DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2016

DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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DIB BANK KENYA LIMITED

DIRECTORS AND STATUTORY INFORMATION

BOARD OF DIRECTORS

Dr Adnan Chilwan*	Chairman	
Dr. Steve Mainda**	Non-Executive Director	
Mr Michael Murphy***	Non-Executive Director	
Mr Mohamed Al Nahdi****	Non-Executive Director	
Mr Mohamed Al Sharif ****	Non-Executive Director	
Mr Dan Omoro**	Managing Director/CEO	Appointed 4 May 2016
Mr Philip Ilako**	Managing Director/CEO	Resigned 3 May 2016

*Indian **Kenyan ***British **** Emirati

COMPANY SECRETARY
Scribe Services Secretaries
Lonrho House, 20th Floor
Standard Street
P.O. Box 3085-00100
Nairobi

AUDITORS
KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612 – 00100
Nairobi, Kenya

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

REGISTERED OFFICE/ HEAD OFFICE
Sandview Building
Bunyala Road / Lower Hill Road Junction
P.O. Box 6450 – 00200
Nairobi, Kenya

BRANCHES
Upper Hill Branch
Sandview Building
Bunyala Road / Lower Hill Road Junction
P.O. Box 6450 – 00200
Nairobi, Kenya
Nairobi, Kenya

Goodman Branch
Goodman Tower – Waiyaki Way
P.O. Box 6450 – 00200
Nairobi, Kenya

Kilindini Branch
Baywood Building
Kilindini
P.O. Box 4016 – 80107
Mombasa, Kenya

Board/Management Committees – continued

	Country Management Committee	**Management Credit Committee**	**Risk Management Committee**	**Crisis Management Committee**	**Assets & Liabilities Management Committee**
Membership	Chief Executive Officer (CEO)* Head of Finance Head of Risk Management Head of Corporate and Investment Banking Head of Retail and SME Banking Head of Operations Head of HR & Admin Head of IT Sharia Co-ordinator Head of Credit Head of Treasury	Chief Executive Officer* Head of Credit Head of Treasury Head of Retail & SME Head of Corporate & Investments	Chief Executive Officer* Head of Risk Management & Compliance Head of Finance Head of HR & Admin Head of Operations Head of Retail & Business Banking Head of Corporate Investment Banking Head of Legal Head of IT	Chief Executive Officer* Head HR/Administration Head of Risk Head of Operations Head of Retail & SME Head of Marketing Head of Finance Head of Treasury Head of Internal Audit Head of Credit Head of IT Head of Corporate & Investment Banking Sharia Coordinator Head of Legal	Chief Executive Officer (CEO)* Head of Finance (CFO) Head of Treasury Head of Corporate and Investment Banking Head of Retail and SME Banking Head of Risk Management Head of Credit
Functions	The committee is responsible for supervising all the activities of the Bank. The committee manages the strategic intent and thrust of the Bank's operations in line with the approved country strategy.	To review the credit and risk exposures policies of the Bank and monitor the implementation of the credit and risk policies.	The committee will support the Board Risk Committee and the CEO in implementing the risk management framework, drive the right risk culture, ensure business trades within the approved risk appetite through continuous risk monitoring and challenging the status quo.	The committee is responsible for handling of disasters and any crisis situation arising requiring immediate response as soon as it occurs in order to reduce the impact on business continuity of the Bank.	The committee is responsible for balance sheet (Asset & Liability) risk Management.
Frequency of meeting	At least once a month	At least once a month	At least once a month	Meets on a need basis	At least once a month

*Chairman

DIB BANK KENYA LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2016 which disclose the state of affairs of the Company, in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015.

1. **Principal Activities**

The company is licensed to operate as a bank under the Banking Act. The Banking Licence was issued by Central Bank of Kenya on 28 April 2017.

2. **Results**

The results for the year are set out on page 9.

3. **Dividend**

The directors do not recommend the payment of a dividend (2015 – Nil).

4. **Directors**

The directors who served during the year and up to the date of this report are set out on page 1.

There were no scheduled board meetings during the period as the Bank was not yet operational and therefore no Evaluation of board of directors was carried out as required by Central Bank of Kenya regulations.

5. **Business overview**

Performance

The Bank reported a loss before tax of KShs 631million (2015 – KShs 343 million).

Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring risk management policies in their specified areas.

Post balance events

DIB Bank Kenya Limited obtained its banking licence from the Regulator, the Central Bank of Kenya on 28 April 2017.

DIB BANK KENYA LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

6. Relevant audit information

The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Company's auditor is unaware; and

(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

7. Auditors

The auditors, KPMG Kenya, who were appointed during the year continue in office in accordance with the Kenyan Companies Act, 2015 and subject to Section 24(1) of the Banking Act (Cap 488).

8. Approval of financial statements

The financial statements were approved by the Board of Directors on 8 December 2017

BY ORDER OF THE BOARD

Secretary

Date: 8 December 2017

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 9 to 48 which comprise the statement of financial position at 31 December 2016, the statement of profit and 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, which include a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting 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 state of affairs of the Company as at the end of the financial year and of the operating results of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

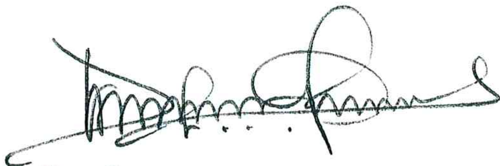
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 affairs of the Company and of its operating results.

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.

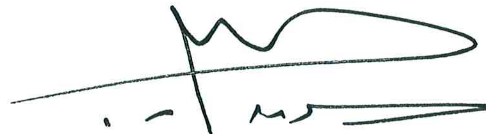
The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 8 December 2017 and were signed on its behalf by:



Dan Omoro
Managing Director/CEO



Mohamed Al Sharif
Director

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 00100 GPO
Nairobi, Kenya

Telephone +254 20 2806000
Email info@kpmg.co.ke
Website www.kpmg.com/eastafrica

REPORT OF THE INDEPENDENT AUDITORS 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 Company") set out on pages 9 to 48 which comprise the statement of financial position as at 31 December 2016, statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of DIB Bank Kenya Limited at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 *"Auditors' Responsibilities for the Audit of the Financial Statements"* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the 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 comprises the information included in the *Annual Report and Financial Statements* but does not include the financial statements and our auditors' 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.

KPMG Kenya is registered partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Partners (British*)

EE Aholi
PC Appleton*
BC D'Souza
JM Gathecha
JI Kariuki
PI Kinuthia
AM Mbai
JL Mwaura
RB Ndung'u
JM Ndunyu
AW Pringle*

Report on the audit of the financial statements (continued)

Directors' responsibilities for the financial statements

As stated on page 6, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) 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 misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditors' 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 judgment 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 Company'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 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 Company'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 Company 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.

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

Report on the audit of the financial statements (continued)

Auditors' 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:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

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

(iii) The statement of profit or loss and other comprehensive income and statement of financial position are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Joseph Kariuki - P/2102.

KPMG Kenya

Date: 8 December 2017

DIB BANK KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	12 months 2016 KShs '000'	17 months 2015 KShs '000'
Income from operating activities		-	-
Income paid to depositors		-	-
Net income		-	-
Other revenue	5	459	153
Operating income		**459**	**153**
Personnel expenses	6(a)	(390,192)	(70,945)
Other operating expenses	6(b)	(166,608)	(244,583)
Depreciation	11	(74,962)	(27,921)
Amortisation	12	-	-
Total expenses		**(631,762)**	**(343,449)**
Loss before income tax	7	**(631,303)**	**(343,296)**
Income tax credit	8	179,073	102,943
Loss for the year		**(452,230)**	**(240,353)**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		**(452,230)**	**(240,353)**

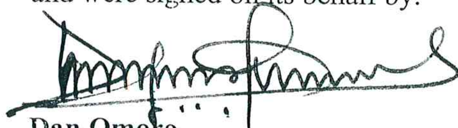
The notes set out on pages 13 to 48 are an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

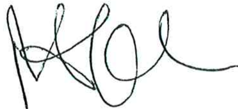
	Note	2016 KShs '000	2015 KShs '000
Assets			
Balances due from banking institutions	9	71,830	153,433
Other assets	10	118,516	45,617
Property and equipment	11	426,154	410,593
Intangible assets	12	500,542	309,097
Deferred tax asset	13	282,016	102,943
Total assets		**1,399,058**	**1,021,683**
Liabilities			
Other liabilities	14	91,641	30,080
Total liabilities		**91,641**	**30,080**
Equity			
Share capital	15(a)	2,000,000	1,000,000
Shares awaiting allotment	15(b)	-	231,956
Retained earnings		(692,583)	(240,353)
Total equity		**1,307,417**	**991,603**
Total liabilities and equity		**1,399,058**	**1,021,683**

The financial statements on pages 9 to 48 were approved by the Board of Director on 8 December 2017 and were signed on its behalf by:



Dan Omoro
Managing Director/CEO

Mohamed AL Sharif
Director



Michael Murphy
Director

Scribe Services Secretaries
Company secretary

The notes set out on pages 13 to 48 are an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital KShs'000	Shares awaiting Allotment KShs'000	Retained earnings KShs'000	Total equity KShs'000
2016				
At 1 January 2016	1,000,000	231,956	(240,353)	**991,603**
Comprehensive income for the period				
Loss for the period	-	-	(452,230)	**(452,230)**
Total comprehensive income	**-**	**-**	**(452,230)**	**(452,230)**
Transaction with owners				
Issue of shares (Note 15(a))	1,000,000	(231,956)	-	**768,044**
At 31 December 2016	**2,000,000**	**-**	**(692,583)**	**1,307,417**
2015				
At 15 August 2014	-	-	-	-
Comprehensive income for the period				
Loss for the period	-	-	(240,353)	**(240,353)**
Total comprehensive income	**-**	**-**	**(240,353)**	**(240,353)**
Transaction with owners				
Issue of shares (Note 15(a))	1,000,000	231,956	-	**1,231,956**
At 31 December 2015	**1,000,000**	**231,956**	**(240,353)**	**991,603**

The notes set out on pages 13 to 48 are an integral part of these financial statements.

DIB BANK KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 KShs'000	2015 KShs'000
Net cash used in operating activities	16(a)	(567,679)	(330,912)
Investing activities			
Purchase of property and equipment	11	(90,523)	(438,514)
Purchase of intangible assets	12	(191,445)	(309,097)
Net cash used in investing activities		**(281,968)**	**(747,611)**
Financing activities			
Issue of shares	15(a)	768,044	1,231,956
Net cash flows from investing activities		**768,044**	**1,231,956**
Net increase in cash and cash equivalents	16(b)	(81,603)	153,433
Cash and cash equivalents at 1 January 2016 and 15 August 2014	16(b)	153,433	-
Cash and cash equivalents at 31 December		**71,830**	**153,433**

The notes set out on pages 13 to 48 are an integral part of these financial statements.

1. REPORTING ENTITY

DIB Bank Kenya Limited ("the Bank" or "the company") is incorporated as a limited company in Kénya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The Bank is involved in investment, corporate and retail banking. The address of the Company's registered office is as follows:

Sand view Building
Bunyala Rd / Lower Hill Rd Junction
P.O. Box 6450 – 00200
Nairobi

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act, 2015.

For the Kenyan Companies Act, 2015 reporting purposes in these financial statements, 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.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting, except where otherwise stated in the accounting policies below.

(c) 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 period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is set out below:

2. BASIS OF PREPARATION (Continued)

(c) Use of estimates and judgments (continued)

(i) Taxation

Judgment 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 Company 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 Company 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 Company 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 in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

(ii) Useful lives and residual values of property and equipment

The company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property and equipment have been determined based on previous experience and anticipated disposal values when the assets are disposed. The rates used are set out on Note 3(b) (iii).

(d) Functional and presentation currency

The financial statements are presented in Kenya Shillings which is also the Company's functional and presentation currency, the currency of the primary economic environment in which the entity operates. Except when otherwise indicated, financial information presented in Kenya Shillings (KShs) has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Income is recognised on an accrual basis.

(i) Non-Shari'ah compliant income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

(ii) Fees and commission income

Fees and commission income is recognized on an accrual basis when the service is provided. Fee and commission income mainly relates to account servicing fees, account transaction fees, banc assurance fees and charges on issuance of letters of credit, acceptances, guarantees and performance bonds. Other fees and commission expense relate mainly to interbank transaction and other fees, which are expensed as the services are received.

(b) 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 are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company 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, motor vehicles	20.0%
▪ Motor vehicle	25.0%
▪ Computers	33.3%

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

(iv) Disposal of property and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 5 years.

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

(d) Leases

Leases are divided into finance leases and operating leases.

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance leases

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The profit element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

The leases entered into by the Bank are primarily operating leases.

(e) Taxation

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Taxation (continued)

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

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

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

Deferred tax is calculated on the basis of the tax rates currently enacted.

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

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

(f) Financial instruments

(i) Classification

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

Islamic financing assets and receivables

Islamic financing assets and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods and services directly to a debtor, with no intention of trading the receivable. Islamic financing assets and receivables comprise other receivables and placements with other banks.

Other Financial liabilities

The company classifies financial liabilities as other financial liabilities at amortised cost. Other financial liabilities include other payables.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (continued)

(ii) Recognition and measurement

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

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

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

(iii) De-recognition

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

(iv) Identification and measurement of impairment of financial assets

At each reporting date the company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a financing arrangement or advance by the company on terms that the company would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (continued)

(iv) Identification and measurement of impairment of financial assets (continued)

In assessing collective impairment the company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing assets and advances. Profit on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(g) Impairment of non-financial assets

The carrying amounts of the company'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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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. Any expected loss is charged to the profit or loss.

(i) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include net balances from banking institutions. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) 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 company 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.

(k) 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.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) Share capital

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

(o) Related party transactions

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

(p) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Company has adopted the following new standards and amendments during the year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2016. The nature and effects of the changes are as explained here in.

New standard or amendments
— Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
— Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
— Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
— Equity Method in Separate Financial Statements (Amendments to IAS 27)
— IFRS 14 Regulatory Deferral Accounts
— Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
— Disclosure Initiative (Amendments to IAS 1)
— Annual improvements cycle (2012-2014) – various standards

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have an impact on the financial statements of the Company.

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.The new requirements are effective from 1 January 2016.

The adoption of these changes did not have an impact on the financial statements as the Company does not have bearer plants.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS *28 Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) - continued

The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not affect the amounts and disclosures in the Company's financial statement as the Company does not have interests in other entities.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of this standard did not have a significant impact on the financial statements of the Company.

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	**Servicing contracts** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. **Applicability of the amendments to IFRS 7 to condensed interim financial statements** Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

Annual improvements cycle (2012-2014) – various standards – continued

Standard	Amendments
IAS 19 Employee Benefits	**Discount rate: regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'** Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The adoption of these changes did not have a significant impact on the financial statements of the Company.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early.

New standard or amendments	Effective for annual periods beginning on or after
— Disclosure Initiative (Amendments to IAS 7)	1 January 2017
— Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
— IFRS 15 Revenue from Contracts with Customers	1 January 2018
— IFRS 9 Financial Instruments (2014)	1 January 2018
— Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
— Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
— IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
— IFRS 16 Leases	1 January 2019
— IFRIC 23 Income tax exposures	1 January 2019
— IFRS 17 Insurance contracts	1 January 2021
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

Disclosure Initiative (Amendments to IAS 7)

The amendments in *Disclosure Initiative (Amendments to IAS 7)* come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The adoption of this standard is not expected to have an impact on the financial statements of the Company.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

— Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) - continued

— The carrying amount of an asset does not limit the estimation of probable future taxable profits.
— Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
— An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of this standard is not expected to have an impact on the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact the adoption of this standard will have on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The Bank is assessing the potential impact the adoption of this standard will have on the financial statements of the Company.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

— *Accounting for cash-settled share-based payment transactions that include a performance condition*

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

— *Classification of share-based payment transactions with net settlement features*

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

— *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) - continued

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The Company is currently assessing the impact of adoption of these amendments on the financial statements of the company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 *'Insurance Contracts' (Amendments to IFRS 4)* provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) - continued

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of this standard is not expected to have an impact on the financial statements of the Company.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Bank is assessing the potential impact the adoption of this standard will have on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2016 - continued

IFRS 17 Insurance Contracts – continued

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these standard will not have an impact on the financial statements of the company.

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of this standard is not expected to have an impact on the financial statements of the Company.

4. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risks;
- settlement risk
- operational risks and
- capital management

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company, 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 Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Company 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's financing assets and advances to customers and other banks and investment securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure.

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

Management of credit risk

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Management of credit risk - continued

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Department, Head of Credit, Credit Committee or the Board of Directors as appropriate.

- *Reviewing and assessing credit risk.* The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure to counterparties,* geographies and industries (for financing assets and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Risk Management Department.

- *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 Company in the management of credit risk.

Each business unit is required to implement the Company 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Impaired financing arrangements

Impaired financing arrangements are financing arrangements for which the Company determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the financing asset / securities agreement(s). These financing assets are graded 3 to 8 in the Company's internal credit risk grading system. In the year the Company did not have any impaired financial assets and securities

Past due but not impaired financing arrangements

Financing arrangements where contractual profit or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Company.

Financing arrangements with renegotiated terms

Financing arrangements with renegotiated terms are financing arrangements that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Once the financing arrangement is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its financing arrangements portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing asset loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on financing arrangements subject to individual assessment for impairment.

Write-off policy

The Company 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 Company did not have any impaired financial arrangements.

Collateral

The Company 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 borrowing, and generally are not updated except when a financing 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 borrowing activity.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The company exposure to credit risk relates to;	2016 Ksh'000	2015 Ksh'000
Balance due from banking institutions	71,830	153,433
Due from group	56,730	-
Other receivables	16,445	10,110
	145,005	**163,543**

b) Liquidity risk

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

Management of liquidity risk

The Company'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 Company's reputation.

The Company'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 Company. The liquidity requirements of business units are met through short-term financing arrangements from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. 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 Company 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 Company ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2016 KShs '000	2015 KShs '000
Average for the period	-	-
Maximum for the period	-	-
Minimum for the period	-	-

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk - continued

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

Residual contractual maturities of assets and liabilities

31 December 2016	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
Balances with other banks	71,830	-	-	-	71,830
Due from group	56,730	-	-	-	56,730
Other receivables	-	-	16,445		16,445
Total financial assets	**128,560**	**-**	**16,445**	**-**	**145,005**
Liabilities					
Other liabilities	91,641	-	-	-	91,641
Total financial liabilities	**91,641**	**-**	**-**	**-**	**91,641**
	36,919	**-**	**16,445**	**-**	**53,364**
31 December 2015					
Assets					
Balances with other banks	153,433	-	-	-	153,433
Other receivables	-	-	10,110	-	10,110
Total financial assets	**153,433**	**-**	**10,110**	**-**	**163,543**
Liabilities					
Other liabilities	30,080	-	-	-	30,080
Total financial liabilities	**30,080**	**-**	**-**	**-**	**30,080**
	123,353	**-**	**-**	**-**	**133,463**

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 Company'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 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 Company is primarily exposed to currency risk. Due to the nature of the Company's current products, the exposure to any other market risk is minimal.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency risk

The company is exposed to currency risk through transactions in foreign currencies. The company'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 company 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 summarizes the foreign currency exposure as at 31 December 2015 and 31 December 2016:

	2016	2015
	KShs'000	KShs'000
Assets in foreign currencies	47,309	128,586
Liabilities in foreign currencies	(47,309)	(128,586)
Net foreign currency exposure	-	-

The table below analyses the currencies to which the company is exposed at 31 December 2016:

At 31 December 2016 – KShs'000	USD	TOTAL
Assets		
Deposits and balances due from banking institutions	47,309	47,309
Total foreign currency assets	**47,309**	**47,309**
Liabilities		
Other liabilities	47,309	47,309
Total foreign currency liabilities	**47,309**	**47,309**
Foreign currency exposure at 31 December 2016	-	-

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (continued)

Currency risk - continued

At 31 December 2015 – KShs'000	USD	TOTAL
Assets		
Deposits and balances due from banking institutions	128,586	128,586
Total foreign currency assets	**128,586**	**128,586**
Liabilities		
Other liabilities	128,586	128,586
Total foreign currency liabilities	**128,586**	**128,586**
Foreign currency exposure at 31 December 2015	-	-

The following significant exchange rates were applied during the year.

	Closing		Average	
	2016	2015	2016	2015
	KShs'000	KShs'000	KShs'000	KShs'000
USD	102.5	102.3	101.5	98.6

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

d) Settlement risk

The Company'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 company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Company 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.

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

f) Capital management

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

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

(a) Maintain a minimum capital of KShs 1,000 million (2015 – KShs 1,000 million).
(b) Maintain a core capital of not less than 8% (2015 – 8%) of total deposit liabilities.
(c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2015 – 10.5%) and
(d) Maintain a ratio of total capital to risk weighted assets including off-balance sheet assets of not less than 14.5% (2015 – 14.5%).

The Bank is compliant with all the above requirements.

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

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

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:

	2016	2015
Core capital (Tier 1)	**KShs'000**	**KShs'000**
Paid up share capital	2,000,000	1,000,000
Shares awaiting allotment	-	231,956
Retained earnings	(240,353)	-
Net after tax profits	(452,230)	(240,353)
Core capital	1,307,417	991,603
Supplementary capital (Tier 2)		
Statutory credit risk reserve	-	-
Total capital	**1,307,417**	**991,603**
On balance sheet risk weighted assets	1,059,578	795,994
Off balance sheet risk weighted assets	-	-
Total risk weighted assets	**1,059,578**	**795,994**
Capital adequacy ratios		
Core capital/total risk weighted assets (CBK minimum 10.5 %) (2015 – 10.5 %)	123.4%	124.6%
Core capital/total deposit liabilities (CBK minimum 8.0%) (2015 – 8.0%)	* -	* -
Total capital/total risk weighted assets (CBK minimum 14.5%) (2015 –14.5%)	123.4%	124.6%

* There were no deposit liabilities in 2016 and 2015 as the bank had not begun operations.

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management (continued)

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 Company 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 Company's longer term strategic objectives. The Company'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 Company's classification of each class of financial assets and liabilities, and their fair values:

	Loans and receivables KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs'000
As at 31 December 2016				
Assets				
Balances due from banking institutions	71,830	-	71,830	71,830
Due from group	56,730	-	56,730	56,730
Other receivables	16,445	-	16,445	16,445
Total assets	**145,005**	-	**145,005**	**145,005**
Other Liabilities	-	91,461	91,641	91,641
Total liabilities	-	**91,461**	**91,641**	**91,641**
As at 31 December 2015				
Assets				
Balances due from banking institutions	153,433	-	153,433	153,433
Other receivables	10,110	-	10,110	10,110
Total assets	**164,543**	-	**164,543**	**164,543**
Other Liabilities	-	30,080	30,080	30,080
Total liabilities	-	**30,080**	**30,080**	**30,080**

The fair value of the Company's financial assets and liabilities approximate their carrying amounts.

	12 months 2016 KShs'000	17 months 2015 KShs'000
5. OTHER REVENUE		
Other income	459	153

6. OPERATING EXPENSES

(a) **Personnel expenses**		
Salaries	364,976	47,468
Other staff costs	25,216	23,477
	390,192	**70,945**

The number of persons employed by the Company as at the year-end was 98 (2015 – 67). These are analysed as follows:

Average number of employees	**2016**	**2015**
Senior Management	14	13
Junior Management and supervisors	39	22
Staff	45	32
	98	67

(b) **Other operating expenses**		
Insurance expenses	1,480	884
Legal & professional expenses	12,960	16,605
Occupancy expenses	65,162	26,352
Written off – Balances held at Imperial bank	-	147,523
Other operating expenses	87,006	53,219
	166,608	**244,583**

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

Depreciation expense (Note 11)	74,962	27,921
Directors remuneration (Note 17)	-	-
Amortisation of prepaid operating lease rentals (Note 17)	65,162	26,352
Amortisation of intangible assets (Note 12)	-	-
Auditors remuneration	300	250

8. INCOME TAX

(a) ***Current tax expense/ (credit***		
- Current year	-	-
Deferred tax credit (Note 13):		
- Deferred tax credit for the year	(179,073)	(102,943)
Total tax credit	**(179,073)**	**(102,943)**

(b) The tax on the bank's loss differs from the theoretical amount using the basic tax rate as follows:

	2016 KShs'000	2015 KShs'000
Loss before income tax	**(631,303)**	**(343,296)**
Tax applicable at 30%	(189,391)	(102,989)
Tax effect of non-deductible income/expense	10,318	46
Income tax credit	**(179,073)**	**(102,943)**

9. BALANCES DUE FROM BANKING INSTITUTIONS

	2016 KShs'000	2015 KShs'000
Due within 12 months of reporting date	71,830	153,433
	71,830	**153,433**

10. OTHER ASSETS

	2016	2015
Due from group	56,730	-
Other receivables	16,445	10,110
Prepayments	42,860	31,351
Prepaid operating lease rentals	2,481	4,156
	118,516	**45,617**

11. PROPERTY AND EQUIPMENT

2016	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 2016	218,066	220,164	-	284	438,514
Additions	24,482	57,888	6,734	1,419	90,523
At 31 December 2016	**242,548**	**278,052**	**6,734**	**1,703**	**529,037**
Depreciation					
At 1 January 2016	-	27,921	-	-	27,921
Charge for the year	-	73,564	1,398	-	74,962
At 31 December 2016	-	**101,485**	**1,398**	-	**102,883**
Carrying amount					
At 31 December 2016	**242,548**	**176,566**	**5,336**	**1,703**	**426,154**
2015					
Cost					
At 15 August 2014	-	-	-	-	-
Additions	218,066	220,164	-	284	438,514
At 31 December 2015	**218,066**	**220,164**	-	**284**	**438,514**
Depreciation					
At 15 August 2014	-	-	-	-	-
Charge for the year	-	27,921	-	-	27,921
At 31 December 2015	-	**27,921**	-	-	**27,921**
Carrying amount					
At 31 December 2015	**218,066**	**192,243**	-	**284**	**410,593**

No assets were fully depreciated as at 31 December 2016 (2015 – Nil) hence there is no notional depreciation.
No assets were pledged as security as at 31 December 2016 (2015 – Nil).

12. INTANGIBLE ASSETS – SOFTWARE

2016

	Intangible assets	Work in progress	Total
Cost			
At 1 January 2016	305,033	4,064	309,097
Additions	187,837	3,608	191,445
At 31 December 2016	**492,870**	**7,672**	**500,542**
Amortisation			
At 1 January 2016	-	-	-
Amortisation during the year	-	-	-
At 31 December	-	-	-
Carrying amount as at 31 December	**492,870**	**7,672**	**500,542**

2015

	Intangible assets	Work in progress	Total
Cost			
At 15 August 2014	-	-	-
Additions	305,033	4,064	309,097
At 31 December	**305,033**	**4,064**	**309,097**
Amortisation			
At 15 August 2014	-	-	-
Amortisation during the year	-	-	-
At 31 December	-	-	-
Carrying amount as at 31 December	**305,033**	**4,064**	**309,097**

13. DEFERRED TAX ASSET

The deferred tax asset at 31 December 2016 and 31 December 2015 are attributable to the items detailed in the table below:

2016	**At 1 January 2016 KShs'000**	**Recognised in profit or loss KShs '000**	**At 31 December 2016 KShs '000**
Arising from:			
Property and equipment	29,492	27,883	57,375
Tax Losses	(132,435)	(206,956)	(339,391)
	(102,943)	**(179,073)**	**(282,016)**

2015	**At 15 August 2014 KShs'000**	**Recognised in profit or loss KShs '000**	**At 31 December 2015 KShs '000**
Arising from:			
Property and equipment	-	29,492	29,492
Tax Losses	-	(132,435)	(132,435)
	-	**(102,943)**	**(102,943)**

14. OTHER LIABILITIES

	2016 KShs' 000	2015 KShs' 000
Accruals	35,563	9,320
Other payables	56,078	20,760
	91,641	**30,080**

15. SHARE CAPITAL AND RESERVES

(a) Share capital

Shares Authorised, issued and fully paid

	2016	2015
At 1 January 2016 and 15 August 2014	1,000,000	-
Issue of 1,000,000 shares at KShs 1,000 each (2015 – 1,000,000 shares)	1,000,000	1,000,000
At 31 December	**2,000,000**	**1,000,000**

All ordinary shares rank equally with regard to the Bank's residual assets. 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.

(b) Shares awaiting allotment

During the year ended 31 December 2016 the bank had no shares awaiting allotment (2015 – KShs 231,956,000). The KShs 231,956,000 shares from the year ended 31 December 2015 were allotted in 2016.

	2016 KShs'000	2015 KShs'000
At 31 December	-	231,956

16. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before income tax to cash flows from operating activities

	2016	2015
Loss before income tax	(631,303)	(343,296)
Depreciation (Note 11)	74,962	27,921
Operating loss before working capital changes	**(556,341)**	**(315,375)**
(Increase) in operating assets		
Other assets	(72,899)	(45,617)
Increase in operating liabilities		
Other liabilities	61,561	30,080
Net cash used in operating activities	**(567,679)**	**(330,912)**

(b) Analysis of the balances of cash and cash equivalents

	2016 KShs '000	2015 KShs '000	Change in the year KShs '000
Balances with other banks	71,830	153,433	(81,603)

17. RELATED PARTY TRANSACTIONS

(a) Key management remuneration

	2016 KShs '000	2015 KShs '000
Salaries and other employee benefits	131,574	56,995

Salaries and other employee benefits include those relating to the senior management.

(b) Due from group

	2016 KShs' 000	2015 KShs' 000
Dubai Islamic Bank	56,730	-

18. OPERATING LEASES

Operating lease rentals are payable as follows:

	2016 KShs' 000	2015 KShs' 000
Within one year	65,162	26,352
Between one and five year	340,563	403,279
	405,725	**429,631**

19. CONTINGENT LIABILTIES

The company had no known contingent liabilities as at 31 December 2016 (2015 – Nil).

20. HOLDING COMPANY

The holding company is Dubai Islamic Bank PJSC, which is incorporated in United Arab Emirates.

21. CAPITAL COMMITMENTS

The Company is committed to incur a capital expenditure of KShs 1,820,000 (2015 – KShs 187,837,000) to purchase intangible assets. These commitments are expected to be settled in 2017.

22. EVENTS AFTER THE REPORTING DATE

DIB Bank Kenya Limited obtained its banking licence from the Regulator, the Central Bank of Kenya on 28 April 2017.