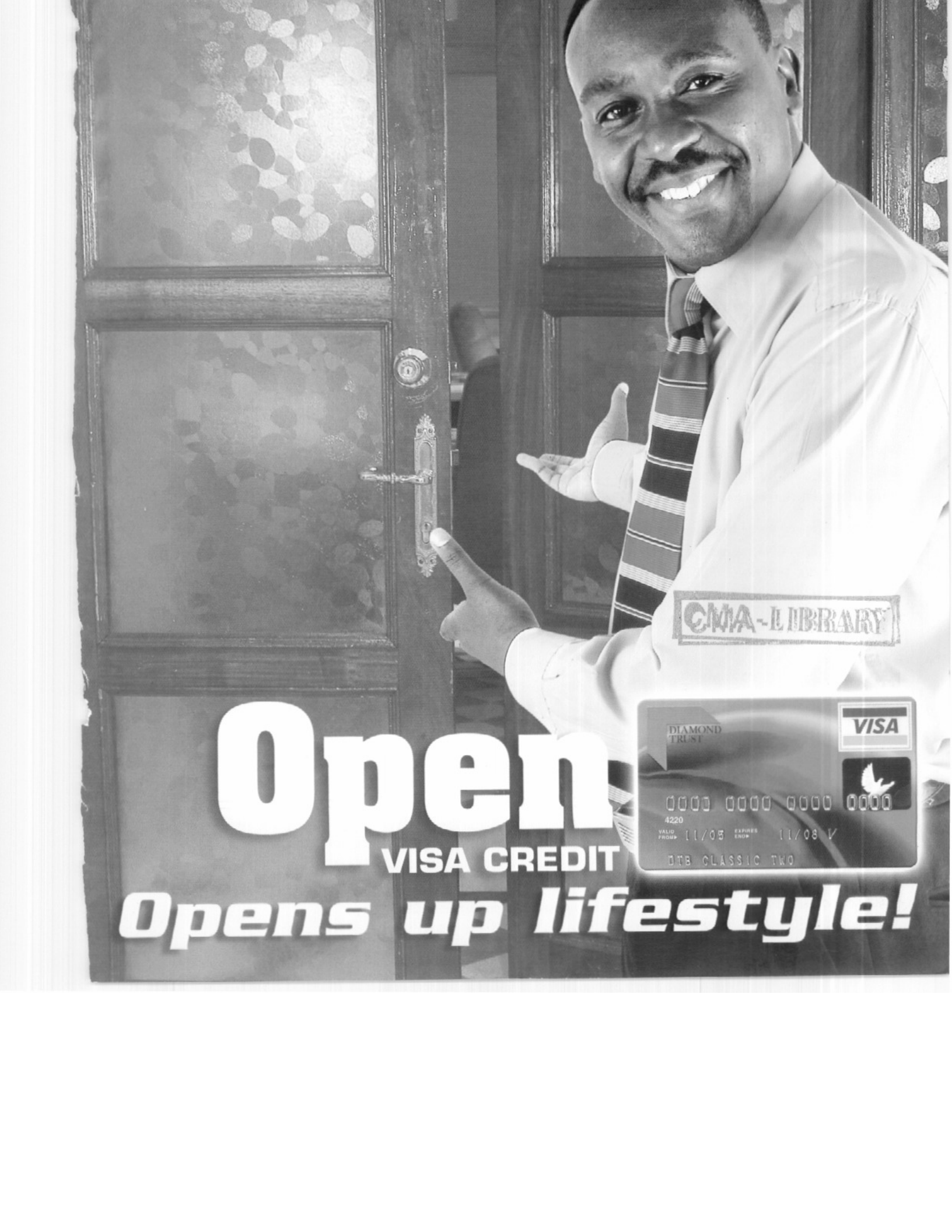
By Order of the Board

Elizabeth Hinga
Company Secretary

2 March 2006
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.



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Chairman's Statement

2005 witnessed an improvement in economic performance over the previous years. Real GDP grew by about 5.2%, the best performance for several years. Tourist arrivals increased significantly during the year, marking a turnaround in the sector's fortunes. The importation of intermediate goods and equipment also grew significantly in the past year, indicating that the manufacturing sector's performance is above that of past trends. The transport and communications sector also benefited from the reforms in public road transport. Export oriented agriculture (floriculture, tea, coffee) did not repeat the exceptional performance of 2004 due to lower commodity prices and, more importantly, a stronger shilling that eroded profitability. For the better part of 2005, the political environment was focused on the proposed new constitution, culminating in the national referendum held in November 2005. The economy, however, remained unnerved.

Your Bank posted excellent results in 2005, both in terms of an expanding market share of deposits and loans, as well as profitability.

Whilst the economy is on the road to sustained recovery, the otherwise optimistic outlook for 2006 is dampened by the crippling effects of last year's drought. Inadequate or delayed rainfall in 2006 is inevitably going to reverse the economic gains, with growth rates likely to fall below the 2005 levels.

In line with the general performance of the economy, I am pleased to report that your Bank posted excellent results in 2005, both in terms of an expanding market share of deposits and loans, as well as profitability. Profit before tax, at Shs 427 million, rose by 62% over the previous year. Total assets were up by 47%, to stand at Shs 16.4 billion. The Bank's loan book crossed the 10 billion mark for the first time, closing the year at Shs 10.3 billion. The non performing loans portfolio shrunk for the fifth consecutive year, by 25%, to Shs 86 million or 0.8% of total loans, arguably one of the lowest levels in the industry. Customer deposits increased by 50%, to Shs 13.3 billion, which funded the asset growth. Net interest income exhibited a growth of 51% rising to Shs 811 million. The ongoing drive to diversify the income base yielded positive returns with non-interest income earnings improving by 33%, to Shs 337 million or 29% of total income.

The Diamond Trust Banks in the region also registered favourable growth in 2005, with pre-tax profits rising by a significant 78% in Tanzania and 12% in Uganda, over the previous year. Diamond Trust Bank Kenya's share of their profits improved to Shs 66 million, compared to Shs 49 million in 2004.

The Tanzanian affiliate acquired the Western Union money transfer agency during 2005. Following this development, all three Diamond Trust Banks in the region are agents of Western Union, providing access to a much needed service to the unbanked community in East Africa. It gives me pleasure to inform you that the Diamond Trust Bank group was, once again, formally recognised by Western Union for its network expansion across the region and corporate social responsibility initiatives in 2005.

Chairman's Statement (Continued)

The marked improvement in performance can be attributed, in large measure, to the group's relentless pursuit for exploiting opportunities to enhance and diversify income streams together with improving customer service delivery and operational efficiency. This required considerable investment in the areas of infrastructure and human capital, use of state-of-the-art technology and development of new product lines. These initiatives, albeit costly in the short term, will have a favourable impact on profitability in the medium term.

In light of the much improved performance of your Bank in 2005, the Board has resolved to propose a dividend of Shs 0.70 per share, translating into a dividend rate of 17.5%. Following the bonus shares issue which Shareholders approved at the last Annual General Meeting, the actual dividend payout increased by 25%. Indeed, in the last three years the dividend paid has increased by an impressive 82%, following the two sets of bonus issues made in 2003 and 2005, each at the rate of 1 share for every 4 held.



The rapid growth witnessed by the Bank in recent years necessitated an increase in its capital base. In this regard, the Bank raised Tier II capital in the form of subordinated debt of Shs 367 million. The borrowing was raised from the Jubilee Holdings group, on commercial terms. The increase in Tier II capital enabled the Bank to comply with the Central Bank of Kenya's prescribed capital adequacy ratios.

The Diamond Trust Bank group remains optimistic about its business prospects in the region. The group's strategic objective is to improve shareholder value by repositioning itself as a significant player in the East African market place. This will be achieved by capitalising on available opportunities and sizeably upscaling operations across the region in the medium term. Plans are at hand to expand the current branch network from 8 at present, to 13 in a year's time.

The Bank diversified into the retail banking sector in 2004, marked by the provision of automated teller machine (ATM) services. The objective of this move was to expand the traditional customer and product base in order to maintain business growth and profitability. I am pleased to report that, this move has resulted in the Bank meeting its twin goals of diversifying its customer base, coupled with transforming its operations from a 'niche bank' to a 'universal bank'. To provide customers with greater reach, the Bank has also expanded its own fleet of ATMs with the installation of additional machines in Mombasa and Kisumu. Your Bank has also linked up with the recently launched PesaPoint ATM network, providing customers with country wide access to ATM-based services.

Chairman's Statement (Continued)

Shareholders will be pleased to learn that the bank recently launched 'Open Visa Credit' and 'Open Visa Debit' cards, under the Visa franchise, marking an important milestone in the Bank's strategy to expand its retail business portfolio. The Bank has also entered into a partnership with PesaPoint, which will enable Visa cardholders, local and foreign, to make cash withdrawals on the PesaPoint network.

Towards the end of last year, the Central Bank of Kenya issued revised prudential guidelines which became effective on 1 January 2006. The revised guidelines, covering different aspects of banking operations, are both comprehensive and stringent. The Bank has already taken steps to ensure compliance with the revised guidelines, in both letter and spirit. In November 2005, the Central Bank issued Risk Management Guidelines, requiring banks to develop risk management frameworks. I am pleased to state that a considerable amount of work has been undertaken to establish a sound risk management framework for the Bank.

Shareholders will have noted the significant progress which your Bank has recorded in recent years. This success has been achieved through the dedication, professionalism and hard work of the Management and Staff, very ably led by the Group CEO and Managing Director, Mrs. Nasim Devji. On behalf of the Board, I would like to express our sincere appreciation to them for the commendable performance.

My predecessor, Mr. Robert Bird, retired in July 2005. During his term of office, the Bank witnessed significant growth in all areas of operation and on behalf of my colleagues on the Board, I would like to thank him for his effective stewardship of the Bank and wish him a long and happy retirement in Australia. We also bid farewell to two other Directors, Messrs. Iain Cheyne and John Harris, who resigned from the Board at the end of last year, following their retirement from the Aga Khan Fund for Economic Development (AKFED), the Bank's principal Shareholder. I wish to extend the Board's gratitude to them for their guidance and support during their tenure of office.

This has been another busy year for your Directors, 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 convey my profound thanks to them for their unwavering commitment and dedication to your Bank.

In conclusion, I would like to thank you, our Shareholders, for your ongoing confidence and trust in the Bank, and to our esteemed clients, for their continued loyalty and valued custom.

Mahmood Manji
Chairman

2 March 2006

Taarifa ya Mwenyekiti

Mwaka wa 2005 ulishuhudia maendeleo mengi ya kiuchumi ikilinganishwa na miaka iliyopita. Pato la kawaida liliongezeka kwa asilimia 5.2, haya yakiwa ni matokeo bora kwa miaka mingi. Kuingia kwa watalii nchini kuliongezeka kwa kiwango kizuri mwaka huo, na kupelekea kuwepo kwa mabadiliko ya kuridhisha katika sekta hii. Uingizaji nchini wa bidhaa za ukubwa wa wastani na vifaaa vingine uliongezeka kwa kiasi cha kuridhisha katika mwaka uliopita, hali hii ikionyesha kwamba, utendajikazi wa sekta za uundaji uliimarika ikilinganishwa na matokeo ya hapo awali. Sekta ya uchukuzi na mawasiliano pia ilinufaika pakubwa kutokana na mabadiliko ya usafiri kwa barabara za umma. Ukulima wa bidhaa za kusafirisha (Maua, Chai, Kahawa) haukurejelea uzalishaji wake mzuri wa kipekee kama ule wa mwaka 2004, kwa sababu ya bei ya chini ya bidhaa na, la muhimu zaidi, kiwango cha shilingi yenye nguvu kilipunguza viwango vya faida.

Katika sehemu kubwa ya mwaka wa 2005, mazingira ya kisiasa yalilenga mijadala ya Katiba Mpya iliyopendekezwa, ambayo kilele chake kilikuwa ni kufanyika kwa kura ya maoni nchini iliyokuwa Novemba 2005. Hata hivyo, uchumi haukutikisika.

Wakati uchumi unaendelea kuimarika, matarajio ya matokeo mazuri ya mwaka 2006 yanakatizwa na adhari za kulemaza za kiangazi cha mwaka uliopita. Mvua ya kiwango cha chini au iliyochelewa katika mwaka wa 2006 bila shaka itaregesha nyuma faida ya uchumi, pamoja na viwango vya ukuaji vikishuka chini ya vile vya mwaka 2005.

Kulingana na jumla ya viwango vya utendakazi vya kiuchumi, nina furaha kuwataarifu kwamba Benki yenu ilizalisha matokeo bora mwaka wa 2005, katika pande zote mbili ikiwa, kwa mujibu wa kupanuwa soko la hisa la rubuni na mikopo, na pia katika viwango vya faida. Faida kabla ya ushuru, ikiwa Shilingi Milioni 427, iliongezeka kwa asilimia 62 ikilinganishwa na mwaka uliopita. Idadi ya rasilimali kwa jumla iliongezeka kwa asilimia 47, hadi Shilingi Bilioni 16.4. Kitabu cha Benki cha mikopo kilipita alama ya Bilioni 10 kwa mara ya kwanza, na kufunga mwaka kwa Shilingi Bilioni 10.3. Mkoba wa mikopo isiyozalisha ilirudi chini kwa mwaka wa 5 mfululizo, kwa asilimia 25, hadi Shilingi 86 ama asilimia 0.8 ya idadi ya mikopo yote, ambayo ndiyo kiwango mojawapo cha chini zaidi katika sekta hii. Arubuni za wateja ziliongezeka kwa asilimia 50, hadi shilingi Bilioni 13.3, ambayo ndio ilichangia ukuaji wa rasilimali. Mapato ya jumla ya riba yalikua kwa asilimia 51 na kuongezeka hadi Shilingi Milioni 811. Msukumo unaoendelea wa kutaka kupanua misingi ya mapato ulizalisha matokeo mazuri huku ujira wa mapato bila riba ukiimarika kwa asilimia 33, hadi shilingi Milioni 337, ama asilimia 29 ya jumla ya mapato.

Benki za Diamond Trust kwenye kanda hii pia zilisajili ukuaji mzuri katika mwaka wa 2005, huku faida kabla ya ushuru ikiongezeka kwa asilimia kubwa ya 78 nchini Tanzania na kwa asilimia 12, nchini Uganda, ikilinganishwa na mwaka uliopita. Faida za hisa za Benki ya Diamond Trust hapa Kenya iliongezeka hadi shilingi Milioni 66, ikilinganishwa na shilingi Milioni 49 ya mwaka wa 2004.

Washirika wa Tanzania walinunua uwakala wa Western Union money transfer mwaka wa 2005. Kufuatia maendeleo haya, Benki zote tatu za Diamond Trust kwenye kanda hii, ni mawakala wa Western Union, wanaopeana njia ya kupatikana kwa huduma inayohitajika mno na jamii ya Afrika Mashariki wasioweka

Taarifa ya Mwenyekiti (Inaendelea)

pesa zao kwenye benki. Inanipa furaha kuu kuwafahamisha kwamba Kikundi cha Benki ya Diamond Trust, kwa mara nyingine tena, kilitambuliwa rasmi na Western Union kwa kusambaza vyema mtandao wake kwenye kanda nzima na kuyapa kipaombele masuala ya miradi ya kuisaidia jamii katika mwaka wa 2005.

Maendeleo haya ya utendajikazi bora yametokana na, kwa kiasi kikubwa, jitihada za mchwa za Benki hii kutafuta nafasi za kuendeleza na kupanua njia za kupata mapato pamoja na kuboresha upeanaji wa huduma kwa wateja na utendaji kazi wa hali ya juu. Hii ilihitaji uwekezaji wa kadiri kwenye nyanja za miundo msingi na mtaji wa wafanyakazi, utumiaji wa teknolojia ya kisasa na uundaji wa bidhaa mpya. Hatua hizi, ijapokuwa kwa muda mfupi zina gharama kubwa, zitakuwa na matokeo mazuri ya faida kwa kipindi cha wastani kijacho.

Kulingana na ukuaji mkubwa wa utendajikazi wa Benki yenu katika mwaka wa 2005, Kamati imeamua kupendekeza mgawo wa Shilingi 0.70 kwa kila hisa, inayotafsiriwa kuwa kiwango cha mgao wa hisa cha asilimia 17.5. Kufuatia kutolewa kwa hisa za ziada, uamzi ambao wenye hisa walipitisha katika Mkutano Mkuu wa Kila Mwaka uliopita, malipo kamili ya hisa ya mgawo yaliongezeka kwa asilimia 25. Kwa kweli, katika kipindi cha miaka mitatu iliyopita, mgawo uliolipwa umeongezeka kwa asilimia 82, kufuatia taratibu zote mbili za kuhusu mapato ya ziada ya hisa zilizotengenezwa mwaka 2003 na 2005, zote zikiwa kwa kiwango cha hisa 1 kwa kila hisa 4.

Kulingana na ukuwaji wa haraka ulioshuhudiwa na Benki hii miaka ya nyuma, palikuwa na haja kuu ya ongezeko la kiwango cha mtaji. Kwa misngi hiyo, Benki iliongeza mtaji kwa daraja la pili (Tier II) katika kiwango cha chini cha deni cha shilingi Milioni 367. Kukopa huko kuliongezeka kutoka Jubilee Holdings Group, kwenye viwango vya biashara. Ongezeko hilo la mtaji wa daraja la pili (Tier II) lilifanya Benki kutekeleza viwango vinavyofaa vya migao ya mtaji vya Benki Kuu ya Kenya.

Diamond Trust Bank group imebaki na matarajio ya matokeo mazuri kulingana na matumaini ya biashara katika kanda hii. Madhumuni ya mkakati kabambe wa Benki hii ni kuimarisha kiwango cha wenyehisa kwa kujiweka tena upya kama washirika muhimu kwenye soko la kanda ya Afrika Mashariki. Na hili litafaulu kwa kuweka mtaji kwa nafasi zilizopo na kuongeza kiwango cha oparesheni ya sehemu hiyo kwa kiwango cha kati. Mipango iko tayari kupanua mtandao wa kituo cha sasa, kuanzia matawi 8 hadi 13 mwakani.

Benki ilipanuka kwenye sekta ya kuweka fedha rejareja katika mwaka wa 2004, huku ikidhihirika kwa kuwepo kwa huduma za mashini za kisasa zinazohifadhi na kutoa pesa (ATM). Nia na shabaha kamili ya kufanya hivyo ilikuwa ni kupanua wateja wa kawaida na msingi wa bidhaa, ili kumudu ukuwaji wa biashara na faida. Ninafuraha kuwaelezea kwamba, hatua hii imeleta mafanikio mazuri ya Benki na kuisaidia kuyafikia matarajio yake ya kupanua msingi wa wateja, kuunganisha kwa kubadili oparesheni zake kutoka benki ya watu wachache 'niche bank' hadi benki ya kila mtu 'universal bank'. Ili kuwafanya wateja kupata huduma hiyo, Benki pia imepanua mtandao wake wa vituo vyake vya mashini za kisasa za kuhifadhi na kutolea pesa (ATM) kwa kusimika mashini zaidi mjini Mombasa na Kisumu. Benki yenu imejihusisha na huduma za mtandao wa (ATM) wa PesaPoint uliozinduliwa hivi majuzi, ili kuwapa wateja wake fursa ya kupata huduma za (ATM) popote walipo nchini.

Taarifa ya Mwenyekiti (Inaendelea)

Wenye hisa watafurahia kuona kwamba hivi majuzi benki ilizindua 'Open Visa Credit' na 'Open Visa Debit' cards, chini ya mpango wa kibiashara wa "Visa franchise", na kuadhimisha jambo muhimu kwenye mikakati ya Benki ya kupanua biashara za rejareja za fedha zilizowekwa kwa faida. Benki pia iliingia kuwa washirika dau na PesaPoint, ambapo itawawezesha wenye kadi ya Visa wa ndani na nje ya nchi, kutoa pesa taslim kwenye mtandao wa PesaPoint.

Kufikia mwisho wa mwaka jana, Benki Kuu ya Kenya ilitoa miongozo ya tahadhari ya kuangaliwa na kurekebisha ambayo iliidhinishwa na kutumika kuanzia tarehe moja mwezi wa kwanza mwaka wa elfu mbili na sita. Miongozo hiyo, inahusisha mambo kadha wa kadha ya oparesheni za benki, kwa pamoja zinaeleweka kwenye soko hili la fedha. Benki tayari imeshachukua hatua kuhakikisha uwiano wa miongozo, na pia katika kutia nia. Katika Novemba mwaka wa 2005, Benki Kuu ilitoa Miongozo ya Usimamizi ya Kukabiliana na hali ya Hatari, ikitaka benki kukuza misingi kabambe ya Usimamizi wa Kukabiliana na hali ya Hatari.

Wenye hisa watakuwa wameona maendeleo bora ambayo Benki yako imerekodi miaka kadha iliyopita. Ufanisi huu umejitokeza kupitia kujitolea kwa dhati, utaalamu na bidii ya kazi ya wasimamizi na wafanyikazi, kiustadi wakiongozwa na Afisa Mkuu Mtendaji wa Kikundi na Mkurugenzi Msimamizi, Bi. Nasim Devji. Kwa niaba ya Kamati, ningependa kutoa shukurani zetu za dhati kwao kwa kuchangia ufanisi huo wa kuonekana.

Mtangulizi wangu, Bw. Robert Bird, alistaafu Julai 2005. Wakati alipokuwa afisini, Benki ilishuhudia ukuwaji wa kuridhisha kwenye idara zote za oparesheni na kwa niaba ya wenzangu wote kwenye Kamati, ningependa kumshukuru kwa kazi yake murua ya utumishi wa Benki na kumtakia maisha mwanana ya kustaa na yenye furaha huko nchini Australia. Pia tunawaaga wakurugenzi wengine wawili, Mstahiki. Iain Cheyne na John Harris, ambao walijiuzulu kutoka kwenye kamati mwisho wa mwaka jana, kufuatia kustaa kwao kutoka Aga Khan Fund for Economic Development (AKFED), ambaye ni Mwenye hisa mkuu wa Benki. Ningependa kutoa shukurani za Kamati kwao kwa uongozi na usaidizi wao wakati walipokuwa mamlakani.

Mwaka huu umekuwa na shughuli nyingi mno kwa Wakurugenzi wenu, ambao wamejihusisha kikamilifu na kwa uchangamfu mkubwa katika utoaji maoni na ukaguzi wa miradi mbalimbali na vile vile oparesheni zinazoendelea za Benki. Natoa shukurani zangu za dhati kwao kwa kujitolea kwa moyo mkunjufu na uwajibikaji usioyumba ili kuimarisha utendakazi wa shughuli za Benki yenu.

Kwa kumalizia, ningependa kuwashukuru mno, wenye hisa wetu, kwa imani yenu thabiti na uaminifu katika Benki, na kwa wateja wetu wenye taadhima, kwa kuendeleza uaminifu na maadili mema.

Mahmood Manji
Mwenyekiti

2 Machi 2006

Taarifa iliyoko hapa juu ni tafsiri ya Kiswahili ya Taarifa ya Mwenyekiti iliyoko ukurasa wa 12 - 14. Iwapo patatokea utata wowote katika tafsiri ya maana halisi ya maneno yaliyotumika, basi tafsiri ya Kingereza ndiyo itakayotawala.

The text set out above is a Kiswahili translation of the Chairman's Statement, which appears on page 12 - 14. In the event of any dispute in the interpretation of the Kiswahili version, the English version shall be the authoritative version.

Statement on Corporate Governance

Corporate governance defines the process and structure used to direct and manage business affairs of the company with the aim of enhancing corporate accounting and shareholders' long term value while taking into account the interests of other stakeholders.

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

In this respect, in November 2005, the Board approved a comprehensive Corporate Governance Policy for the Bank which is in line with the guidelines issued by the Central Bank and the Capital Markets Authority on corporate governance. The Policy has also considered the applicable provisions contained in the Risk Management Guidelines issued by Central Bank of Kenya in November 2005.

Board of Directors

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

The Board consists of eight non-executive directors (including the Chairman) and one executive director (the Managing Director). The Board members possess extensive experience in a variety of disciplines including banking, business and financial management, all of which are applied in the overall management of the Bank. All non-executive directors are subject to periodic retirement and re-election to the Board, in accordance with the Bank's Articles of Association. The Board meets at least four times a year, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

The remuneration of all directors is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate. Non-executive directors are paid an annual fee in addition to a sitting allowance for every meeting attended. They are not eligible for membership of the pension scheme and do not participate in any of the company's bonus schemes. Information on the compensation received and the dealings of the directors with the bank are included in the financial statements in Note 36 on page 61.

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

Board Executive Committee (BEC)

The membership of this Committee, which was set up in March 2006, comprises the Chairman of the Board and four other non-executive directors. This Committee is the link between the Board and management

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Statement on Corporate Governance (Continued)

and is responsible for ensuring that, through the Chief Executive Officer, management implements strategic and operational plans including annual budgets, asset and liability management strategies as well as credit proposals review. The Committee is also responsible for ensuring that the Board Risk Committee has access to all the information to enable it undertake its responsibilities. The BEC will meet at least once a quarter.

Board Nominating and Remuneration Committee (BNRC)

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

Board Audit Committee (BAC)

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

Board Risk Management Committee (BRMC)

The BRMC, which was established in March 2006, is made up of three non-executive directors who will meet at least once every three months. The responsibilities of this Committee are to ensure quality, integrity, effectiveness and reliability of the Bank's risk management framework. The Committee is also charged with setting out the nature, role, responsibility and authority of the risk management and the compliance functions of the Bank. The BRMC also defines the scope of the risk management work and ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time.

Board Credit Committee (BCC)

The BCC comprises of five non-executive directors, and meets as frequently as required. The primary responsibilities of the BCC include the periodic review and oversight of the overall lending policy of the Bank, deliberate and consider loan proposals beyond the credit discretion limits extended to management as well as review lendings approved by management within its discretionary limits. The Committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management function as well as assist the Board in discharging its responsibility to review the

Statement on Corporate Governance (Continued)

quality of the loan portfolio and ensure adequate bad debt provisions are maintained in line with the Central Bank of Kenya prudential guidelines.

Board Asset and Liability Committee (BALCO)

The BALCO which was set up in March 2006 is made up of three non-executive directors. The duties of the Committee include the review, approval and monitoring of management's compliance with the applicable statutory provisions, Bank policies and guidelines relating to the monitoring of price, liquidity, exchange and interest rate risks. The BALCO is also responsible for issuing policy directives to management on the pricing of products and the desired mix and maturity profile of incremental assets and liabilities.

Internal Control Systems

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

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

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

Regional Office Credit Committee (ROCC)

In accordance with the Bank's Credit Policy, this Committee, which reports to the BCC, is chaired by the Managing Director and comprises three other senior management staff. The ROCC meets regularly to review and approve the Bank's credit applications of up to pre-defined, Board approved limits. Depending on the level of credit limits applied for, credit applications are recommended by the ROCC for consideration by the BCC. The ROCC also provides its opinions on credit applications referred to it by the Bank's affiliates in Tanzania and Uganda, prior to tabling them to the respective banks' board members for consideration.

Assets and Liability Committee (ALCO)

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

Statement on Corporate Governance (Continued)

Relations with Shareholders

The Board recognises 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 period of the AGM as defined in its Memorandum and Articles of Association and in compliance with the Companies Act.

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

Shareholding Structure

The distribution of issued share capital of the Bank as at 31 December 2005 was as follows:

Range	No. of shareholders	No. of shares held	% Shareholding
Less than 500 shares	1,748	466,446	0.38
500 – 5,000 shares	5,034	10,898,969	8.77
5,001 – 10,000 shares	1,569	11,821,015	9.52
10,001 – 100,000 shares	1,182	29,263,635	23.56
100,001 – 1,000,000 shares	55	11,783,201	9.48
Over 1,000,000 shares	10	59,985,484	48.29
Total	9,598	124,218,750	100.00

The ten largest Shareholders of the Bank and their respective holdings as at 31 December 2005 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund for Economic Development	28,240,121	22.73
International Finance Corporation	12,499,981	10.06
The Jubilee Insurance Company Limited	8,729,410	7.03
The Diamond Jubilee Investment Trust (U) Ltd	2,324,213	1.87
Noorali Mohan Manji	1,790,576	1.44
Ameerali Nazarali	1,718,750	1.38
Phoenix of E.A. Insurance Company Ltd	1,394,916	1.12
Ameerali K. Somji and Gulzar A. K. Somji	1,135,706	0.91
Amin Nanji Juma	1,128,371	0.91
Craysell Investments Ltd	1,023,440	0.82

Corporate Social Responsibility



Diamond Trust Bank team which took part in the Dettol Heart Run.

Florence Mbugua, Manager, Retail Banking (left) presents a cheque to Sister Joyce Maria (right) of Nyumbani, The Children of God Relief Institute. Looking on are the Marketing Manager and Company Secretary of Diamond Trust Bank. The 96 HIV positive children are going to benefit directly from these funds.



Josiah Muia, Manager Credit (centre) presents a cheque to Umoja Deliverance Church. The funds will be used for their project which supports individuals who are HIV positive.

Stella Mulinge, Head of the Bank's Western Union division (right) presents a cheque to Dilshad Mohamed of Lions Club International, for the Women's Nation Building Symposium held in Nairobi.



Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2005, which disclose the state of affairs of the group.

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 6.

Principal Activities

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

Results and Dividend

	Shs'000
Group profit before tax	426,614
Income tax expenses	(132,016)
Profit after tax	294,598
Dividends	(86,953)
Retained profit for the year	207,645

The directors recommend the approval of a final dividend of Shs 86,953,125 (2004: Shs 69,562,500).

Directors

The present membership of the Board is listed on page 6.

In accordance with Articles No. 93 and 94 of the Bank's Articles of Association, Messrs Nizar Juma, Karim Kanji and Mohamood Thobani retire by rotation and being eligible, offer themselves for re-election.

Auditors

The Bank's auditors, PricewaterhouseCoopers, have indicated their willingness to continue 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

Elizabeth Hinga
Company Secretary

2 March 2006
Nairobi

Statement of Directors' Responsibilities

For the year ended 31 December 2005

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 the 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 adequate systems of internal financial control.

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

Mahmood Manji
Chairman

Nasim Devji
Managing Director

2 March 2006

*The directors are of the opinion
that the 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.*

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

We have audited the consolidated financial statements of Diamond Trust Bank Kenya Limited (the company) and its subsidiary and associates (together, the group) for the year ended 31 December 2005 set out on pages 28 to 61 and the accompanying balance sheet of the company standing alone as at 31 December 2005 (the financial statements).

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements described on page 25. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained all the information and explanations that to the best of our knowledge and

*We conducted
our audit in
accordance with
International
Standards on
Auditing.*

belief were necessary for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and of the company as at 31 December 2005 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. The balance sheet of the company is in agreement with the books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants

2 March 2006

Nairobi



Consolidated Profit and Loss Account

	Notes	2005 Shs'000	2004 Restated Shs'000
Interest income	3	1,413,240	712,265
Interest expense	4	(602,029)	(174,401)
Net interest income		811,211	537,864
Fee and commission income		247,920	178,424
Foreign exchange income		79,140	59,888
Other operating income	5	10,150	14,554
Operating income		1,148,421	790,730
Operating expenses	6	(678,547)	(542,038)
Impairment loss on loans and advances	16	(91,940)	(35,542)
Profit from operations		377,934	213,150
Finance costs		(17,250)	-
Share of results of associates before tax	14	65,930	49,477
Profit before income tax		426,614	262,627
Income tax expense	8	(132,016)	(82,955)
Net Profit for the year		294,598	179,672
Dividends:			
Proposed dividend for the year	10	86,953	69,563
Earnings per share (Shs per share)			
- basic and diluted	9	2.37	1.45
Dividend per share (Shs per share)	10	0.70	0.70

Consolidated Balance Sheet

	Notes	2005 Shs'000	2004 Restated Shs'000
Assets			
Cash and balances with Central Bank of Kenya	11	986,330	1,201,671
Government securities	12	2,104,719	1,238,883
Deposits and balances due from banking institutions	13	1,912,125	821,728
Loans and advances to customers	16	10,318,103	7,137,193
Investments in associates	14	229,852	207,320
Property and equipment	19	254,298	254,213
Intangible assets	20	47,204	59,379
Deferred income tax asset	18	51,304	20,806
Other assets	15	480,487	231,031
Total assets		16,384,422	11,172,224
Liabilities			
Customer deposits	22	13,278,912	8,831,556
Deposits and balances due to banking institutions	23	567,259	472,321
Current income tax payable		57,172	7,286
Subordinated debt	24	366,618	-
Other liabilities	25	462,227	423,989
Total liabilities		14,732,188	9,735,152
Shareholders' Equity			
Share capital	26	496,875	397,500
Share premium	26	16,320	16,320
Retained earnings		939,755	849,040
Capital reserves	27	112,331	104,649
Proposed dividend		86,953	69,563
Total shareholders' equity		1,652,234	1,437,072
Total liabilities and equity		16,384,422	11,172,224

The financial statements on pages 28 to 61 were approved for issue by the board of directors on 2 March 2006 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Jack Kisa
Director

Elizabeth Hinga
Secretary

Bank Balance Sheet

	Notes	2005 Shs'000	2004 Restated Shs'000
Assets			
Cash and balances with Central Bank of Kenya	11	986,330	1,201,671
Government securities	12	2,104,719	1,238,883
Deposits and balances due from banking institutions	13	1,912,125	821,728
Loans and advances to customers	16	10,318,103	7,137,193
Investments in subsidiary and associates	14	79,139	79,139
Property and equipment	19	254,298	254,213
Intangible assets	20	47,204	59,379
Deferred income tax asset	18	51,304	20,806
Other assets	15	480,487	231,031
Total assets		16,233,709	11,044,043
Liabilities			
Customer deposits	22	13,278,912	8,831,556
Deposits and balances due to banking institutions	23	567,259	472,321
Current income tax payable		63,378	13,492
Subordinated debt	24	366,618	-
Other liabilities	25	541,789	503,551
Total liabilities		14,817,956	9,820,920
Shareholders' Equity			
Share capital	26	496,875	397,500
Share premium	26	16,320	16,320
Retained earnings		786,636	723,644
Capital reserves	27	28,969	16,096
Proposed dividend		86,953	69,563
Total shareholders' equity		1,415,753	1,223,123
Total liabilities and equity		16,233,709	11,044,043

The financial statements on pages 28 to 61 were approved for issue by the board of directors on 2 March 2006 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Jack Kisa
Director

Elizabeth Hinga
Secretary

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Capital reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2004							
At start of year		397,500	16,320	111,565	740,410	69,563	1,335,358
As previously stated							
Prior year adjustment							
- Net fair value changes in Government securities	(i)	-	-	5,172	(5,172)	-	-
As restated		397,500	16,320	116,737	735,238	69,563	1,335,358
Transfer of excess depreciation		-	-	(491)	491	-	-
Deferred tax on excess depreciation		-	-	147	(147)	-	-
		-	-	(344)	344	-	-
Net fair value changes in Government securities		-	-	(13,932)	-	-	(13,932)
Reversal of net fair value gain on maturity of Government securities		-	-	(1,742)	-	-	(1,742)
		-	-	(15,674)	-	-	(15,674)
Translation differences	(ii)	-	-	3,930	3,349	-	7,279
Net gains/(losses) not recognised in the profit and loss account		-	-	(12,088)	3,693	-	(8,395)
Profit for the year		-	-	-	179,672	-	179,672
Dividends:							
- Final for 2003 paid		-	-	-	-	(69,563)	(69,563)
- Proposed final for 2004		-	-	-	(69,563)	69,563	-
At end of year		397,500	16,320	104,649	849,040	69,563	1,437,072
Year ended 31 December 2005							
At start of year		397,500	16,320	115,151	838,538	69,563	1,437,072
As previously stated							
Prior year adjustment							
- Net fair value changes in Government securities	(i)	-	-	(10,502)	10,502	-	-
As restated		397,500	16,320	104,649	849,040	69,563	1,437,072
Transfer of excess depreciation		-	-	(626)	626	-	-
Deferred tax on excess depreciation		-	-	188	(188)	-	-
		-	-	(438)	438	-	-
Net fair value changes in Government securities		-	-	13,965	-	-	13,965
Reversal of net fair value gain on maturity of Government securities		-	-	(654)	-	-	(654)
		-	-	13,311	-	-	13,311
Translation differences	(ii)	-	-	(5,191)	(17,993)	-	(23,184)
Net gains/(losses) not recognised in the profit and loss account		-	-	7,682	(17,555)	-	(9,873)
Bonus shares issued		99,375	-	-	(99,375)	-	-
Profit for the year		-	-	-	294,598	-	294,598
Dividends:							
- Final for 2004 paid	10	-	-	-	-	(69,563)	(69,563)
- Proposed final for 2005		-	-	-	(86,953)	86,953	-
At end of year		496,875	16,320	112,331	939,755	86,953	1,652,234

(i) The prior year adjustment represents the reclassification of net fair value changes in available-for-sale Government securities following the revision of IAS 39.

(ii) These differences arise on translation of opening reserves in associated companies at year end exchange rates.

Bank Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Capital reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2004							
At start of year							
As previously stated		397,500	16,320	26,942	650,695	69,563	1,161,020
Prior year adjustment							
- Net fair value changes in Government securities	(i)	-	-	5,172	(5,172)	-	-
As restated		397,500	16,320	32,114	645,523	69,563	1,161,020
Transfer of excess depreciation		-	-	(491)	491	-	-
Deferred tax on excess depreciation		-	-	147	(147)	-	-
		-	-	(344)	344	-	-
Net fair value changes in Government securities		-	-	(13,932)	-	-	(13,932)
Reversal of net fair value gain on maturity of Government securities		-	-	(1,742)	-	-	(1,742)
		-	-	(15,674)	-	-	(15,674)
Net gains/(losses) not recognised in the profit and loss account		-	-	(16,018)	344	-	(15,674)
Profit for the year		-	-	-	147,340	-	147,340
Dividends:							
- Final for 2003 paid		-	-	-	-	(69,563)	(69,563)
- Proposed final for 2004		-	-	-	(69,563)	69,563	-
At end of year		397,500	16,320	16,096	723,644	69,563	1,223,123
Year ended 31 December 2005							
At start of year							
As previously stated		397,500	16,320	26,598	713,142	69,563	1,223,123
Prior year adjustment							
- Net fair value changes in Government securities	(i)	-	-	(10,502)	10,502	-	-
As restated		397,500	16,320	16,096	723,644	69,563	1,223,123
Transfer of excess depreciation		-	-	(626)	626	-	-
Deferred tax on excess depreciation		-	-	188	(188)	-	-
		-	-	(438)	438	-	-
Net fair value changes in Government securities		-	-	13,965	-	-	13,965
Reversal of net fair value gain on maturity of Government securities		-	-	(654)	-	-	(654)
		-	-	13,311	-	-	13,311
Net gains not recognised in the profit and loss account		-	-	12,873	438	-	13,311
Bonus shares issued		99,375	-	-	(99,375)	-	-
Profit for the year		-	-	-	248,882	-	248,882
Dividends:							
- Final for 2004 paid	10	-	-	-	-	(69,563)	(69,563)
- Proposed final for 2005		-	-	-	(86,953)	86,953	-
		496,875	16,320	28,969	786,636	86,953	1,415,753

(i) The prior year adjustment represents the reclassification of net fair value changes available-for-sale Government securities following the revision of IAS 39.

Consolidated Cash Flow Statement

	Notes	2005 Shs'000	2004 Shs'000
Cash flows from operating activities			
Interest receipts		1,328,191	700,602
Interest payments		(503,708)	(153,491)
Net fee and commission receipts		247,920	178,424
Other income received		88,836	74,517
Recoveries from loans previously written off	16	8,561	9,089
Payments to employees and suppliers		(607,141)	(498,412)
Income tax paid		(100,911)	(92,814)
Cash flows from operating activities before changes in operating assets and liabilities		461,748	217,915
Changes in operating assets and liabilities:			
- cash reserve requirement		(252,163)	(150,862)
- Treasury bills under repo agreement		(49,979)	64,992
- Government securities		(789,714)	1,262,973
- loans and advances		(3,253,469)	(2,290,000)
- other assets		(249,645)	(23,913)
- customer deposits		4,349,029	2,282,495
- other liabilities		33,650	(5,622)
Net cash from operating activities		249,457	1,357,978
Cash flows from investing activities			
Purchase of property and equipment	19	(49,073)	(125,417)
Purchase of intangible assets	20	(5,804)	(62,575)
Proceeds from sale of property and equipment		798	573
Dividend received		2,793	2,162
Net cash used in investing activities		(51,286)	(185,257)
Cash flows from financing activities			
Subordinated debt		362,250	-
Finance costs		(12,882)	-
Dividends paid		(69,563)	(69,563)
Net cash from/(used in) financing activities		279,805	(69,563)
Net increase in cash and cash equivalents		477,976	1,103,158
Cash and cash equivalents at start of year	35	1,011,454	(91,704)
Cash and cash equivalents at end of year	35	1,489,430	1,011,454

Notes to the Financial Statements

1 General information

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 6.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and are prepared under the historical cost convention as modified by the revaluation of properties and available-for-sale investment securities.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Adoption of new and revised standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no material effect on the company's accounting policies or disclosures, except as follows:

IAS 16 (revised 2003) has required the disclosure of comparative figures for movements in property and equipment;

IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

IAS 39 (revised 2003) has resulted in the following:

- fair value changes in available-for-sale Government securities to be recognised in capital reserves in equity. Previously, these changes were recognised in the profit and loss account. A prior year adjustment has been passed to effect this change.
- forward foreign exchange contracts have been recognised on the balance sheet as is for all assets and liabilities within the definition of financial instruments.

Notes to the Financial Statements (Continued)

(b) Critical accounting estimates and judgements in applying accounting policies

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

(i) Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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.

(ii) Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortised cost. If the entire class of held-to-maturity investments is tainted, it will be reported at the fair value, with a corresponding entry in shareholders' equity.

(iii) Income taxes

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

(c) Consolidation

The consolidated financial statements comprise the financial statements of Diamond Trust Bank Kenya Limited and its subsidiary, Premier Savings and Finance Limited, made up to 31 December. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the group companies are eliminated. The accounting policies for the subsidiary are consistent with the policies adopted by the Bank.

Notes to the Financial Statements (Continued)

(d) Associates

Investments in associates are accounted for by the equity method of accounting. These 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 long term impairment in value.

Equity accounting involves recognising in the profit and loss account the group's share of the associates' profit or loss for the year. The group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill at acquisition.

A listing of the group's associates is shown in Note 14.

(e) Investment in subsidiary

The investment in the subsidiary is stated in the Bank's balance sheet at cost less provision for impairment losses. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(f) Interest income

Interest income is recognised in the profit and loss account using the effective interest method, in the period in which it is earned. Dividends from investments are recognised when declared. Interest income includes coupons earned on Treasury bonds and accrued discounts on Treasury bills.

(g) Property and equipment

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

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

Notes to the Financial Statements (Continued)

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

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

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

(h) Intangible assets

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 company, 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.

(i) Government securities

The group classifies its Government securities into the following two categories: held-to-maturity and available-for-sale assets. Government securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Government securities, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Government securities are initially recognised at cost. Available-for-sale securities are subsequently re-measured at fair value based on quoted prices. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Held-to-maturity investments are carried at amortised cost. The held-to-maturity portfolio which has been tainted is stated at fair value as at the balance sheet date in accordance with IAS 39.

Impairment of these securities occurs if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's contractual effective interest rate.

Notes to the Financial Statements (Continued)

(j) Loans and advances and provisions for loan impairment

Loans and advances are recognised when cash is advanced to borrowers.

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

A provision for unidentified loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such. This provision is based on the directors' assessment of the latent risk of default known to be present in the portfolio of the Bank's advances.

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

(k) Translation of foreign currencies

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

(l) Income tax

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

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

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

(m) Employee entitlements

Employee entitlements to gratuity and long service awards are recognised when they accrue to

Notes to the Financial Statements (Continued)

employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

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

(n) Retirement benefit obligations

The group operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. The group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

(o) 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.

(p) Forward foreign exchange contracts

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

(q) 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.

(r) Comparatives

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

Notes to the Financial Statements (Continued)

3 Interest income	2005 Shs'000	2004 Shs'000
Loans and advances	1,172,180	636,375
Government securities	172,062	59,465
Placements and bank balances	68,998	16,425
	<u>1,413,240</u>	<u>712,265</u>
4 Interest expense		
Customer deposits	601,015	171,494
Deposits due to banking institutions	1,014	2,907
	<u>602,029</u>	<u>174,401</u>
5 Other operating income		
Rental income	8,402	9,140
Gain on disposal of Government securities	-	4,258
Gain/(loss) on sale of fixed assets	454	(75)
Other	1,294	1,231
	<u>10,150</u>	<u>14,554</u>
6 Other operating expenses		
The following items are included within operating expenses:		
Staff costs (Note 7)	298,344	239,824
Depreciation (Note 19)	48,644	32,426
Amortisation of intangible assets (Note 20)	17,979	8,252
Operating lease rentals	37,183	36,712
Contribution to Deposit Protection Fund	12,076	8,233
Auditors' remuneration	2,669	2,425
7 Staff costs		
Included within staff costs are:		
Retirement benefit costs:		
Defined contribution scheme	16,026	10,932
National Social Security Fund	<u>462</u>	<u>305</u>

The number of persons employed by the group (excluding associates) at the year end was 201 (2004: 177).

Notes to the Financial Statements (Continued)

8 Income tax expense	2005 Shs'000	2004 Shs'000
Current income tax	145,723	67,281
Under provision of income tax in previous year	5,075	-
Deferred income tax (Note 18)	(32,153)	691
Under statement of deferred tax credit in previous year	(4,050)	-
Share of income tax expense of associates (Note 14)	17,421	14,983
	<u>132,016</u>	<u>82,955</u>

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

	2005 Shs'000	2004 Shs'000
Profit before tax	426,614	262,627
Tax calculated at the statutory tax rate of 30% (2004: 30%)	127,984	78,789
Tax effect of:		
Income not subject to tax	(986)	(688)
Expenses not deductible for tax purposes	5,466	4,854
Under provision of income tax in previous year	5,075	-
Over provision of associates income tax in previous year	(1,473)	-
Under statement of deferred tax credit in previous year	(4,050)	-
Tax charge	<u>132,016</u>	<u>82,955</u>

9 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 294,598,000 (2004: Shs 179,672,000) and on the number of ordinary shares in issue at 31 December 2005.

	2005 Shs'000	2004 Shs'000
Net profit attributable to shareholders (Shs thousands)	294,598	179,672
Number of ordinary shares in issue (thousands)	<u>124,219</u>	<u>124,219</u>
Earnings per share (Shs per share) – basic and diluted	<u>2.37</u>	<u>1.45</u>

Diluted earnings per share have been calculated on the basis of number of ordinary shares in issue at 31 December 2005. There are no potentially dilutive shares outstanding at 31 December 2005.

Notes to the Financial Statements (Continued)

10 Dividends per share

At the Annual General Meeting to be held on 26 May 2006, a final dividend in respect of the year ended 31 December 2005 of Shs 0.70 per share amounting to a total of Shs 89,953,125 is to be proposed.

The total dividend for the year is Shs 0.70 per share (2004: Shs 0.70), amounting to a total of Shs 86,953,125 (2004: Shs 69,562,500).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-resident shareholders.

11 Cash and balances with Central Bank of Kenya	2005 Shs'000	2004 Shs'000
Group and Bank		
Cash in hand	93,903	81,746
Balances with Central Bank of Kenya	842,448	1,119,925
Treasury bills under repo purchase agreement	49,979	-
	<u>986,330</u>	<u>1,201,671</u>

12 Government securities	2005 Shs'000	2004 Shs'000
Group and Bank		
Government securities held-to-maturity		
Treasury bills	791,457	1,041,400
Treasury bonds	1,165,489	-
	<u>1,956,946</u>	<u>1,041,400</u>
Government securities available-for-sale		
Treasury bonds	147,773	197,483
Total Government securities	<u>2,104,719</u>	<u>1,238,883</u>

Treasury bills and bonds are debt securities issued by the Republic of Kenya. Treasury bills and bonds are classified as either held-to-maturity or available-for-sale investments. As the Bank tainted its held-to-maturity portfolio in 2003 and 2004, in accordance with the requirement of IAS 39 this portfolio is restated at fair value at every balance sheet date until 1 January 2007. As at 31 December 2005, Government securities amounting to Shs 1,340,830,000 (2004: Shs 1,094,489,000) were within 90 days to maturity.

Notes to the Financial Statements (Continued)

13 Deposits and balances due from banking institutions	2005 Shs'000	2004 Shs'000
Group and Bank		
Due from other banks	1,912,125	821,728

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

14 Investments in subsidiary and associates	2005 Shs'000	2004 Shs'000
Group		
At start of year	207,320	167,709
Share of results before tax	65,930	49,477
Share of tax (Note 6)	(17,421)	(14,983)
Dividend received	(2,793)	(2,162)
Translation differences	(23,184)	7,279
At end of year	229,852	207,320

The subsidiary and the associates are listed below together with the interests held.

		Group		Bank	
	Beneficial Ownership	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Subsidiary					
Premier Savings and Finance Limited	100%	-	-	29,137	29,137
Associates					
ComTech Systems Limited	29%	1	1	1	1
Diamond Trust Bank Uganda Limited	27%	80,314	74,446	25,000	25,000
Diamond Trust Bank Tanzania Limited	33%	149,536	132,872	25,000	25,000
Services and Systems Limited	40%	1	1	1	1
		229,852	207,320	50,002	50,002
Total investment in subsidiary and associates		229,852	207,320	79,139	79,139

The subsidiary, which is incorporated in Kenya, is dormant.

Notes to the Financial Statements (Continued)

15 Other assets	2005 Shs'000	2004 Shs'000
Group and Bank		
Uncleared effects	335,550	103,653
Prepaid operating lease rentals (Note 21)	4,228	4,417
Items in the course of collection	75,413	65,571
Others	65,296	57,390
	<u>480,487</u>	<u>231,031</u>

16 Loans and advances to customers

Group and Bank		
Hire purchase	2,481,530	1,473,145
Other loans and advances	8,104,534	5,832,430
Gross loans and advances	10,586,064	7,305,575
Less: Provision for impairment of loans and advances		
Identified impairment	80,086	96,382
Unidentified impairment	187,875	72,000
Net loans and advances	<u>10,318,103</u>	<u>7,137,193</u>

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

	Identified impairment Shs'000	Unidentified impairment Shs'000
Year ended 31 December 2004		
At start of year	83,077	50,000
Provision for loan impairment	32,111	22,000
Loans written off during the year as uncollectible	(8,383)	-
Release of provision no longer required	(10,423)	-
At end of year	<u>96,382</u>	<u>72,000</u>
Year ended 31 December 2005		
At start of year	96,382	72,000
Reclassification of provision for loan impairment	(16,035)	16,035
Provision for loan impairment	18,211	99,840
Loans written off during the year as uncollectible	(542)	-
Release of provision no longer required	(17,930)	-
At end of year	<u>80,086</u>	<u>187,875</u>

Notes to the Financial Statements (Continued)

	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Charge to profit and loss account			
Year ended 31 December 2004			
Provision for loan impairment	16,076	38,035	54,111
Release of provision no longer required	(10,423)	-	(10,423)
Net increase in provision	5,653	38,035	43,688
Amounts recovered previously written off	(9,089)	-	(9,089)
Loans written off through profit and loss account	943	-	943
Net charge to profit and loss account	(2,493)	38,035	35,542
Year ended 31 December 2005			
Provision for loan impairment	18,211	99,840	118,051
Release of provision no longer required	(17,930)	-	(17,930)
Net increase in provision	281	99,840	100,121
Amounts recovered previously written off	(8,561)	-	(8,561)
Loans written off through profit and loss account	380	-	380
Net charge to profit and loss account	(7,900)	99,840	91,940

All loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans, net of provision for impairment losses, at 31 December 2005, was Shs 5,621,000 (2004: Shs 18,291,000).

Notes to the Financial Statements (Continued)

17 Economic sector risk concentrations within the customer loan, credit commitment and deposit portfolios were as follows:

At 31 December 2005	Gross loans and advances		Credit commitments		Customer deposits	
	Shs '000	%	Shs '000	%	Shs '000	%
Manufacturing	1,390,745	13	329,399	19	798,457	6
Wholesale and retail trade	2,364,239	22	498,560	29	704,132	5
Transport and communications	1,933,126	18	42,378	2	233,787	2
Business and financial services	2,501,180	24	798,174	46	4,465,003	34
Agricultural	625,217	6	29,746	2	9,756	0
Individuals	1,234,763	12	4,008	0	5,761,994	43
Other	536,794	5	32,775	2	1,305,783	10
	10,586,064	100	1,735,040	100	13,278,912	100

At 31 December 2004						
Manufacturing	1,035,933	14	282,631	22	300,246	3
Wholesale and retail trade	2,214,577	30	311,737	24	378,507	4
Transport and communications	1,318,377	18	81,610	6	59,760	1
Business and financial services	1,411,170	19	558,880	44	3,076,588	35
Agricultural	408,083	6	27,859	2	6,213	0
Individuals	724,297	10	1,870	0	3,962,592	45
Other	193,138	3	26,022	2	1,047,650	12
	7,305,575	100	1,290,609	100	8,831,556	100

Notes to the Financial Statements (Continued)

18 Deferred income tax

Group and Bank

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2004: 30%). The movement on the deferred tax account is as follows:

	2005 Shs'000	2004 Shs'000
At start of year	20,806	16,996
Charged through profit and loss account		
- current year (Note 8)	32,153	(691)
- under statement of deferred tax credit in previous year (Note 8)	4,050	-
Charged through equity	(5,705)	4,501
At end of year	51,304	20,806

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

	1.1.2005 Shs'000	Charged to profit and loss account Shs'000	Charged to equity Shs'000	31.12.2005 Shs'000
Deferred income tax liabilities				
Accelerated income tax depreciation	2,820	123	-	2,943
Revaluation surplus	11,402	(191)	-	11,211
	14,222	(68)	-	14,154
Deferred income tax assets				
Provisions	(30,527)	(36,135)	-	(66,662)
Fair value changes in Government securities	(4,501)	-	5,705	1,204
	(35,028)	(36,135)	5,705	65,458
Net deferred income tax asset	(20,806)	(36,203)	5,705	(51,304)

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Notes to the Financial Statements (Continued)

19 Property and equipment	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Fixtures fittings & equipment Shs'000	Total Shs'000
Group and bank					
At 1 January 2004					
Cost or valuation	102,076	16,490	20,092	150,882	289,540
Accumulated depreciation	3,386	2,811	18,856	102,617	127,670
Net book amount	98,690	13,679	1,236	48,265	161,870
Year ended 31 December 2004					
Opening net book amount	98,690	13,679	1,236	48,265	161,870
Additions	-	14,899	1,330	109,188	125,417
Disposals- cost or valuation	-	-	(525)	(1,869)	(2,394)
Disposals- accumulated depreciation	-	-	525	1,221	1,746
Depreciation charge	(1,681)	(4,078)	(683)	(25,984)	(32,426)
Closing net book amount	97,009	24,500	1,883	130,821	254,213
At 31 December 2004					
Cost or valuation	102,076	31,389	20,897	258,201	412,563
Accumulated depreciation	5,067	6,889	19,014	127,380	158,350
Net book amount	97,009	24,500	1,883	130,821	254,213
Year ended 31 December 2005					
Opening net book amount	97,009	24,500	1,883	130,821	254,213
Additions	11,251	6,183	1,303	30,336	49,073
Disposals- cost or valuation	-	-	(1,500)	(17,000)	(18,500)
Disposals- accumulated depreciation	-	-	1,500	16,656	18,156
Depreciation charge	(1,815)	(7,100)	(819)	(38,910)	(48,644)
Closing net book amount	106,445	23,583	2,367	121,903	254,298
At 31 December 2005					
Cost or valuation	113,327	37,572	20,700	271,537	443,136
Accumulated depreciation	6,882	13,989	18,333	149,634	188,838
Net book amount	106,445	23,583	2,367	121,903	254,298
At 31 December 2005					
Cost	66,742	37,572	20,700	271,537	396,551
Revaluation surplus	46,585	-	-	-	46,585
Cost or valuation	113,327	37,572	20,700	271,537	443,136

Notes to the Financial Statements (Continued)

19 Property and equipment (continued)

Land and buildings were revalued as at 31 December 2001, by Mohamed Samji, an independent valuer. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus, net of deferred tax, was credited to capital reserve in shareholders' equity.

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

	2005 Shs'000	2004 Shs'000
Cost	66,742	55,490
Accumulated depreciation	(4,692)	(3,312)
Net book value	62,050	52,178

20 Intangible assets

	2005 Shs'000	2004 Shs'000
Group and Bank		
At start of year	59,379	5,056
Additions	5,804	62,575
Amortisation charge for the year	(17,979)	(8,252)
At end of year	47,204	59,379
Cost	84,346	78,542
Accumulated amortisation	(37,142)	(19,163)
Net book value	47,204	59,379

Notes to the Financial Statements (Continued)

21 Prepaid operating lease rentals	2005 Shs'000	2004 Shs'000
Group and Bank		
At start of year	4,417	4,606
Amortisation charge for the year	(189)	(189)
At end of year	4,228	4,417
Cost	6,701	6,701
Accumulated amortisation	(2,473)	(2,284)
	4,228	4,417

22 Customer deposits	2005 Shs'000	2004 Shs'000
Group and Bank		
Current and demand deposits	1,869,476	1,297,563
Savings accounts	918,745	889,487
Fixed deposit accounts	10,490,483	6,644,298
Unredeemed bearer certificates of deposit	208	208
	13,278,912	8,831,556

23 Deposits and balances due to banking institutions	2005 Shs'000	2004 Shs'000
Group and Bank		
Deposits due to banking institutions	493,649	372,003
Current account balances due to banking institutions	73,610	100,318
	567,259	472,321

24 Subordinated debt**Group and Bank**

During the year, the Bank increased its supplementary capital by raising long term (six and a half years) subordinated debt of US\$ 5 million, from certain related parties, secured by debenture stock certificates. The effective interest rate is 9.52%. Finance costs of Shs 17.25 million have been included in the profit and loss account.

	2005 Shs'000	2004 Shs'000
Subordinated debt (Note 36)	366,618	-

Notes to the Financial Statements (Continued)

25 Other liabilities	Group		Bank	
	2005 Shs'000	2004 Shs'000	2005 Shs'000	2004 Shs'000
Due to subsidiary company	-	-	79,562	79,562
Gratuity provision	34,339	29,753	34,339	29,753
Outstanding bankers' cheques	123,280	112,870	123,280	112,870
Others, including expense accruals	304,608	281,366	304,608	281,366
	<u>462,227</u>	<u>423,989</u>	<u>541,789</u>	<u>503,551</u>

Movement in gratuity provision is as follows:

	2005 Shs'000
At start of year	29,753
Increase during the year	4,586
At end of year	<u>34,339</u>

26 Share capital	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 January 2004	99,375	397,500	16,320
Balance at 31 December 2004	<u>99,375</u>	<u>397,500</u>	<u>16,320</u>
Balance at 1 January 2005	99,375	397,500	16,320
Bonus shares issued during the year	24,844	99,375	-
Balance at 31 December 2005	<u>124,219</u>	<u>496,875</u>	<u>16,320</u>

The total authorised number of ordinary shares is 125,000,000 (2004: 125,000,000) with a par value of Shs 4 per share.

The 2005 bonus shares issue was approved at an Annual General Meeting held on 24 May 2005 and the bonus shares were issued in July 2005 at the ratio of one new share for every four of the existing shares held. The issued bonus shares rank pari passu for all purposes with the existing shares in the capital of the Bank.

Notes to the Financial Statements (Continued)

27 Capital reserves

Consolidated statement of changes in capital reserves

	Revaluation reserves on property Shs'000	Revaluation reserves on Government securities Shs'000	Other reserves Shs'000	Total Shs'000
Year ended 31 December 2004				
At start of year				
- as previously reported	26,942	-	84,623	111,565
- reclassification of net fair value change in Government securities	-	5,172	-	5,172
- as restated	26,942	5,172	84,623	116,737
Net fair value changes in Government securities	-	(13,932)	-	(13,932)
Net losses on disposal	-	(1,742)	-	(1,742)
	-	(15,674)	-	(15,674)
Transfer of excess depreciation and deferred tax thereon	(344)	-	-	(344)
Translation adjustment	-	-	3,930	3,930
At end of year	26,598	(10,502)	88,553	104,649
Year ended 31 December 2005				
At start of year				
- as previously reported	26,598	-	88,553	115,151
- reclassification of net fair value change in Government securities	-	(10,502)	-	(10,502)
- as restated	26,598	(10,502)	88,553	104,649
Net fair value changes in Government securities	-	13,965	-	13,965
Net losses on disposal	-	(654)	-	(654)
	-	13,311	-	13,311
Transfer of excess depreciation and deferred tax thereon	(438)	-	-	(438)
Translation adjustment	-	-	(5,191)	(5,191)
At end of year	26,160	2,809	83,362	112,331

Notes to the Financial Statements (Continued)

Bank statement of changes in capital reserves

	Revaluation reserves on property Shs'000	Revaluation reserves on Government securities Shs'000	Total Shs'000
Year ended 31 December 2004			
At start of year			
- as previously reported	26,942	-	26,942
- reclassification of net fair value change in Government securities	-	5,172	5,172
- as restated	26,942	5,172	32,114
Net fair value changes in Government securities	-	(13,932)	(13,932)
Net losses on disposal	-	(1,742)	(1,742)
	-	(15,674)	(15,674)
Transfer of excess depreciation and deferred tax thereon	(344)	-	(344)
At end of year	26,598	(10,502)	16,096
Year ended 31 December 2005			
At start of year			
- as previously reported	26,598	-	26,598
- reclassification of net fair value change in Government securities	-	(10,502)	(10,502)
- as restated	26,598	(10,502)	16,096
Net fair value changes in Government securities	-	13,965	13,965
Net losses on disposal	-	(654)	(654)
	-	13,311	13,311
Transfer of excess depreciation and deferred tax thereon	(438)	-	(438)
At end of year	26,160	2,809	28,969

Notes to the Financial Statements (Continued)

28 Off balance sheet financial instruments, contingent liabilities and commitments

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

Contingent liabilities	2005 Shs'000	2004 Shs'000
Acceptances and letters of credit	572,807	631,973
Guarantee and performance bonds	372,836	233,047
	<u>945,643</u>	<u>865,020</u>

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 Bank will only be required to meet these obligations in the event of the customer's default.

Commitments	2005 Shs'000	2004 Shs'000
Undrawn credit lines and other commitments to lend	2,695,949	2,015,202
Foreign exchange forward contracts	318,621	157,961
Foreign exchange spot transactions	470,777	267,628
Operating lease rentals	96,702	120,539
Capital commitments	885	-
	<u>3,582,934</u>	<u>2,561,330</u>

Nature of commitments

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

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

Notes to the Financial Statements (Continued)

29 Business segments

The major part of the business of the group is in Kenya and falls under the category of banking, which accounts for more than 90% of the total income. The group also conducts banking services in Tanzania and Uganda.

30 Interest rate risk

The group is exposed to various risks associated with the effects of fluctuations in the levels of market interest rate on its financial position and cash flows. The group has a policy of regularly reviewing and re-pricing interest rates.

The table below summarises the 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 repricing or maturity dates. The group does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

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Notes to the Financial Statements (Continued)

30 Interest rate risk (continued)

At 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
Assets						
Cash and bank balances with Central Bank of Kenya	-	-	-	-	986,330	986,330
Government securities	748,359	592,471	660,725	103,164	-	2,104,719
Deposits and balances due from banking institutions	1,912,125	-	-	-	-	1,912,125
Advances to customers	10,312,482	-	-	-	5,621	10,318,103
Investments in associates	-	-	-	-	229,852	229,852
Property and equipment	-	-	-	-	254,298	254,298
Intangible assets	-	-	-	-	47,204	47,204
Deferred income tax asset	-	-	-	-	51,304	51,304
Other assets	-	-	-	-	480,487	480,487
Total assets	12,972,966	592,471	660,725	103,164	2,055,096	16,384,422
Liabilities & Equity						
Customer deposits	5,805,528	4,501,027	2,912,252	59,897	208	13,278,912
Deposits and balances due to banking institutions	213,672	353,587	-	-	-	567,259
Income tax payable	-	-	-	-	57,172	57,172
Subordinated debt	-	73,078	293,540	-	-	366,618
Other liabilities	-	-	-	-	462,227	462,227
Shareholders' funds	-	-	-	-	1,652,234	1,652,234
Total liabilities & equity	6,019,200	4,927,692	3,205,792	59,897	2,171,841	16,384,422
Interest sensitivity gap	6,953,766	(4,335,221)	(2,545,067)	43,267	(116,745)	-
At 31 December 2004						
Total assets	8,442,491	576,738	144,394	-	2,008,601	11,172,224
Total liability & equity	4,390,185	3,337,024	1,482,880	93,580	1,868,555	11,172,224
Interest sensitivity gap	4,052,306	(2,760,286)	(1,338,486)	(93,580)	140,046	-

Notes to the Financial Statements (Continued)

31 Liquidity risk

The group is exposed to daily calls on its available cash resources from deposit repayments, current account withdrawals, loan draw downs and crystallisation of contingent liabilities. The group manages the level of maturing funds available to meet such calls.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2005 to the contractual maturity date. All figures are in thousands of Kenya Shillings.

At 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and bank balances with						
Central Bank of Kenya	542,248	267,890	172,640	3,150	402	986,330
Government securities	748,359	592,471	660,725	103,164	-	2,104,719
Deposits and balances due from banking institutions	1,912,125	-	-	-	-	1,912,125
Advances to customers	521,789	1,739,974	4,239,859	3,721,822	94,659	10,318,103
Investments in associates	-	-	-	-	229,852	229,852
Property and equipment	-	-	-	-	254,298	254,298
Intangible assets	-	-	-	-	47,204	47,204
Deferred income tax asset	-	-	-	51,304	-	51,304
Other assets	480,487	-	-	-	-	480,487
Total assets	4,205,008	2,600,335	5,073,224	3,879,440	626,415	16,384,422
Liabilities & Equity						
Customer deposits	5,805,736	4,501,027	2,912,252	53,134	6,763	13,278,912
Deposits and balances due to banking institutions	213,672	353,587	-	-	-	567,259
Income tax payable	-	-	57,172	-	-	57,172
Subordinated debt	-	-	-	-	366,618	366,618
Other liabilities	462,227	-	-	-	-	462,227
Shareholders' funds	-	-	86,953	-	1,565,281	1,652,234
Total liabilities & equity	6,481,635	4,854,614	3,056,377	53,134	1,938,662	16,384,422
Net liquidity gap	(2,276,627)	(2,254,279)	2,016,847	3,826,306	(1,312,247)	-
At 31 December 2004						
Total assets	2,871,489	2,395,116	3,071,352	2,347,327	486,940	11,172,224
Total liabilities & equity	4,814,382	3,337,024	1,490,166	27,901	1,502,751	11,172,224
Net liquidity gap	(1,942,893)	(941,908)	1,581,186	2,319,426	(1,015,811)	-

Notes to the Financial Statements (Continued)

31 *Liquidity risk (continued)*

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

32 **Credit risk**

The group takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or a group of borrowers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers' interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

33 **Currency risk**

The group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Notes to the Financial Statements (Continued)

33 Currency risk (continued)

The group had the following significant foreign currency positions (all amounts expressed in thousands of Kenya Shillings):

At 31 December 2005	USD	GBP	Euro	Other	Total
Assets					
Cash and balances with Central Bank of Kenya	13,304	3,257	3,353	19	19,933
Deposits and balances due from banking institutions	1,697,514	152,290	42,842	18,989	1,911,635
Loans and advances to customers	1,436,025	26,521	88,472	7	1,551,025
Other assets	31,697	21,667	17,996	4,054	75,414
Total assets	3,178,540	203,735	152,663	23,069	3,558,007
Liabilities					
Customer deposits	2,529,902	335,712	136,782	11,869	3,014,265
Deposits and balances due to banking institutions	45,668	2,067	420	8,809	56,964
Subordinated debt	366,618	-	-	-	366,618
Other liabilities	21,710	12,187	-	-	33,897
Total liabilities	2,963,898	349,966	137,202	20,678	3,471,744
Net balance sheet position	214,642	(146,231)	15,461	2,391	86,263
Net off balance sheet position	(208,546)	136,418	(37,626)	(12,017)	(121,771)
Overall net position	6,096	(9,813)	(22,165)	(9,626)	(35,508)
At 31 December 2004	USD	GBP	Euro	Other	Total
Total assets	1,633,163	143,425	166,818	13,993	1,957,399
Total liabilities	1,503,126	271,329	91,399	15,900	1,881,754
Net balance sheet position	130,037	(127,904)	75,419	(1,907)	75,645
Net off balance sheet position	(157,960)	136,816	-	-	(21,144)
Overall net position	(27,923)	8,912	75,419	(1,907)	54,501

Notes to the Financial Statements (Continued)

34 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 30 and 31.

The effective interest rates for the principal financial assets and liabilities at 31 December 2005 and 2004 were as follows:

	2005		2004	
	In Shs	In US\$	In Shs	In US\$
Assets				
Government securities	9.4%	-	6.1%	-
Deposits with banking institutions	-	3.1%	11.1%	0.9%
Loans and advances to customers	13.8%	9.0%	11.9%	8.4%
Liabilities				
Customer deposits	6.5%	3.7%	3.7%	2.5%
Deposits due to banking institutions	9.2%	-	4.8%	-
Amounts due to group companies	4.7%	3.2%	3.6%	0.3%
Subordinated debt	-	9.5%	-	-

35 Analysis of cash and cash equivalents as shown in the cash flow statement

	2005 Shs'000	2004 Shs'000
Cash and balances with Central Bank of Kenya (Note 11)	986,330	1,201,671
Cash reserve requirement	(791,787)	(539,624)
Treasury bills under repo purchase agreement	(49,979)	-
Deposits and balances due from banking institutions (Note 13)	1,912,125	821,728
Deposits and balances due to banking institutions (Note 23)	(567,259)	(472,321)
	<u>1,489,430</u>	<u>1,011,454</u>

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

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 6% of the average outstanding customer deposits over a cash reserve cycle period of one month.

Notes to the Financial Statements (Continued)

36 Related party transactions

Advances to customers as at 31 December 2005 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows;

	2005 Shs'000	2004 Shs'000
Loans to directors		
At start of year	10,340	10,234
Advanced during the year	5,349	10,645
Repaid during the year	(6,240)	(10,539)
	<u>9,449</u>	<u>10,340</u>

At 31 December 2005 advances to companies controlled by directors or their families amounted to Shs 244,958,000 (2004: Shs 220,591,000).

At 31 December 2005 advances to employees amounted to Shs 4,895,000 (2004: Shs 3,444,000).

At 31 December 2005 contingent liabilities include letters of credit and guarantees issued for the account of companies related through common directorship amounting to Shs 17,885,000 (2004: Shs 27,278,000).

All the above loans were given on commercial terms and at market rates.

At 31 December 2005 customer deposits include deposits due to directors or their families, employees and companies related through common directorship of Shs 972,641,000 (2004: Shs 919,289,000).

During the year, subordinated debt of Shs 366,618,000 (2004: nil) was raised from companies related through common directorship. Details of this are shown under Note 24.

	2005 Shs'000	2004 Shs'000
Key management compensation		
Salaries and other short-term employment benefits	87,433	74,967
Termination benefits	8,098	6,600
	<u>95,531</u>	<u>81,567</u>
Director's remuneration		
Fees for services as a director	1,888	2,060
Other emoluments (included in key management compensation above)	14,660	18,696
	<u>16,548</u>	<u>20,756</u>



**DIAMOND
TRUST**

Proxy Form

I/We (in block letters) _____

of _____

being a member/s of Diamond Trust Bank Kenya Limited, hereby appoint

of _____

or failing him/her, _____

of _____

or failing him/her, the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Bank to be held on Friday 26th May 2006 at 11.00am and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2006

Signature _____

Important notes:

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

Fold here



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

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