

**DIB BANK KENYA LIMITED**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

# DIB BANK KENYA LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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# DIB BANK KENYA LIMITED

## CORPORATE INFORMATION

DIRECTORS	Dr. Adnan Chilwan Mr Peter Makau Dr. Steve Mainda Mr Michael Murphy Mr Mohamed Al Nahdi Mr Mohamed Al Sharif	- Chairman - Managing Director/(CEO) - Non-Executive Director - Non-Executive Director - Non-Executive Director - Non-Executive Director
AUDIT COMMITTEE	Michael Murphy Steve Mainda Mohamed Al Sharif	- Chairperson
CREDIT COMMITTEE	Steve Mainda Michael Murphy Mr Mohamed Al Sharif	- Chairperson
RISK AND IT COMMITTEE	Michael Murphy Steve Mainda Mohamed Al Nahdi	- Chairperson
BOARD NOMINATIONS AND REMUNERATION COMMITTEE	Steve Mainda Michael Murphy Mohamed Al Nahdi	- Chairperson
COMPANY SECRETARY	Njeri Waitimu Certified Public Secretary (Kenya) P O Box 6450 - 00200 Nairobi, Kenya	
REGISTERED OFFICE	Upper Hill Building Bunyala Road / Lower Hill Road Junction P.O. Box 6450 – 00200 Nairobi, Kenya	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi, Kenya	
LEGAL ADVISERS	Hamilton Harrison & Mathews Delta Office Suites P.O. Box 30333 – 00100 Nairobi, Kenya	

DIB BANK KENYA LIMITED

CORPORATE INFORMATION

PRINCIPAL CORRESPONDENT BANKS

New York	Barclays Bank Plc
Frankfurt	Barclays Bank Frankfurt
Dubai	Dubai Islamic Bank PJSC
Johannesburg	ABSA Bank
United States of America	JP Morgan Chase Bank
India	SBM Bank India

# DIB BANK KENYA LIMITED

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, which discloses the state of affairs of DIB Bank Kenya Limited (the "Bank").

### INCORPORATION

The Bank is incorporated in the Republic of Kenya under the Companies Act, 2015. The Bank received its Banking Licence from the Central Bank of Kenya on 13 April 2017.

### ACTIVITIES

The principal activity of the Bank, which is licensed under the Banking Act, is the provision of banking, financial and related services.

### BANK RESULTS

The following is the summary of the results for the year ended 31 December 2019:

	2019 KShs'000	2018 KShs'000
Loss before taxation	(795,130)	(873,325)
Taxation	223,472	247,571
Loss for the year	<u>(571,658)</u>	<u>(625,754)</u>

### BUSINESS REVIEW

#### External Environment

The operating environment in the last twelve months was characterized by volatility in the business environment, continued interest rate capping resulting in constrained credit to the private sector, especially Micro Small and Medium Enterprises (MSMEs) and a lowered Central Bank Rate; which dipped the yield on financing arrangements. A refined business strategy positioned the Bank in the uncertain operating environment and enabled the Bank to weather the effects of interest rate capping.

#### The Bank's Performance

The Bank reported a loss before tax of KShs 795 million (2018 – KShs 873 million) representing a 9% improvement from prior year. Profit income grew by 139% to KShs 425 million from KShs 178 million in 2018.

Financing assets grew by 138% to KShs 5.0 billion from KShs 2.1 billion with customer deposits growing by 97% to KShs 6.1 billion from KShs 3.1 billion.

The focus by the Bank on the quality of the financing arrangements book saw non-performing financing ratio at the end of the year close at 1% compared to 12.7% for the Kenyan banking sector.

# DIB BANK KENYA LIMITED

## REPORT OF THE DIRECTORS (Continued)

### The Bank's Performance (Continued)

The Bank adopted International Financial Reporting Standard (IFRS) 16, Leases effective 1 January 2019.

The Bank recorded an additional charge of KShs 22,043,000 in the current period, to reflect the impact of the new requirements of recognition and measurement of leases and did not restate comparative periods, as permitted by the standard in line with the modified retrospective approach on transition.

Accordingly, the current year 2019 results are based on IFRS 16, while the prior years' results are based on International Accounting Standard (IAS) 17, leases and therefore, certain amounts herein and related ratios are not comparable. The main impact under IFRS 16 is related to depreciation of the right of use assets and finance charge on lease liabilities. For detailed description of the changes, refer to Note 17 in the financial statements.

### Looking ahead

The Bank is expected to continue its growth trajectory in terms of balance sheet and revenue. Quality of the book is also expected to be actively managed to retain the healthy levels seen in 2019. We also expect a positive impact on the Bank's margins following the lifting of the interest rate cap. Likewise key performance ratios including the return on equity is also expected to improve as the Bank continues to gain market share and improved consumer appreciation. From a macro perspective, heavy rainfall experienced during the last months of 2019, a stable political environment and favourable government policies that support small businesses mean brighter prospects in 2020.

### DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (2018: Sh Nil).

### DIRECTORS

The present members of the Board of Directors are shown on page 1.

### DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS


Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

### AUDITORS

Deloitte & Touche were appointed as auditors during the year and have expressed their willingness to continue in office in accordance with the provisions of section 719 (2) of the Kenyan Companies Act, 2015, and subject to approval by the Central Bank of Kenya in accordance with Section 24 of the Banking Act.

BY ORDER OF THE BOARD

  
Secretary  
Nairobi, Kenya  
5 February 2020

# DIB BANK KENYA LIMITED

## STATEMENT ON CORPORATE GOVERNANCE

The Bank's board of directors is responsible for the governance of the Bank and is accountable to the shareholders for ensuring that the Bank complies with the law, the highest standards of corporate governance and business ethics. The directors attach great importance to the need to conduct the business and operation of the bank with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

### Board of Directors

The full board meets at least four times a year. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The board nonetheless retains responsibility for establishing and maintaining the Bank's overall internal control over financial, operational and compliance issues. Details of attendance for each member of board are as below.

Directors	No. of meetings attended 2019
Dr Adnan Chilwan (Chairman)	4
Dr Steve Mainda	4
Mr Michael Murphy	4
Mr Mohamed Al Nahdi	4
Mr Mohamed Al Sharif	4
Mr Peter Makau	4

### Board performance evaluation

Under the Prudential guidelines issued by the Central Bank of Kenya, the Board of Directors is responsible for ensuring that a rigorous evaluation is carried out of its performance, its committees and individual Directors. This evaluation is conducted annually, and the results are provided to the Central Bank of Kenya.

In the financial year ended 2019, the Board undertook a formal evaluation of its performance and that of its committees and individual directors. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities. Overall, the results for the evaluation were positive and indicated that the Board and committees were effective and that no major changes were required.

### Directors' remuneration

One executive director is paid a monthly salary and is eligible for pension scheme membership. Two other non-executive directors are paid a monthly fee and sitting allowances for Board meetings and Board sub-committee meetings. Directors emoluments are shown in note 28.

### Committees of the Board

#### Audit Committee

The board has constituted an audit committee that meets as required. Its responsibilities include review of financial information, budgets, development plans, compliance with accounting standards in financial reporting, and liaison with the external auditors, remuneration of external auditors and overseeing internal control systems. Internal and external auditors and other executives attend audit committee meetings as required.

# DIB BANK KENYA LIMITED

## STATEMENT ON CORPORATE GOVERNANCE (Continued)

### Committees of the Board (Continued)

#### Credit Committee

The board has constituted a credit committee that meets as required. Its responsibilities include a review of the overall credit policy of the bank, ensuring that there are effective policies and procedures to effectively manage credit risk, monitor and review all matters, which may materially impact the present and future quality of the institution's credit risk management.

#### Risk Management Committee

The board has constituted a Risk Management Committee that meets as required. Its responsibilities include carrying out risk assessment and putting in place risk indicators and monitoring the risk.

#### Board Nominations and Remuneration Committee

The board has constituted Nominations and Remuneration Committee. The committee deals with all aspects of appointment of an institution's directors, review the mix of skills and experience and other qualities in order to assess the effectiveness of the board. The committee is also responsible for overseeing the compensation system in place on behalf of the Board of Directors.

### Statement on risk management

The Bank recognises the responsibility to manage risks related to its business as a financial institution. The Bank has built strong internal systems to ensure that sound banking practices results in income streams that are commensurate with the risks taken.

The Integrated Risk Management Policy of the Bank is fully committed to adopting best practices in identifying, measuring, controlling and monitoring the risks faced.

### Corporate Governance Statement on Conflict of Interest

The board of directors has approved a code of conduct that gives disclosure guidance on potential conflicts of interest situations. Reporting procedures are in place for this. The code of conduct has to be signed annually by all staff members.

#### The bank aims at:

- Integrating risk management into the culture of the organization.
- Eliminating or reducing risk to the lowest acceptable levels.
- Developing risk sensitivity as a core competency of all stakeholders.
- Continually identifying potential risks and pro-actively mitigating them.
- Focusing on key risks and controlling them cost-effectively.

The Bank has developed a risk infrastructure that is appropriate to the size and volatility of the business. Decision making at all levels are inspired by the aspiration to be a risk intelligent organization. Risk management is used as an enabler to exploit the potential for increased business by taking informed risks with awareness and control.



DIB BANK KENYA LIMITED

STATEMENT ON CORPORATE GOVERNANCE (Continued)

**Compliance**

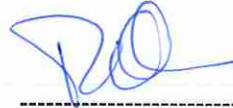
The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).



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Director

Nairobi, Kenya

5/02/2020



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Director

DIB BANK KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Bank maintains proper accounting records that are sufficient to show and explain the transactions of the Bank and disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Bank's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Bank's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on ..... *5 February* ..... 2020 and signed on its behalf by:

  
.....  
Director

  
.....  
Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIB BANK KENYA LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of DIB Bank Kenya Limited (the "Bank") set out on pages 12 to 78, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The directors are responsible for the other information, which comprises the information included in the report of directors and the statement of corporate governance. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of the Kenyan Companies Act, 2015 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIB BANK KENYA LIMITED (Continued)

## Report on the Audit of the Financial Statements (Continued)

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern. Refer to the going concern uncertainty included under key audit matters.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF DIB BANK KENYA LIMITED (Continued)

**Report on other matters prescribed by the Kenya Companies Act, 2015**

In our opinion, the information given in the report of the directors on pages 3 to 4 is consistent with the financial statements.

*D. Oloo & Touche*

**Certified Public Accountants (Kenya)**  
**Nairobi**

*24 March* 2020

**CPA Fred Aloo, Practising certificate No. 1537**  
Signing partner responsible for the independent audit

DIB BANK KENYA LIMITED

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019


	Note	2019 KShs'000	2018 KShs'000
Income from financing and investing activities	5	425,030	178,903
Depositors share of profits	6	(258,548)	(126,841)
<b>NET INCOME</b>		<b>166,482</b>	<b>52,062</b>
Fees and commission income	7(a)	37,390	66,440
Other income	7(b)	16,995	16,683
<b>OPERATING INCOME</b>		<b>220,867</b>	<b>135,185</b>
Personnel expenses	8(a)	(453,342)	(436,312)
Other operating expenses	8(b)	(280,096)	(380,597)
Depreciation of property and equipment	16	(79,773)	(107,627)
Depreciation of right of use asset	17	(82,750)	-
Amortization of intangible assets	18	(64,868)	(63,313)
Interest on lease liabilities	17	(17,280)	-
<b>OPERATING LOSS</b>	<b>9</b>	<b>(757,242)</b>	<b>(852,664)</b>
Impairment provision on financing arrangements	14	(37,888)	(20,661)
<b>LOSS BEFORE TAXATION</b>		<b>(795,130)</b>	<b>(873,325)</b>
TAXATION CREDIT	10	223,472	247,571
<b>PROFIT FOR THE YEAR</b>		<b>(571,658)</b>	<b>(625,754)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(571,658)</b>	<b>(625,754)</b>

DIB BANK KENYA LIMITED

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

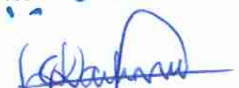
	Note	2019 KShs'000	2018 KShs'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	11	1,134,963	519,857
Deposits and balances due from banking institutions	12	921,441	1,008,732
Financing arrangements	13	5,065,169	2,131,658
Other assets	15	123,827	127,154
Property and equipment	16	197,474	244,092
Right-of-use asset	17	149,763	-
Intangible assets	18	402,319	449,630
Deferred taxation asset	19	992,962	769,491
<b>TOTAL ASSETS</b>		<b>8,987,918</b>	<b>5,250,614</b>
<b>LIABILITIES</b>			
Balances due to banking institutions	20	400,359	-
Customer deposits	21	6,111,547	3,197,859
Lease liability	22(a)	153,091	-
Other liabilities	23	313,944	107,495
<b>TOTAL LIABILITIES</b>		<b>6,978,941</b>	<b>3,305,354</b>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	24(a)	4,499,869	3,864,494
Retained earnings		(2,504,563)	(1,920,667)
Statutory credit risk reserve	24(b)	13,671	1,433
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<b>2,008,977</b>	<b>1,945,260</b>
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		<b>8,987,918</b>	<b>5,250,614</b>

The financial statements on pages 12 to 78 were approved and authorised for issue by the board of directors on .....<sup>5<sup>th</sup></sup> February 2020 and were signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Company Secretary

DIB BANK KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs'000	Shares Awaiting Allotment KShs'000	Statutory Credit risk reserve KShs'000	Retained Earnings KShs'000	Total KShs'000
At 1 January 2018	2,000,000	561,270	272	(1,293,752)	1,267,790
Total comprehensive loss for the year	-	-	-	(624,754)	(625,754)
Issues of shares (Note 24(a))	1,864,494	(561,270)	-	-	1,303,224
Transfer to statutory reserve	-	-	1,161	(1,161)	-
	<u>3,864,494</u>	<u>-</u>	<u>1,433</u>	<u>(1,920,667)</u>	<u>1,945,260</u>
At 31 December 2018	<u>3,864,494</u>	<u>-</u>	<u>1,433</u>	<u>(1,920,667)</u>	<u>1,945,260</u>
At 1 January 2019	3,864,494	-	1,433	(1,920,667)	1,945,260
Total comprehensive loss for the year	-	-	-	(571,658)	(571,658)
Issue of shares (Note 24(a))	635,375	-	-	-	635,375
Transfer to statutory reserve	-	-	12,238	(12,238)	-
	<u>4,499,869</u>	<u>-</u>	<u>13,671</u>	<u>(2,504,563)</u>	<u>2,008,977</u>
At 31 December 2019	<u>4,499,869</u>	<u>-</u>	<u>13,671</u>	<u>(2,504,563)</u>	<u>2,008,977</u>

The statutory reserve represents an appropriation from retained earnings in compliance with Central Bank of Kenya prudential guidelines on impairment of financing arrangements. It represents the excess of financing arrangements provisions as computed as per the Central Bank of Kenya prudential guidelines over impairment of financing arrangements and receivables computed as per IFRS 9. The statutory reserve is not distributable.

Retained earnings relate to the cumulative earnings from operations and is distributable.



DIB BANK KENYA LIMITED

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash used in operations		(138,523)	(709,900)
Tax paid during the year		-	-
		<hr/>	<hr/>
Net cash used in operating activities	25(a)	(138,523)	(709,900)
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of equipment	16	(33,155)	(14,723)
Purchase of intangible assets	18	(17,558)	(20,336)
		<hr/>	<hr/>
Net cash used in investing activities		(50,713)	(35,059)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of share capital	24(a)	635,375	1,303,224
Lease liabilities payments		(62,142)	-
		<hr/>	<hr/>
Net cash generated from investing activities		573,233	1,303,224
		<hr/>	<hr/>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>383,998</b>	<b>558,265</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>1,390,409</b>	<b>832,144</b>
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	25(b)	<b>1,774,406</b>	<b>1,309,409</b>
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# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 DEFINITIONS OF THE BANK'S PRODUCTS

The following terms are used in the financial statements with the meaning specified:

(a) Murabaha

An Islamic financing transaction which represents an agreement whereby the Bank buys a commodity/good and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity/goods and a pre-agreed profit margin.

(b) Ijarah

An Islamic financing transaction whereby the Bank purchases an asset for lease according to the customer's request (lessee) based on his promise to lease the asset for a specific period and against certain rent instalments. Ijarah could end by transferring the ownership of the asset to the lessee.

(c) Mudaraba

An Islamic investing transaction between the Bank and another party (Rab ul Mal) whereby the latter would provide a certain amount of funds, which the Bank (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

(d) Customer deposits

Deposits are generated on two modes; Qard and Mudaraba. Deposits taken on the basis of Qard are classified as current accounts while deposits generated on Mudaraba basis are classified as savings and time deposit accounts. Time deposits are based on Wakala Murabaha where the customer as investor deposits his funds to the bank and the bank invests the funds for a given rate based on the investment plan. No profit or loss is passed to current account depositors. Profit realised in investment pools is distributed among depositors in pre-agreed profit sharing ratio. Rab ul Maal share is distributed among depositors according to weightages assigned at the inception of the profit calculation period.

(e) Income paid to depositors

Profit sharing accounts are based on the principle of Mudaraba whereby the Bank and the customer share any profit earned on the customer deposits on a pre-agreed profit sharing ratio. The customer's share of profit is paid in accordance with the terms and conditions of the account. The profit calculation is undertaken at the end of each calendar month.

(f) Commodity Murabaha

An Islamic financing arrangement in which a customer purchases a commodity/good from the bank on deferred payment plan, then sells the commodity immediately to obtain liquidity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

**Application of new and revised IFRSs**

*i) New and amended IFRS Standards that are effective for the current year ended 31 December 2019*

**Impact of initial application of IFRS 16 Leases**

In the current year, the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in this note. The impact of the adoption of IFRS 16 on the Bank's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

**(a) Impact of the new definition of a lease**

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Bank has carried out a review of all the lease contracts. The review has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

*i) New and amended IFRS Standards that are effective for the current year ended 31 December 2019 (Continued)*

**Impact of initial application of IFRS 16 Leases (Continued)**

**(b) Impact on Lessee Accounting**

*(i) Former operating leases*

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

- a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet computers, personal computers, small items of office furniture and telephones), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Bank has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which lease term ends within 12 months of the date of initial application.
- The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

- i) *New and amended IFRS Standards that are effective for the current year ended 31 December 2019 (Continued)*

**Impact of initial application of IFRS 16 Leases (Continued)**

**(b) Impact on Lessee Accounting (Continued)**

*(ii) Former finance leases*

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased asset and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustment except in cases where the Bank has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019

**(c) Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Bank has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

**(d) Financial impact of the initial application of IFRS 16**

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 11.3%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

*i) New and amended IFRS Standards that are effective for the current year ended 31 December 2019 (Continued)*

**Impact of initial application of IFRS 16 Leases (Continued)**

**(d) Financial impact of the initial application of IFRS 16 (Continued)**

	KShs'000
Operating lease commitments at 31 December 2018	260,290
Effect of discounting the above amounts	(95,777)
	<hr/>
Lease liabilities recognised at 1 January 2019	164,513
	<hr/> <hr/>

The Bank has recognised Kshs 149,763,000 of right-of-use assets and Ksh 153,091,000 of lease liabilities upon transition to IFRS 16.

For tax purposes the Bank receives tax deductions in respect of the right-of-use assets and the lease liabilities in a manner consistent with the accounting treatment.

The application of IFRS 16 has an impact on the statement of cash flows of the Bank.

Under IFRS 16, lessees must present:

- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Bank has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

Consequently, the net cash generated by operating activities has increased by KShs 90,539,514 (2018: Nil), being the lease payments, and net cash used in financing activities has increased by the same amount. The adoption of IFRS 16 did not have an impact on net cash flows.

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Amendments to IFRS 9 Prepayment Features with Negative Compensation**

The Bank has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

- i) *New and amended IFRS Standards that are effective for the current year ended 31 December 2019 (Continued)*

**Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures**

The Bank has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Bank applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Bank does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

**Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs**

The Bank has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

*IAS 12 Income Taxes*

The amendments clarify that the Bank should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Bank originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

*IAS 23 Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

*IFRS 11 Joint Arrangements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Bank does not remeasure its PHI in the joint operation.

**Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement**

The Bank has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### Application of new and revised IFRSs (continued)

##### i) *New and amended IFRS Standards that are effective for the current year ended 31 December 2019 (Continued)*

#### **Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement (Continued)**

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Bank will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

#### **IFRIC 23 Uncertainty over Income Tax Treatments**

The Bank has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Bank to:

- determine whether uncertain tax positions are assessed separately or as a Bank; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

##### ii) *New and revised IFRS Standards in issue but not yet effective*

At the date of authorisation of these financial statements, The Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 17-Insurance	1 January 2021, with earlier application permitted
Amendments to IAS 10 and IAS 28 <i>Sale or Contribution of Assets between an investor and its Associate or Joint Venture</i>	Yet to be set, however earlier application permitted
Amendments to IFRS 3 <i>Definition of a business</i>	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8- <i>Definition of material</i>	1 January 2020, with earlier application permitted
Conceptual Framework: <i>Amendments to References to the Conceptual Framework in IFRS standards</i>	1 January 2020, with earlier application permitted

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:



2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

ii) *New and revised IFRS Standards in issue but not yet effective (Continued)*

**IFRS 17 Insurance Contracts**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

**IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Bank anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Application of new and revised IFRSs (continued)**

ii) *New and revised IFRS Standards in issue but not yet effective (Continued)*

**Amendments to IFRS 3 Definition of a business**

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

**Amendments to IAS 1 and IAS 8 Definition of material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### Application of new and revised IFRSs (continued)

##### iii) *Early adoption of standards*

The Bank did not early-adopt any new or amended standards in 2019.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

#### Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### (a) Revenue recognition

Income is recognised on an accrual basis using the effective interest rate method.

##### (i) Income from financing arrangements and investing activities

###### *Effective Interest rate*

Profit income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Income from financing and investing' as 'Profit income' and 'Depositors share of profit' in the profit or loss account using the effective interest method. Whereas IFRS refers to effective interest rate method, within these financial statements, income from financing arrangements is referred to as profit income.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific financing arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### Basis of preparation (continued)

##### (a) Revenue recognition (continued)

###### (i) Income from Islamic financing and investing activities (continued)

The profit income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the profit income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

###### (ii) Non-Shari'ah compliant income

The Bank does not, as a policy, engage in any activities that involve receipt or payment of interest.

###### (iii) Fees and commission income

Fee and commission income include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a financing arrangement, non-utilisation fees relating to financing arrangement commitments when it is unlikely that these will result in a specific financing arrangement and financing arrangement syndication fees.

##### (b) Foreign currencies

###### (i) Functional and presentation currency

The financial statements are presented in Kenya shillings (KShs) which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand (KShs'000).

###### (ii) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Kenya shillings at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya shillings at the exchange rate ruling at that date. Resulting exchange differences are recognised in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Kenya shillings at the exchange rate ruling at the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated in to Kenya shillings using the exchange rate ruling at the date of the transaction.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(c) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

**(ii) Subsequent cost**

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss.

**(iii) Depreciation**

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives are as follows:

Asset class	Depreciation rate
Leasehold improvements	16.7%
Equipment, fixtures and fittings	20.0%
Motor vehicle	25.0%
Computers	33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**(iv) Disposal of property and equipment**

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

**(d) Intangible assets**

Computer software licenses are stated at cost less accumulated amortisation and accumulated impairment.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 5 years and 10 years for the core banking system.

The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(e) Leases**

The Bank has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

*Policies applicable from 1 January 2019*

*The Bank as a lessee*

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(e) Leases (continued)**

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (not part of this Appendix).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other operating expenses' in profit or loss (see Note 8b).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(f) Taxation**

Tax on the profit or loss for the year comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes, except temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset on tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates currently enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

**(g) Financial instruments**

**(i) Classification**

The Bank classifies its financial assets into three principal classification categories based on the cash flow characteristics of the asset and the business model assessment:

- measured at Amortised Cost;
- Fair Value through Other Comprehensive Income (FVOCI); and
- Fair Value through Profit or Loss (FVTPL)

Financial instruments measured at amortised cost, per IFRS, in this AFS refer to financing arrangements and other assets.



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(g) Financial instruments (continued)**

**(i) Classification (continued)**

*Amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and Interest (SPPI) on the principal amount outstanding.

The Bank recognises cash and balances with Central Bank, balances due from banking institutions, financing arrangements and other assets at amortised cost.

**Fair Value through Other Comprehensive Income (FVOCI) – Debt**

A financial asset which is a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and Interest (SPPI) on the principal amount outstanding.

The Bank has no financial assets classified at FVOCI.

**Fair Value through Other Comprehensive Income (FVOCI) – Equity**

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis. The Bank currently does not have any equity investments.

**Fair Value through Profit or Loss (FVTPL)**

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank does not have financial assets classified at FVTPL. A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(g) Financial instruments (continued)**

**(i) Classification (continued)**

**Assessment of whether contractual cash flows are solely payments of principal and Interest (SSPI)**

To determine whether a financial asset should be classified as measured at amortised cost, FVOCI or FVTPL, an entity assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion. A financial asset that does not meet the SPPI criterion is always measured at FVTPL, unless it is an equity instrument for which an entity applies the FVOCI election.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. The definition of principal reflects the economics of the financial asset from the perspective of the current holder. This means that an entity assesses the asset's contractual cash flow characteristics by comparing the contractual cash flows to the amount that it actually invested.

'Profit' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic credit risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considered the contractual terms of the instrument. This included assessing whether the financial asset contained a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considered:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of profit rates.

Contractual features that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, give rise to contractual cash flows that do not meet the SPPI criterion.

The bank has determined that the contractual cash flows of these Financing arrangements are SPPI because the profit is not leveraged and though may vary will still represent consideration for time value of money, other basic credit risks and costs associated with the principal amount outstanding.

Assessment of whether contractual cash flows are solely payments of principal and profit.

*De minimis*

A contractual cash flow characteristic does not affect the classification of a financial asset if it could have only a de minimis effect on the financial asset's contractual cash flows.

To make this determination, the Bank considers the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial asset.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### Basis of preparation (continued)

#### (g) Financial instruments (continued)

##### (i) Classification (continued)

###### *Business model assessment*

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Bank's financial assets are all held in held within a business model whose objective is to hold assets to collect contractual cash flows.

###### *Financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, although under IAS 39 fair value changes of liabilities designated under the fair value option were recognised in profit and loss, under IFRS 9, fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in credit risk of the liability is presented in OCI and;
- the remaining amount of change in fair value is presented in profit or loss.

The Bank classifies all financial liabilities as subsequently measured at amortised cost.

Customer deposits, balances due to banking institutions and other liabilities are classified at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(g) Financial instruments (continued)**

(ii) Reclassification

The Bank only reclassifies financial assets when management changes the business model for managing the financial assets. In that instance all affected financial assets are reclassified. Such changes are expected to be very infrequent, and are determined by the Bank's senior management as a result of external or internal changes.

(iii) Derecognition and contract modification

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

However, when the modification of a financial instrument not measured at FVTPL does not result in derecognition, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective profit rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Write-off

The Bank directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

(vi) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments – this applies to the Bank's financing arrangements to customers, cash and balances with Central Bank, balances due from banking institutions and other assets; and
- Off balance sheet financing arrangement commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets) - this applies to the Bank's off balance sheet exposures where credit intervention is not required for the counterparty to access the credit facility.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(g) Financial instruments (continued)**

- (vi) Impairment – financing arrangements, off balance sheet commitments and financial guarantee contracts (continued)

No impairment loss is recognised on equity investments.

The Bank recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

The Bank recognises loss allowances at an amount equal to lifetime ECLs, except in the cases where credit risk has not increased significantly since initial recognition. Loss allowances for trade and lease receivables will always be measured at an amount equal to lifetime ECLs applying the simplified approach.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below and in note 5(a):

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn Financing commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

- significant financial difficulty of the issuer or the counter party in a financing arrangement;
- a breach of contract - e.g. a default or past-due event;
- a lender having granted a concession to the counter party in a financing arrangement - for economic or contractual reasons relating to the counter party in a financing arrangement's financial difficulty - that the lender would not otherwise consider;
- it becoming probable that the counter party in a financing arrangement will enter bankruptcy or other financial re-organisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(g) Financial instruments (continued)**

- (vii) Classification and measurement, de-recognition, and impairment of financial instruments effective prior to 1 January 2018

(a) Classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Financial instruments are classified as follows:

*Islamic financing assets and receivables*

Islamic financing assets and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods and services directly to a debtor, with no intention of trading the receivable. Islamic financing assets and receivables comprise other Cash and balances with Central Bank, Deposits and balances due from Banking institutions, financing arrangements and other receivables.

*Other Financial liabilities*

The Bank classifies financial liabilities as other financial liabilities at amortised cost. Other financial liabilities include Balances due to other banking institutions, customer deposits and other payables.

(b) Recognition and measurement

The Bank initially recognises financing assets and advances, deposits and debt securities issues on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through the income statement) are initially recognised on the trade date, which is the date the Bank becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for items not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue.

Subsequent to initial recognition, they are measured at their amortised cost using the effective interest method except where the Bank design liabilities at fair value through profit or loss.

(c) De-recognition

A financial asset is derecognised when the Bank loses the control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire. On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.



# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

#### Basis of preparation (continued)

#### (g) Financial instruments (continued)

- (vii) Classification and measurement, de-recognition, and impairment of financial instruments effective prior to 1 January 2018 (continued)

#### (d) Identification and measurement of impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by Banking together financial assets (carried at amortised cost) with similar risk characteristics.

#### (h) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (i) Contingent liabilities

Letters of credit, guarantees, bills for collection and swaps are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities are made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount recognised initially less cumulative amount of income recognised in accordance with the principles of IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

**Basis of preparation (continued)**

**(j) Cash and cash equivalents**

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value and are used by the bank in the management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**(k) Employee benefits**

*Short term employee benefits*

Short term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the Bank has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

**(l) Dividends**

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

**(m) Foreign exchange income and expenses**

This comprises foreign exchange differences. Foreign exchange gains and losses are reported on a net basis and are recognised in profit or loss.

**(n) Determination of fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted prices in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

**(o) Share capital**

Incremental costs directly attributable to the issue of ordinary shares, net of any taxes are recognised as a deduction in equity.

**(p) Related party transactions**

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business. The related party transactions are at arm's length.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

**i) Critical accounting judgements in applying the Bank's policies**

*Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's

continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

*Significant increase in credit risk*

As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

*Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

*Models and assumptions used*

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk

*Judgement made in the application of IFRS 16 include:*

- identifying whether a contract includes a lease; and
- determining whether it is reasonably certain that an extension or termination option will be exercised.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (CONTINUED)

ii) Key sources of estimation uncertainty

*Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:*

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

*Probability of default:*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

*Loss Given Default:*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

*Key sources of estimation uncertainty in the application of IFRS 16 include the following:*

- Estimation of the lease term;
- Determination of the appropriate rate to discount the lease payments; and
- Assessment of whether a right-of-use asset is impaired.

*Property and equipment*

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

*Fair value measurement and valuation*

Some of the Bank's assets and liabilities are measured at fair value for financial reporting process. In estimating the fair value of an asset or liabilities, the Bank uses market – observable data to the extent it is available. Where level 1 inputs are not available, the Bank engages third party qualified valuers to perform the valuation.

*Taxation*

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters 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.

The Bank recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the reporting date could be impacted.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

#### iii) Bank's financial performance

The Bank incurred a loss before tax of KShs 795,130,000 during the year ended 31 December 2019 (2018: KShs 873,325,000) and as at that date it had an accumulated deficit of KShs 2,504,563,000 (2018: KShs 1,920,667,000).

The Bank had operated for 2 year and 7 months as at 31 December 2019 and during this time, it has distinguished itself through delivery of value to its clients has developed tailor made products such as premium and elite accounts that will meet and exceed customer expectations. The Bank is also offering its clients competitive credit rates in foreign currency and flexible repayment period in bid to grow its business. These strategies are expected to translate into increased revenue from growth and a higher market share as well as operational synergies that will result in improved profitability for the Bank. The Banks' management forecasts that these strategies will begin to bear fruit and derive profitability in the near future.

The parent company, Dubai Islamic Bank PJSC is fully aware of its responsibilities on capital adequacy requirements and undertakes to maintain the minimum required capital in DIB Bank Kenya Limited under the Banking Act or as amended from time to time.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on the going concern basis.

### 4 FINANCIAL RISK MANAGEMENT

#### Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Currency risk
- Settlement risk
- Capital management

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

#### *Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Country Management, Credit Management, Crisis Management and Risk Management committees, which are responsible for developing and monitoring risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

**Introduction and overview (continued)**

*Risk management framework (continued)*

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**(a) Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's financing arrangements for customers and other Bank's and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

**Management of credit risk**

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Management Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Department, Head of Credit, Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure to counterparties,* geographies and industries (for financing assets and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.
- The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Risk Management Department.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

**Management of credit risk (continued)**

- *Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Credit Department on the credit quality of local portfolios and appropriate corrective action is taken.*
- *Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.*

Each business unit is required to implement the Bank credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. Regular audits of business units and Credit processes are undertaken by Internal Audit.

**Credit quality**

The following table sets out information about the credit quality and credit risk exposure of financial assets measured at amortised cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For off balance sheet commitments the amounts in the table represent the undrawn portion of amounts committed. Off balance sheet commitments are letters of credit and bank guarantees.

Explanation of the terms 'Stage 1', 'Stage 2', 'Stage 3' and Purchased originated credit impaired (POCI) assets is included in Note 3.

At 31 December 2019

In KShs '000	Stage 1	Stage 2	Stage 3	Total
<b>Financing arrangements - Murabaha</b>				
Normal	2,289,188	-	-	2,289,188
Watch	-	172,230	-	172,230
Non-performing	-	-	35,414	35,414
	<u>2,289,188</u>	<u>172,230</u>	<u>35,414</u>	<u>2,496,832</u>
Loss allowance (Note 14(b))	(14,358)	(2,037)	(28,497)	(44,892)
Carrying amount	<u>2,274,830</u>	<u>170,193</u>	<u>6,917</u>	<u>2,451,940</u>
<b>Financing arrangements – Ijarah</b>				
Normal	2,310,183	-	-	2,310,183
Watch	-	304,517	-	304,517
Non-performing	-	-	14,685	14,685
	<u>2,310,183</u>	<u>304,517</u>	<u>14,685</u>	<u>2,629,385</u>
Loss allowance (Note 14(b))	(8,850)	(6,487)	(587)	(15,924)
Carrying amount	<u>2,301,333</u>	<u>298,030</u>	<u>14,098</u>	<u>2,613,461</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

At 31 December 2019

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Off balance sheet commitments</b>				
Normal	148,735	-	-	148,735
Watch	-	-	-	-
Non-performing	-	-	-	-
	<u>148,735</u>	<u>-</u>	<u>-</u>	<u>148,735</u>
Loss allowance (Note 14(b))	(233)	-	-	(233)
	<u>148,502</u>	<u>-</u>	<u>-</u>	<u>148,502</u>
Carrying amount	<u>148,502</u>	<u>-</u>	<u>-</u>	<u>148,502</u>

At 31 December 2018

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Financing arrangements - Murabaha</b>				
Normal	1,184,371	-	-	1,184,371
Watch	-	148,092	-	148,092
Non-performing	-	-	375	375
	<u>1,184,371</u>	<u>148,092</u>	<u>375</u>	<u>1,332,838</u>
Loss allowance	(13,429)	(366)	(88)	(13,883)
	<u>1,170,942</u>	<u>147,726</u>	<u>287</u>	<u>1,318,955</u>
Carrying amount	<u>1,170,942</u>	<u>147,726</u>	<u>287</u>	<u>1,318,955</u>
<b>Financing arrangements - Ijarah</b>				
Normal	798,692	-	-	798,692
Watch	-	15,532	-	15,532
Non-performing	-	-	7,757	7,757
	<u>798,692</u>	<u>15,532</u>	<u>7,757</u>	<u>821,981</u>
Loss allowance	(7,389)	(93)	(1,674)	(9,156)
	<u>791,303</u>	<u>15,439</u>	<u>6,083</u>	<u>812,825</u>
Carrying amount	<u>791,303</u>	<u>15,439</u>	<u>6,083</u>	<u>812,825</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

At 31 December 2018

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Off balance sheet commitments</b>				
Normal	52,913	-	-	52,913
Watch	-	-	-	-
Non-performing	-	-	-	-
	<u>52,913</u>	<u>-</u>	<u>-</u>	<u>52,913</u>
Loss allowance (Note 14(b))	(122)	-	-	(122)
	<u>52,791</u>	<u>-</u>	<u>-</u>	<u>52,791</u>
Carrying amount	<u>52,791</u>	<u>-</u>	<u>-</u>	<u>52,791</u>

The following table sets out the overdue status of financing arrangements in stage 1, 2 and 3.

At 31 December 2019

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Financing arrangements at amortised cost- Murabaha- Gross carrying amount</b>				
Current	1,996,581	-	-	1,996,581
Overdue < 30	341,274	-	-	341,274
Overdue >30<90	-	124,264	-	124,264
Overdue >90	-	-	34,713	34,713
	<u>2,337,855</u>	<u>124,264</u>	<u>34,713</u>	<u>2,496,832</u>
Total	<u>2,337,855</u>	<u>124,264</u>	<u>34,713</u>	<u>2,496,832</u>
<b>Financing arrangements at amortised costs - Ijarah- Gross carrying amount</b>				
Current	2,095,659	-	-	2,095,659
Overdue < 30	314,000	-	-	314,000
Overdue >30<90	-	205,040	-	205,040
Overdue >90	-	-	14,686	14,686
	<u>2,409,659</u>	<u>205,040</u>	<u>14,686</u>	<u>2,629,385</u>
Total	<u>2,409,659</u>	<u>205,040</u>	<u>14,686</u>	<u>2,629,385</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit quality (Continued)

At 31 December 2018

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Financing arrangements at amortised cost- Murabaha- Gross carrying amount</b>				
Current	999,781	-	-	999,781
Overdue < 30	184,590	-	-	184,590
Overdue >30<90	-	148,092	-	148,092
Overdue >90	-	-	375	375
<b>Total</b>	<b>1,184,371</b>	<b>148,092</b>	<b>375</b>	<b>1,332,838</b>

At 31 December 2018

In KShs'000	Stage 1	Stage 2	Stage 3	Total
<b>Financing arrangements at amortised costs - Ijarah- Gross carrying amount</b>				
Current	770,644	-	-	770,644
Overdue < 30	28,048	-	-	28,048
Overdue >30<90	-	15,532	-	15,532
Overdue >90	-	-	7,757	7,757
<b>Total</b>	<b>798,692</b>	<b>15,532</b>	<b>7,757</b>	<b>821,981</b>

**Write-off policy**

The Bank may write off a financing arrangement balance (and any related allowances for impairment losses) when Credit determines that the financing arrangements are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the customer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

In the year the Bank did not have any written off financial arrangements.



# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

##### *Collateral*

The Bank holds collateral against financing arrangements to customers in the form of mortgage profits over property, registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing, and generally are not updated except when a financing asset is individually assessed as impaired.

Collateral generally is not held over deposits and balances due from Banking institutions, except when securities are held as part of reverse repurchase and securities financing activity.

There have been no significant changes in the quality of the collateral held.

An estimate of the fair value of collateral and other security enhancements held against financing arrangements is shown below:

Fair values of collateral held:	2019 KShs'000	2018 KShs'000
Stage 1	8,769,328	2,735,249
Stage 2	629,088	24,000
Stage 3	35,790	8,500
	<hr/>	<hr/>
	9,434,206	2,767,749
	<hr/> <hr/>	<hr/> <hr/>

##### *Inputs, assumptions and techniques used for estimating impairment*

###### *Significant increase in credit risk*

The Bank in determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition considered reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit assessment.

Information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, hence the Bank has used past due information and qualitative information to determine whether there have been significant increases in credit risk since initial recognition.

###### *Determining whether credit risk has increased significantly*

The Bank has established a framework that incorporates both past due information and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.

The framework aligns with the Bank's internal credit risk management process.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, the financial asset is more than 30 days in arrears.

Additionally, in certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk and classify the exposure as 'watch' if particular qualitative factors indicate so and those indicators may not be fully captured by its past due status on a timely basis.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

##### *Inputs, assumptions and techniques used for estimating impairment (continued)*

The following qualitative criteria is applied:

- Classification of exposures by any other Banks and Financial institutions or local Credit Reference Bureau (CRB).
- Unavailable/inadequate financial information/financial statements;
- Qualified report by external auditors;
- Significant contingent liabilities;
- Loss of key staff in the organization;
- Increase in operational risk and higher occurrence of fraudulent activities;
- Continued delay and non-cooperation by the counterparty to a financing arrangement in providing key relevant documentation;
- Deterioration in credit worthiness due to factors other than those listed above

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Also see note 4(g).

##### *Definition of default*

The Bank will consider a financial asset to be in default when:

- the counter party in a financing arrangement is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the counter party in a financing arrangement is more than 90 days past due on any material credit obligation to the Bank. This definition is largely consistent with the Central Bank of Kenya definition that is used for regulatory purposes.

In assessing whether a counter party in a financing arrangement is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

##### *Forward-looking information*

Under IFRS 9, the Bank will incorporate forward-looking information in its measurement of ECLs.

The Bank is in its inception phase and does not have sufficient history of defaults to determine relationships between its credit risk and credit losses and external macroeconomic variables. The Bank has therefore identified the weighted average 5 year historic growth in the banking industry Non Performing Facilities (NPF) ratio as the basis for the lifetime probability of default (PD) and a macroeconomic adjustment applied to the base 12-month PD. The NPF ratio is obtained from reports published by the Central Bank of Kenya. The 12-month probability of default is determined based on the weighting of three possible scenarios.

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Credit risk (continued)

##### *Modified financial assets*

The contractual terms of a financing arrangements may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing arrangement whose terms have been modified may be derecognised and the renegotiated financing arrangements recognised as a new financing arrangement at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of the counter party in a financing arrangement's initial credit risk assessment and the current assessment at the point of modification.

The Bank renegotiates financing arrangements with customers in financial difficulties (referred to as 'restructuring') to maximise collection opportunities and minimise the risk of default. Under the Bank's restructuring policy, financing arrangements restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing arrangements covenants. The Bank Credit Committee regularly reviews reports on restructuring activities.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of restructuring are relevant to assessing whether there is a significant increase in credit risk (see above).

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

##### *Inputs into measurement of ECLs*

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed models and other historical data that leverage industry information. The PD will be adjusted to reflect forward-looking information as described above.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

*Inputs, assumptions and techniques used for estimating impairment (continued)*

*PD*

PD estimates for financing arrangements are estimates at a certain date. Based on lack of internal default history the Bank has applied NPF ratios for its peer banks as a basis of determining the PDs. Using available NPF data on the Bank's peer banks, and specifically the NPF ratios in the inception years of these peer banks given the bank is at its inception phase, the PDs were developed using a range of scenarios as below:

- The worst case scenario is based on the average NPF of the Bank's peer Banks plus a 5 years average banking industry NPF growth rate.
- The best case scenario is based on the average NPF of the Bank's peer Banks in their inception years
- Baseline scenario is the average NPF rate for the Bank's two peer banks at their inception plus a 5 years average banking industry NPF growth rate.

The 12-month PD is therefore probability weighted having incorporated three scenarios as above. Lifetime PDs will be estimated by growing the weighted 12-month PD year on year by adding the 5 year average growth rate for the banking industry.

*Loss Given Default (LGD)*

LGD is the magnitude of the likely loss if there is a default. The Bank will estimate LGD parameters based on collateral available against exposures and the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the type of collateral, seniority of the claim, time to recover in the event of foreclosure, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated to consider the time to recover cash flows for different collateral types and apply the forced sale value (FSV) of collateral. The collateral values to consider will be calculated on a discounted cash flow basis using the effective interest rate (EIR) or a close proxy of the EIR. The LGD for unsecured financial assets is 100% unless management assessment of the counter party in a financing arrangement supports a lower LGD.

*Exposure at Default*

EAD represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default plus profit payments that would have been missed at the point of default. For financing commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any counter party in a financing arrangement's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financing arrangements commitment or guarantee.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

*Inputs, assumptions and techniques used for estimating impairment (continued)*

*Exposure at Default (Continued)*

For guarantee facilities and other revolving facilities that include both a financing arrangement and an undrawn commitment component, the Bank will measure ECLs over a period of one year unless the expected life of the exposure can be reasonably determined. Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Product type; and
- Industry.

The groupings will be subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

**Amount arising from ECL**

*Loss allowance*

The following tables show reconciliations from the opening to the closing balance of the loss allowance by product.

Loss allowance	31 December 2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
In KShs'000				
<b>Financing arrangements – Murabaha</b>				
Balance at 1 January	13,429	366	88	13,883
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(2,291)	2,291	-	-
Transfer to Stage 3	(1,056)	(256)	1,312	-
Net re-measurement of loss allowance	(3,362)	(1,040)	24,149	19,747
Net financial assets originated or purchased	9,325	1,135	2,948	13,409
Financial assets that have been derecognised	(1,688)	(459)	-	(2,147)
Write offs	-	-	-	-
Recoveries	-	-	-	-
Balance at 31 December	14,358	2,037	28,497	44,892

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL (Continued)

Loss allowance (Continued)

In KShs'000	31 December 2019			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<b>Financing arrangements – Ijarah</b>				
Balance at 1 January	7,364	93	1,821	9,278
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,916)	3,737	(1,821)	-
Transfer to Stage 3	-	(93)	93	-
Net remeasurement of loss allowance	(1,460)	814	282	(364)
Net financial assets originated or purchased	7,667	1,936	212	9,815
Financial assets that have been derecognised	(2,805)	-	-	(2,805)
Write offs	-	-	-	-
Recoveries	-	-	-	-
Balance at 31 December	<u>8,850</u>	<u>6,487</u>	<u>587</u>	<u>15,924</u>

In KShs'000	31 December 2019			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
<b>Financing arrangements – off balance sheet commitments (Note 22)</b>				
Balance at 1 January	122	-	-	122
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net financial assets originated or purchased	233	-	-	233
Financial assets that have been derecognised	(122)	-	-	(122)
Write offs	-	-	-	-
Recoveries	-	-	-	-
Balance at 31 December	<u>233</u>	<u>-</u>	<u>-</u>	<u>233</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL (Continued)

Loss allowance (Continued)

In KShs'000	31 December 2018			Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	
<b>Financing arrangements – Murabaha*</b>				
Balance at 1 January	1,490	-	-	1,490
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(93)	93	-	-
Transfer to Stage 3	(3)	-	3	-
Net re-measurement of loss allowance	(99)	29	85	15
Net financial assets originated or purchased	12,258	244	-	12,502
Financial assets that have been derecognised	(124)	-	-	(124)
Write offs	-	-	-	-
Recoveries	-	-	-	-
	<u>13,429</u>	<u>366</u>	<u>88</u>	<u>13,883</u>

In KShs'000	31 December 2018			Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	
<b>Financing arrangements – Ijarah</b>				
Balance at 1 January	1,156	-	-	1,156
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(915)	-	-	(915)
Net financial assets originated or purchased	7,001	93	1,821	8,915
Financial assets that have been derecognised	-	-	-	-
Write offs	-	-	-	-
Recoveries	-	-	-	-
	<u>7,364</u>	<u>93</u>	<u>1,821</u>	<u>9,156</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL (Continued)

Loss allowance	31 December 2019			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
In KShs'000				
Financing arrangements – off balance sheet commitments (Note 27)				
Balance at 1 January	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net financial assets originated or purchased	122	-	-	122
Financial assets that have been derecognised	-	-	-	-
Write offs	-	-	-	-
Recoveries	-	-	-	-
Balance at 31 December	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>

\* The loss allowance in these tables includes ECL on off balance sheet financing arrangement commitments because the Bank cannot separately identify the ECL on the off balance sheet commitment component from those on the financial instrument component.

The Bank has carried out an assessment of the expected credit losses arising from the Bank's cash and balances with central bank, balances due from banking institutions and other assets and determined these to be immaterial. The credit losses have therefore not been recorded in these financial statements.

The ECL on financing arrangements and off balance sheet commitments are presented in financing arrangements and other liabilities respectively in the statement of financial position.

The following table provides a reconciliation between:

- Amounts shown in the above tables reconciling opening and closing balances of loss allowance for financing arrangements.
- The 'Impairment provision on financing assets' line item in the statement of profit or loss and other comprehensive income.



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL (Continued)

31 December 2019

In KShs'000	Financing arrangements- Murabaha at amortised cost	Financing arrangements - Ijarah at amortised cost	Off balance sheet commitments	Total
Net re-measurement of loss allowance	19,747	(364)	-	19,383
Net financial assets originated or purchased	13,409	9,815	233	23,457
Financial assets that have been derecognised	(2,147)	(2,805)	-	(4,952)
	<u>31,009</u>	<u>6,646</u>	<u>233</u>	<u>37,888</u>

31 December 2018

In KShs'000	Financing arrangements- Murabaha at amortised cost	Financing arrangements - Ijarah at amortised cost	Off balance sheet commitments	Total
Net re-measurement of loss allowance	15	(93)	122	(656)
Net financial assets originated or purchased	12,502	8,939	-	21,441
Financial assets that have been derecognised	(124)	-	-	(124)
	<u>12,393</u>	<u>8,146</u>	<u>122</u>	<u>20,661</u>

Offsetting financial assets and financial liabilities

There are no financial assets and financial liability amounts in the statement of financial position that have been offset in these financial statements.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL (Continued)

Monitoring concentration risk

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2019 KShs'000	2019 %
<b>Concentration by Sector - 2019</b>		
Energy	645,656	13
Manufacturing	15,509	0
Real estate	1,102,947	21
Wholesale and retail trade	1,627,003	32
Transport and communication	1,070,437	21
Others	664,665	13
	<hr/>	<hr/>
Total gross financing arrangements	5,126,217	100
	<hr/> <hr/>	<hr/> <hr/>
	2018 Ksh'000	2018 %
<b>Concentration by Sector - 2018</b>		
Manufacturing	37,542	2
Real estate	102,420	5
Wholesale and retail trade	1,162,415	54
Transport and communication	302,374	14
Others	550,068	25
	<hr/>	<hr/>
Total gross financing arrangements	2,154,819	100
	<hr/> <hr/>	<hr/> <hr/>

Monitoring concentration risk

The Bank's other exposures to credit risk relates to:

	2019 KShs'000	2019 %
Cash and balances with Central Bank	1,134,963	55
Balances due from Banking institutions	921,441	44
Other receivables	20,531	1
	<hr/>	<hr/>
	2,076,935	100
	<hr/> <hr/>	<hr/> <hr/>

# DIB BANK KENYA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

#### Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's treasury unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business.

Treasury then maintains a portfolio of short-term liquid assets, largely made up of deposits and balances due from Banking institutions and other inter-Company facilities, to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of business units are met through short-term financing arrangements from treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

#### Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

For this purpose, net liquid assets are considered as including cash and cash equivalents and other liquid assets. Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

#### Exposure to liquidity risk – continued

	2019	2018
	%	%
Average for the period	29.4	50.6
Maximum for the period	37.2	61.9
Minimum for the period	22.8	31.8
	====	====

The following are the residual contractual maturities of assets and liabilities.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Residual contractual maturities of assets and liabilities

31 December 2019	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
<b>Assets</b>					
Cash and balances with Central Bank	1,134,963	-	-	-	1,134,963
Balances with other Companies	921,441	-	-	-	921,441
Financing arrangements	1,294,923	332,663	598,606	2,838,977	5,065,169
Other assets	-	-	20,531	-	20,531
<b>Total financial assets</b>	<b>3,351,327</b>	<b>332,663</b>	<b>619,137</b>	<b>2,838,977</b>	<b>7,142,104</b>
<b>Liabilities</b>					
Customer deposits	4,461,653	1,649,894	-	-	6,111,547
Balances with banks	400,359	-	-	-	400,359
Due to related parties	2,975	-	-	-	2,975
Other liabilities	310,969	-	-	-	310,969
<b>Total financial liabilities</b>	<b>5,175,956</b>	<b>1,649,894</b>	<b>-</b>	<b>-</b>	<b>6,825,850</b>
	<u>(1,824,627)</u>	<u>(1,317,231)</u>	<u>619,137</u>	<u>2,838,977</u>	<u>316,254</u>

\* The Bank reported a negative short-term liquidity resulting from maturity differences between net liquid assets and short-term liabilities. To address this, the Bank has put in place a contingent liquidity management plan, including a credit line of USD 12.5m with the parent company from which it can draw on a need basis to mitigate short-term liquidity mismatches.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk – continued

31 December 2018	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
<b>Assets</b>					
Cash and balances with Central Bank	519,857	-	-	-	519,857
Balances with other Companies	1,008,732	-	-	-	1,008,732
Financing arrangements	819,453	11,898	645,098	655,209	2,131,658
Other assets	-	-	17,493	-	17,493
<b>Total financial assets</b>	<b>2,348,042</b>	<b>11,898</b>	<b>662,591</b>	<b>655,209</b>	<b>3,677,740</b>
<b>Liabilities</b>					
Customer deposits	2,818,105	379,754	-	-	3,197,859
Due to related parties	13,000	-	-	-	13,000
Other liabilities	94,373	-	-	-	94,373
<b>Total financial liabilities</b>	<b>2,925,478</b>	<b>379,754</b>	<b>-</b>	<b>-</b>	<b>3,305,232</b>
	<u>( 577,436)</u>	<u>(367,856)</u>	<u>662,591</u>	<u>655,209</u>	<u>372,508</u>

(c) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in ALCO. Risk management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The Bank is primarily exposed to currency risk. Due to the nature of the Bank's current products, the exposure to any other market risk is minimal.

(d) Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below summarises the foreign currency exposure as at 31 December 2019 and 31 December 2018:

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk

	2019 KShs'000	2018 KShs'000
Assets in foreign currencies	2,654,012	1,251,723
Liabilities in foreign currencies	(2,674,447)	(1,237,946)
	<hr/>	<hr/>
Net foreign currency exposure	<u>(20,435)</u>	<u>13,777</u>

The table below analyses the currencies to which the Bank is exposed at 31 December 2019 and 31 December 2018:

Assets	USD KShs'000	EUR KShs'000	GBP KShs'000	AED KShs'000	ZAR KShs'000	INR KShs'000	Total KShs'00
Cash on hand	66,134	5,287	5,181	4	-	-	76,606
Deposits and balances due from Banking institutions	1,426,221	438	45,819	13,020	166	1,052	1,486,716
Financing arrangements	1,090,568	-	-	-	-	-	1,090,568
Other assets	99	8	3	12	-	-	122
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total foreign currency assets</b>	<b>2,583,022</b>	<b>5,733</b>	<b>51,003</b>	<b>13,036</b>	<b>166</b>	<b>1,052</b>	<b>2,654,012</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Customer deposits Due from other Banking institutions	2,505,216	51	50,004	12,124	-	-	2,567,395
Other liabilities	107,029	11	4	8	-	-	107,052
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total foreign currency liabilities</b>	<b>2,612,245</b>	<b>62</b>	<b>50,008</b>	<b>12,132</b>	<b>-</b>	<b>-</b>	<b>2,674,447</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Exposure as at 31 December 2019</b>	<b><u>(29,223)</u></b>	<b><u>5,671</u></b>	<b><u>995</u></b>	<b><u>904</u></b>	<b><u>166</u></b>	<b><u>1,052</u></b>	<b><u>(20,435)</u></b>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (Continued)

Assets	USD KShs'000	EUR KShs'000	GBP KShs'000	AED KShs'000	ZAR KShs'000	Total KShs'000
Cash on hand	168,614	3,808	4,437	798	-	177,657
Deposits and balances due from Banking institutions	469,957	3,069	21,948	9,882	93	504,949
Financing arrangements	569,028	-	-	-	-	569,028
Other assets	62	6	6	15	-	89
<b>Total foreign currency assets</b>	<b>1,207,661</b>	<b>6,883</b>	<b>26,391</b>	<b>10,695</b>	<b>93</b>	<b>1,251,723</b>
Customer deposits Due from other Banking institutions	1,160,706	151	26,160	9,948	-	1,196,965
Other liabilities	-	-	-	-	-	-
	40,977	2	2	-	-	40,981
<b>Total foreign currency liabilities</b>	<b>1,201,683</b>	<b>153</b>	<b>26,162</b>	<b>9,948</b>	<b>-</b>	<b>1,237,946</b>
<b>Exposure as at 31 December 2018</b>	<b>5,978</b>	<b>6,730</b>	<b>229</b>	<b>747</b>	<b>93</b>	<b>13,777</b>

The following significant exchange rates were applied during the year.

Currency	Closing		Average	
	2019	2018	2019	2018
USD	101.34	101.75	102.01	101.20
GBP	132.94	128.87	130.15	135.19
EUR	113.37	116.31	114.21	119.56
AED	27.59	27.70	27.77	27.55
ZAR	7.19	7.07	7.06	7.69

There was no currency exposure for the period and therefore no probable sensitivity in the Bank's profit before tax.

(e) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Risk.

## DIB BANK KENYA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 4 FINANCIAL RISK MANAGEMENT (Continued)

##### (f) Capital management

The Bank's objective when managing capital (regulatory capital) is to comply with the capital requirements as set out by the Central Bank of Kenya and safeguard the Bank's ability to continue as a going concern as well as maintaining a strong capital base to support the development of its business.

Under the regulatory environment, the Central Bank of Kenya requires every financial institution to:

- (a) Maintain a minimum capital of Shs 1,000 million (2018 – Shs 1,000 million).
- (b) Maintain a core capital of not less than 8% (2018 – 8%) of total deposit liabilities.
- (c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2018 – 10.5%) and
- (d) Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2018 – 14.5%).

The Bank is compliant with all the above requirements.

The Bank calculates capital adequacy ratios for credit risk, market risk and operational risk based upon Basel requirements and the prudential guidelines as issued by the Central Bank of Kenya.

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.

Credit risk weights 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. This treatment is also adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

Operational risk weighted assets is computed using the basic indicator approach which is based on the average gross revenue over the prior 3 year period.

Market risk weighted assets is computed using a standardised approach based on the foreign exchange exposure as at 31 December each year.

The Bank's regulatory capital is analysed into two tiers:

- Core capital (Tier 1), which includes ordinary share capital, share premium, and retained earnings.
- Supplementary capital (Tier 2), which includes statutory credit risk reserve and any other approved reserves.



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

The Bank's regulatory capital position at 31 December was as follows:

	2019	2018
	KShs'000	KShs'000
<b>Core capital (Tier 1)</b>		
Paid up share capital	4,499,869	3,864,494
Funds awaiting allotment of shares		-
Retained earnings	(1,932,905)	(1,294,913)
Net after tax losses	(571,658)	(625,754)
	<hr/>	<hr/>
	2,001,891	1,943,827
Deferred tax	(992,962)	(769,491)
	<hr/>	<hr/>
<b>Core capital</b>	1,002,344	1,174,336
Supplementary capital (Tier 2)	13,670	1,433
	<hr/>	<hr/>
<b>Total capital</b>	<u>1,016,014</u>	<u>1,175,769</u>
On balance sheet risk weighted assets	6,682,458	3,858,022
Off balance sheet risk weighted assets	156,623	74,006
	<hr/>	<hr/>
<b>Total risk weighted assets</b>	<u>6,839,081</u>	<u>3,932,028</u>
<b>Capital adequacy ratios</b>	<b>2019</b>	<b>2018</b>
Percentage of Core Capital to Risk Weighted Asset ratio	14.7%	29.9%
Minimum requirement	10.5%	10.5%
Percentage of Total Capital to Risk Weighted Asset ratio	15.9%	29.9%
Minimum requirement	14.5%	14.5%
Percentage of Core Capital to Deposits ratio	16.4%	36.7%
Minimum requirement	8.0%	8.0%

**Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk Management Committee and is subject to review by the Credit Committee or Assets and Liability Management Committee as appropriate.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

(g) Financial assets and liabilities and their fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

31 December 2019	Note	Amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Cash and balances with Central Bank	11	1,134,963	1,134,963	1,134,963
Balances due from banking institutions	12	921,441	921,441	921,441
Financing arrangements	13	5,065,169	5,065,169	5,065,169
Other assets	15	123,828	123,828	123,828
<b>Total financial assets</b>		<b>7,245,401</b>	<b>7,245,401</b>	<b>7,245,401</b>
Customer deposits	21	6,111,547	6,111,547	6,111,547
Other liabilities	23	313,944	313,944	313,944
Lease liabilities	22	153,091	153,091	153,091
<b>Total financial liabilities</b>		<b>6,578,582</b>	<b>6,578,582</b>	<b>6,578,582</b>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT (Continued)

(g) Financial assets and liabilities and their fair values (continued)

31 December 2018	Note	Amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Cash and balances with Central Bank	11	519,857	519,857	519,857
Balances due from banking institutions	12	1,008,732	1,008,732	1,008,732
Financing arrangements	13	2,131,658	2,131,658	2,131,658
Other assets	15	17,493	17,493	17,493
<b>Total financial assets</b>		<b>3,677,740</b>	<b>3,677,740</b>	<b>3,677,740</b>
Customer deposits	21	3,197,859	3,197,859	3,197,859
Other liabilities	23	107,373	107,373	107,373
<b>Total financial liabilities</b>		<b>3,305,232</b>	<b>3,305,232</b>	<b>3,305,232</b>

The fair value of the Bank's financial assets and liabilities approximate their carrying amounts as the financial assets are repriced annually in line with the Central Bank of Kenya rates which represents the market rate.

5 INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2019 KShs'000	2018 KShs'000
Income from financing arrangements	408,835	130,716
Income from investing assets - placements	16,195	48,187
	<b>425,030</b>	<b>178,903</b>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 DEPOSITORS SHARE OF PROFIT

	2019 KShs'000	2018 KShs'000
Time Deposits	241,085	121,557
Savings Deposits	3,023	2,046
Interbank Deposits	14,440	3,238
	<u>258,548</u>	<u>126,841</u>

7(a) FEES AND COMMISSION INCOME

Credit related fees and commissions	3,577	33,517
Foreign exchange income	20,790	17,750
Other fees	13,024	15,173
	<u>37,391</u>	<u>66,440</u>

Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

7(b) OTHER INCOME

	2019 KShs'000	2018 KShs'000
Write back of partial recovery of Imperial Bank Limited (in Receivership) balances	16,662	16,683
Gain on disposal of asset	114	-
Other income	219	-
	<u>16,995</u>	<u>16,683</u>

8(a) PERSONNEL EXPENSES

Salaries and allowances	345,356	336,601
Other staff cost	86,026	77,902
Directors emoluments – Executive	21,960	21,809
	<u>453,342</u>	<u>436,312</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8(a) PERSONNEL EXPENSES (Continued)

The number of persons employed by the Bank as at the year-end was 118 (2018 – 114). These are as:

	2019	2018
Average number of employees	2019	2018
Senior management	15	13
Junior management and supervisors	31	34
Other staff	72	67
	<u>118</u>	<u>114</u>

8(b) OTHER OPERATING EXPENSES

	2019 KShs'000	2018 KShs'000
Insurance expenses	5,707	8,003
Legal and professional fees	6,465	10,148
Occupancy expenses	-	77,987
Directors' emoluments – Non executive	8,800	9,450
Other expenses	259,124	275,009
	<u>280,096</u>	<u>380,597</u>

9 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

Depreciation expense on property and equipment (Note 16)	79,773	107,627
Deprecation on right use asset (Note 17)	82,750	63,313
Amortisation of intangible assets (Note 18)	64,868	-
Directors' emoluments – Non executive	8,800	9,450
– executive	21,960	21,809
Auditors' remuneration	4,524	2,400

10 TAXATION

(a) Taxation credit

Current taxation based on the taxable profit for the period at 30%

Deferred taxation (credit)

(note 17):-

- current year (credit)

- prior year adjustments

-	-
(225,693)	(247,870)
2,221	299
<u>(223,472)</u>	<u>(247,571)</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 TAXATION (Continued)

	2019 KShs'000	2018 KShs'000
<b>(b) Reconciliation of taxation credit to the expected taxation based on profit before taxation</b>		
Loss before taxation	(795,130)	(873,325)
Tax at the applicable rate of 30%	(238,540)	(261,998)
Effect of expenses disallowed for taxation purposes and income not subject to taxation	12,847	14,128
Prior year over/(under) provision	2,221	299
Taxation credit	(223,472)	(241,571)

11 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Cash on hand	213,336	266,331
Balances with Central Bank of Kenya		
- Restricted balances (cash reserve ratio)	281,997	138,180
- Unrestricted balances with CBK	639,629	115,346
	921,627	253,526
	1,134,963	519,857

The cash ratio requirement is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya requirements. As at 31 December 2019 the cash reserve ratio requirement was 5.25% (2018: 5.25%) of all customer deposits. These funds are however available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3% of the requirement and provided that the overall average in the month is at least 5.25%.

	2019 KShs'000	2018 KShs'000
<b>12 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS</b>		
Placements with other banks	228,292	654,120
Deposits and other balances with banks	693,149	354,612
	921,441	1,008,732

The weighted average effective profit rate for deposits and placements with other banks at 31 December 2019 was 2.35% (2018 – 8.1%).

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13	FINANCING ARRANGEMENTS	2019 KShs'000	2018 KShs'000
	<b>Classification</b>		
	Murabaha	2,496,832	1,332,838
	Ijarah	2,629,385	821,981
		<hr/>	<hr/>
	<b>Gross financing arrangements</b>	5,126,217	2,154,819
	Impairment provisions	(61,049)	(23,161)
		<hr/>	<hr/>
	<b>Net financing arrangements</b>	5,065,169	2,131,658
		<hr/> <hr/>	<hr/> <hr/>
	<b>Repayable within:</b>		
	Less than 3 months	1,317,169	829,982
	3 months to 1 year	335,899	12,018
	1 to 5 years	1,298,128	652,571
	Over 5 years	2,175,021	660,272
		<hr/>	<hr/>
		5,126,217	2,154,843
		<hr/> <hr/>	<hr/> <hr/>
14	<b>PROVISION FOR IMPAIRMENT LOSSES</b>		
	a) Impairment losses on financing arrangements		
	At 1 January	23,161	2,500
	Net re-measurement of loss allowance	19,383	(778)
	Net financing arrangements originated	23,457	21,563
	Financing arrangements derecognised	(4,952)	(124)
		<hr/>	<hr/>
	At 31 December	61,049	23,161
		<hr/> <hr/>	<hr/> <hr/>
	b) Total impairment losses on financing arrangements are classified as follows:-		
	Impairment losses on Murabaha	44,892	13,883
	Impairment losses on Ijarah	15,924	9,156
	Impairment losses on off-balance sheet commitments	233	122
		<hr/>	<hr/>
		61,049	23,161
		<hr/> <hr/>	<hr/> <hr/>
15	<b>OTHER ASSETS</b>		
	Deposit	20,531	17,493
	Prepayment	103,296	103,498
	Prepaid operating lease rentals	-	6,163
		<hr/>	<hr/>
		123,827	127,154
		<hr/> <hr/>	<hr/> <hr/>



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT

	Leasehold Improvements KShs'000	Equipment Furniture and fittings KShs'000	Motor Vehicles KShs'000	Work in progress KShs'000	Total KShs'000
<b>COST</b>					
At 1 January 2018	260,169	297,610	6,734	691	565,204
Additions	-	13,669	-	1,054	14,723
Transfers	-	796	-	(796)	-
At 31 December 2018	260,169	312,075	6,734	949	579,927
At 1 January 2019	260,169	312,075	6,734	949	579,927
Additions	10,730	23,374	-	(949)	33,155
Disposals	-	(141)	-	-	(141)
At 31 December 2019	270,899	335,308	6,734	-	612,941
<b>DEPRECIATION</b>					
At 1 January 2018	41,556	183,568	3,084	-	228,208
Charge for the year	43,361	62,582	1,684	-	107,627
At 31 December 2019	84,917	246,150	4,768	-	335,835
At 1 January 2019	84,917	246,150	4,768	-	335,835
Charge for the year	43,655	34,434	1,684	-	79,773
Disposal	-	(141)	-	-	(141)
At 31 December 2019	128,572	280,443	6,452	-	415,467
<b>NET BOOK VALUE</b>					
At 31 December 2019	142,327	54,865	282	-	197,474
At 31 December 2018	175,252	65,925	1,966	949	244,092

Included in equipment are computer hardware assets with a cost value of KShs 182,602,649 which were fully depreciated as at 31 December 2019 (2018 – 156,323,254). The notional depreciation for the fully depreciated assets was KShs 81,263,421 (2018 – 23,886,530).



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RIGHT-OF-USE ASSET

The Bank leases office space for its use. Information about the leases in which the Bank is a lessee is presented below:

	2019 KShs'000
<b>COST</b>	
At start of year	-
Additions/lease asset recognised	232,513
	<hr/>
At the end of the year	232,513
	<hr/>
<b>DEPRECIATION</b>	
At start of year	-
Charge for the year	82,750
	<hr/>
At the end of the year	82,750
	<hr/>
<b>NET BOOK VALUE</b>	
At end of year	<u>149,763</u>

The maturity analysis of lease liabilities is presented in note 22

**Amounts recognised in profit and loss**

<b>COST</b>	
Depreciation expense on right-of-use assets	82,750
Finance charge on lease liabilities	17,280
	<hr/>
At the end of the year	<u>100,030</u>

At 31 December 2019, the Bank is committed to KShs nil (2018: KShs nil) for short-term leases

All of the property leases in which the Bank is the lessee contain only fixed payments.

The total cash outflow for leases amount to KShs 90.5 million (2018: KShs nil).

There are no extension or termination options on the leases.

There are no restrictions or covenants imposed by leases and the Bank did not enter into any sale and leaseback transactions during the year (2018: KShs nil)

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Intangible assets KShs'000	Total KShs'000
<b>COST</b>		
At 1 January 2018	527,344	527,344
Additions	20,336	20,336
	<hr/>	<hr/>
At 31 December 2018	547,680	547,680
	<hr/>	<hr/>
At 1 January 2019	547,680	547,680
Additions	17,558	17,558
	<hr/>	<hr/>
At 31 December 2019	565,238	565,238
	<hr/>	<hr/>
<b>AMORTISATION</b>		
At 1 January 2018	34,737	34,737
Charge for the year	63,313	63,313
	<hr/>	<hr/>
At 31 December 2018	98,050	98,050
	<hr/>	<hr/>
At 1 January 2019	98,050	98,050
Charge for the year	64,868	64,868
	<hr/>	<hr/>
At 31 December 2019	162,918	162,918
	<hr/>	<hr/>
<b>NET BOOK VALUE</b>		
At 31 December 2019	402,319	402,319
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2018	449,630	449,630
	<hr/> <hr/>	<hr/> <hr/>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 DEFERRED TAXATION

	2019 KShs'000	2018 KShs'000
The deferred tax asset, computed at the enacted rate of 30%, is attributable to the following items:		
Accelerated capital allowances	61,172	58,844
Provisions for impairment	(18,315)	(6,992)
Tax losses	(1,035,819)	(820,943)
	<u>(992,962)</u>	<u>(769,491)</u>
The movement on the deferred tax asset account is as follows:		
As at 1 January	(769,491)	(521,470)
Credit for the year	(225,692)	(247,870)
Prior year under provision	2,221	299
Recognised in equity on IFRS 9 adoption	-	(450)
	<u>(992,962)</u>	<u>(769,491)</u>
At 31 December	<u>(992,962)</u>	<u>(769,491)</u>

The Bank has operated for 2 year and 7 months as at 31 December 2019 and during this time, it has distinguished itself through delivery of value to its clients. The Bank is also offering its clients competitive financing rates in foreign currency and flexible repayment period in a bid to grow its business. These strategies are expected to translate into increased revenue as well as operational synergies that will result in improved profitability for the Bank. The management forecasts that these strategies will begin to bear fruit and derive profitability in the near future. Additionally, the current tax laws, allows an institution to use tax credits against future tax liabilities provided its within 10 years from the year in which they arose. On the foregoing, the management considers it prudent to recognise the deferred tax asset of Kshs 992,962,000 in its balance sheet.

The ageing of tax losses for the Bank is as follows:

Year of origin	Amount in KShs '000	Year of expiry
2015	441,449	2024
2016	689,856	2025
2017	805,443	2026
2018	799,730	2027
2019	706,848	2028
	<u>3,443,326</u>	
Total	<u>3,443,326</u>	

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20	BALANCES DUE TO BANKING INSTITUTIONS	2019 KShs '000	2018 KShs '000
	Deposits from banking institutions due within 12 months	400,359	-
		<u>=====</u>	<u>=====</u>
21	CUSTOMER DEPOSITS		
	Time deposits	4,537,305	1,226,879
	Current accounts deposits	1,453,785	1,910,815
	Savings accounts deposits	120,457	60,165
		<u>-----</u>	<u>-----</u>
		<u>6,111,547</u>	<u>3,197,859</u>
		<u>=====</u>	<u>=====</u>
22(a)	LEASE LIABILITY		
	Amounts due for settlement within 12 months	99,151	-
	Amounts due for settlement after 12 months	53,940	-
		<u>-----</u>	<u>-----</u>
		<u>153,091</u>	<u>-</u>
		<u>=====</u>	<u>=====</u>
22(b)	LEASE LIABILITY		
	<b>Maturity Analysis</b>		
	Year 1	102,834	-
	Year 2	32,426	-
	Year 3	14,935	-
	Year 4	11,986	-
	Year 5	13,836	-
	Onwards	2,914	-
		<u>-----</u>	<u>-----</u>
		<u>178,931</u>	<u>-</u>
		<u>=====</u>	<u>=====</u>
22(c)	LEASE LIABILITY RECONCILIATION		
	Undiscounted future minimum lease payments under operating leases		260,290
	Leases not yet commenced in Jan 1 2019		(81,941)
	Effect of discounting		(25,258)
			<u>-----</u>
	Total lease liabilities at year end		<u>153,091</u>
			<u>=====</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	KShs '000	KShs '000
<b>23 OTHER LIABILITIES</b>		
Accruals	51,017	32,954
Due to related parties	2,975	13,000
Deferred fee income	11,280	-
Other payables	248,672	61,541
	<u>313,944</u>	<u>107,495</u>
<b>24 SHARE CAPITAL</b>		
<b>a) Authorised, issued and fully paid:</b>		
At 1 January 2019 3,864,494 (2018: 2,000,000) ordinary shares of Shs 1,000 each	3,864,494	2,000,000
Issue of shares during the year – 635,375(2018:1,303,224) ordinary shares at sh. 1000	635,375	1,303,224
Transfer from shares awaiting allotment – Nil (2018:561,270)	-	561,270
	<u>4,499,869</u>	<u>3,864,494</u>
<b>b) Statutory credit risk reserve</b>		
This represents an amount set aside to cover additional provisions for credit losses required to comply with the requirements of Central Bank of Kenya Prudential Guidelines. The amount is not available for distribution. The reserve balance as at 31 December 2019 was KShs 13,670,646 (2018 – KShs 1,433,034).		
<b>25 NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<b>(a) Reconciliation of profit before taxation to cash generated from operations</b>		
	2019	2018
	KShs'000	KShs'000
Loss before taxation	(795,130)	(873,325)
Adjustments for:		
Depreciation	79,773	107,627
Depreciation of right of use asset	82,750	-
Amortization of intangible assets	64,868	63,313
Finance charge on lease liabilities	(17,280)	-
	<u>(585,019)</u>	<u>(702,385)</u>
Working capital changes:		
Increase in balances held by Central Bank of Kenya under lien	(143,816)	(99,340)
Decrease/(increase) in financing arrangements	(2,933,511)	(1,841,037)
Decrease/(increase) in other assets	3,327	(29,523)
Increase/(decrease) in customer deposits	2,913,688	2,016,438
Decrease in balances due to banking institutions	400,359	(103,337)
(Decrease)/increase in other liabilities	206,449	50,784
Changes due to IFRS 9 Day 1 adjustment	-	(1,500)
	<u>(138,523)</u>	<u>(709,900)</u>
Cash used in operations	<u>(138,523)</u>	<u>(709,900)</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	BANK	
	2019	2018
	KShs'000	KShs'000
<b>(b) Analysis of balances of cash and cash equivalents as shown in the financial position and notes</b>		
Cash on hand (note 11)	213,336	266,331
Deposits and balances due from banking institutions (note 12)	921,441	1,008,732
Current account with Central Bank of Kenya (note 11)	639,629	115,346
	1,774,406	1,309,409
	1,774,406	1,309,409

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

26 CHARITABLE WELFARE FUND

	2019	2018
	KShs'000	KShs'000
As at January and December	1,438	1,438
	1,438	1,438
	1,438	1,438

Transfers to charitable welfare fund represents income deemed to be non-Shari'ah compliant either because it is from a non-Shari'ah compliant source or the underlying transactions had been found to be in breach of Shari'ah principles. The transfers as above have been presented within other liabilities.

27 CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS

	2019	2018
	KShs'000	KShs'000
<b>(a) Contingent liabilities</b>		
Letters of credit	42	60,356
Guarantees	152,889	13,650
Bills of collections	3,692	-
	156,623	74,006
	156,623	74,006

The contingent liabilities are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursable by customers.

(b) The Bank is committed to incur a capital expenditure of Shs.228,230,084 as at 31 December 2019 (2018 – Shs 67,185,227).

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 CONTINGENCIES AND COMMITMENTS INCLUDING OFF FINANCIAL POSITION ITEMS (Continued)

(c) Commitments to extend credit

Commitments to enter into financial agreements to finance a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw without incurring any charges from its contractual obligation to extend credit by giving reasonable notice to the customer.

(d) Operating lease arrangements

*The bank as a lessee*

At the financial position date, the bank had outstanding commitments under operating leases which fall due as follows:

	2019 KShs'000	2018 KShs'000
Within one year	102,834	83,173
In the second to fifth year inclusive	76,097	177,117
	<u>178,931</u>	<u>260,290</u>

28 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 financial or operational decisions.

Placements at 31 December 2019 include placements made in the Bank by directors, their associates and companies associated to directors. Advances to customers and deposits at 31 December 2019 include financing facilities and advances to companies associated to directors and employees of the bank and, also deposits held with related parties respectively.

	Directors' associated companies		Employees/staff	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Movement in related party balances was as follows:				
<i>Deposits:</i>				
At 1 January	28,522	2,633	6,190	26,240
Net movement during the year	20,977	25,889	6,688	(20,050)
	<u>49,499</u>	<u>28,522</u>	<u>12,878</u>	<u>6,190</u>
Profit paid	<u>2,218</u>	<u>1,100</u>	<u>2,743</u>	<u>1,206</u>
			2019 KShs'000	2018 KShs'000
<i>Related parties</i>				
Dubai Islamic Bank PJSC			<u>2,975</u>	<u>13,000</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 RELATED PARTY TRANSACTIONS (Continued)

The related parties' transactions with Dubai Islamic Bank PJSC relate to reimbursement of travel expenses incurred by DIB Kenya and paid for by the parent company.

**Key management compensation**

The remuneration of directors and other members of key management during the year were as follows:

	2019 KShs'000	2018 KShs'000
Key management salaries and other benefits	142,656	128,361
Directors emoluments	8,800	9,450
	<u>151,456</u>	<u>137,811</u>

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of the individuals and market trends.

29 FIDUCIARY ACTIVITIES

At 31 December 2019, the Bank did not hold any asset security documents on behalf of customers (2018: none).

30 COUNTRY OF INCORPORATION

The Bank is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The holding company is Dubai Islamic Company PJSC which is incorporated in United Arab Emirates.

31 CURRENCY

The financial statements are presented in Kenya Shillings thousands (KShs '000), the Bank's functional and presentation currency.

32 EVENTS AFTER REPORTING PERIOD

There are no significant events after the reporting period which have been reported in these financial statements.