

DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2020

DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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DIB BANK KENYA LIMITED

CORPORATE INFORMATION

DIRECTORS	Dr. Adnan Chilwan	- Chairman
	Mr Peter Makau	- Managing Director/(CEO)
	Dr. Steve Mainda	- Non-Executive Director
	Mr Michael Murphy	- Non-Executive Director
	Mr Mohamed Al Nahdi	- Non-Executive Director - Resigned on 16 June 2020
	Mr Mohamed Al Sharif	- Non-Executive Director
AUDIT COMMITTEE	Michael Murphy	- Chairperson
	Dr. Steve Mainda	
	Mohamed Al Sharif	
CREDIT COMMITTEE	Dr. Steve Mainda	- Chairperson
	Michael Murphy	
	Mr Mohamed Al Sharif	
RISK AND IT COMMITTEE	Michael Murphy	- Chairperson
	Dr. Steve Mainda	
	Mohamed Al Nahdi	- Resigned on 16 June 2020
	Mohamed Al Sharif	- Appointed on 16 June 2020
BOARD NOMINATIONS AND REMUNERATION COMMITTEE	Dr. Steve Mainda	- Chairperson
	Michael Murphy	
	Mohamed Al Nahdi	- Resigned on 16 June 2020
	Mohamed Al Sharif	- Appointed on 16 June 020
BANK 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	
AUDITOR	KPMG Kenya	
	Certified Public Accountants	
	8th Floor, ABC Towers	
	Waiyaki Way	
	P.O Box 40612 – 00100	
	Nairobi, Kenya	

DIB BANK KENYA LIMITED

CORPORATE INFORMATION (CONTINUED)

LEGAL ADVISERS

Dentons Hamilton Harrison & Mathews
Delta Office Suites
P.O Box 30333 – 00100
Nairobi, Kenya

Mohammed & Muigai Advocates
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K-Rep Centre, Wood Avenue
Off Lenana Road, Kilimani
P.O Box 61323 – 00200
Nairobi, Kenya

Kuria Rimui and Kamau Advocates LLP
Britam Tower (7th Floor)
Hospital Road, Upperhill
P.O Box 6463 – 00100
Nairobi, Kenya

**PRINCIPAL CORRESPONDENT
BANKS**

New York	Barclays Bank Plc
Frankfurt	Barclays Bank Frankfurt
Dubai	Dubai Islamic Bank PJSC
Johannesburg	ABSA Bank
USA	JP Morgan Chase Bank
India	SBM Bank India

DIB BANK KENYA LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 31 DECEMBER 2020**

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020, 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”).

1. Incorporation

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

2. Activities

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

3. Bank results

The following is the summary of the results for the year ended 31 December 2020:

	2020	2019
	KShs'000	KShs'000
Loss before tax	(692,714)	(795,130)
Income tax credit	<u>190,749</u>	<u>223,472</u>
Loss after tax	<u>(501,965)</u>	<u>(571,658)</u>

4. Business review

External environment

The year 2020 saw the outbreak of the global Covid-19 pandemic which has negatively impacted the world economy leading to a Global economic recession as a result of the global lockdown. The Bank responded to this unprecedented crisis by adopting a selective business growth strategy that mitigated on the depressed business environment which nonetheless yielded a 73% year on year growth in Financing Assets. Non-performing loans were contained through careful selection of financing and timely restructures in line with the guidelines provided by the Central Bank of Kenya as part of the monetary measures deployed to manage the economic impact of the crisis.

The Bank's performance

The Bank reported a loss before tax of KShs 693 million (2019 – KShs 795 million) representing a 13% improvement from prior year. Income from financing and investing activities grew by 69% to KShs 718 million from KShs 425 million in 2019.

Financing assets grew by 71% to KShs 8.7 billion from KShs 5.1 billion with customer deposits growing by 66% to KShs 10.1 billion from KShs 6.1 billion.

The focus by the Bank on the quality of the financing arrangements book saw the ratio of non-performing financing arrangements at the end of the year close at 1.4% compared to 13.1% for the Kenyan banking sector as at June 2020.

DIB BANK KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of DIB Bank Kenya Limited set out on pages 13 to 79 which comprise the statement of financial position at 31 December 2020 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting and significant accounting policies described in Note 2 is an acceptable basis for preparing and fairly presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank and of its profit or loss and cash flows.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements set out on pages 13 to 79 were approved and authorised for issue by the Board of Directors on 30 March 2021



Director
Peter Makau



Director
Michael Murphy

30 March 2021



KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
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Nairobi, Kenya

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INDEPENDENT AUDITOR'S REPORT **TO THE MEMBERS OF DIB BANK KENYA LIMITED**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DIB Bank Kenya Limited (the "Bank") set out on pages 13 to 79, which comprise the statement of financial position as at 31 December 2020, 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 and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 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 ("ISAs"). 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' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our audit of the financial statements in Kenya and, we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. 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. The other information comprise information included in the *DIB Bank Kenya Limited Annual Report and Financial Statements at 31 December 2020* and 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, 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.





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

Report on the audit of the financial statements (Continued)

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 and 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.

The Directors are responsible for overseeing the Bank's financial reporting process.

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 ISAs 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.
- 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.



**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 (continued)

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.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that in our opinion, the information given in the report of the Directors on pages 3 to 5 is consistent with the financial statements.

The Signing Partner responsible for the audit resulting in this independent auditor's report is Jacob Gathecha – P/1610.

**KPMG Kenya
Certified Public Accountants
PO Box 40612 - 00100
Nairobi**

Date: 30 March 2021.

DIB BANK KENYA LIMITED

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
Income from financing and investing activities	6	718,361	425,030
Depositors share of profits	7	(503,289)	(258,548)
Net income		215,072	166,482
Fees and commission income	8(a)	122,308	37,390
Other income	8(b)	<u>166</u>	<u>16,995</u>
Operating income		337,546	220,867
Personnel expenses	9(a)	(429,762)	(453,342)
Other operating expenses	9(b)	(317,381)	(280,096)
Depreciation of property and equipment	16	(75,902)	(79,773)
Depreciation of right of use asset	17(a)	(88,063)	(82,750)
Amortization of intangible assets	18	(69,318)	(64,868)
Interest on lease liabilities	17(b)	(<u>14,929</u>)	(<u>17,280</u>)
Operating loss		(657,809)	(757,242)
Impairment provision on financing arrangements	14	(<u>34,905</u>)	(<u>37,888</u>)
Loss before tax		(692,714)	(795,130)
Income tax credit	10(a)	<u>190,749</u>	<u>223,472</u>
Loss for the year		(501,965)	(571,658)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		(501,965)	(571,658)

The notes set out on pages 17 to 79 form an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	11	1,104,666	1,134,963
Deposits and balances due from banking institutions	12	1,518,722	921,441
Financing arrangements	13	8,746,618	5,065,169
Other assets	15	138,871	123,827
Property and equipment	16	140,324	197,474
Right-of-use asset	17(a)	64,223	149,763
Intangible assets	18	366,209	402,319
Deferred taxation asset	19	<u>1,183,711</u>	<u>992,962</u>
TOTAL ASSETS		<u>13,263,344</u>	<u>8,987,918</u>
LIABILITIES			
Balances due to banking institutions	20	-	400,359
Customer deposits	21	10,149,323	6,111,547
Lease liabilities	22	65,903	153,091
Other liabilities	23	<u>201,361</u>	<u>313,944</u>
TOTAL LIABILITIES		<u>10,416,587</u>	<u>6,978,941</u>
SHAREHOLDERS' FUNDS			
Share capital	24(a)	5,839,614	4,499,869
Retained earnings		(3,035,939)	(2,504,563)
Statutory credit risk reserve	24(b)	<u>43,082</u>	<u>13,671</u>
TOTAL SHAREHOLDERS' FUNDS		<u>2,846,757</u>	<u>2,008,977</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>13,263,344</u>	<u>8,987,918</u>

The financial statements on pages 13 to 79 were approved and authorised for issue by the Board of Directors on 30 March 2021 and were signed on its behalf by:

Director
Michael Murphy

Chief Executive Officer
Peter Makau

Director
Mohamed Al Sharif

Bank Secretary
Njeri Waitimu

The notes set out on pages 17 to 79 form an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital KShs'000	Statutory credit risk reserve KShs'000	Retained earnings KShs'000	Total KShs'000
2020:				
At 1 January 2020	4,499,869	13,671	(2,504,563)	2,008,977
Total comprehensive income				
Loss for the year	-	-	(501,965)	(501,965)
Other comprehensive income				
Transfer to statutory reserve	-	29,411	(29,411)	-
Transaction with equity holders of the Bank				
Issue of shares (Note 24(a))	1,339,745	-	-	1,339,745
At 31 December 2020	5,839,614	43,082	(3,035,939)	2,846,757
	Share capital KShs'000	Statutory credit risk reserve KShs'000	Retained earnings KShs'000	Total KShs'000
2019:				
At 1 January 2019	3,864,494	1,433	(1,920,667)	1,945,260
Total comprehensive income				
Loss for the year	-	-	(571,658)	(571,658)
Other comprehensive income				
Transfer to statutory reserve	-	12,238	(12,238)	-
Transaction with equity holders of the Bank				
Issue of shares (Note 24 (a))	635,375	-	-	635,375
At 31 December 2019	4,499,869	13,671	(2,504,563)	2,008,977

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.

The notes set out on pages 17 to 79 form an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 KShs'000	2019 KShs'000
Cash flows from operating activities			
Cash used in operations	25(a)	(713,239)	(138,523)
Tax paid during the year		-	-
Payment of interest on lease liabilities	17(c)	(14,929)	(17,280)
Net cash used in operating activities		(728,168)	(155,803)
Cash flows from investing activities			
Purchase of equipment	16	(18,752)	(33,155)
Purchase of intangible assets	18	(33,208)	(17,558)
Net cash used in investing activities		(51,960)	(50,713)
Cash flows from financing activities			
Issue of share capital	24(a)	1,339,745	635,375
Lease liabilities principal payments	17(c)	(89,711)	(44,862)
Net cash generated from investing activities		<u>1,250,034</u>	<u>590,513</u>
Increase in cash and cash equivalents		469,906	383,997
Cash and cash equivalents at 1 January		<u>1,774,406</u>	<u>1,390,409</u>
Cash and cash equivalents at 31 December	25(b)	<u>2,244,312</u>	<u>1,774,406</u>

The notes set out on pages 17 to 79 form an integral part of these financial statements.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020**

1. REPORTING ENTITY AND DEFINATIONS OF BANK'S PRODUCTS

DIB Bank Kenya Limited is a limited company domiciled in Kenya, registered under the Kenyan Companies Act, 2015 and was incorporated on 15 August 2014. The Bank's registered office is as shown on page 1.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in a manner required by the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income in these financial statements.

(b) Basis of measurement

The financial statements are prepared under the historical cost basis of accounting. Details of significant accounting policies are indicated in Note 4.

(c) Functional and presentation currency

The financial statements are presented in Kenya shillings (KShs), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand unless otherwise indicated.

(d) Going concern

Bank's financial performance

The Bank incurred a loss before tax of KShs 692,714,000 during the year ended 31 December 2020 (2019 – KShs 795,130,000) and as at that date it had retained earnings deficit of KShs 3,035,938,000 (2019 – KShs 2,504,563,000 deficit).

The Bank had operated for 3 years and 7 months as at 31 December 2020 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 lending 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 Bank's management forecasts that these strategies will begin to bear fruit and achieve profitability in the near future. The parent Bank, 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.

The Directors have made an assessment of the Bank ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future. The parent Bank has committed to continue providing support to the Bank to meet its obligations in the foreseeable future. As a result, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

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

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2. BASIS OF PREPARATION (Continued)

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Application of new and revised IFRSs

(i) *New Standards and interpretations effective and early adopted during the year*

The Bank adopted the following new standards and amendments during the year ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2020. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

The above standards adopted in 2020 did not have a significant impact on the Bank's financials statements for the year.

(ii) *Standards and interpretations not yet effective for the year ended 31 December 2020*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these financial statements. The Bank does not plan to adopt these standards early. These are summarised below;

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) *Standards and interpretations not yet effective for the year ended 31 December 2020 - continued*

New standard or amendments	Effective for annual periods beginning on or after
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020
Interest rate benchmark reform-phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	1 January 2021
Onerous contracts: Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Annual improvements to IFRS standards 2018-2020	1 January 2022
Reference to Conceptual Framework (Amendments to IFRS 3)	1 January 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	Available for optional adoption/ effective date deferred indefinitely

The above standards are not expected to have a significant impact on the Bank's financial statements.

(b) Revenue recognition

(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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (continued)

(i) *Income from financing arrangements and investing activities - continued*

Effective Interest rate

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.

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.

(c) Foreign currencies

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
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 assets.

(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, depreciation method 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.

(e) Intangible assets

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

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets (continued)

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.

(f) Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

(i) Current tax

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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for: – 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 the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and – taxable temporary differences arising on the initial recognition of goodwill.



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Taxation (continued)

(ii) *Deferred tax – continued*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. 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; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

(e) Financial instruments

(i) *Recognition and Initial Measurement*

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) *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:

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(i) Classification - continued

- 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.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments - continued

(i) Classification - continued

Fair Value through Profit or Loss (FVTPL) - continued

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.

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

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 lending 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(i) *Classification - continued*

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

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 lending 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.

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;

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(i) *Classification - continued*

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

Business model assessment - continued

- 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

(iii) 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.

(iv) 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.

(v) 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.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(vi) 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments (continued)

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

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.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments – continued

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

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.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL: – financial assets that are debt instruments; – lease receivables; – financial guarantee contracts issued; and – loan commitments issued. No impairment loss is recognised on equity investments.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments – continued

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

Measurement of ECLs - continued

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as ‘Stage 1 financial instruments’. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure.

Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as ‘Stage 2 financial instruments’. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as 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: as the difference between the gross carrying amount and the present value of estimated future cash flows;

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments – continued

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

Measurement of ECLs - continued

- undrawn loan commitments: as 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 expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
 - POCI assets: a credit-adjusted effective interest rate;
 - lease receivables: the discount rate used in measuring the lease receivable;
 - undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
 - financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments – continued

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as ‘Stage 3 financial assets’).

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market’s assessment of creditworthiness as reflected in bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as ‘lender of last resort’ to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.



DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial instruments – continued

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

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

(f) 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of non-financial assets (continued)

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.

(g) 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.

(h) 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.

(i) Employee benefits

(i) 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.

(ii) Post-employment benefits obligations

The Bank contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme to which the Bank's obligation is limited to a specified contribution per employee per month. Currently the Bank's contribution is limited to KShs 200 per employee per month and is charged in the profit and loss in the year to which it relates.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) 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.

(l) 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.

(m) Share capital

Incremental costs that are directly attributable to the issue of equity instrument, net of any taxes are deducted from the initial measure of the equity instrument.

(n) 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.

(o) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (continued)

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities are presented as a line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. 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:

(a) 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

(a) Critical accounting judgements in applying the Bank's policies (continued)

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.

(b) 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 the Probability of default of different segments.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

(b) Key sources of estimation uncertainty (continued)

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.

Property and equipment

Critical estimates are made by the Directors in determining the useful life and depreciation rates for property and equipment.

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.

5. 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

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.

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.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

- *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.
- *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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality - continued

At 31 December 2020	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements – Murabaha				
Normal	3,540,702	-	-	3,540,702
Watch	-	162,895	-	162,895
Non-performing	-	-	64,333	64,333
	<u>3,540,702</u>	<u>162,895</u>	<u>64,333</u>	<u>3,767,930</u>
Loss allowance (Note 14(b))	(581)	(14,675)	(56,607)	(71,863)
Carrying amount	<u>3,540,121</u>	<u>148,220</u>	<u>7,726</u>	<u>3,696,067</u>
At 31 December 2020	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements – Ijarah				
Normal	4,460,491	-	-	4,460,491
Watch	-	553,277	-	553,277
Non-performing	-	-	60,186	60,186
	<u>4,460,491</u>	<u>553,277</u>	<u>60,186</u>	<u>5,073,954</u>
Loss allowance (Note 14(b))	(10,676)	(10,617)	(2,110)	(23,403)
Carrying amount	<u>4,449,815</u>	<u>542,660</u>	<u>58,076</u>	<u>5,050,551</u>
At 31 December 2020	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Off balance sheet commitments				
Normal	866,928	-	-	866,928
Watch	-	-	-	-
Non-performing	-	-	-	-
	<u>866,928</u>	<u>-</u>	<u>-</u>	<u>866,928</u>
Loss allowance (Note 14(b))	(688)	-	-	(688)

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality - continued

At 31 December 2019	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements – Murabaha				
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>
At 31 December 2019	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements – Ijarah				
Normal	2,310,183	-	-	2,310,183
Watch	-	304,517	-	304,517
Non-performing	-	-	14,686	14,686
	<u>2,310,183</u>	<u>304,517</u>	<u>14,686</u>	<u>2,629,386</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>14,099</u>	<u>2,613,462</u>
At 31 December 2019	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Off balance sheet commitments				
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)

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality - continued

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

At 31 December 2020	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements at amortised cost-Murabaha- Gross carrying amount				
Current	3,233,304	-	-	3,233,304
Overdue < 30	366,592	-	-	366,592
Overdue >30<90	-	109,585	-	109,585
Overdue >90	-	-	58,449	58,449
Total	3,599,896	109,585	58,449	3,767,930
At 31 December 2020	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements at amortised costs - Ijarah- Gross carrying amount				
Current	4,349,473	-	-	4,349,473
Overdue < 30	524,567	-	-	524,567
Overdue >30<90	-	173,295	-	173,295
Overdue >90	-	-	26,619	26,619
Total	4,874,040	173,295	26,619	5,073,954
At 31 December 2019	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
Financing arrangements at amortised cost-Murabaha- Gross carrying amount				
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
Total	2,337,855	124,264	34,713	2,496,832

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Credit quality - continued

At 31 December 2019	Stage 1	Stage 2	Stage 3	Total
	KShs '000	KShs '000	KShs '000	KShs '000
Financing arrangements at amortised costs - Ijarah- Gross carrying amount				
Current	2,095,659	-	-	2,095,659
Overdue < 30	314,000	-	-	314,000
Overdue >30<90	-	205,041	-	205,041
Overdue >90	-	-	14,686	14,686
Total	2,409,659	205,041	14,686	2,629,386

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.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Collateral - continued

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:	2020	2019
	KShs'000	KShs'000
Stage 1	8,179,011	8,769,328
Stage 2	606,673	629,088
Stage 3	<u>169,990</u>	<u>35,790</u>
	<u>8,955,674</u>	<u>9,434,206</u>

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 FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Determining whether credit risk has increased significantly - 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

Forward-looking information

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

The forward-looking information (FLI) overlay has been derived on the following basis.

- Use of the Banking industry 10 years average annual growth rate; where the year on year average growth rate of 18.4% is considered to be the base case scenarios while the maximum and minimum year on year change are considered to be the worst and best case scenarios respectively.
- Application of weightages on the 3 scenarios to derive a weighted FLI overlay.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

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.

PD

PD estimates for financing arrangements are estimates at a certain date as follows;

- Use of the Bank's own historical to date data to estimate the Probability of default (PD).
- Segmentation of PD into the various business units and the staff portfolio noting the differing characteristics in each business segment.
- Determination of separate PDs for stages 1 and stage 2 portfolios.
- Lifetime PD for stage 2 estimated based on marginal PDs from the Bank's our internal data.
- Where calculated segmental PDs are equal to 0%, the historical best PD of 0.38% is assumed.

In arriving at the effective PDs, the Bank has incorporated an overlay of forward-looking information which is derived on the following basis.

- Use of the Banking industry 10 years' average annual growth rate; where the year on year average growth rate is considered to be the base case scenario while the maximum and minimum year on year change are considered to be the worst and best case scenarios respectively. Weightages are then applied on each scenario to arrive at a weighted FLI overlay for inclusion into the segmented PDs.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment - continued

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.

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL - continued

Loss allowance - continued

Loss allowance	31 December 2020			
	12-month	Lifetime	Lifetime	Total
	ECL	ECL not	ECL credit-	
	Stage 1	credit-	impaired	
KShs'000	impaired	Stage 3	KShs'000	
KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Financing arrangements – Murabaha				
Balance at 1 January	14,358	2,037	28,497	44,892
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(143)	143	-	-
Transfer to Stage 3	(435)	(1,018)	1,453	-
Net re-measurement of loss allowance	(8,759)	1,811	22,671	15,723
Net financial assets originated or purchased	5,967	12,466	10,842	29,275
Financial assets that have been derecognised	(10,407)	(764)	(6,856)	(18,027)
Balance at 31 December	581	14,675	56,607	71,863

Financing arrangements – Ijarah	31 December 2020			
	12-month	Lifetime	Lifetime	Total
	ECL	ECL not	ECL credit-	
	Stage 1	credit-	impaired	
KShs'000	impaired	Stage 3	KShs'000	
KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Balance at 1 January	8,850	6,487	587	15,924
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(35)	35	-	-
Transfer to Stage 3	(33)	-	33	-
Net remeasurement of loss allowance	(578)	(183)	806	45
Net financial assets originated or purchased	3,906	10,387	1,270	15,563
Financial assets that have been derecognised	(1,434)	(6,108)	(587)	(8,129)
Balance at 31 December	10,676	10,618	2,109	23,403

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL - continued

Loss allowance - continued

Loss allowance	31 December 2020			
	12-month	Lifetime	Lifetime	Total
	ECL	ECL not	ECL credit-	
	Stage 1	credit-	impaired	
	Stage 2	impaired	Stage 3	
	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Financing arrangements – off balance sheet commitments (Note 14 (b))				
Balance at 1 January	233	-	-	233
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net financial assets originated or purchased	688	-	-	688
Financial assets that have been derecognised	(233)	-	-	(233)
Balance at 31 December	688	-	-	688
	31 December 2019			
	12-month	Lifetime	Lifetime	Total
	ECL	ECL not	ECL credit-	
	Stage 1	credit-	impaired	
	Stage 2	impaired	Stage 3	
	Stage 1	Stage 2	Stage 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Financing arrangements – Murabaha				
Balance at 1 January	13,429	366	89	13,884
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	13,408
Financial assets that have been derecognised	(1,688)	(459)	-	(2,147)
Balance at 31 December	14,357	2,037	28,498	44,892

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Amount arising from ECL - continued

Loss allowance - continued

	31 December 2019			
	12-month ECL KShs'000	Lifetime ECL not credit- impaired KShs'000	Lifetime ECL credit- impaired KShs'000	Total KShs'000
Financing arrangements – Ijarah				
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)
Balance at 31 December	8,850	6,487	587	15,924
Loss allowance				
	31 December 2019			
	12-month ECL KShs'000	Lifetime ECL not credit- impaired KShs'000	Lifetime ECL credit- impaired KShs'000	Total KShs'000
Financing arrangements – off balance sheet commitments (Note 14(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)
Balance at 31 December	233	-	-	233

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. **FINANCIAL RISK MANAGEMENT (Continued)**

(a) **Credit risk (continued)**

Amount arising from ECL - continued

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.

	Financing arrangements - Murabaha at amortised cost KShs'000	Financing arrangements - Ijarah at amortised cost KShs'000	Off balance sheet commitments KShs'000	Total KShs'000
31 December 2020				
Net re-measurement of loss allowance	15,723	45	-	15,768
Net financial assets originated or purchased	29,275	15,563	688	45,526
Financial assets that have been derecognised	(18,027)	(8,129)	(233)	(26,389)
	26,971	7,479	455	34,905
31 December 2019				
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)
	31,009	6,646	233	37,888

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

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.

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:

	2020 KShs'000	2020 %
Concentration by Sector - 2020		
Energy	810,260	9
Manufacturing	160,099	2
Real estate	2,019,953	23
Wholesale and retail trade	3,410,030	39
Transport and communication	1,769,827	20
Others	<u>671,715</u>	<u>7</u>
Total gross financing arrangements	<u>8,841,884</u>	<u>100</u>
	2019 KShs'000	2019 %
Concentration by Sector - 2019		
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	<u>664,666</u>	<u>13</u>
Total gross financing arrangements	<u>5,126,218</u>	<u>100</u>

Monitoring concentration risk

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

	2020 KShs'000	2020 %
Cash and balances with Central Bank	1,104,666	42
Balances due from Banking institutions	1,518,722	57
Other receivables	<u>20,531</u>	<u>1</u>
	<u>2,643,919</u>	<u>100</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Monitoring concentration risk - continued

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

All the above exposures have low risk and are in stage 1

(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-Bank 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 Assets and Liabilities Committee (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:

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk – continued

	2020	2019
	%	%
Average for the period	26.6	29.4
Maximum for the period	32.2	37.2
Minimum for the period	<u>21.4</u>	<u>22.8</u>

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

Residual contractual maturities of assets and liabilities

31 December 2020	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
Assets					
Cash and balances with Central Bank	1,104,666	-	-	-	1,104,666
Balances with other Companies	1,518,722	-	-	-	1,518,722
Financing arrangements	1,350,387	306,173	2,906,686	4,183,372	8,746,618
Other assets	-	-	20,531	-	20,531
Total financial assets	3,973,775	306,173	2,927,217	4,183,372	11,390,537
Liabilities					
Customer deposits	9,146,710	1,002,613	-	-	10,149,323
Balances due to other banks	-	-	-	-	-
Other liabilities	201,361	-	-	-	201,361
Lease liabilities	-	24,918	40,985	-	65,903
Total financial liabilities	9,348,071	1,027,531	40,985	-	10,416,587
	(5,374,296)	(721,358)	2,886,232	4,183,372	973,950

* 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 13m with the parent Bank from which it can draw on a need basis to mitigate short-term liquidity mismatches.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk – continued

Residual contractual maturities of assets and liabilities - continued

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
Assets					
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
Total financial assets	3,351,327	332,663	619,137	2,838,977	7,142,104
Liabilities					
Customer deposits	4,461,653	1,649,894	-	-	6,111,547
Balances due to other banks	400,359	-	-	-	400,359
Other liabilities	319,944	-	-	-	319,944
Lease liabilities	-	99,151	53,940	-	153,091
Total financial liabilities	5,181,956	1,749,045	53,940	-	6,984,941
	(1,830,629)	(1,416,382)	565,197	2,838,977	157,163

(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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(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 2020 and 31 December 2019:

	2020	2019
	KShs'000	KShs'000
Assets in foreign currencies	2,061,288	2,654,012
Liabilities in foreign currencies	<u>(2,074,016)</u>	<u>(2,674,447)</u>
Net foreign currency exposure	<u>(12,728)</u>	<u>(20,435)</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. **FINANCIAL RISK MANAGEMENT (Continued)**

(d) **Currency risk (continued)**

The table below analyses the currencies to which the Bank is exposed at 31 December 2020 and 31 December 2019:

2020 Assets	USD KShs'000	EUR KShs'000	GBP KShs'000	AED KShs'000	ZAR KShs'000	INR KShs'000	Total KShs'000
Cash on hand	18,484	12,908	8,249	31	-	-	39,672
Deposits and balances due from Banking institutions	754,418	1,647	46,002	16,907	87	755	819,816
Financing arrangements	1,201,212	-	-	-	-	-	1,201,212
Other assets	535	23	2	28	-	-	588
Total foreign currency assets	1,974,649	14,578	54,253	16,966	87	755	2,061,288
Customer deposits	2,003,710	9,883	55,922	4,291			2,073,806
Due from other Banking institutions	-	-	-	-	-	-	-
Other liabilities	206	3	1	-	-	-	210
Total foreign currency liabilities	2,003,916	9,886	55,923	4,291	-	-	2,074,016
Exposure as at 31 December 2020	(29,267)	4,692	(1,670)	12,675	87	755	(12,728)

DIB BANK KENYA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (continued)

2019: Assets	USD KShs'000	EUR KShs'000	GBP KShs'000	AED KShs'000	ZAR KShs'000	INR KShs'000	Total KShs'000
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
Total foreign currency assets	2,583,022	5,733	51,003	13,036	166	1,052	2,654,012
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
Total foreign currency liabilities	2,612,245	62	50,008	12,132	-	-	2,674,447
Exposure as at 31 December 2019	(29,223)	5,671	995	904	166	1,052	(20,435)

The Bank had minimal currency exposures for the period as shown in the table above and therefore no significant sensitivity in the Bank's profit before tax.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (continued)

The following significant exchange rates were applied during the year.

Currency	Closing 2020	2019	Average 2020	2019
USD	109.17	101.34	106.47	102.01
GBP	148.36	132.94	136.73	130.15
EUR	133.90	113.37	121.65	114.21
AED	29.72	27.59	28.99	27.77
ZAR	7.46	7.19	6.51	7.06

(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.

(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:

- Maintain a minimum capital of Shs 1,000 million (2019 – Shs 1,000 million).
- Maintain a core capital of not less than 8% (2019 – 8%) of total deposit liabilities.
- Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2019 – 10.5%) and
- Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2019 – 14.5%).

The Bank is compliant with all the above requirements.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

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.

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

	2020	2019
	KShs'000	KShs'000
Core capital (Tier 1)		
Paid up share capital	5,839,614	4,499,869
Retained earnings	(2,533,974)	(1,932,905)
Net after tax losses	(501,965)	(571,658)
	<u>2,803,675</u>	<u>1,995,306</u>
Deferred tax	(1,183,711)	(992,962)
Core capital	<u>1,619,964</u>	<u>1,002,344</u>
Supplementary capital (Tier 2)	43,082	13,670
Total capital	<u>1,663,046</u>	<u>1,016,014</u>
On balance sheet risk weighted assets	9,252,537	6,682,458
Off balance sheet risk weighted assets	1,038,735	156,623
Total risk weighted assets	<u>10,291,272</u>	<u>6,839,081</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

Capital adequacy ratios	2020	2019
Percentage of Core Capital to Risk Weighted Asset ratio	15.7%	14.7%
Minimum requirement	10.5%	10.5%
Percentage of Total Capital to Risk Weighted Asset ratio	16.2%	15.9%
Minimum requirement	14.5%	14.5%
Percentage of Core Capital to Deposits ratio	16.0%	16.4%
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.

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 2020	Note	Amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Cash and balances with Central Bank		1,104,666	1,104,666	1,104,666
Balances due from banking institutions		1,518,722	1,518,722	1,518,722
Financing arrangements		8,746,618	8,746,618	8,746,618
Other assets		20,531	20,531	20,531
Total financial assets		11,390,537	11,390,537	11,390,537

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

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

31 December 2020	Note	Amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Customer deposits		10,149,323	10,149,323	10,149,323
Other liabilities		201,361	201,361	201,361
Lease liabilities		65,903	65,903	65,903
Total financial liabilities		10,416,587	10,416,587	10,416,587
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
Total financial assets		7,245,401	7,245,401	7,245,401
Customer deposits	21	6,111,547	6,111,547	6,111,547
Balances due to banking institutions	20	400,359	400,359	400,359
Other liabilities	23	313,944	313,944	313,944
Lease liabilities	22	153,091	153,091	153,091
Total financial liabilities		6,978,941	6,978,941	6,978,941

The fair value of the Bank's financing arrangements and customer deposits 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.

6. INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2020 KShs'000	2019 KShs'000
Income from financing arrangements	688,645	408,835
Income from investing assets - placements	29,716	16,195
	718,361	425,030

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

7. DEPOSITORS SHARE OF PROFIT	2020 KShs'000	2019 KShs'000
Time Deposits	481,325	241,085
Savings Deposits	5,313	3,023
Interbank Deposits	<u>16,651</u>	<u>14,440</u>
	<u>503,289</u>	<u>258,548</u>

8. (a) FEES AND COMMISSION INCOME

Credit related fees and commissions	29,419	3,577
Foreign exchange income	77,725	20,790
Other fees	<u>15,164</u>	<u>13,023</u>
	<u>122,308</u>	<u>37,390</u>

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

(b) OTHER INCOME

	2020 KShs'000	2019 KShs'000
Write back of partial recovery of Imperial Bank Limited (in Receivership) balances	-	16,662
Gain on disposal of asset	-	114
Other income	<u>166</u>	<u>219</u>
	<u>166</u>	<u>16,995</u>

9. (a) PERSONNEL EXPENSES

Salaries and allowances	332,092	345,356
Other staff cost	75,710	86,026
Directors emoluments – Executive	<u>21,960</u>	<u>21,960</u>
	<u>429,762</u>	<u>453,342</u>

The number of persons employed by the Bank as at the year-end was 122 (2019 – 118). These are as:

Average number of employees	2020	2019
Senior management	14	15
Junior management and supervisors	38	31
Other staff	<u>70</u>	<u>72</u>
	<u>122</u>	<u>118</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

9.	(b) OTHER OPERATING EXPENSES	2020 KShs'000	2019 KShs'000
	Insurance expenses	6,295	5,707
	Legal and professional fees	31,516	6,465
	Directors' emoluments – Non executive	8,800	8,800
	Other expenses	<u>270,770</u>	<u>259,124</u>
		<u>317,381</u>	<u>280,096</u>
10.	TAXATION		
	(a) Taxation credit		
	Current taxation based on the taxable profit for the period at 25% (2019 – 30%)	-	-
	Deferred taxation (credit) (Note 19):		
	- current year (credit)	(192,592)	(225,692)
	- prior year over provision	<u>1,843</u>	<u>2,220</u>
		<u>(190,749)</u>	<u>(223,472)</u>
	(b) Reconciliation of taxation credit to the expected taxation based on profit before taxation		
	Loss before tax	<u>(692,714)</u>	<u>(795,130)</u>
	Tax at the applicable rate of 25% (2019 – 30%)	(173,178)	(238,539)
	Effect of expenses disallowed for tax purposes	12,685	12,847
	Effect of tax rate changes	(32,099)	-
	Prior year over provision	<u>1,843</u>	<u>2,220</u>
	Taxation credit	<u>(190,749)</u>	<u>(223,472)</u>
	(c) Loss before tax		
	Loss before tax is arrived at after charging:		
	Depreciation expense on property and equipment (Note 16)	75,902	79,773
	Deprecation on right use asset (Note 17)	88,063	82,750
	Amortisation of intangible assets (Note 18)	69,318	64,869
	Directors' emoluments – Non executive	8,800	8,800
	– executive	21,960	21,960
	Auditors' remuneration	<u>4,800</u>	<u>4,524</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

11. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2020	2019
	KShs'000	KShs'000
Cash on hand	<u>135,288</u>	<u>213,336</u>
Balances with Central Bank of Kenya (CBK)		
- Restricted balances (cash reserve ratio)	379,076	281,998
- Unrestricted balances with CBK	<u>590,302</u>	<u>639,629</u>
	<u>969,378</u>	<u>921,627</u>
	<u>1,104,666</u>	<u>1,134,963</u>

The cash reserve ratio requirement is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya requirements. As at 31 December 2020 the cash reserve ratio requirement was 4.25% (2019 – 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 4.25% (2019 – 5.25%).

12. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2020	2019
	KShs'000	KShs'000
Placements with other banks	1,080,302	228,292
Deposits and other balances with banks	<u>438,420</u>	<u>693,149</u>
	<u>1,518,722</u>	<u>921,441</u>

The weighted average effective profit rate for deposits and placements with other banks at 31 December 2020 was 6.41% (2019 – 2.35%). All the above balances have maturities of less than 90 days from the date of acquisition.

13. FINANCING ARRANGEMENTS

	2020	2019
	KShs'000	KShs'000
Classification		
Murabaha	3,767,930	2,496,832
Ijarah	<u>5,073,954</u>	<u>2,629,386</u>
Gross financing arrangements	<u>8,841,884</u>	<u>5,126,218</u>
Impairment provisions	(95,266)	(61,049)
Net financing arrangements	<u>8,746,618</u>	<u>5,065,169</u>
Repayable within:		
Less than 3 months	1,357,071	1,317,169
3 months to 1 year	309,962	335,899
1 to 5 years	2,976,441	1,298,128
Over 5 years	<u>4,198,410</u>	<u>2,175,022</u>
	<u>8,841,884</u>	<u>5,126,218</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

14. PROVISION FOR IMPAIRMENT LOSSES

	2020	2019
(a) Impairment losses on financing arrangements	KShs'000	KShs'000
Net re-measurement of loss allowance	15,768	19,383
Net financing arrangements originated	45,526	23,457
Financing arrangements derecognised	<u>(26,389)</u>	<u>(4,952)</u>
Charge for the year	<u>34,905</u>	<u>37,888</u>

(b) Total impairment losses on financing arrangements are classified are as follows:

	2020	2019
	KShs'000	KShs'000
Impairment losses on Murabaha	71,863	44,892
Impairment losses on Ijarah	23,403	15,924
Impairment losses on off-balance sheet commitments	<u>688</u>	<u>233</u>
	<u>95,954</u>	<u>61,049</u>

15. OTHER ASSETS

Prepayments	118,340	103,296
Deposit	<u>20,531</u>	<u>20,531</u>
	<u>138,871</u>	<u>123,827</u>

16. PROPERTY AND EQUIPMENT

2020:	Leasehold improvements KShs'000	Equipment furniture and fittings KShs'000	Motor vehicles KShs'000	Total KShs'000
Cost				
At 1 January 2020	270,899	335,308	6,734	612,941
Additions	<u>252</u>	<u>18,500</u>	<u>-</u>	<u>18,752</u>
At 31 December 2020	<u>271,151</u>	<u>353,808</u>	<u>6,734</u>	<u>631,693</u>
Depreciation				
At 1 January 2020	128,572	280,443	6,452	415,467
Charge for the year	<u>45,195</u>	<u>30,425</u>	<u>282</u>	<u>75,902</u>
At 31 December 2020	<u>173,767</u>	<u>310,868</u>	<u>6,734</u>	<u>491,369</u>
Net book value				
At 31 December 2020	<u>97,384</u>	<u>42,940</u>	<u>-</u>	<u>140,324</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

16. PROPERTY AND EQUIPMENT (Continued)

	Leasehold improvements KShs'000	Equipment furniture and fittings KShs'000	Motor vehicles KShs'000	Work in progress KShs'000	Total KShs'000
Cost					
At 1 January 2019	260,169	312,075	6,734	949	579,927
Additions	10,730	22,425	-	-	33,155
Transfers	-	949	-	(949)	-
Disposals	-	(141)	-	-	(141)
At 31 December 2019	270,899	335,308	6,734	-	612,941
Depreciation					
At 1 January 2019	84,917	246,150	4,768	-	335,835
Charge for the year	43,655	34,434	1,684	-	79,773
Disposals	-	(141)	-	-	(141)
At 31 December 2019	128,572	280,443	6,452	-	415,467
Net book value					
At 31 December 2019	142,327	54,865	282	-	197,474

Included in equipment are computer hardware assets with a cost value of KShs 189,081,642 which were fully depreciated as at 31 December 2020 (2019 – 182,602,649). The notional depreciation for the fully depreciated assets was KShs 61,822,368 (2019 – 55,681,655).

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:

	2020 KShs'000	2019 KShs'000
(a) Right of Use Asset		
Balance as at 1 January	149,763	164,513
Amortization charge for the year	(88,063)	(82,750)
Additions	2,523	68,000
Balance as at 31 December	64,223	149,763
(b) Amount recognised in the profit or loss		
Interest on lease liabilities	14,929	17,280
Amortization charge for the year	88,063	82,750
	102,992	100,030

The maturity analysis of lease liabilities is presented in Note 22.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

17. **RIGHT-OF-USE ASSET (Continued)**

(c) Amounts recognised in cash flows	2020	2019
	KShs'000	KShs'000
Payment of principal lease liabilities	89,711	44,862
Interest paid on lease liabilities	<u>14,929</u>	<u>17,280</u>
At the end of the year	<u>104,640</u>	<u>62,142</u>

At 31 December 2020, the Bank is committed to KShs Nil (2019 – 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 104.6 million (2019 – KShs 62.1 million).

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 (2019 – KShs Nil).

18. **INTANGIBLE ASSETS - COMPUTER SOFTWARE**

2020:	Intangible assets
	KShs'000
Cost	
At 1 January 2020	565,238
Additions	<u>33,208</u>
At 31 December 2020	<u>598,446</u>
Amortisation	
At 1 January 2020	162,919
Charge for the year	<u>69,318</u>
At 31 December 2020	<u>232,237</u>
Net book value	
At 31 December 2020	<u>366,209</u>
2019:	
Cost	
At 1 January 2019	547,680
Additions	<u>17,558</u>
At 31 December 2019	<u>565,238</u>
Amortisation	
At 1 January 2019	98,051
Charge for the year	<u>64,868</u>
At 31 December 2019	<u>162,919</u>
Net book value	
At 31 December 2019	<u>402,319</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

19. DEFERRED TAXATION		2020	2019
		KShs'000	KShs'000
<p>The deferred tax asset, computed at the enacted rate of 30%, is attributable to the following items:</p>			
Accelerated capital allowances	63,015		61,172
Provisions for impairment	(52,187)		(17,752)
Tax losses	(1,194,539)		(1,036,382)
	(1,183,711)		(992,962)

The movement on the deferred tax asset account is as follows:

As at 1 January	(992,962)	(769,491)
Credit for the year	(192,592)	(225,692)
Prior year over provision	<u>1,843</u>	<u>2,221</u>
At 31 December	(1,183,711)	(992,962)

The Bank has operated for 3 year and 7 months as at 31 December 2020 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 1,183,711,000 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	2025
2016	689,856	2025
2017	805,443	2026
2018	799,730	2027
2019	718,128	2028
2020	527,190	2029
Total	3,981,796	

20. BALANCES DUE TO BANKING INSTITUTIONS

	2020	2019
	KShs '000	KShs '000
Deposits from banking institutions due within 12 months	<u>-</u>	<u>400,359</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

21. CUSTOMER DEPOSITS	2020 KShs '000	2019 KShs '000
Time deposits	6,979,240	4,537,305
Current accounts deposits	2,962,042	1,453,785
Savings accounts deposits	<u>208,041</u>	<u>120,457</u>
	<u>10,149,323</u>	<u>6,111,547</u>
22. LEASE LIABILITIES		
Amounts due for settlement within 12 months	24,918	99,151
Amounts due for settlement after 12 months	<u>40,985</u>	<u>53,940</u>
	<u>65,903</u>	<u>153,091</u>
Maturity analysis of lease liabilities based on undiscounted cash flows are as follows:		
Year 1	29,819	102,834
Year 2	15,712	32,426
Year 3	16,889	14,935
Year 4	11,166	11,986
Year 5	1,457	13,836
Onwards	<u>-</u>	<u>2,914</u>
	<u>75,043</u>	<u>178,931</u>
23. OTHER LIABILITIES		
Accruals	67,749	51,017
Due to related parties	-	2,975
Deferred fee income	37,873	11,280
Other payables	<u>95,739</u>	<u>248,672</u>
	<u>201,361</u>	<u>313,944</u>
24. SHARE CAPITAL		

(a) **Authorised, issued and fully paid:**

At 1 January 2020 : 4,499,869 (2019 – 3,864,494) ordinary shares of KShs 1,000 each	4,499,869	3,864,494
Issue of shares during the year 1,339,745 (2019 – 635,375) ordinary shares at KShs 1000	<u>1,339,745</u>	<u>635,375</u>
At 31 December 2020: 5,839,614 (2019 – 4,499,869) ordinary shares of KShs 1,000 each	<u>5,839,614</u>	<u>4,499,869</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

24. SHARE CAPITAL (Continued)

(b) Statutory credit risk reserve

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 2020 was KShs 43,082,000 (2019 – KShs 13,671,000).

25. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations

	2020 KShs'000	2019 KShs'000
Loss before taxation	(692,714)	(795,130)
<i>Adjustments for:</i>		
Depreciation of property and equipment (Note 16)	75,902	79,773
Amortization of right of use asset (Note 17(a))	88,063	82,750
Amortization of intangible assets (Note 18)	69,318	64,868
Interest on lease liabilities (Note 17(c))	<u>14,929</u>	<u>(17,280)</u>
	(444,502)	(585,019)
Changes in:		
Balances held by		
Central Bank of Kenya under lien	(97,078)	(143,816)
Financing arrangements	(3,681,449)	(2,933,511)
Other assets	(15,044)	3,327
Customer deposits	4,037,776	2,913,688
Balances due to banking institutions	(400,359)	400,359
Other liabilities	<u>(112,583)</u>	<u>206,449</u>
Cash used in operations	<u>(713,239)</u>	<u>(138,523)</u>

(b) Analysis of balances of cash and cash equivalents as shown in the financial position and notes

Cash on hand (Note 11)	135,288	213,336
Deposits and balances due from banking institutions (Note 12)	1,518,722	921,441
Current account with Central Bank of Kenya (Note 11)	<u>590,302</u>	<u>639,629</u>
	<u>2,244,312</u>	<u>1,774,406</u>

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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

26.	CHARITABLE WELFARE FUND	2020	2019
		KShs'000	KShs'000
	As at January and December	<u>1,438</u>	<u>1,438</u>

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

		2020	2019
		KShs'000	KShs'000
(a)	Contingent liabilities		
	Letters of credit	56,481	42
	Guarantees	726,398	152,889
	Bills of collections	<u>84,049</u>	<u>3,692</u>
		<u>866,928</u>	<u>156,623</u>

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 KShs 506,720,000 as at 31 December 2020 (2019 – KShs 228,230,000).

(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.

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 2020 include placements made in the Bank by Directors, their associates and companies associated to Directors. Advances to customers and deposits at 31 December 2020 include financing facilities and advances to companies associated to Directors employees of the bank and, also deposits held with related parties respectively.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

28. RELATED PARTY TRANSACTIONS (Continued)

	Directors'		Employees/staff	
	associated companies			
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Movement in related party balances was as follows:				
<i>Deposits:</i>				
At 1 January	49,499	28,522	12,878	6,190
Net movement during the year	15,821	20,977	(5,386)	6,688
At 31 December	65,320	49,499	7,492	12,878

	2020	2019
	KShs'000	KShs'000
<i>Transactions with related parties</i>		
Dubai Islamic Bank PJSC	-	<u>2,975</u>

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

Key management compensation

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

	2020	2019
	KShs'000	KShs'000
Key management	89,069	111,220
Executive director	21,960	21,960
Other directors	<u>8,800</u>	<u>8,800</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 2020, the Bank did not hold any asset security documents on behalf of customers (2019 – Nil).

30. COUNTRY OF INCORPORATION

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

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

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.