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2007 Annual Report & Financial Statements



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Our Vision

'Enabling people to advance with confidence and success'.

Our Mission

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

Our Values

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

Excellence

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

Integrity

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

Customer Focus

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

Meritocracy

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

Progressiveness

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

2008/604

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Company Information

Board of Directors

Mahmood Manji	Chairman
Nasim Devji *	Managing Director
Kabir Hyderally **	(Appointed on 6 September 2007)
Nizar Juma	
Karim Kanji ***	
Jack Kisa	
Iqbal Mamdani ****	(Retired on 25 May 2007)
Amin Merali	
Abdul Samji	
Mohamood Thobani *****	

*British ** Pakistani ***Tanzanian **** American *****Ugandan

Company Secretary

Habil Waswani

Registered Office

Nation Centre
Kimathi Street
P.O. Box 61711
City Square 00200
NAIROBI

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Rahimtulla Tower
Upper Hill Road
P.O. Box 43963
NAIROBI

Branches

Nation Centre
Kimathi Street
P.O. Box 61711
City Square 00200
NAIROBI

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

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

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

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

Industrial Area
Likoni Road
P.O. Box 78552
NAIROBI

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

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

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

Tuskys Chania
Kenyatta Highway
P.O. Box 327
THIKA

Moi Highway
P.O. Box 1265
KISII

Company Information (Continued)

Principal Officers

Shahzad Karim	Head of Corporate Banking
Gopa Kumar	Head of Retail Banking
Sathya Vadana	Head of Treasury & International Banking
Kennedy Nyakomitta	Head of Asset Finance & Insurance Premium Finance
Alkarim Jiwa	Head of Finance & Planning
Nita Shah	Head of Risk
Nizar Tundai	Head of Operations & Technology
Joseph Mathai	Head of Mombasa Branch
Shiraz Surani	Head of Kisumu Branch
Laila Premji	Head of Nairobi Branches
Frederick Olande	Head of Human Resources
Stella Mulinge	Head of Western Union Money Transfer Services
Peter Kimani	Head of Internal Audit
Millerangum Jayaraman	Head of Credit Risk

Principal Correspondents

London	Citibank NA Standard Chartered Bank PLC
New York	Citibank NA Standard Chartered Bank PLC
Paris	Natexis Banque Populaire
Frankfurt	BHF Bank Commerzbank American Express Bank
Toronto	Citibank, Canada
Johannesburg	Citibank, South Africa
Mumbai	ICICI Bank
Melbourne	ANZ Bank Melbourne, Australia
Tokyo	American Express Bank

Five - Year Financial Review

	2007	2006	2005	2004	2003
Net interest income	1,720,661	1,078,864	811,211	537,864	431,156
Non-fund based income	633,656	431,255	337,210	252,866	193,409
Total income	2,354,317	1,510,119	1,148,421	790,730	624,565
Operating profit before provisions	1,121,793	743,720	518,554	298,169	248,870
Charge for impairment of loans	(66,523)	(58,813)	(91,940)	(35,542)	(44,764)
Profit before income tax	1,055,270	684,907	426,614	262,627	204,106
Profit after income tax and minority interest	690,691	487,830	294,598	179,672	139,241
Advances to customers (net)	23,181,871	13,832,756	10,318,103	7,137,193	4,882,138
Total deposits (customers and banks)	29,347,307	16,952,462	13,846,171	9,303,877	6,862,257
Dividends for the year	228,252	139,746	86,953	69,563	69,563
Shareholders' funds	5,052,025	2,868,090	1,652,234	1,437,072	1,335,358
Total assets	35,997,571	21,737,391	16,384,422	11,172,224	8,659,503

Performance ratios

Earnings per share - basic and diluted	Shs 4.72	Shs 3.38	Shs 2.04	Shs 1.24	Shs 0.96
Dividend per share	Shs 1.40	Shs 1.00	Shs 0.70	Shs 0.70	Shs 0.70
Net loans to deposits	79.0%	81.6%	74.5%	76.7%	71.1%
Non performing loans to total loans (before provisions)	0.7%	0.8%	0.8%	1.6%	2.6%
Return on average assets	2.4%	2.6%	2.1%	1.8%	1.9%
Return on average shareholders' funds	17.5%	21.6%	19.1%	13.0%	10.6%
Non-fund based income to total income	26.9%	28.6%	29.4%	32.0%	31.0%

Other indicators (bank only)

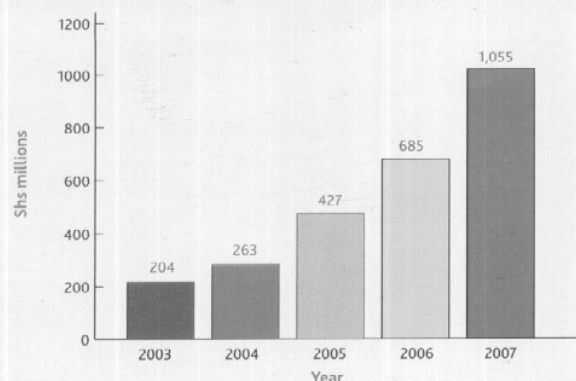
Core capital to customer deposits	17.5%	15.1%	9.8%	13.0%	17.0%
Core capital to total risk weighted assets	19.1%	16.5%	11.1%	14.0%	19.0%
Total capital to total risk weighted assets	19.1%	19.7%	14.2%	19.0%	20.0%
Number of branches	11	5	5	5	5
Number of employees	364	238	201	177	133
Expenditure on property and equipment	159,884	74,241	54,877	187,992	50,455

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

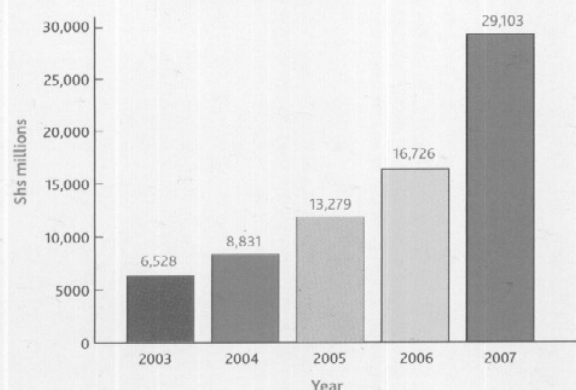
The results for Diamond Trust Bank Tanzania Limited which had previously been accounted for as an associate, have been accounted for as a subsidiary from 15 June 2007. This follows the increase in the Bank's shareholding in Diamond Trust Bank Tanzania Limited from 33.4% to 55.4% from the same date.

Financial Performance Charts

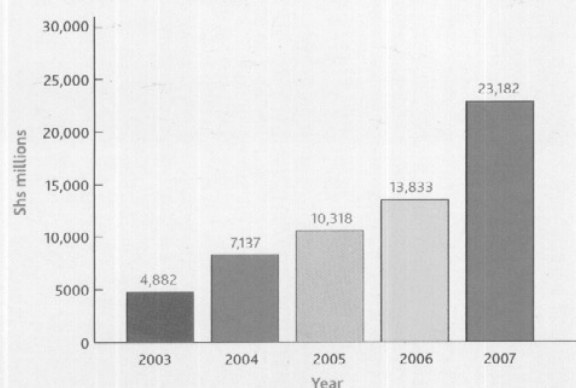
Group Profit before Tax



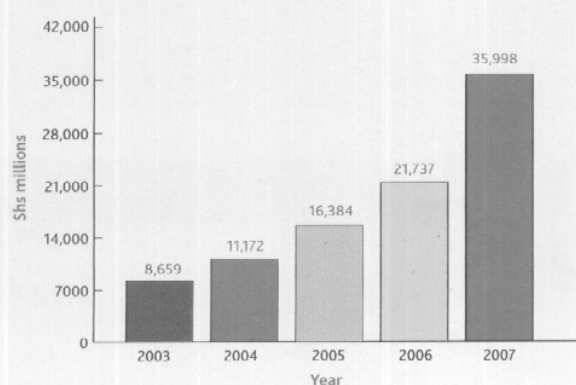
Customer Deposits



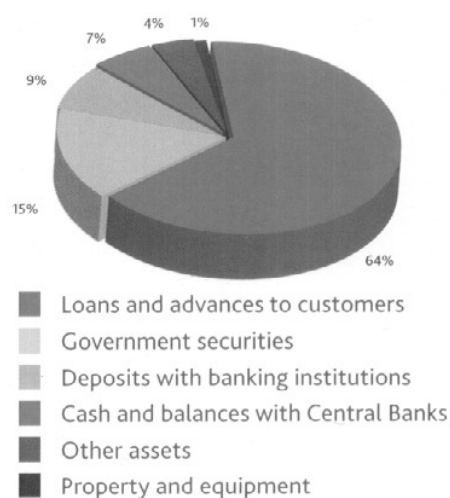
Advances



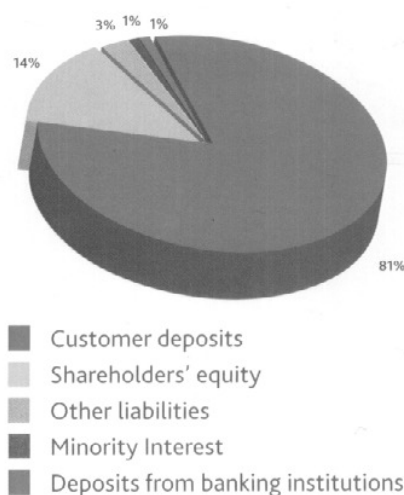
Total Assets



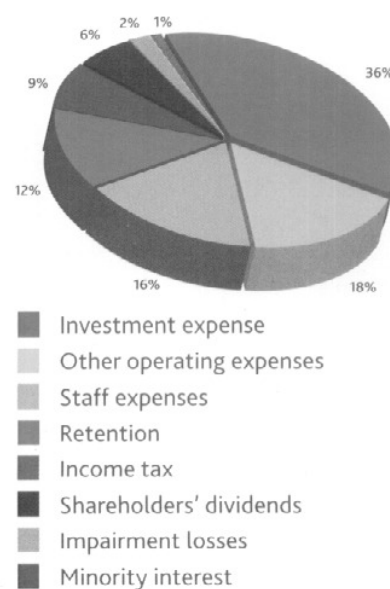
Distribution of Assets - 2007



Liabilities composition and Shareholders' Equity - 2007



Distribution of Income - 2007



Board of Directors





Left to Right: Habil Waswani, Company Secretary; Abdul Samji, Non-Executive Director; Nasim Devji, Managing Director; Mahmood Manji, Chairman; Nizar Juma, Non-Executive Director; Karim Kanji, Non-Executive Director; Kabir Hyderally, Non-Executive Director; Amin Merali, Non-Executive Director and Jack Kisa, Non-Executive Director.

Not in photograph - Mohamood Thobani, Non-Executive Director

Directors' Profile



Mr. Mahmood Manji ■■■
Chairman & Non-Executive Director

A career banker, Mr Manji, 54, was appointed Chairman of the Diamond Trust Banks in East Africa in July 2005. Mr Manji joined DTB as Group Chief Executive in 1996, a position he retained until 1999. He retained his seat on the Board until 2004, when he was appointed Deputy Chairman. Prior to his appointment at DTB, Mr Manji was the Managing Director of CFC Bank Limited. Mr Manji, a Fellow of the Kenya Institute of Bankers, is also Chairman of PDM (Kenya) Limited, a Director of TPS Eastern Africa Limited and the Kenya Civil Aviation Authority. He is a member of the Institute of Chartered Accountants in England and Wales and the International Who's Who of Professionals.



Mrs. Nasim Devji
Managing Director

Mrs. Devji, 54, joined the DTB group in 1996 as Head of Regional Finance. In 1998, she assumed responsibility for the Bank's Debt Recovery Unit and later the other business support functions of the Bank including ICT and administration. In 2001, she was appointed Group Chief Executive Officer of the Diamond Trust Banks in East Africa. Prior to joining the DTB group, she worked in the United Kingdom for 25 years in the accountancy profession as well as a taxation specialist in the oil industry. Mrs. Devji is a Fellow of The Institute of Chartered Accountants of England and Wales and an associate of the Institute of Taxation (United Kingdom) as well as a Fellow of the Kenya Institute of Bankers. Mrs. Devji is a director of DTB Tanzania and Uganda and of Development Credit Bank Limited, India.



Mr. Nizar Juma ■■■
Non- Executive Director

Mr. Juma, 64, is a Kenyan businessman. He is probably most well known for his company, OrbitSports Limited, manufacturers of Adidas products. He joined the DTB Board in August, 1997. Mr. Juma was Chairman of the Aga Khan Health Services in Kenya for almost seven years. He is currently the East African Regional Chairman of the IPS Group of Companies. He is also the Chairman of The Jubilee Insurance Group of Companies in this region. He holds a joint honors degree in Economics, Law and Accountancy from the University of Wales. He was awarded the Silver Star by the President of Kenya for outstanding service to the nation.



Mr. Jack Kisa ■■■
Non- Executive Director

Mr. Kisa, 70, joined the DTB Board in April 1998. He worked for the World Bank as a Senior Economist between 1978 and 1995. The World Bank seconded Mr. Kisa to the Southern African Development Community as Economic Advisor, in which capacity he served from 1986 to 1991. Prior to joining the World Bank, Mr. Kisa was Director of the United Nations World Employment Programme in Africa from 1974 to 1977. During the 1960s and early 1970s, he was Provincial Planning Officer (Coast) and Principal Economist in Kenya's Ministry of Finance and Planning. Mr. Kisa holds a Bachelor of Science honours degree (Economics) (London) and a Masters degree in Public Administration (Economic Development) (Harvard). He also holds diplomas in International Development from York University (Toronto) and Advanced Economics from the University of Colorado. Currently, Mr. Kisa is a businessman and a director of TPS Eastern Africa Limited.



Mr. Amin Merali ■■■
Non-Executive Director

Mr. Merali, 64 was appointed to the DTB Board in 1998. Mr. Merali is a prominent businessman and is Chairman and Chief Executive of the Merali Group of Companies, comprising the Neptune Group of hotels, bulk fuel haulage and property development. Mr. Merali is a member of the Aga Khan Health Services Board of Directors.

Directors' Profile (Continued)



Mr. Abdul Samji ■■■●●●

Non-Executive Director

A Certified Public Accountant and Management Consultant by profession, Mr. Samji, 61, is a former Partner of PKF Kenya, a firm of Certified Public Accountants. He was appointed to the DTB Board in 1997. He is a B.Comm (Hons.) graduate, Fellow of the Association of Chartered Certified Accountants and a member of the Institute of Certified Public Accountants of Kenya. Mr. Samji is a past District Governor of Rotary International, District 9200 and is a Trustee for several institutions involved in charitable and service activities.



Mr. Mohamood Thobani ●●

Non-Executive Director

Mr. Thobani, 63, is a businessman in Uganda. He was appointed to the DTB Board in February 2004. He has served as a non executive director of DTB Uganda since 1991 and is currently the Deputy Chairman. Mr. Thobani is a major shareholder of the Fourways Group of Companies based in Uganda. The group's activities involve fuel distribution and real estate development and are agro and export based. He is a director of PDM (Kenya) Limited. Mr. Thobani is involved in various community projects and has served on the Board of Nsambya Missionary Hospital in Uganda from 1998 to date and on the boards of various community based organizations in Uganda. In 2005, Mr. Thobani was appointed the Minister of Economic Planning, Development and Investments in the Government of the Kingdom of Buganda.



Mr. Karim Kanji

Non-Executive Director

Mr. Kanji, 50, was appointed to the DTB Board in February 2004. He is a former Deputy Chairman of DTB Tanzania. He served on the Board of DTB Tanzania for a period of 10 years. He has also been the treasurer of the International School of Tanganyika in the past and holds various financial portfolios in the Aga Khan community. Mr. Kanji is a member of the Institute of Chartered Accountants in England and Wales.



Mr. Kabir Hyderally ●●

Non-Executive Director

Mr. Hyderally, 60, was appointed to the DTB Board in September 2007. He has served as a non-executive director of DTB Tanzania since 1988. He is a B.Comm (Hons.) graduate, Fellow of the Institute of Chartered Accountants of Pakistan, and a member of the National Board of Accountants & Auditors, Tanzania. Mr. Hyderally is also a director of TPS Eastern Africa Limited as well as Industrial Promotion Services (Tanzania) Limited. He has also served as Chairman of the Aga Khan Cultural Services, Zanzibar and a director of the Aga Khan Health Services, Tanzania in the past.



Mr. Habil Waswani

Company Secretary

Mr. Waswani, 31, joined DTB in 2004 as a Legal Officer in the corporate banking division. In 2005, he was promoted to the position of Manager Credit, after which he was appointed Company Secretary in December 2006. Mr. Waswani is a holder of Bachelor of Laws (LL.B) Degree (The University of Nairobi) and a Diploma from the Kenya School of Law. Besides being an Advocate of the High Court of Kenya and a registered Certified Public Secretary, Mr. Waswani is also a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

KEY

■ Board Executive Committee

■ Board Nomination and Remuneration Committee

■ Board Audit Committee

● Board Risk Management Committee

● Board Credit Committee

● Board Asset and Liability Committee

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE FORTY SECOND ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF DIAMOND TRUST BANK KENYA LIMITED WILL BE HELD AT THE ABERDARE HALL, KENYATTA INTERNATIONAL CONFERENCE CENTRE, HARAMBEE AVENUE, NAIROBI, ON FRIDAY 30 MAY 2008 AT 11.00 A.M. TO TRANSACT THE FOLLOWING BUSINESS:

1. To confirm the Minutes of the Forty First Annual General Meeting held on 25 May 2007.
2. To receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 December 2007.
3. To approve payment of a final dividend of 35% on the Issued and Paid-up Share Capital of Shs 652 million to the shareholders registered in our books as at 30 May 2008 on or about 30 June 2008, as recommended by the Board.
4. To elect Directors in accordance with the Company's Articles of Association.
5. Special Business:

Mr. Jack Kisa having attained the age of 70 years retires by virtue of Section 186(2) of the Companies Act (Cap 486). Special Notice pursuant to Section 142 of the Companies Act having been received by the Company, that the following ordinary resolution be proposed and if thought fit, be passed by Members:

"That pursuant to section 186(5) of the Companies Act, Mr. Jack Kisa having attained the age of 70 years, be and is hereby re-elected to continue as a Director of the Company for a period of one year."

6. To approve the Directors' fees.
7. To appoint the Company's Auditors.
8. To note the Auditors' remuneration for the year 2007, and to authorise the Directors to fix the Auditors' remuneration for the year 2008.
9. To transact any other Ordinary Business of an Annual General Meeting.
10. Diamond Trust Bank Uganda Limited

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

- a) "Diamond Trust Bank Uganda Limited ("DTBU") is desirous of raising additional capital by way of a rights issue. The Company being a shareholder of DTBU be and is hereby authorized to participate in the Rights Issue of DTBU by taking up its Rights and any other Rights or shares offered by DTBU and/or its shareholders, subject always to the observance and due compliance with the provisions of the Banking Act (Chapter 488 of the laws of Kenya), any Prudential Guidelines arising therefrom and the applicable laws in Uganda.
- b) That the Directors be and are hereby authorized to obtain all the required consents and authorizations and generally to do and effect all acts and things required to give effect to the above Resolution."

11. Expansion Programme

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

- (a) "That the Company be and is hereby authorised to establish a subsidiary in Burundi on such terms and conditions as may be determined by the Board of Directors.
- (b) That the Directors be and are hereby authorised to determine the conditions upon which the subsidiary in Burundi will be established and to obtain all the required consents and authorisations and generally to do and effect all acts and things required to give effect to the above resolution."

12. Amendment of the Company's Articles of Association

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

"That the Articles of Association of the Company be amended by including the following Articles:

- A. The company may sell (in such manner and for such price as the Directors think fit otherwise in compliance with any regulation applicable to the trading of shares in the Company) any shares or stock of a member or any share or stock to which a person is entitled by transmission if:
 - a) For a period of six (6) years no cheque or warrant sent by the Company in the manner authorized by these presents has been cashed; and
 - b) No communication has been received by the Company from the member, or any other person entitled, and during such period three (3) dividends in respect of the shares or stock in question have been declared payable by the company; and

Notice of the Annual General Meeting (Continued)

- c) The Company has following the expiration of the said period of six (6) years by advertisement in the newspaper having circulation in Eastern Africa given notice of its intention to sell such shares or stock; and
 - d) The Company has not during the period of six (6) preceding and the period of six (6) months after the advertisement received any information reasonably satisfactory to the Directors as to either of the actual whereabouts or of the actual existences of the member or entitled person; and
 - e) The Company (if being then listed on a Securities Exchange) has given notice to the Securities Exchange on which it is listed to its intention to make the sale.
- B. To give the effect to any such sales the Directors may appoint any person to execute as transferor an instrument of transfer of such shares or stock.
- a) The instrument of transfer shall be as effective as if it had been executed by the registered holder of or the person entitled by transmission to such shares or stock and the title of the transferee shall not be affected by any irregularity or invalidity of the proceedings.
 - b) The net proceeds of the sale shall belong to the Company which shall be obliged to account to the member or other person entitled for an amount equal to the net proceeds (after deducting the expenses of the advertisement and transaction cost of the Company properly incurred) and the Company shall enter the name of the former member or other person in the books of the Company as a creditor for that amount.
 - c) No trust shall be created in respect of the debt, no interest shall accrue or be payable in respect of it and the Company shall not be required to account for any money earned on the net proceeds, which may be employed in the business of the Company or invested in such investments as the Directors think fit.
 - d) If after a further period of three (3) years from the date of the instrument of transfer referred to above no claim has been made by the former member or person previously entitled to the net proceeds, the net proceeds shall become the absolute property of the Company and no person shall have any claim whatsoever against the Company arising there from"

Copies of the complete Memorandum and Articles of Association are available for inspection at the Company's Registered Offices – 8th Floor, Nation Centre, Kimathi Street, Nairobi.

By Order of the Board

Habil Waswani
Company Secretary

Nairobi

Note:

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

Chairman's Statement

The year 2007 was a watershed for Diamond Trust Bank, with significant milestones achieved in several key areas of operation. I am therefore delighted to present your Bank's annual report and financial statements for the year ended 31 December 2007.

Your Bank realized record-breaking results with the Group pre-tax profit surpassing the billion-shilling mark, for the first time ever, to stand at Shs 1.06 billion, an increase of 54% over the previous year.

The Bank's total asset base surpassed the Shs 30 billion mark, whilst Group total assets rose to Shs 36 billion. The Bank's deposit base grew by 46% to Shs 24.4 billion while the Group's deposits stood at Shs 29.1 billion. Loans and advances to customers also recorded a marked increase of 43% to stand at Shs 19.8 billion. The Group loan portfolio stood at Shs 23.2 billion. Profitability was further boosted by sizeable increases of 35% and 56% in the operating income of the Bank and the Group, respectively.

The outstanding growth has been achieved by confining the Bank's non-performing loan portfolio, which stood at Shs 129 million, to 0.6% of the loan book, arguably one of the lowest in the industry. Notwithstanding the high quality of the Bank's loan book, bad debt provisions were enhanced to Shs 386 million, a reflection of the prudent practices adopted by the Bank.

In view of this sterling performance, your directors have recommended an increase in dividend of 40%, from Shs 1.00 per share last year, to Shs 1.40 per share this year. The shares allotted following the Rights Issue at the end of last year also qualify for the dividend. The total proposed dividend payout will therefore reflect an increase of 63% over the previous year.

The record economic growth registered in 2007, with GDP rising by approximately 7% (the highest in years) provided the enabling environment for the Bank's strong performance. All key sectors of the economy exhibited a marked improvement in performance.

Regrettably, the post-election crisis witnessed earlier this year is likely to halve the growth rate experienced last year. It will take sustained political goodwill, solid support from the international community and the well tested resilience of the Kenyan business fraternity for the economy to return to its previous growth levels. We thus look to the future with cautious optimism.

Shareholders will recall that in 2006, DTB Kenya undertook a successful Rights Issue, which increased its capital base by Shs 776 million. In June 2007, your Bank deployed part of the fresh capital to increase its investment in DTB Tanzania to the tune of Shs 313 million by participating in a Rights Issue offering by the latter. As a result of this investment, your Bank's shareholding in DTB Tanzania increased from 33.4% to 55.4%, thus changing the latter's status from an associate company to a subsidiary.

To enable the Bank to sustain and build on the growth momentum achieved in recent years and retain its status as a recognised player in the banking industry in the East African region, it was necessary for the Bank to further increase its core capital. Encouraged by the strong support received from shareholders during the 2006 Rights Issue, the Bank undertook another Issue in late 2007, to increase capital by Shs 1.63 billion. Shareholders, once again, exhibited their confidence in the Bank, resulting in an over-subscription to the tune of 78%. The Board was obliged to scale down the allotment of the applications for additional shares by apportioning these shares on a pro rata basis, at a rate of 29.3% of the additional shares sought.

Chairman's Statement (Continued)

Following the Rights Issue, the Bank's core capital stands at Shs 4.3 billion. The Bank is now well poised to fulfill its objective of enhancing shareholder value by sizeably upscaling its operations in the region over the medium term.

The Group's ambitious branch expansion programme across East Africa is firmly on track. Last year, DTB more than doubled its network in Kenya by opening six new branches - three in Nairobi and one each in Thika, Kisii and Malindi. Through its affiliates in Tanzania and Uganda, DTB also opened additional branches in Dar-es-Salaam and Kampala. Plans are at hand to increase the Group's branch network from 19 at present to 50 in the course of the next two to three years.

In 2008, DTB Kenya plans to increase its investment in DTB Uganda and expand into Burundi and later, Rwanda. I believe these initiatives will sustain your Bank's growth trajectory and further harness business opportunities in the East African region.

Following the significant metamorphosis that the Group has undergone in the recent past, it was deemed appropriate to overhaul the Bank's brand identity, with a view to making it more contemporary and progressive. Diamond Trust Bank became DTB. The new logo is written in a font inspired by the Kufic script. The primary corporate colour is a distinctive crimson, complemented by a gradient bar representing the rising sun. It is the graphic representation of our brand essence - Enriching Life. This is our impetus and at the heart of everything we strive to do.

This is amply reflected in our active participation in the field of Corporate Social Responsibility (CSR) in 2007. These activities have been undertaken in line with our CSR Programme, which is geared towards supporting the needy and under-privileged sections of the Kenyan society, with a particular bias towards children.

The outstanding performance of the Bank this year has been achieved, in large measure, through the dedication, professionalism and hard work of management and staff, ably led by the Group CEO and Managing Director, Mrs. Nasim Devji. On behalf of the shareholders and the Board, I would like to pay a special tribute to them for the exceptional performance.

To my colleagues on the Board, I remain most grateful to them for their diligence in executing their responsibilities as directors and for their invaluable support and contribution during the year. I would like to extend a warm welcome to Mr. Kabir Hyderally, a long serving director of DTB Tanzania who brings with him a wealth of experience and knowledge. My deep appreciation and gratitude also go to Mr. Iqbal Mamdani, who retired at the last AGM, after serving the Board diligently for ten years.

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

Mahmood Manji

Chairman

3 March 2008

Taarifa ya Mwenyekiti

Mwaka wa 2007 ulikuwa ni mwaka wa ufanisi mkubwa kwa Benki ya Diamond Trust, huku ukiwa na mafanikio mengi yaliyopatikana katika utendakazi. Hivyo basi, nina furaha tele kuwasilisha ripoti ya mwaka na taarifa ya kifedha ya Benki yenu ya mwaka uliomalizikia tarehe 31, Desemba 2007.

Benki yenu ilifanikiwa kuvunja rekodi ya matokeo yake ya kifedha ambapo ilipitisha kiwango cha shilingi-bilioni moja cha faida kabla ya matozo ya ushuru. Faida hii kubwa ilikuwa ni ya mara ya kwanza, na ikatufikisha katika kiwango cha shilingi 1.06 billion, ongezeko la 54% ukilinganisha na mwaka uliopita.

Kiwango cha jumla cha amali ya Benki kilipita shilingi Bilioni 30, huku amali zote za kampuni zikipanda hadi shilingi Bilioni 36. Kiwango cha rubuni ya Benki iliongezeka kwa asilimia 46 hadi shilingi Bilioni 24.4 huku ili rubuni ya kampuni ikisimamia katika shilingi Bilioni 29.1. Mikopo na fedha za karadha kwa wateja pia ziliongezeka kwa 43% na kufikia shilingi Bilioni 19.8. Hazina ya kampuni inayohusika na mikopo ilisimamia katika shilingi Bilioni 23.2. Faida zilipewa msukumo mzuri wa ongezeko la 35% na 56% katika mapato ya usimamizi ya Benki na kampuni, mtawalia.

Mafanikio makubwa yaliyopatikana katika Benki hiyo yalitokana na kuzingatiwa kwa hazina ya Benki ya mikopo ya kawaida ambayo ilikuwa na shilingi 129 Milioni, na kufikia 0.6% ya daftari la mikopo, inayosemekana kuwa kiwango mojawapo cha chini zaidi katika sekta hii ya benki. Bila ya kuzingatia uthabiti unaotokamana na daftari la mikopo, vitengo vya madeni makubwa vilifikishwa shilingi milioni 386, ili kuakisi mtazamo bora wa utendakazi ambao unapendeleva na Benki hiyo.

Kufuatia mafanikio hayo yakupendeza, Wakurugenzi wenu wamependekezwa ongezeko la mgawo wa hisa wa asilimia 40, kutoka shilingi 1.00 kwa hisa hapo mwaka jana hadi shilingi 1.40 kwa hisa mwaka huu. Hisa zilizotolewa katika kiwango cha haki ya hisa kwenye mauzo 'Rights Issue' mwishoni mwa mwaka jana pia zinahalalisha mgao huu wa hisa. Hivyo basi, kiwango kamili cha jumla kinachopendekezwa kwenye malipo ya mgao wa hisa kinafaa kuakisi ongezeko la 63% dhidi ya mwaka uliotangulia.

Rekodi ya kukua kwa kiuchumi iliyoandikishwa katika mwaka wa 2007, pamoja na kuongezeka kwa mapato ya kawaida (GDP) kwatakrabani asilimia 7 (kiwango cha juu kwa baada ya muda mrefu) ilisababisha kuwepo kwa mazingira bora ya matokeo mazuri ya Benki hiyo. Sekta nyingi muhimu za kiuchumi zilionyesha kuimarika kwa utendakazi wake.

Kilichosikitisha zaidi, ilikuwa ni visa vya ghasia vilivyoshuhudiwa mapema mwaka huu ambavyo vinaweza kupunguza mapato yaliyopatikana mwaka jana hadi nusu yake. Itatumia ufaafu wa kisiasa uliopo, usaidizi kutoka kwa jamii ya kimataifa na uwezo thabiti wa wanabiashara wa humu nchini ili kuirejesha hali na viwango vya kibiashara mahali vilipokuwa awali. Hivyo basi, tunaitazama hali ya baadae ya kibiashara kwa jicho pevu zaidi.

Hata hivyo wenye hisa watakumbuka kwamba mwaka wa 2006, DTB Kenya ilijihusisha kwenye mauzo ya viwango vya haki ya hisa 'Rights Issue', hali iliyoongeza pakubwa kiwango cha fedha za uwekezaji hadi shilingi milioni 776. Kufikia mwezi Juni 2007, Benki yenu iliongezea uwekezaji mpya ili kuimarisha na kuthibiti msingi wa kiwango cha mtaji huko DTB Tanzania hadi shilingi milioni 313, hii ilikuwa ni kwa kujihusisha katika uimarishaji uliotajwa hapo juu. Kutokana na uwekezaji huo, kipato cha umiliki na ushika dau wa DTB Tanzania kiliongezeka kutoka 33.4% hadi 55.4%, na kubadilisha kiwango chake cha umiliki kutoka katika ushirika mpaka kwenye kiwango cha udau.

Ili kuiwezesha Benki hii kujiendeleza na kujijenga vyema kutokana na mafanikio yake mengi ya kipindi kifupi kilichopita na ili kuifanya kutambulika zaidi katika sekta hii kwenye eneo la Afrika Mashariki, ilikuwa ni muhimu sana kwa Benki hii kujitahidi kuimarisha kiwango chake cha uwekezaji. Kutokana na kuungwa mkono na wenye hisa wengi wakati wa mauzo ya haki za hisa 'Rights Issue' mnamo mwaka wa 2006, Benki yetu ilichukua tena hatua kama hiyo mwishoni mwa mwaka wa 2007, lengo lake lilikuwa ni kuongeza kitega uchumi au uwekezaji wake hadi shilingi Bilioni 1.63. Wenye hisa walionyesha imani yao thabiti kwani hata walipitisha kiwango cha ununuzi wa hisa hizo hadi 78%. Halmashauri ya kampuni hii ililazimika kupunguza viwango vya maombi ya migawo ya hisa kwa kugawa vitengo hivyo vya hisa katika mfumo wa 'mgawo sawa kwa idadi ya hisa zilizounuliwa na kila mwenye hisa', kwa kiwango cha 29.3% kwa kila hisa za ziada zilizotengwa kununuliwa.

Taarifa ya Mwenyekiti (Inaendelea)

Kufuatia mpangilio huo wa 'Rights Issue', mtaji wa Benki ulifikia shilingi Bilioni 4.3. Wakati huu Benki yetu imejizatiti kutimiza malengo yake ili kuimarisha thamani ya wenye hisa kwa kuboresha utendakazi wa kampuni kwenye eneo la Afrika Mashariki.

Mipango kabambe ya kampuni yetu ya kuongeza matawi yake kwenye kanda ya Afrika Mashariki inaendelea vyema. Mwaka jana, Benki ya DTB iliongezea matawi yake mara dufu kwa kufungua matawi sita zaidi – matawi matatu jijini Nairobi na tawi moja moja katika miji ya Thika, Kisii na Malindi. Kupitia washirika wake huko Tanzania na Uganda, Benki ya DTB pia ilifungua matawi zaidi huko jijini Dar-es-Salaam na Kampala. Mipango kabambe ya kuongeza matawi kutoka matawi 19 yaliyopo hadi idadi ya matawi 50 inaendelea na inatarajiwa kukamilika katika kipindi cha miaka miwili au mitatu ijayo.

Katika mwaka wa 2008, Benki ya DTB Kenya inapanga kuongeza uwekezaji wake wa Benki ya DTB huku nchini Uganda na kuwekeza nchini Burundi na Rwanda. Nina imani kwamba mikakati hii itaboresha utendakazi na kuimarisha zaidi nafasi za kibiashara kwenye eneo la Afrika Mashariki.

Kufuatia mabadiliko hayo muafaka ambayo kampuni yetu imepitia kwenye kipindi cha miaka michache iliyopita, ilitulazimu tubadilishe mtazamo na nembo ya kampuni hii. Lengo letu kuu ikiwa ni kuifanya Benki hii iwe bora zaidi. Benki ya Diamond Trust ikawa ni DTB. Nembo yake imeandikwa kwa njia ya kupendeza katika maandishi ya Kufic. Rangi ya asili ya kibiashara ya kampuni hii inafanana na ile ya Crimson, huku ikiongezewa milia ianyoonyesha kuchomoza kwa jua au miale ya jua. Huu ndio uanaruwaza unaowakilisha kuwepo kwa Benki yetu – Kuboresha Maisha. Huu ndio ufunuo wetu na kiungo muhimu katika kila azma na malengo ya kila tunachotaka kufanya.

Hali hii inajikisi wazi kufuatia bidii yetu ya kujishughulisha kwenye nyanja ya kujihusisha na jamii (CRS) katika kipindi cha mwaka wa 2007. Shughuli hizi zimeendeshwa kulingana na mipango yetu ya CRS, ambayo kwa hakika imetazamiwa kuisaidia jamii ya watu wasiojiweza, hususan watoto.

Mafanikio bora ya Benki yetu katika mwaka huu yametimizwa kikamilifu, kwa mapana na marefu, ijapokuwa uwajibikaji, utaalamu na bidii ya mchwa ya wasimamizi na wafanyikazi wote, wakiongozwa kiustadi na Maneja Mkuu Mtendaji na Mkurugenzi Msimamizi Bi. Nasim Devji. Kwa niaba ya wenye hisa na Halmashauri Kuu, ningependa kuwapongeza wote kwa dhati ya moyo wangu wote kufuatia matokeo mazuri ya kampuni yetu.

Kwa wanahalmashauri wenzangu, wanapa hongera na kuwaheshimu kwa kujitolea kwao katika utekelezaji wa majukumu yao kama Wakurugenzi na kwa usaidizi na michango yao muhimu katika kipindi cha mwaka cha majukumu yao. Napenda kumkaribisha kwenye halmashauri yetu Bw. Kabir Hyderally, mkurugenzi wa kitambo huko DTB Tanzania; ambaye anajiunga nasi ili achangie katika tajriba na ujuzi wake. Ningependa pia kutoa shukurani zangu za dhati kwa Bw. Iqbal Mamdani, aliyestaafu katika Mkutano Mkuu wa Mwaka wa mwisho, baada ya kuhudumu kwenye halmashauri yetu kwa kipindi cha miaka kumi.

Kwa kutamatisha, napenda kuwashukuru nyote, wana hisa wetu, kwa kuwa na imani nasi, kuunga mkono shughuli zetu na hali kadhalika uaminifu wenu katika shirika na shughuli zetu na kwa wateja wetu kwa kutupatia biashara wakati wote.

Mahmood Manji

Mwenyekiti

3 Machi 2008

Taarifa iliyoko hapa juu ni tafsiri ya Mwenyekiti iliyoko ukurasa wa 14-15. 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 14-15. In the event of any dispute in the interpretation of the Kiswahili version, the English version shall be the authoritative version.

Statement on Corporate Governance

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

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

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

Board of Directors

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

The Board consists of eight non-executive and independent 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 to enable them maintain full and effective control over strategic, financial, operational and compliance issues.

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

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

Board Executive Committee ("BEC")

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

Board Nomination and Remuneration Committee ("BNRC")

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

Statement on Corporate Governance (Continued)

Board Audit Committee ("BAC")

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

Board Risk Management Committee ("BRMC")

The BRMC is made up of three non-executive and independent directors who meet at least once every three months. The responsibilities of this Committee include ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework. The Committee is also charged with setting out the nature, role, responsibility and authority of the risk management and the compliance function 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 five non-executive and independent directors, and formally meets at least once every quarter. The primary responsibilities of the BCC include the periodic review and oversight of the overall lending policy of the Bank, deliberate and consider loan proposals beyond the credit discretion limits extended to management, on an ongoing basis, as well as review lendings approved by management within its discretionary limits. The Committee also reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management as well as assist the Board in discharging its responsibility to review the quality of the loan portfolio and ensure adequate bad debts provisions are maintained in line with the CBK prudential guidelines.

Board Asset and Liability Committee ("BALCO")

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

Board and Director Evaluation

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

Attendance of Board Meetings

The attendance of Board Meetings by the Directors in 2007 is tabulated below:

Name of Director:	Board Meetings					Total attendance
	23 February 2007	24 May 2007	6 September 2007	8 October 2007	17 December 2007	
Mahmood Manji	√	√	√	√	√	5 out of 5
Nasim Devji	√	√	√	√	√	5 out of 5
Amin Merali	√	√	√	√	√	5 out of 5
Jack Kisa	√	√	√	√	√	5 out of 5
Abdul Samji	X	√	√	√	√	4 out of 5
Nizar Juma	X	√	√	√	X	3 out of 5
Mohamood Thobani	X	√	√	X	√	3 out of 5
Karim Kanji	√	√	√	√	√	5 out of 5
Kabir Hyderally	N/A *	N/A *	N/A *	√	√	2 out of 2

√ - Attended

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

* Mr. Hyderally was appointed to the board on 6 September 2007, as such he has attended all meetings subsequent to his appointment.

Statement on Corporate Governance (Continued)

INTERNAL CONTROL SYSTEMS

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

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

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

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 of three other senior management staff. It meets regularly to review and approve the Bank's credit applications, of up to pre- defined, Board approved limits. Depending on the level of credit limits applied for, credit applications are recommended by the ROCC for consideration by the BCC.

Assets and Liability Committee ("ALCO")

This Committee, which reports to the BALCO, is chaired by the Managing Director and comprises 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.

Operations Risk Committee ("ORCO")

The ORCO reports to the BRMC and is chaired by the Managing Director and comprises six other senior management staff. The ORCO, which meets at least once each quarter, is responsible for identifying major areas of business operations prone to operational risks, recommend to the BRMC and implement suitable policy guidelines for managing and mitigating operational risk and review audit irregularities relating to operations.

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 responds to the correspondence received from the shareholders on a wide range of issues.

Statement on Corporate Governance (Continued)

SHAREHOLDING STRUCTURE

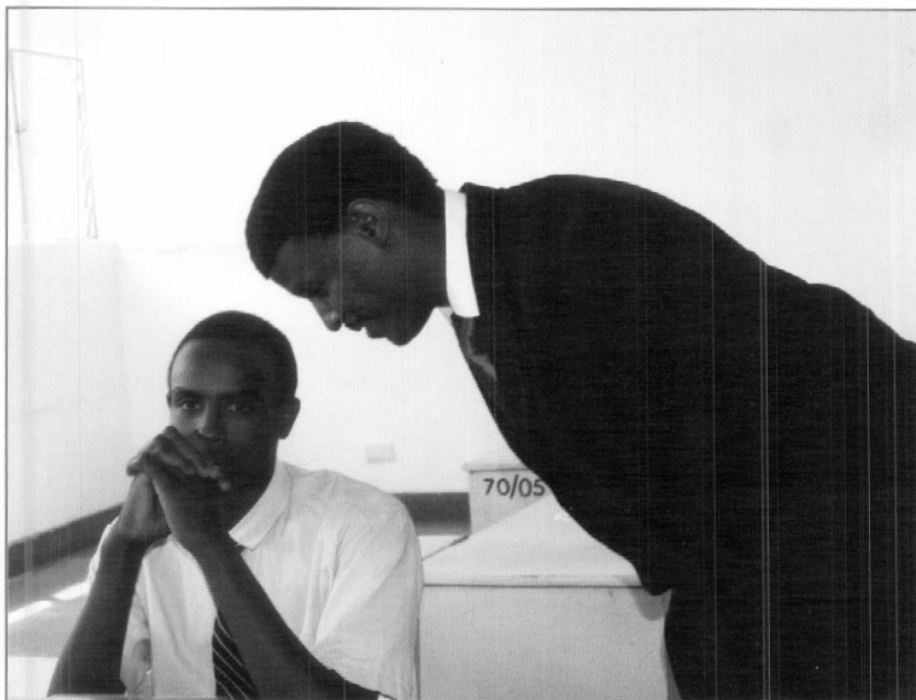
The distribution of issued share capital of the Bank as at 31 December 2007 was as follows:

Range	No of shareholders	No of shares held	% Shareholding
Up to 500 shares	3,023	614,392	0.38
501 – 5,000 shares	5,411	11,289,806	6.92
5,001 – 10,000 shares	1,549	11,513,555	7.06
10,001 – 100,000 shares	1,275	31,481,545	19.31
100,001 – 1,000,000 shares	75	17,024,987	10.44
Over 1,000,000 shares	15	91,112,823	55.89
Total	11,348	163,037,108	100.00

The ten largest Shareholders of the bank and their respective holdings as at 31 December 2007 were as follows:

Name	No. of shares	% Shareholding
Aga Khan Fund for Economic Development	28,240,121	17.32
Barclays (K) Nominees Ltd a/c IFC	16,054,124	9.85
Habib Bank Limited	15,842,979	9.72
The Jubilee Insurance Company Limited	14,306,305	8.77
The Diamond Jubilee Investment Trust (U) Ltd	3,050,528	1.87
Craysell Investments Ltd	2,646,127	1.62
Ameerali Nazarali Esmail	2,347,069	1.44
Noorali Mohan Manji	2,063,990	1.27
Mehul Patel and Prakash Patel	1,707,449	1.05
Amin Nanji Juma	1,504,851	0.92

Corporate Social Responsibility



Thika Branch Manager, Mr. Nicholas Maina takes his time to visit Thika School for visually impaired where the Bank made a donation to the school.



Students of Mongotini Primary School look radiant in their new uniforms which were donated by DTB towards the Malindi Girl Child Foundation

Corporate Social Responsibility (Continued)

Prof. Karega Mutahi, PS Ministry of Education and Ms Stella Nduku, DTB Assistant General Manager, Western Union division, celebrate the successful launch of Shs 10 million project to donate desks to needy primary schools in Kenya. Western Union and Agents will donate 1,050 desks to 35 schools as part of its drive to revamp schools affected by post-election crisis.



Industrial Area Branch Manager Mr. Kartikey Darji, Assistant Branch Manager, Mrs. Arzina Jeraj, the Deputy Headmistress and the Head Master of Little Bells Primary School take a photo with the pupils. In the background are teachers and staff of DTB Industrial Area Branch.

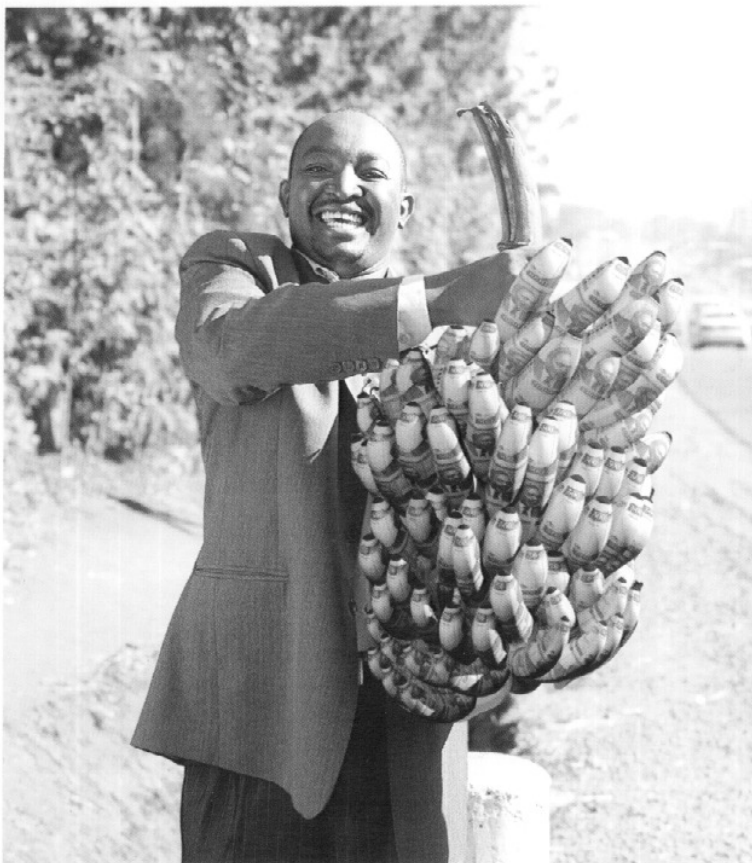


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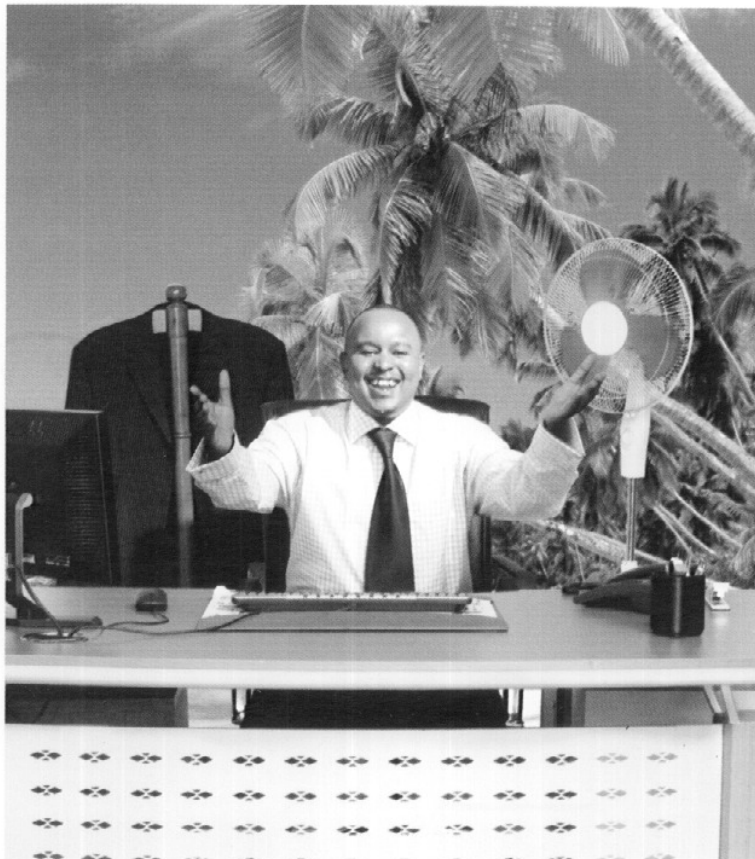
**We are glad
to be part
of Thika.**





**We help
your money
bear fruit.**

Now open in
Kisii town.



**We are now
in Malindi.**

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2007, 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 4.

Principal Activities

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

Results and Dividend

	Shs'000
Group profit before tax	1,055,270
Income tax expenses	(315,316)
Profit after tax	739,954
Minority interest	(48,993)
	690,961
Dividends	(228,252)
Retained profit for the year	462,709

The directors recommend the approval of a final dividend of Shs 228,251,951 (2006: Shs 139,746,093).

Directors

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

In accordance with Article No. 101 of the Bank's Articles of Association, Messrs Mahmood Manji, Amin Merali and Nizar Juma retire by rotation and being eligible, offer themselves for re-election.

In accordance with Article No. 102 of the Bank's Articles of Association, Mr. Kabir Hyderally retires by rotation and being eligible, offers himself for re-election.

In accordance with Article No. 100 of the Bank's Articles of Association, Mr. Jack Kisa having attained the age of 70 years retires by virtue of Section 186(2) of the Companies Act (Cap 486), and pursuant to Section 186(5) of the Act, offers himself for re-election as a director for a further period of one year.

Auditor

The bank's auditor, PricewaterhouseCoopers, has indicated its 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

Habil Waswani
Company Secretary

3 March 2008
Nairobi

Statement of Directors' Responsibilities

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

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

Nothing has come to the attention of the directors to indicate that the company and its 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

3 March 2008

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Diamond Trust Bank Kenya Limited (the company) and its subsidiary (together, the group), as set out on pages 29 to 70. These financial statements comprise the consolidated balance sheet at 31 December 2007 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2007 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2007 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;
- iii) the company's balance sheet is in agreement with the books of account.

PRICEWATERHOUSECOOPERS 

Certified Public Accountants
Nairobi

3 March 2008

Consolidated Profit and Loss Account

	Notes	2007 Shs'000	2006 Shs'000
Interest income	4	3,085,485	1,928,904
Interest expense	5	(1,364,824)	(850,040)
Net interest income		1,720,661	1,078,864
Fee and commission income		426,233	308,786
Foreign exchange income		190,062	101,121
Other operating income	6	17,361	21,348
Operating income		2,354,317	1,510,119
Operating expenses	7	(1,211,754)	(770,055)
Impairment loss on loans and advances	17	(66,523)	(58,813)
Profit from operations		1,076,040	681,251
Finance costs	25	(56,053)	(43,156)
Share of results of associates	15	35,283	46,812
Profit before income tax		1,055,270	684,907
Income tax expense	9	(315,316)	(197,077)
Net profit for the year		739,954	487,830
Minority Interest		(48,993)	-
Net profit after minority interest		690,961	487,830
Dividends:			
Proposed dividend for the year	11	228,252	139,746
Earnings per share (Shs per share)			
- basic and diluted	10	4.72	3.38
Dividend per share (Shs per share)	11	1.40	1.00

Consolidated Balance Sheet

	Notes	2007 Shs'000	2006 Shs'000
Assets			
Cash and balances with Central Banks	12	2,289,475	1,164,970
Government securities	13	5,492,798	3,836,719
Deposits and balances due from banking institutions	14	3,043,094	1,525,615
Loans and advances to customers	17	23,181,871	13,832,756
Investments in associates	15	97,843	252,757
Property and equipment	19	488,064	252,813
Intangible assets – software costs	20	36,500	46,235
Goodwill	22	60,521	-
Deferred income tax asset	18	111,715	59,226
Other assets	16	1,195,690	766,300
Total assets		35,997,571	21,737,391
Liabilities			
Customer deposits	23	29,102,977	16,726,059
Deposits and balances due to banking institutions	24	244,330	226,403
Current income tax payable		90,674	35,491
Subordinated debt	25	-	495,918
Other liabilities	26	1,080,885	1,385,430
Total liabilities		30,518,866	18,869,301
Shareholders' equity			
Share capital	27	652,148	558,984
Share premium	27	2,197,735	695,197
Retained earnings		1,677,745	1,365,273
Reserves	28	296,145	108,890
Proposed dividend		228,252	139,746
Total shareholders' equity		5,052,025	2,868,090
Minority interest		426,680	-
Total equity		5,478,705	2,868,090
Total liabilities and equity		35,997,571	21,737,391

The financial statements on pages 29 to 70 were approved for issue by the board of directors on 3 March 2008 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Jack Kisa
Director

Habil Waswani
Secretary

Bank Balance Sheet

		2007 Shs'000	2006 Shs'000
	Notes		
Assets			
Cash and balances with Central Bank of Kenya	12	1,728,909	1,164,970
Government securities	13	5,041,974	3,836,719
Deposits and balances due from banking institutions	14	1,821,506	1,525,615
Loans and advances to customers	17	19,753,654	13,832,756
Investments in subsidiaries and associates	15	391,721	79,139
Property and equipment	19	349,309	252,813
Intangible assets – software costs	20	28,281	46,235
Deferred income tax asset	18	114,122	59,226
Other assets	16	1,083,887	766,300
Total assets		30,313,363	21,563,773
Liabilities			
Customer deposits	23	24,409,474	16,726,059
Deposits and balances due to banking institutions	24	129,718	226,403
Current income tax payable		97,849	41,697
Subordinated debt	25	-	495,918
Other liabilities	26	1,006,708	1,464,992
Total liabilities		25,643,749	18,955,069
Shareholders' Equity			
Share capital	27	652,148	558,984
Share premium	27	2,197,735	695,197
Retained earnings		1,563,020	1,186,690
Reserves	28	28,459	28,087
Proposed dividend		228,252	139,746
Total shareholders' equity		4,669,614	2,608,704
Total liabilities and equity		30,313,363	21,563,773

The financial statements on pages 29 to 70 were approved for issue by the board of directors on 3 March 2008 and signed on its behalf by:

Mahmood Manji
Chairman

Nasim Devji
Managing Director

Jack Kisa
Director

Habil Waswani
Secretary

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2006							
At start of year		496,875	16,320	112,331	939,755	86,953	1,652,234
Transfer of excess depreciation		-	-	(504)	504	-	-
Deferred tax on excess depreciation		-	-	151	(151)	-	-
		-	-	(353)	353	-	-
Net fair value changes in							
Government securities		-	-	1,728	-	-	1,728
Reversal of net fair value gain on maturity of Government securities		-	-	(2,257)	-	-	(2,257)
		-	-	(529)	-	-	(529)
Translation differences	(i)	-	-	(2,559)	(17,466)	-	(20,025)
Net losses not recognised in the profit and loss account		-	-	(3,441)	(17,113)	-	(20,554)
Rights Issue by the Bank		62,109	678,877	-	-	-	740,986
Write-back of unclaimed dividends	(ii)	-	-	-	94,547	-	94,547
Profit for the year		-	-	-	487,830	-	487,830
Dividends:							
- Final for 2005 paid		-	-	-	-	(86,953)	(86,953)
- Proposed final for 2006		-	-	-	(139,746)	139,746	-
At end of year		558,984	695,197	108,890	1,365,273	139,746	2,868,090
Year ended 31 December 2007							
At start of year		558,984	695,197	108,890	1,365,273	139,746	2,868,090
Net revaluation surplus on property		-	-	7,299	-	-	7,299
Net fair value changes in							
Government securities		-	-	(3,245)	-	-	(3,245)
Reversal of net fair value gain on maturity of Government securities		-	-	(3,682)	-	-	(3,682)
		-	-	372	-	-	372
Translation differences	(i)	-	-	27,106	3,263	-	30,369
Net gains not recognised in the profit and loss account		-	-	27,478	3,263	-	30,741
Rights Issue by the Bank	27	93,164	1,502,538	-	-	-	1,595,702
Write-back of unclaimed dividends	(ii)	-	-	-	6,277	-	6,277
Capitalisation of associate's retained earnings on consolidation	-	-	-	159,777	(159,777)	-	-
Profit for the year		-	-	-	690,961	-	690,961
Dividends:							
- Final for 2006 paid	11	-	-	-	-	(139,746)	(139,746)
- Proposed for 2007	11	-	-	-	(228,252)	228,252	-
At end of year		652,148	2,197,735	296,145	1,677,745	228,252	5,052,025

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

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

Bank Statement of Changes in Equity

	Notes	Share capital Shs'000	Share premium Shs'000	Reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2006							
At start of year		496,875	16,320	28,969	786,636	86,953	1,415,753
Transfer of excess depreciation		-	-	(504)	504	-	-
Deferred tax on excess depreciation		-	-	151	(151)	-	-
		-	-	(353)	353	-	-
Net fair value changes in							
Government securities		-	-	1,728	-	-	1,728
Reversal of net fair value gain on maturity of Government securities		-	-	(2,257)	-	-	(2,257)
		-	-	(529)	-	-	(529)
Net (losses)/gains not recognised in the profit and loss account		-	-	(882)	353	-	(529)
Rights Issue by the Bank		62,109	678,877	-	-	-	740,986
Write-back of unclaimed dividends	(i)	-	-	-	94,547	-	94,547
Profit for the year		-	-	-	444,900	-	444,900
Dividends:							
- Final for 2005 paid		-	-	-	-	(86,953)	(86,953)
- Proposed final for 2006		-	-	-	(139,746)	139,746	-
At end of year		558,984	695,197	28,087	1,186,690	139,746	2,608,704
Year ended 31 December 2007							
At start of year		558,984	695,197	28,087	1,186,690	139,746	2,608,704
Revaluation surplus on property		-	-	7,299	-	-	7,299
Net fair value changes in							
Government securities		-	-	(3,245)	-	-	(3,245)
Reversal of net fair value gain on maturity of Government securities		-	-	(3,682)	-	-	(3,682)
		-	-	372	-	-	372
Net gains not recognised in the profit and loss account		-	-	372	-	-	372
Rights Issue by the Bank	27	93,164	1,502,538	-	-	-	1,595,702
Write back of unclaimed dividends	(i)	-	-	-	6,277	-	6,277
Profit for the year		-	-	-	598,305	-	598,305
Dividends:							
- Final for 2006 paid	11	-	-	-	-	(139,746)	(139,746)
- Proposed for 2007	11	-	-	-	(228,252)	228,252	-
At end of year		652,148	2,197,735	28,459	1,563,020	228,252	4,669,614

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

Consolidated Cash Flow Statement

	Notes	2007 Shs'000	2006 Shs'000
Cash flows from operating activities			
Interest receipts		3,000,012	1,941,887
Interest payments		(1,199,107)	(846,475)
Net fee and commission receipts		429,239	308,786
Other income received		205,730	122,361
Recoveries from loans previously written off	17	5,937	5,109
Payments to employees and suppliers		(1,096,660)	(693,174)
Income tax paid		(319,213)	(226,454)
Cash flows from operating activities before changes in operating assets and liabilities		1,025,938	612,040
Changes in operating assets and liabilities:			
- cash reserve requirement		(436,962)	(177,696)
- Treasury bills under repo agreement		-	49,979
- Government securities		(1,193,479)	(1,761,815)
- loans and advances		(6,627,352)	(3,562,498)
- other assets		(350,585)	(286,003)
- customer deposits		8,073,801	3,443,582
- other liabilities		(365,778)	1,017,750
Net cash from/ (used in) operating activities		125,583	(664,661)
Cash flows from investing activities			
Purchase of property and equipment	19	(168,966)	(53,094)
Purchase of intangible assets	20	(6,103)	(21,147)
Proceeds from sale of property and equipment		3,041	112
Dividend received		3,484	3,882
Investment in Diamond Trust Bank Tanzania Limited		(312,584)	-
Net cash used in investing activities		(481,128)	(70,247)
Cash flows from financing activities			
Proceeds from Rights issue net of expenses		1,595,702	740,986
(Repayment of)/proceeds from subordinated debt		(487,060)	124,810
Finance costs		(64,912)	(38,666)
Dividends paid		(139,746)	(86,953)
Net cash from financing activities		903,984	740,177
Net increase in cash and cash equivalents		548,439	5,269
Cash and cash equivalents at start of period		1,494,699	1,489,430
Cash and cash equivalent on increase in investment in Diamond Trust Tanzania Limited		1,621,084	-
		3,115,783	1,489,430
Cash and cash equivalents at end of period	32	3,664,222	1,494,699

Notes to the Financial Statements

1 General information

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is as disclosed on page 4.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). 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 2007, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Group 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.

- IAS 1 Amendment, capital disclosures. The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital.
- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Standards, interpretations and amendments to published standards that are not yet effective

The following amendment to an existing standard and new standard and interpretations will be mandatory for the Group's accounting periods beginning on or after 1 January 2008, but which the Group has not early adopted:

- IFRIC 11 – Group and Treasury Share Transactions – from 1 January 2008
- IFRIC 12 – Service Concession Arrangements – from 1 January 2008
- IFRS 8 – Operating Segments – from 1 January 2009
- IAS 23 – Borrowing Costs (revised) – from 1 January 2009.

The directors believe that the adoption of these standards and interpretations, when they become effective, will have no material impact on the financial statements of the Group.

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 period. 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 subsidiaries, Diamond Trust Bank Tanzania Limited and 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 subsidiaries are consistent with the policies adopted by the Bank.

(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 15.

Notes to the Financial Statements (Continued)

(e) Investment in subsidiaries

Investments in the subsidiaries (details of which are disclosed on note 15) are stated in the Bank's balance sheet at cost less provision for impairment loss where applicable. Where, in the opinion of the directors, there has been impairment in the value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

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

(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) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that have been or are likely to be drawn down are deferred and recognised over the period of the loan.

(h) 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 are stated at historical cost less depreciation.

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

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

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

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

(i) Intangible assets – software costs

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

Notes to the Financial Statements (Continued)

(j) Goodwill

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

(k) 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.

(l) 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 available historical experience and experienced judgement.

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

(m) Leases

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

Notes to the Financial Statements (Continued)

(n) 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.

(o) 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.

(p) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and balances with Central Bank of Kenya and amounts due from other banks. Cash and cash equivalent excludes the cash reserve requirement held with the Central Banks.

(q) Employee entitlements

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

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

(r) Retirement benefit obligations

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

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

(s) Proposed dividends

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

Notes to the Financial Statements (Continued)

(t) 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.

(u) 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.

(v) Comparatives

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

3 Financial Risk Management

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

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

Risk Management Principles

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

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

Notes to the Financial Statements (Continued)

Credit Risk Management

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

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

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

- an independent credit risk management function.
- multiple credit approvers.
- an independent audit and risk review function.

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

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

- Every extension of credit to any counterparty requires approval by various pre-defined levels of approving authorities as defined in the Credit Policy manual.
- All business units must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/pre-defined level.

The disbursement and administration of credit facilities is managed by Credit Administration Departments (CAD) linked to various business units and operates under the Risk management function. CAD is also responsible for collateral/documents management.

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

The Group follows the guidelines of the Central Bank of Kenya or the Regulators under which it is operating in other countries for the classification/write off procedures relating to problem loans.

Notes to the Financial Statements (Continued)

Credit Risk Management (continued)

Maximum exposure to credit risk before collateral held

	Group		Bank	
	2007	2006	2007	2006
	Shs '000	Shs '000	Shs '000	Shs '000
Placements with other banks	3,043,094	1,525,615	1,821,506	1,525,615
Loans and advances to customers	23,181,871	13,832,756	19,753,654	13,832,756
Credit risk exposures relating to off-balance sheet items:				
- Acceptances and letters of credit	1,568,723	691,146	1,365,687	691,146
- Guarantee and performance bonds	774,732	601,106	617,571	601,106
- Forward contracts (Forwards and spot contracts)	1,898,364	1,528,279	1,898,364	1,528,279
- Commitments to lend	4,541,974	3,075,375	4,210,382	3,075,375
	<u>35,008,758</u>	<u>21,254,277</u>	<u>29,667,164</u>	<u>21,254,277</u>

Market Risk Management

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

Market risk management is undertaken by the Risk function under the supervision of ALCO, supported by the Treasury function.

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

Interest Rate Risk

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

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

Notes to the Financial Statements (Continued)

Interest Rate Risk (continued)

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

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
At 31 December 2007	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets						
Cash and bank balances with Central Banks	-	-	-	-	2,289,475	2,289,475
Government securities	1,198,610	1,260,390	1,560,804	1,472,994	-	5,492,798
Deposits and balances due from banking institutions	2,106,686	477,888	-	-	458,520	3,043,094
Advances to customers	23,181,871	-	-	-	-	23,181,871
Investments in subsidiaries and associates	-	-	-	-	97,843	97,843
Property and equipment	-	-	-	-	488,064	488,064
Intangible assets	-	-	-	-	36,500	36,500
Goodwill	-	-	-	-	60,521	60,521
Deferred income tax asset	-	-	-	-	111,715	111,715
Other assets	-	-	-	-	1,195,690	1,195,690
Total assets	26,487,167	1,738,278	1,560,804	1,472,994	4,738,328	35,997,571
Liabilities & equity						
Customer deposits	13,876,420	7,341,451	7,261,124	121,164	502,818	29,102,977
Deposits and balances due to banking institutions	129,800	80,110	-	-	34,420	244,330
Current income tax payable	-	-	-	-	90,674	90,674
Other liabilities	-	-	-	-	1,080,885	1,080,885
Shareholders' funds	-	-	-	-	5,052,025	5,052,025
Minority interest	-	-	-	-	426,680	426,680
Total liabilities & equity	14,006,220	7,421,561	7,261,124	121,164	7,187,502	35,997,571
Interest sensitivity gap	12,480,947	(5,683,283)	(5,700,320)	1,351,830	(2,449,174)	-
At 31 December 2006						
Total assets	15,958,001	447,701	2,689,964	99,424	2,542,301	21,737,391
Total liabilities and equity	7,785,408	4,957,701	4,627,346	67,799	4,299,137	21,737,391
Interest sensitivity gap	8,172,593	(4,510,000)	(1,937,382)	31,625	(1,756,836)	-

Notes to the Financial Statements (Continued)

Interest Rate Risk (continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Non-interest bearing	Total
At 31 December 2007	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets						
Cash and bank balances with Central Banks	-	-	-	-	1,728,909	1,728,909
Government securities	1,143,652	955,726	1,469,602	1,472,994	-	5,041,974
Deposits and balances due from banking institutions	1,821,506	-	-	-	-	1,821,506
Advances to customers	19,753,654	-	-	-	-	19,753,654
Investments in subsidiaries and associates	-	-	-	-	391,721	391,721
Property and equipment	-	-	-	-	349,309	349,309
Intangible assets	-	-	-	-	28,281	28,281
Deferred income tax asset	-	-	-	-	114,122	114,122
Other assets	-	-	-	-	1,083,887	1,083,887
Total assets	22,718,812	955,726	1,469,602	1,472,994	3,696,229	30,313,363
Liabilities & equity						
Customer deposits	10,981,919	6,900,409	6,070,939	116,256	339,951	24,409,474
Deposits and balances due to banking institutions	49,608	80,110	-	-	-	129,718
Current income tax payable	-	-	-	-	97,849	97,849
Other liabilities	-	-	-	-	1,006,708	1,006,708
Shareholders' funds	-	-	-	-	4,669,614	4,669,614
Total liabilities & equity	11,031,527	6,980,519	6,070,939	116,256	6,114,122	30,313,363
Interest sensitivity gap	11,687,285	(6,024,793)	(4,601,337)	1,356,738	(2,417,893)	-
At 31 December 2006						
Total assets	15,958,001	447,701	2,689,964	99,424	2,542,301	21,737,391
Total liabilities and equity	7,785,408	4,957,701	4,627,346	67,799	4,299,137	21,737,391
Interest sensitivity gap	8,172,593	(4,510,000)	(1,937,382)	31,625	(1,756,836)	-

Foreign Exchange Risk

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

Notes to the Financial Statements (Continued)

Foreign Exchange Risk (continued)

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2007. Included in the table are the Bank's financial instruments, categorised by currency

Group	USD	GBP	EURO	OTHERS	TOTAL
At 31 December 2007	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets					
Cash and balances with the Central Banks	80,056	11,356	20,243	11	111,666
Deposits & balances with banking institutions	1,450,380	427,166	229,075	285,602	2,392,223
Other assets	116,001	33,261	29,275	2,917	181,454
Loans and advances	4,855,731	15,511	378,279	-	5,249,521
Total assets	6,502,168	487,294	656,872	288,530	7,934,864
Liabilities & equity					
Customer deposits	6,118,818	666,916	258,009	4,752	7,048,495
Deposits & balances due to banking institutions	16,820	3,994	948	21,184	42,946
Other liabilities	28,808	7,635	538	-	36,981
Total liabilities & equity	6,164,446	678,545	259,495	25,936	7,128,422
Net balance sheet position	337,722	(191,251)	397,377	262,594	806,442
Net off balance sheet position	(41,602)	215,287	(398,431)	(272,521)	(497,267)
Overall net position	296,120	24,036	(1,054)	(9,927)	309,175
Bank	USD	GBP	EURO	OTHERS	TOTAL
At 31 December 2007	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets					
Cash and balances with the Central Banks	22,517	8,578	13,958	11	45,064
Deposits & balances with banking institutions	362,299	394,788	207,991	283,095	1,248,173
Other assets	115,944	33,261	29,275	2,917	181,397
Loans and advances	3,396,643	15,511	378,279	-	3,790,433
Total assets	3,897,403	452,138	629,503	286,023	5,265,067
Liabilities & equity					
Customer deposits	3,540,424	632,823	233,666	4,752	4,411,665
Deposits & balances due to banking institutions	16,820	3,994	948	21,184	42,946
Other liabilities	28,808	7,635	538	-	36,981
Total liabilities & equity	3,586,052	644,452	235,152	25,936	4,491,592
Net balance sheet position	311,351	(192,314)	394,351	260,087	773,475
Net off balance sheet position	(56,913)	215,287	(398,431)	(272,521)	(512,578)
Overall net position	254,438	22,973	(4,080)	(12,434)	260,897

Notes to the Financial Statements (Continued)

Liquidity Risk Management

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

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

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

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

Group	Up to 1	1-3	3-12	1-5	Over 5	
At 31 December 2007	month	months	months	years	years	Total
Assets	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cash and bank balances with the						
Central Banks	1,545,093	383,883	335,196	6,468	18,835	2,289,475
Government securities	1,232,871	1,300,585	1,633,566	1,743,418	-	5,910,440
Deposits and balances due from banking						
institutions	2,566,306	481,693	-	-	-	3,047,999
Advances to customers	2,067,352	3,721,062	10,352,391	7,972,147	984,100	25,097,052
Investments in subsidiaries and associates	-	-	-	-	97,843	97,843
Property and equipment	-	-	-	128,420	359,644	488,064
Intangible assets	-	-	-	8,219	28,281	36,500
Goodwill	-	-	-	-	60,521	60,521
Deferred income tax asset	-	-	-	111,715	-	111,715
Other assets	897,195	11,959	79,238	204,056	3,242	1,195,690
Total assets	8,308,817	5,899,182	12,400,391	10,174,443	1,552,466	38,335,299
Liabilities & equity						
Customer deposits	14,025,295	7,430,574	7,528,359	147,245	706,500	29,837,973
Deposits and balances due to banking						
institutions	164,220	80,110	-	-	-	244,330
Current income tax payable	-	90,674	-	-	-	90,674
Other liabilities	953,945	19,294	9,568	97,291	787	1,080,885
Shareholders' funds	-	-	-	-	5,052,025	5,052,025
Minority interest	-	-	-	-	426,680	426,680
Total liabilities & equity	15,143,460	7,620,652	7,537,927	244,536	6,185,992	36,732,567
Net liquidity gap	(6,834,643)	(1,721,470)	4,862,464	9,929,907	(4,633,526)	1,602,732

Notes to the Financial Statements (Continued)

Liquidity Risk Management (continued)

Group (continued)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2006	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Total assets	4,683,626	2,600,909	9,064,590	4,706,230	682,036	21,737,391
Total liabilities and equity	9,160,504	4,815,928	4,315,256	280,459	3,165,244	21,737,391
Net liquidity gap	(4,476,878)	(2,215,019)	4,749,334	4,425,771	(2,483,208)	-

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2007	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
Assets						
Cash and bank balances with the Central Banks	984,527	383,883	335,196	6,468	18,835	1,728,909
Government securities	1,177,864	992,554	1,529,056	1,743,418	-	5,442,892
Deposits and balances due from banking institutions	1,822,302	-	-	-	-	1,822,302
Advances to customers	1,707,827	3,078,432	9,312,648	7,009,006	560,921	21,668,834
Investments in subsidiaries and associates	-	-	-	-	391,721	391,721
Property and equipment	-	-	-	-	349,309	349,309
Intangible assets	-	-	-	-	28,281	28,281
Deferred income tax asset	-	-	-	114,122	-	114,122
Other assets	897,195	11,959	79,238	92,253	3,242	1,083,887
Total assets	6,589,715	4,466,828	11,256,138	8,965,267	1,352,309	32,630,257
Liabilities & equity						
Customer deposits	11,007,632	6,972,429	6,313,640	136,602	706,500	25,136,803
Deposits and balances due to banking institutions	49,608	80,110	-	-	-	129,718
Current income tax payable	-	97,849	-	-	-	97,849
Other liabilities	953,945	19,293	9,568	23,115	787	1,006,708
Shareholders' funds	-	-	-	-	4,669,614	4,669,614
Total liabilities & equity	12,011,185	7,169,681	6,323,208	159,717	5,376,901	31,040,692
Net liquidity gap	(5,421,470)	(2,702,853)	4,932,930	8,805,550	(4,024,592)	1,589,565
At 31 December 2006						
Total assets	4,683,626	2,600,909	9,064,590	4,706,230	682,036	21,737,391
Total liabilities and equity	9,160,504	4,815,928	4,315,256	280,459	3,165,244	21,737,391
Net liquidity gap	(4,476,878)	(2,215,019)	4,749,334	4,425,771	(2,483,208)	-

Operational Risk

Operational risk is the risk that the Group may face loss of money or reputation arising out of human error, technology/system failures, breaches in internal controls, fraud, unforeseen catastrophes, inadequate procedures and controls or weaknesses in the Group's business processes.

Notes to the Financial Statements (Continued)

Operational Risk (continued)

Operational risk management policy and procedures have been approved by the Board. The policy covers the core governing principles for operational risk management and provides guidelines to identify, measure, monitor, control and report operational risk in a consistent manner across the Group.

Concentrations of Risk

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

Group

	Loans and advances		Credit commitments		Customer deposits	
	Shs '000	%	Shs '000	%	Shs '000	%
At 31 December 2007						
Manufacturing	3,479,640	15%	640,721	14%	1,463,311	5%
Wholesale and retail trade	4,965,230	21%	616,032	14%	2,787,980	9%
Transport and communications	3,937,871	17%	751,131	16%	1,126,708	4%
Business and financial services	5,991,536	25%	813,728	18%	9,201,945	32%
Agricultural	892,611	4%	30,180	1%	172,950	1%
Individuals	2,643,049	11%	365,495	8%	11,698,049	40%
Other	1,681,103	7%	1,324,687	29%	2,652,032	9%
	23,591,040	100%	4,541,974	100%	29,102,975	100%
At 31 December 2006						
Manufacturing	1,852,715	13%	158,119	5%	912,757	5%
Wholesale and retail trade	3,101,809	22%	537,455	17%	898,779	5%
Transport and communications	2,669,780	19%	787,061	26%	499,705	3%
Business and financial services	3,791,634	27%	396,389	13%	5,976,647	36%
Agricultural	798,122	6%	3,876	0%	19,879	0%
Individuals	1,894,656	13%	331,741	11%	7,290,104	44%
Other	49,358	0%	860,734	28%	1,128,188	7%
	14,158,074	100%	3,075,375	100%	16,726,059	100%

Bank

	Loans and advances		Credit commitments		Customer deposits	
	Shs '000	%	Shs '000	%	Shs '000	%
At 31 December 2007						
Manufacturing	2,376,379	12%	519,958	12%	754,126	3%
Wholesale and retail trade	4,175,272	21%	540,555	13%	1,369,609	6%
Transport and communications	3,689,117	18%	742,074	18%	937,592	4%
Business and financial services	5,991,536	30%	813,728	19%	9,157,967	37%
Agricultural	703,356	3%	24,142	1%	126,928	1%
Individuals	2,546,877	13%	365,495	9%	10,408,637	42%
Other	657,203	3%	1,204,430	28%	1,654,615	7%
	20,139,740	100%	4,210,382	100%	24,409,474	100%

Notes to the Financial Statements (Continued)

Concentration of Risk (continued)

Bank

	Loans and advances		Credit commitments		Customer deposits	
At 31 December 2006	Shs '000	%	Shs '000	%	Shs '000	%
Manufacturing	1,852,715	13%	158,119	5%	912,757	5%
Wholesale and retail trade	3,101,809	22%	537,455	17%	898,779	5%
Transport and communications	2,669,780	19%	787,061	26%	499,705	3%
Business and financial services	3,791,634	27%	396,389	13%	5,976,647	36%
Agricultural	798,122	6%	3,876	0%	19,879	0%
Individuals	1,894,656	13%	331,741	11%	7,290,104	44%
Other	49,358	0%	860,734	28%	1,128,188	7%
	<u>14,158,074</u>	<u>100%</u>	<u>3,075,375</u>	<u>100%</u>	<u>16,726,059</u>	<u>100%</u>

(d) Fair values of financial assets and liabilities

The fair value of available-for-sale investment securities at 31 December 2007 is estimated at Shs 5,493 million (2006: Shs 3,837 million) compared to their carrying value of Shs 5,486 million (2006: Shs 3,834 million). The fair values of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the balance sheet date.

(e) Capital Management

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

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

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 250 million; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

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

Notes to the Financial Statements (Continued)

Capital Management (continued)

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

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

	Group		Bank	
	2007	2006	2007	2006
	Shs '000	Shs '000	Shs '000	Shs '000
Tier 1 capital	5,150,503	2,530,617	4,275,397	2,530,617
Tier 1 + Tier 2 capital	<u>5,179,999</u>	<u>3,022,045</u>	<u>4,282,667</u>	<u>3,022,045</u>
Risk-weighted assets				
On-balance sheet	24,632,406	14,435,557	20,832,826	14,435,557
Off-balance sheet	<u>1,875,524</u>	<u>920,522</u>	<u>1,563,532</u>	<u>920,522</u>
Total risk-weighted assets	<u>26,507,930</u>	<u>15,356,079</u>	<u>22,396,358</u>	<u>15,356,079</u>
Basel ratio				
Tier 1 (CBK minimum - 8%;				
Bank of Tanzania (BOT) minimum – 10%)	19.5%	16.5%	19.1%	16.5%
Tier 1 + Tier 2 (CBK and BOT minimum - 12%)	19.7%	19.7%	19.1%	19.7%

	Group	
	2007	2006
	Shs'000	Shs'000
4 Interest income		
Loans and advances	2,603,992	1,622,628
Government securities	354,341	204,261
Placements and bank balances	<u>127,152</u>	<u>102,015</u>
	<u>3,085,485</u>	<u>1,928,904</u>
5 Interest expense		
Customer deposits	1,352,724	842,292
Deposits due to banking institutions	<u>12,100</u>	<u>7,748</u>
	<u>1,364,824</u>	<u>850,040</u>
6 Other operating income		
Rental income	14,131	9,527
Gain on disposal of Government securities	-	7,745
Gain on sale of property and equipment	2,422	108
Other	<u>808</u>	<u>3,968</u>
	<u>17,361</u>	<u>21,348</u>

Notes to the Financial Statements (Continued)

	Group	
	2007	2006
7 Other operating expenses		
Other operating expenses include:	Shs'000	Shs'000
Staff costs (Note 8)	591,921	366,432
Depreciation (Note 19)	79,746	54,575
Amortisation of intangible assets (Note 20)	28,251	22,116
Operating lease rentals	70,820	36,791
Contribution to Deposit Protection Fund	24,871	17,377
Auditors' remuneration	4,205	1,800
8 Staff costs		
Salaries and allowances	504,037	319,944
Contribution to defined retirement scheme	20,617	17,427
Accrual for gratuity pay	5,596	5,451
National Social Security Fund contribution	7,136	529
Others including insurance, travel and training	54,535	23,081
	<u>591,921</u>	<u>366,432</u>
9 Income tax expense		
Current income tax	369,555	204,773
Under provision of income tax in previous year	(2,079)	-
Deferred income tax	(56,024)	(7,696)
Over statement of deferred tax credit in previous year	3,864	-
	<u>315,316</u>	<u>197,077</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:

	2007	2006
	Shs'000	Shs'000
Profit before tax	1,055,270	684,907
Tax calculated at the statutory tax rate of 30% (2006: 30%)	316,581	205,472
Tax effect of:		
Income not subject to tax	(10,693)	(12,044)
Expenses not deductible for tax purposes	12,620	5,649
Expenses not charged through the profit and loss account	(4,243)	-
Under provision of tax in previous year	1,112	-
Under statement of deferred tax credit in previous year	(61)	-
Tax charge	<u>315,316</u>	<u>197,077</u>

10 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 690,961,000 (2006: Shs 487,830,000) and on the weighted average number of ordinary shares outstanding during the year.

	2007	2006
	Shs'000	Shs'000
Net profit attributable to shareholders (Shs thousands)	690,691	487,830
Weighted number of ordinary shares in issue as originally presented (thousands)	-	128,701
Weighted number of ordinary shares in issue after rights issue (thousands)	146,288	144,511
2006 earnings per share (Shs per share) – basic and diluted as originally presented	-	3.79
Earnings per share (Shs per share) – basic and diluted (2006 restated for rights issue)	<u>4.72</u>	<u>3.38</u>

Diluted earnings per share have been calculated on the basis of number of ordinary shares in issue at 31 December 2007. There are no potentially dilutive shares outstanding at 31 December 2007.

Notes to the Financial Statements (Continued)

11 Dividends per share

At the Annual General Meeting to be held on 30 May 2008, a final dividend in respect of the year ended 31 December 2007 of Shs 1.40 per share amounting to a total of Shs 228,251,951 is to be proposed.

The total dividend for the year is Shs 1.40 per share (2006: Shs 1.00), amounting to a total of Shs 228,251,951 (2006: Shs 139,746,093).

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

12 Cash and balances with the Central Banks

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand	442,354	118,198	327,350	118,198
Balances with the Central Banks	1,847,121	1,046,772	1,401,559	1,046,772
	<u>2,289,475</u>	<u>1,164,970</u>	<u>1,728,909</u>	<u>1,164,970</u>

13 Government securities available-for-sale

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Treasury bills	3,908,593	2,697,390	3,457,769	2,697,390
Treasury bonds	1,584,205	1,139,329	1,584,205	1,139,329
	<u>5,492,798</u>	<u>3,836,719</u>	<u>5,041,974</u>	<u>3,836,719</u>

Treasury bills and bonds are debt securities issued by the Republic of Kenya in the case of the Bank, as well as the United Republic of Tanzania, in the case of the Group. 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 2006, in accordance with the requirement of IAS 39, this portfolio is restated at fair value at every balance sheet date until 1 January 2009. As at 31 December 2007, Government securities amounting to Shs 2,101,782,000 (2006: Shs 1,045,725,000) were within 90 days to maturity.

14 Deposits and balances due from banking institutions

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Due from other banks	<u>3,043,094</u>	<u>1,525,615</u>	<u>1,821,506</u>	<u>1,525,615</u>

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

Notes to the Financial Statements (Continued)

15 Investments in subsidiaries and associates

	2007	2006
	Shs'000	Shs'000
At start of year	252,757	229,852
Adjustment upon gaining control of Diamond Trust Bank Tanzania Limited	(189,831)	-
Share of results after tax	35,283	46,812
Dividend received	-	(3,882)
Translation differences	(366)	(20,025)
At end of year	<u>97,843</u>	<u>252,757</u>

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

	Group		Bank		
	Beneficial Ownership	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Subsidiaries					
Diamond Trust Bank Tanzania Limited (from 15 June 2007)	55.4%	-	-	337,584	-
Premier Savings and Finance Limited	100%	-	-	29,137	29,137
		-	-	366,721	29,137
Associates					
ComTech Systems Limited	29%	1	1	1	1
Diamond Trust Bank Uganda Limited	26.7%	97,841	88,727	25,000	25,000
Diamond Trust Bank Tanzania Limited (up to 14 June 2007)	33.4%	-	164,028	-	25,000
Services and Systems Limited	40%	1	1	1	1
		97,843	252,757	25,002	50,002
Total investment in subsidiaries and associates		97,843	252,757	391,723	79,139

The results for Diamond Trust Bank Tanzania Limited (DTBT) which had previously been accounted for as an associate, have been accounted for as a subsidiary from 15 June 2007. This follows the increase of the Bank's shareholding in DTBT from 33.4% to 55.4% on 15 June 2007. The Bank invested Shs 312 million for acquiring the additional 22% interest in DTBT.

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

Notes to the Financial Statements (Continued)

16 Other assets

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Un-cleared effects	802,885	536,373	729,233	536,373
Prepaid operating lease rentals (Note 21)	3,850	4,038	3,850	4,038
Items in the course of collection	100,395	92,213	100,395	92,213
Prepayments	48,144	22,041	28,488	22,041
Others	240,416	111,635	221,921	111,635
	<u>1,195,690</u>	<u>766,300</u>	<u>1,083,887</u>	<u>766,300</u>

17 Loans and advances to customers

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Hire purchase	4,500,184	3,149,720	4,500,184	3,149,720
Other loans and advances	19,090,858	11,008,354	15,639,556	11,008,354
Gross loans and advances	<u>23,591,042</u>	<u>14,158,074</u>	<u>20,139,740</u>	<u>14,158,074</u>

Less: Provision for impairment of loans and advances

Identified impairment	108,802	125,833	85,717	125,833
Unidentified impairment	300,369	199,485	300,369	199,485
Net loans and advances	<u>23,181,871</u>	<u>13,832,756</u>	<u>19,753,654</u>	<u>13,832,756</u>

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

	Group		Bank	
	Identified impairment Shs'000	Unidentified impairment Shs'000	Identified impairment Shs'000	Unidentified impairment Shs'000
Year ended 31 December 2006				
At start of year	80,086	187,875	80,086	187,875
Provision for loan impairment	54,586	11,610	54,586	11,610
Loans written off during the year as uncollectible	(6,307)	-	(6,307)	-
Release of provision no longer required	(2,532)	-	(2,532)	-
At end of year	<u>125,833</u>	<u>199,485</u>	<u>125,833</u>	<u>199,485</u>
Period ended 31 December 2007				
At start of period	125,833	199,485	125,833	199,485
Balance relating to subsidiary	25,450	-	-	-
Provision for loan impairment	42,774	100,884	25,748	100,884
Loans written off during the period as uncollectible	(13,876)	-	(13,757)	-
Release of provision no longer required	(71,379)	-	(52,107)	-
At end of period	<u>108,802</u>	<u>300,369</u>	<u>85,717</u>	<u>300,369</u>

Notes to the Financial Statements (Continued)

17 Loans and advances to customers (continued)

Charge to profit and loss account (Group)	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Year ended 31 December 2006			
Provision for loan impairment	54,586	11,610	66,196
Release of provision no longer required	(2,532)	-	(2,532)
Net increase in provision	52,054	11,610	63,664
Amounts recovered previously written off	(5,109)	-	(5,109)
Loans written off through profit and loss account	258	-	258
Net charge to profit and loss account	47,203	11,610	58,813
Period ended 31 December 2007			
Provision for loan impairment	42,565	100,884	143,449
Release of provision no longer required	(71,142)	-	(71,142)
Net increase in provision	(28,577)	100,884	72,307
Amounts recovered previously written off	(5,937)	-	(5,937)
Loans written off through profit and loss account	153	-	153
Net charge to profit and loss account	(34,361)	100,884	66,523
Charge to profit and loss account (Bank)	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Year ended 31 December 2006			
Provision for loan impairment	54,586	11,610	66,196
Release of provision no longer required	(2,532)	-	(2,532)
Net increase in provision	52,054	11,610	63,664
Amounts recovered previously written off	(5,109)	-	(5,109)
Loans written off through profit and loss account	258	-	258
Net charge to profit and loss account	47,203	11,610	58,813

Notes to the Financial Statements (Continued)

17 Loans and advances to customers (continued)

Charge to profit and loss account (Bank)	Identified impairment Shs'000	Unidentified impairment Shs'000	Total Shs'000
Year ended 31 December 2007			
Provision for loan impairment	25,748	100,884	126,632
Release of provision no longer required	(52,107)	-	(52,107)
Net increase in provision	(26,359)	100,884	74,525
Amounts recovered previously written off	(5,937)	-	(5,937)
Loans written off through profit and loss account	152	-	152
Net charge to profit and loss account	(32,144)	100,884	68,740

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 2007, was Shs 67,639,000 (2006: Shs 30,295,000).

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

Group and Bank	2007 Shs'000	2006 Shs'000
Gross investment in finance leases:		
Not later than 1 year	719,822	537,852
Later than 1 year and not later than 5 years	4,444,055	3,057,510
Later than 5 years	-	-
	5,163,877	3,595,362
Unearned future finance income on finance leases	(663,693)	(445,642)
Net investment in finance leases	4,500,184	3,149,720

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

	2007 Shs'000	2006 Shs'000
Net investment in finance leases:		
Not later than 1 year	687,130	415,317
Later than 1 year and not later than 5 years	3,813,054	2,734,403
Later than 5 years	-	-
Net investment in finance leases	4,500,184	3,149,720

Notes to the Financial Statements (Continued)

18 Deferred income tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2006: 30%). The movement on the deferred tax account is as follows:

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	59,226	51,304	59,226	51,304
Balance relating to subsidiary	6,413	-	-	-
Charged through profit and loss account				
- current year	56,691	7,696	54,993	7,696
- (Over)/under statement of deferred tax credit in previous year	(6,400)	-	61	-
Charged/(credited) through equity	(4,216)	226	(158)	226
At end of the period	111,715	59,226	114,122	59,226

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

Group	1.1.2007	Acquisition of subsidiary	Charged to profit & loss A/c	Charged to equity	31.12.2007
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities					
Accelerated income on tax depreciation	396	2,835	(5,258)	-	(2,027)
Revaluation surplus	11,060	-	-	7,186	18,246
	11,456	2,835	(5,258)	7,186	16,219
Deferred income tax assets					
Provisions for loan impairment	(59,845)	-	(31,819)	-	(91,664)
Provisions for gratuity and staff bonus	(11,815)	(9,249)	(13,214)	-	(34,278)
Fair value changes in Government securities	978	-	-	(2,970)	(1,992)
	(70,682)	(9,249)	(45,033)	(2,970)	(127,934)
Net deferred income tax asset	(59,226)	(6,414)	(50,291)	4,216	(111,715)

Notes to the Financial Statements (Continued)

18 Deferred income tax (Continued)

Bank	1.1.2007 Shs'000	Charged to profit & loss A/c Shs'000	Charged to equity Shs'000	31.12.2007 Shs'000
Deferred income tax liabilities				
Accelerated income on tax depreciation	396	(4,574)	-	(4,178)
Revaluation surplus	11,060	-	3,128	14,188
	<u>11,456</u>	<u>(4,574)</u>	<u>3,128</u>	<u>10,010</u>
Deferred income tax assets				
Provisions for loan impairment	(59,845)	(31,819)	-	(91,664)
Provisions for gratuity	(11,815)	(18,661)	-	(30,476)
Fair value changes in Government securities	978	-	(2,970)	(1,992)
	<u>(70,682)</u>	<u>(50,480)</u>	<u>(2,970)</u>	<u>(124,132)</u>
Net deferred income tax asset	<u>(59,226)</u>	<u>(55,054)</u>	<u>158</u>	<u>(114,122)</u>

19 Property and equipment (Group)

	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Total Shs'000
At 1 January 2006					
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	<u>106,445</u>	<u>23,583</u>	<u>2,367</u>	<u>121,903</u>	<u>254,298</u>
Year ended 31 December 2006					
Opening net book amount	106,445	23,583	2,367	121,903	254,298
Additions	-	2,078	3,408	47,608	53,094
Disposals- cost or valuation	-	-	-	(2,204)	(2,204)
Disposal- accumulated depreciation	-	-	-	2,200	2,200
Depreciation charge	(1,870)	(7,235)	(1,668)	(43,802)	(54,575)
Closing net book amount	<u>104,575</u>	<u>18,426</u>	<u>4,107</u>	<u>125,705</u>	<u>252,813</u>
At 31 December 2006					
Cost or valuation	113,327	39,650	24,108	316,941	494,026
Accumulated depreciation	(8,752)	(21,224)	(20,001)	(191,236)	(241,213)
Net book amount	<u>104,575</u>	<u>18,426</u>	<u>4,107</u>	<u>125,705</u>	<u>252,813</u>
At 31 December 2006					
Cost	66,742	39,650	24,108	316,941	447,441
Revaluation surplus	46,585	-	-	-	46,585
Cost or valuation	<u>113,327</u>	<u>39,650</u>	<u>24,108</u>	<u>316,941</u>	<u>494,026</u>

Notes to the Financial Statements (Continued)

19 Property and equipment (Group) (Continued)

	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Total Shs'000
Year ended 31 December 2007					
Opening net book amount	104,575	18,426	4,107	125,705	252,813
Relating to subsidiary	15,985	48,111	3,135	55,500	122,731
Additions	-	83,641	-	85,325	168,966
Disposals- cost or valuation	-	-	(10,326)	(5,405)	(15,731)
Disposal- accumulated depreciation	-	-	9,717	5,397	15,114
Revaluation surplus	33,768	-	-	-	33,768
Depreciation charge	(741)	(20,351)	(2,486)	(66,019)	(89,597)
Closing net book amount	153,587	129,827	4,147	200,503	488,064
At 31 December 2007					
Cost or valuation	154,328	176,658	19,112	487,574	837,672
Accumulated depreciation	(741)	(46,831)	(14,965)	(287,071)	(349,608)
Net book amount	153,587	129,827	4,147	200,503	488,064
At 31 December 2007					
Cost	92,545	176,658	19,112	487,574	775,889
Revaluation surplus	61,783	-	-	-	61,783
Cost or valuation	154,328	176,658	19,112	487,574	837,672

19 Property and equipment (Bank)

	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Total Shs'000
At 1 January 2006					
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
Year ended 31 December 2006					
Opening net book amount	106,445	23,583	2,367	121,903	254,298
Additions	-	2,078	3,408	47,608	53,094
Disposals- cost or valuation	-	-	-	(2,204)	(2,204)
Disposal- accumulated depreciation	-	-	-	2,200	2,200
Depreciation charge	(1,870)	(7,235)	(1,668)	(43,802)	(54,575)
Closing net book amount	104,575	18,426	4,107	125,705	252,813
At 31 December 2006					
Cost or valuation	113,327	39,650	24,108	316,941	494,026
Accumulated depreciation	(8,752)	(21,224)	(20,001)	(191,236)	(241,213)
Net book amount	104,575	18,426	4,107	125,705	252,813

Notes to the Financial Statements (Continued)

19 Property and equipment (Bank) (Continued)

	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Total Shs'000
At 31 December 2006					
Cost	66,742	39,650	24,108	316,941	447,441
Revaluation surplus	46,585	-	-	-	46,585
Cost or valuation	113,327	39,650	24,108	316,941	494,026

	Leasehold buildings Shs'000	Leasehold improvements Shs'000	Motor vehicles Shs'000	Furniture fittings & equipment Shs'000	Total Shs'000
Year ended 31 December 2007					
Opening net book amount	104,575	18,426	4,107	125,705	252,813
Additions	-	71,873	-	81,908	153,781
Disposals- cost or valuation	-	-	(10,326)	(5,405)	(15,731)
Disposal- accumulated depreciation	-	-	9,717	5,397	15,114
Revaluation surplus	10,425	-	-	-	10,425
Depreciation charge	-	(15,022)	(1,304)	(50,767)	(67,093)
Closing net book amount	115,000	75,277	2,194	156,838	349,309
At 31 December 2007					
Cost or valuation	115,000	111,523	13,782	393,444	633,749
Accumulated depreciation	-	(36,246)	(11,588)	(236,606)	(284,440)
Net book amount	115,000	75,277	2,194	156,838	349,309

At 31 December 2007

Cost	66,742	111,523	13,782	393,444	585,491
Revaluation surplus	48,258	-	-	-	48,258
Cost or valuation	115,000	111,523	13,782	393,444	633,749

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

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

	Group		Bank	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Cost	92,545	66,742	66,742	66,742
Accumulated depreciation	(19,507)	(6,562)	(8,432)	(6,562)
Net book value	73,038	60,180	58,310	60,180

Notes to the Financial Statements (Continued)

20 Intangible assets – software costs

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
At start of period	46,235	47,204	46,235	47,204
Balance relating to subsidiary	15,927	-	-	-
Additions	6,103	21,147	6,103	21,147
Amortisation charge for the year	(31,765)	(22,116)	(24,057)	(22,116)
At end of period	36,500	46,235	28,281	46,235
Cost	146,476	105,493	111,597	105,493
Accumulated amortisation	(109,976)	(59,258)	(83,316)	(59,258)
Net book value	36,500	46,235	28,281	46,235

21 Prepaid operating lease rentals

	2007	2006
	Shs'000	Shs'000
At start of year	4,038	4,228
Amortisation charge for the year	(188)	(190)
At end of year	3,850	4,038
Cost	6,701	6,701
Accumulated amortisation	(2,851)	(2,663)
	3,850	4,038

22 Goodwill

The Bank increased its investment in Diamond Trust Bank Tanzania Limited (DTBT) from 33.4% to 55.4% during the year at a consideration of Shs. 313 million which made DTBT a subsidiary of the Bank on 15 June 2007. The details of goodwill recognized on the increase in investment in DTBT are as follows:

	Shs'000
Purchase consideration (including direct costs relating to the acquisition)	337,584
Fair value of assets acquired	(277,063)
Goodwill	60,521

	2007	2006
	Shs'000	Shs'000
At start of year	-	-
Recognised on increase in investment in Diamond Trust Bank Tanzania Limited during the year	60,521	-
At end of year	60,521	-

The above goodwill is attributable to Diamond Trust Bank Tanzania Limited's strong position and profitability in the Tanzanian market.

Notes to the Financial Statements (Continued)

23 Customer deposits

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Current and demand deposits	6,083,073	2,914,026	4,538,818	2,914,026
Savings accounts	1,827,978	1,048,560	1,062,083	1,048,560
Fixed deposit accounts	21,191,718	12,763,265	18,808,365	12,763,265
Unredeemed bearer certificates of deposit	208	208	208	208
	<u>29,102,977</u>	<u>16,726,059</u>	<u>24,409,474</u>	<u>16,726,059</u>

24 Deposits and balances due to banking institutions

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Deposits due to banking institutions	202,539	104,751	80,110	104,751
Current account balances due to banking institutions	41,791	121,652	49,608	121,652
	<u>244,330</u>	<u>226,403</u>	<u>129,718</u>	<u>226,403</u>

25 Subordinated debt

The long term (six and a half years) subordinated debt, raised from certain related parties, to increase the Bank's supplementary capital, amounting to US\$ 7 million (2006: US\$ 7 million) was liquidated on 31 December 2007. Finance costs of Shs 56.1 million (2006: Shs 43.2 million) have been included in the profit and loss account.

Group and Bank

	2007	2006
	Shs'000	Shs'000
At start of year	495,918	366,618
Additions during the year	-	139,160
Net movement in accrued interest	-	4,490
Movement from foreign exchange differences	-	(14,350)
Paid during the year	(495,918)	-
At end of year	<u>-</u>	<u>495,918</u>

26 Other liabilities

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Due to subsidiary company	-	-	79,562	79,562
Gratuity provision	48,185	39,388	44,565	39,388
Outstanding bankers' cheques	373,246	237,190	290,646	237,190
Rights Issue balances to be refunded	29,765	840,395	29,765	840,395
Others, including expense accruals	629,689	268,457	562,170	268,457
	<u>1,080,885</u>	<u>1,385,430</u>	<u>1,006,708</u>	<u>1,464,992</u>

Notes to the Financial Statements (Continued)

26 Other liabilities (continued)

Movement in gratuity provision is as follows:

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	39,388	34,339	39,388	34,339
Balance relating to the subsidiary	3,220	-	-	-
Increase during the year	5,895	5,451	5,177	5,451
Utilised during the year	(318)	(402)	-	(402)
At end of year	48,185	39,388	44,565	39,388

27 Share capital

	Number of shares (Thousands)	Share capital Shs'000	Share premium Shs'000
Balance at 1 January 2006	124,219	496,875	16,320
Rights issue	15,527	62,109	678,877
Balance at 31 December 2006	139,746	558,984	695,197
Balance at 1 January 2007	139,746	558,984	695,197
Rights issue	23,291	93,164	1,502,538
Balance at 31 December 2007	163,037	652,148	2,197,735

The total authorised number of ordinary shares is 250,000,000 (2006: 250,000,000) with a par value of Shs 4 per share.

During the Extra-ordinary General Meeting held on 1st October 2007, the shareholders approved the increase in the Bank's issued share capital through the issuance of a further 23,291,015 ordinary shares, with a par value of Shs 4 each, by way of a rights issue at Shs 70 per share.

The rights issue proceeds of Shs 1,630,371,050 have been applied as follows:

	Notes	Shs'000
Share capital		93,164
Share premium before rights issue expenses		1,537,207
Total rights issue proceeds		1,630,371
Share premium before rights issue expenses		1,537,207
Rights issue expenses	(i)	(34,669)
Share premium net of rights issue expenses		1,502,538
(i) Rights issue expenses:		
Professional fees		19,732
Communication costs		3,999
Placing and listing fees		9,105
Printing expenses		1,833
Total rights issue expenses		34,669

Notes to the Financial Statements (Continued)

28 Reserves

Consolidated statement of changes in 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 2006				
At start of year	26,160	2,809	83,362	112,331
Net fair value changes in Government securities	-	1,728	-	1,728
Net losses on disposal	-	(2,257)	-	(2,257)
	-	(529)	-	(529)
Transfer of excess depreciation and deferred tax thereon	(353)	-	-	(353)
Translation adjustment	-	-	(2,559)	(2,559)
At end of year	25,807	2,280	80,803	108,890
Year ended 31 December 2007				
At start of year	25,807	2,280	80,803	108,890
Revaluation surplus net of deferred tax	7,299	-	-	7,299
Net fair value changes in Government securities	-	(3,245)	-	(3,245)
Net losses on disposal	-	(3,682)	-	(3,682)
	7,299	(6,927)	-	372
Capitalisation of associate's retained earnings on consolidation	-	-	159,777	159,777
Translation adjustment	-	-	27,106	27,106
At end of period	33,106	(4,647)	267,686	296,145

Notes to the Financial Statements (Continued)

28 Reserves (continued)

Bank statement of changes in reserves

	Revaluation reserves on property Shs'000	Revaluation reserves on Government securities Shs'000	Total Shs'000
Year ended 31 December 2006			
At start of year	26,160	2,809	28,969
Net fair value changes in Government securities	-	1,728	1,728
Net losses on disposal	-	(2,257)	(2,257)
	-	(529)	(529)
Transfer of excess depreciation and deferred tax thereon	(353)	-	(353)
At end of year	25,807	2,280	28,087
Year ended 31 December 2007			
At start of year	25,807	2,280	28,087
Revaluation surplus net of deferred tax	7,299	-	7,299
Net fair value changes in Government securities	-	(3,245)	(3,245)
Net losses on disposal	-	(3,682)	(3,682)
	7,299	(6,927)	372
At end of year	33,106	(4,647)	28,459

Notes to the Financial Statements (Continued)

29 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	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Acceptances and letters of credit	1,568,723	691,146	1,365,687	691,146
Guarantee and performance bonds	774,732	601,106	617,571	601,106
	<u>2,343,455</u>	<u>1,292,252</u>	<u>1,983,258</u>	<u>1,292,252</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	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Undrawn credit lines and other commitments to lend	4,412,934	3,075,375	4,210,382	3,075,375
Foreign exchange forward contracts	1,334,036	1,234,733	1,334,036	1,234,733
Foreign exchange spot transactions	564,328	293,546	564,328	293,546
Operating lease rentals (i)	185,401	82,977	141,755	82,977
Capital commitments	53,350	7,342	53,350	7,342
	<u>6,550,049</u>	<u>4,693,973</u>	<u>6,303,851</u>	<u>4,693,973</u>

Notes to the Financial Statements (Continued)

29 . Off balance sheet financial instruments, contingent liabilities and commitments (continued)

(i) Operating lease rentals are analysed as follows:

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than 1 year	54,201	26,735	39,404	26,735
Later than 1 year and not later than 5 years	112,824	-	83,975	-
Later than 5 years	18,376	56,242	18,376	56,242
	<u>185,401</u>	<u>82,977</u>	<u>141,755</u>	<u>82,977</u>

Nature of commitments

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

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

30 Business segments information

(a) Business segments

The Group's main business is banking which accounts for more than 90% of the total income. There are therefore no material distinct business segments to necessitate disclosures.

(b) Geographical segments

Diamond Trust Bank Tanzania Limited which became a subsidiary company in June 2007 operates in Tanzania. Kenya is the home country of the parent Bank. The following is the geographical segment information:

	Operating income		Loans and advances		Customer deposits	
	2007	2006	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Kenya	2,043,053	1,510,119	19,753,654	13,832,756	24,409,474	16,726,059
Tanzania	311,264	-	3,428,217	-	4,693,503	-
	<u>2,354,317</u>	<u>1,510,119</u>	<u>23,181,871</u>	<u>13,832,756</u>	<u>29,102,977</u>	<u>16,726,059</u>

Notes to the Financial Statements (Continued)

31 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 3.

The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December 2007 and 31 December 2006 were as follows:

	2007			2006		
	In Shs	In US\$	In GBP	In Shs	In US\$	In GBP
Assets						
Government securities	8.19%	-	-	7.71%	-	-
Deposits with banking institutions	6.60%	3.55%	3.00%	5.97%	3.49%	4.56%
Loans and advances to customers	13.84%	11.02%	10.82%	13.08%	11.19%	8.50%
Liabilities						
Customer deposits	6.90%	4.07%	4.10%	6.08%	3.65%	3.49%
Deposits due to banking institutions	0.25%	-	-	0.74%	-	-
Amounts due to group companies	0.25%	0.50%	-	0.25%	0.30%	-
Subordinated debt	-	-	-	-	10.88%	-

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

	2007	2006
	Shs '000	Shs '000
Cash and balances with the Central Banks (Note 12)	2,289,475	1,164,970
Cash reserve requirement	(1,772,232)	(969,483)
Treasury bills under repo purchase agreement	348,215	-
Deposits and balances due from banking institutions (Note 14)	3,043,094	1,525,615
Deposits and balances due to banking institutions (Note 24)	(244,330)	(226,403)
	<u>3,664,222</u>	<u>1,494,699</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 Banks

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. This is not a requirement in the case of the subsidiary.

Notes to the Financial Statements (Continued)

33 Related party transactions

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

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

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

Group companies	Group		Bank	
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Amounts due to:				
Other group companies	-	33,377	10,302	33,377
Interest expense incurred	-	1,296	726	1,296
Directors				
	2007 Shs'000	2006 Shs'000	2007 Shs'000	2006 Shs'000
Loans to directors:				
At start of year	9,991	9,449	9,991	9,449
Advanced during the year	4,688	7,329	4,688	7,329
Repaid during the year	(7,377)	(6,787)	(7,377)	(6,787)
At end of year	7,302	9,991	7,302	9,991
Interest income earned	1,042	1,130	1,042	1,130
Deposits by directors:				
At start of year	60,498	11,178	60,498	11,178
On acquisition of subsidiary	667	-	-	-
Received during the year	137,242	110,186	131,550	110,186
Withdrawn during the year	(144,846)	(60,866)	(138,612)	(60,866)
	53,561	60,498	53,436	60,498
Interest paid on directors' deposits	2,661	647	2,661	647

Other disclosures

At 31 December 2007 advances to companies controlled by directors or their families amounted to Shs. 562,663,000 (2006: Shs 510,297,000).

At 31 December 2007 advances to employees amounted to Shs.42,656,000 (2006: Shs. 13,816,000).

Interest income earned on advances to companies controlled by directors or their families and employees amounted to Shs.60,358,000 (2006: Shs. 38,975,000)

Notes to the Financial Statements (Continued)

33 Related party transactions (continued)

At 31 December 2007 contingent liabilities include letters of credit and guarantees issued for the account of companies related through common directorship amounting to Shs 38,820,000 (2006: Shs 57,796,000).

At 31 December 2007 deposits by companies related through common directorship and companies controlled by directors or their families amounted to Shs. 1,709,724,000 (2006: Shs 1,769,434,000).

At 31 December 2007 deposits by employees amounted to Shs 94,771,000 (2006: Shs. 57,725,000).

Interest expense incurred on deposits by companies related through common directorship, companies controlled by directors or their families and employees amounted to Shs. 126,367,000 (2006: Shs. 57,748,000)

Subordinated debt raised from companies related through common directorship was liquidated during the year. Details of this are shown under Note 25.

	Group		Bank	
	2007	2006	2007	2006
	Shs'000	Shs'000	Shs'000	Shs'000
Key management compensation				
Salaries and other short-term employment benefits	200,704	101,693	184,551	101,693
Termination benefits	13,049	8,412	11,598	8,412
	<u>213,754</u>	<u>110,105</u>	<u>196,149</u>	<u>110,105</u>
Director's remuneration				
- fees for services as a director	3,394	2,339	2,464	2,339
- other emoluments (included in key management compensation above)	19,986	16,914	19,986	16,914
	<u>23,380</u>	<u>19,253</u>	<u>22,450</u>	<u>19,253</u>

Proxy Form

I/We (in block letters) _____

of P.O. Box _____

being a member/members of DIAMOND TRUST BANK KENYA LIMITED

hereby appoint _____

of P.O. Box _____

or failing him/her _____

of P.O. Box _____

as my/our proxy, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the Aberdare Room, Kenyatta International Conference Centre, Harambee Avenue, Nairobi, on Friday, 30th May 2008 at 11.00 a.m., and at any adjournment thereof.

Dated this _____ day of _____ 2008.

Signature: _____

Important notes:

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

FOLD HERE

AFFIX POSTAGE
STAMP HERE

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

FOLD HERE