

DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2017

DIB BANK KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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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

*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

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

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

DIB BANK KENYA LIMITED

STATEMENT OF CORPORATE GOVERNANCE

Board/Management Committees

Tabulated below are Board/Management Committees, their composition and membership, functions and the frequency of meetings.

	Board Audit Committee	Board Risk and IT Committee	Board Credit Committee	Board Nominations and Remuneration Committee
Membership	Michael Murphy - Non - Executive Director* Steve Mainda - Non-Executive Director Mohamed Al Sharif - Non-Executive Director	Steve Mainda - Non-Executive Director Michael Murphy-Non-Executive Director* Mohamed Al Nahdi-Non-Executive Director	Steve Mainda - Non-Executive Director * Michael Murphy- Non-Executive Director Mohamed Al Sharif - Non-Executive Director	Steve Mainda - Non-Executive Director * Michael Murphy - Non-Executive Director Mohamed Al Nahdi - Non-Executive Director
Functions	The objective is to provide independent oversight of the institution's financial reporting and internal control system, ensure checks and balances within the institution are in place and to recommend appropriate remedial action regularly, preferably at least once in three months.	This committee is responsible for the management of significant risks and compliance issues affecting the Bank.	This committee is responsible for assisting the board in reviewing and overseeing the financing process of the institution.	The purpose of the Committee is to make nomination and recommendations to the Board on selection of directors, appropriate remuneration policies and practices including the Short Term / Long Term Incentive plans and its amendments as appropriate with the objective of attracting and retaining staff.
Frequency of meetings	Once per quarter	Once per quarter	Once per quarter	Once per quarter

*Chairman

DIB BANK KENYA LIMITED
STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Board Meetings attendance

There were 3 scheduled board meetings during the period as the Bank was licenced in the second quarter of 2017. The meetings were held in an atmosphere of intellectual honesty of purpose, integrity and mutual respect, requiring reporting of the highest standard by management and direct, robust and constructive challenge and debate among Board and committee members.

The Central Bank of Kenya Prudential Guidelines requires that every Board member attend a minimum of 75% of all Board meetings.

The schedule below shows attendance by directors for the period to 31 December 2017.

	Director	Executive/ Non-executive	Number of meetings attended	% attendance	Date joined
1	Dr Adnan Chilwan	Chairman	6	100%	19 October 2015
2	Dr Steve Mainda	Non-Executive Director	5	83.3%	19 October 2015
3	Mr Michael Murphy	Non-Executive Director	6	100%	19 October 2015
4	Mr Mohamed Al Nahdi	Non-Executive Director	5	83.3%	19 October 2015
5	Mr Mohamed Al Sharif	Non-Executive Director	6	100%	19 October 2015
6	Mr Dan Omoro	Managing Director/CEO	6	100%	4 May 2016

Board performance evaluation

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

In the financial year ended 2017, the Board undertook a formal evaluation of its performance and that of its committees and individual directors. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities. Overall, the results for the evaluation were positive and indicated that the Board and committees were effective and that no major changes were required. The report was submitted to CBK as required by the CBK Prudential Guidelines.

DIB BANK KENYA LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors have pleasure in submitting their report with the audited financial statements for the year ended 31 December 2017 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 11.

3. Dividend

The directors do not recommend the payment of a dividend (2016 – Nil).

4. Directors

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

5. Business overview

Performance

The Bank reported a loss before tax of KShs 839 million (2016 – KShs 631 million). The Bank began banking operations in June 2017 and has since grown a customer deposits base of KShs 1.2bn and granted financing assets worth KShs 291m for the period ended 31 December 2017.

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.

The Bank's approach to risk management include financial risk management objectives and policies. Information on the Bank's exposure to credit, liquidity, market and operational risk is discussed on pages 36 to 46 of these financial statements.

Post balance events

No material events or circumstances have arisen between the accounting date and the date of this report.

DIB BANK KENYA LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017 (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, 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 7 January 2018.

BY ORDER OF THE BOARD

Secretary

SCRIBE SERVICES


SECRETARIES

Date: 7 January 2018

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 11 to 56 which comprise the statement of financial position at 31 December 2017, 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.

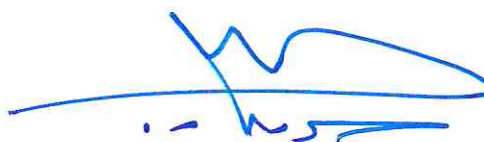
The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 7 January 2018 and were signed on its behalf by:



Dan Omoro
Managing Director/CEO



Mohamed Al Sharif
Director

Date: 7 January 2018





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/eafrica

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 11 to 56 which comprise the statement of financial position as at 31 December 2017, 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 2017, 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.

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

Report on the audit of the financial statements (continued)

Directors' responsibilities for the financial statements

As stated on page 7, 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, the 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;

- In our opinion the information given in the report of the directors on page 5 to 6 is consistent with the financial statements.
- Our opinion is unqualified.

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

Date: 7 January 2018

DIB BANK KENYA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

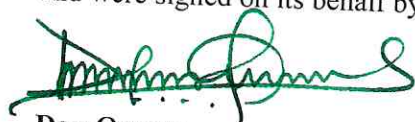
	Note	2017 KShs'000	2016 KShs'000
Income from financing and investing activities	6	13,162	-
Depositors share of profits	7	(8,909)	-
Net profit income		4,253	-
Fees and commission income	8	9,237	-
Other income		-	459
		<u>9,237</u>	<u>459</u>
Operating income		<u>13,490</u>	<u>459</u>
Personnel expenses	9(a)	(387,344)	(390,192)
Other operating expenses	9(b)	(304,239)	(166,608)
Depreciation	15	(125,325)	(74,962)
Amortisation	16	(34,737)	-
Total expenses		(851,645)	(631,762)
Operating loss before impairment losses and taxation		(838,155)	(631,303)
Impairment provision on financing assets	14(b)	(1,146)	-
Loss before income tax	10	(839,301)	(631,303)
Income tax credit	11	<u>239,454</u>	<u>179,073</u>
Loss for the year		(599,847)	(452,230)
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		(599,847)	(452,230)

The notes set out on pages 15 to 56 are an integral part of these financial statements.

DIB BANK KENYA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Assets			
Cash and balances with Central Bank	12	109,584	-
Balances due from banking institutions	13	761,400	71,830
Financing arrangements	14	290,621	-
Property and equipment	15	336,996	426,154
Intangible assets	16	492,607	500,542
Other assets	17	97,631	118,516
Deferred tax asset	18	521,470	282,016
Total assets		<u>2,610,309</u>	<u>1,399,058</u>
Liabilities			
Balances due to banking institutions	19	103,337	-
Customer deposits	20	1,181,421	-
Other liabilities	21	56,711	91,641
Total liabilities		<u>1,341,469</u>	<u>91,641</u>
Equity			
Share capital			
Funds awaiting allotment of shares	23(a)	2,000,000	2,000,000
Retained earnings	23(b)	561,270	-
Credit risk reserve		(1,294,202)	(692,583)
		1,772	-
Total equity		<u>1,268,840</u>	<u>1,307,417</u>
Total liabilities and equity		<u>2,610,309</u>	<u>1,399,058</u>

The financial statements on pages 15 to 56 were approved by the Board of Director on 7 January, 2018 and were signed on its behalf by:



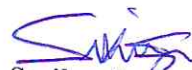
Dan Omoro
Managing Director/CEO



Mohamed Al Sharif
Director



Michael Murphy
Director



Scribes Services
Company secretary

The notes set out on pages 15 to 56 are an integral part of these financial statements.



DIB BANK KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY **FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital KShs'000	Shares awaiting allotment KShs'000	Statutory credit risk reserve KShs'000	Retained earnings KShs'000	Total equity KShs'000
2017					
At 1 January 2017	2,000,000	-	-	(692,583)	1,307,417
Comprehensive income for the period					
Loss for the year	-	-	-	(599,847)	(599,847)
Total comprehensive income	-	-	-	(599,847)	(599,847)
Transfer to statutory credit risk reserve	-	-	1,772	(1,772)	-
Transaction with owners					
Issue of shares (Note 23(b))	-	561,270	-	-	561,270
At 31 December 2017	2,000,000	561,270	1,772	(1,294,202)	1,268,840
2016					
At 1 January 2016	1,000,000	231,956	-	(240,353)	991,603
Comprehensive income for the period					
Loss for the year	-	-	-	(452,230)	(452,230)
Total comprehensive income	-	-	-	(452,230)	(452,230)
Transaction with owners					
Issue of shares (Note 23(a))	1,000,000	(231,956)	-	-	768,044
At 31 December 2016	2,000,000	-	-	(692,583)	1,307,417

The notes set out on pages 15 to 56 are an integral part of these financial statements.

DIB BANK KENYA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 KShs'000	2016 KShs'000
Net cash used in operating activities	24	<u>262,013</u>	<u>(567,679)</u>
Investing activities			
Purchase of property and equipment	15	(36,167)	(90,523)
Purchase of intangible assets	16	<u>(26,802)</u>	<u>(191,445)</u>
Net cash used in investing activities		<u>(62,969)</u>	<u>(281,968)</u>
Financing activities			
Shareholders' funds awaiting allotment	23(b)	561,270	-
Proceeds from issue of share capital	23(b)	<u> -</u>	<u>768,044</u>
Net cash flows from investing activities		<u>561,270</u>	<u>768,044</u>
Net increase/(decrease) in cash and cash equivalents	24	760,314	(81,603)
Cash and cash equivalents at 1 January		<u>71,830</u>	<u>153,433</u>
Cash and cash equivalents at 31 December		<u>832,144</u>	<u>71,830</u>

The notes set out on pages 15 to 56 are an integral part of these financial statements.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

2. BASIS OF PREPARATION (Continued)

(c) Use of estimates and judgments (continued)

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

Critical accounting judgements made in applying the Bank's accounting policies include financial asset and liability classification. The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held-to-maturity, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date.

3. DEFINITIONS OF THE BANK'S PRODUCTS

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

(a) Murabaha

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

(b) Diminishing Musharaka

An Islamic financing transaction whereby the Bank will enter into agreement to jointly purchase an asset with another party and income will be received by the Bank relating to that proportion of the asset owned by the Bank at any point in time. The other party to the agreement will make separate payments to purchase additional proportion of the asset from the Bank thereby reducing the Bank's effective share.

(c) Ijarah

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

(d) Mudaraba

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

(e) Customer deposits

Deposits are generated on two modes; Qard and Mudaraba. Deposits taken on the basis of Qard are classified as current accounts while deposits generated on Mudaraba basis are classified as savings and time deposit accounts. No profit or loss is passed to current account depositors. Profit realised in investment pools is distributed among depositors in pre-agreed profit sharing ratio. Rab ul Maal share is distributed among depositors according to weightages assigned at the inception of the profit calculation period.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

This note presents information about the Company's exposure to each of the above risks, the Bank'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 Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Country Management, Credit Management and Risk Management committees, which are responsible for developing and monitoring risk management policies in their specified areas.

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The 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 Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

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

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

Management of credit risk

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

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

The Bank's exposure to credit risk on financing arrangements is analysed as follows:

<i>(i) Exposure to credit risk</i>	2017 KShs'000	2016 KShs'000
Individually impaired		
Impaired	-	-
Specific impairment losses	-	-
Carrying amount	-	-
Collectively impaired		
Neither past due nor impaired	291,767	-
Past due but not impaired (1-3 months)	-	-
Portfolio impairment allowance	(1,146)	-
Carrying amount	<u>290,621</u>	-
Total carrying amount	<u>290,621</u>	-

Impaired financing arrangements

Impaired financing arrangements are financing arrangements for which the Bank 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). 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 Bank 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 Bank.

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 Bank 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

Impaired financing arrangements (Continued)

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 asset is individually assessed as impaired. Collateral generally is not held over deposits and balances due from banking institutions, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Fair values of collateral held:	2017	2016
	KShs'000	KShs'000
Impaired financing arrangements	-	*
Past due but not impaired financing arrangements	-	*
Not past due nor impaired financing arrangements	<u>489,645</u>	<u>*</u>

* There were no financing arrangements in 2016 as the Bank had not begun operations.

Monitoring concentration risk

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

	KShs'000	Percentage
Energy	-	-
Manufacturing	-	-
Real estate	51,910	18%
Wholesale and retail trade	47,050	16%
Transport and communication	81,638	28%
Others	<u>111,169</u>	<u>38%</u>
Total gross financing arrangements	<u>291,767</u>	<u>100%</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (continued)

	2017	2016
	KShs'000	KShs'000
Concentration by Sector - 2016		
Energy	-	-
Manufacturing	-	-
Real estate	-	-
Wholesale and retail trade	-	-
Transport and communication	-	-
Others	-	-
Total gross financing arrangements	-	-
The Company's other exposures to credit risk relates to:		
Cash and balances with central Bank	109,584	-
Balances due from banking institutions	761,400	71,830
Due from group	-	56,730
Other receivables	17,493	16,445
	888,477	145,005

(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 Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk - continued

	2017 %	2016 %
Average for the period	184.1	*
Maximum for the period	503.1	*
Minimum for the period	<u>63.3</u>	<u>*</u>

* There were no deposit liabilities in 2016 as the Bank had not begun operations.

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

Residual contractual maturities of assets and liabilities

31 December 17	Due within 3 months KShs'000	Due between 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Due after 5 years KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank	109,584	-	-	-	109,584
Balances with other banks	761,400	-	-	-	761,400
Financing arrangements	-	772	208,777	81,072	290,621
Other assets	-	-	17,493	-	17,493
Total financial assets	870,984	772	226,270	81,072	1,179,098
Liabilities					
Customer deposits	1,139,047	42,374	-	-	1,181,421
Balances due to banking institutions	103,337	-	-	-	103,337
Due to related parties	14,079	-	-	-	14,079
Other liabilities	42,632	-	-	-	42,632
Total financial liabilities	1,299,095	42,374	-	-	1,341,469
	(428,111)	(41,602)	226,270	81,072	(162,371)
31 December 2016					
Assets					
Balances with other banks	71,830	-	-	-	71,830
Other assets	56,730	-	16,445	-	73,175
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

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(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 management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The 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.

(d) 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 summarises the foreign currency exposure as at 31 December 2017 and 31 December 2016:

	2017 KShs'000	2016 KShs'000
Assets in foreign currencies	637,549	47,309
Liabilities in foreign currencies	(640,144)	(47,309)
Net foreign currency exposure	(2,595)	-

The table below analyses the currencies to which the Company is exposed at 31 December 2017:

	USD KShs'000	EUR KShs'000	GBP KShs'000	AED KShs'000	ZAR KShs'000	Total KShs'000
Assets						
Cash on hand	18,695	713	436	112	-	19,956
Deposits and balances due from banking institutions	512,447	882	1,373	3,836	418	518,956
Financing arrangements	98,563	-	-	-	-	98,563
Other assets	53	14	3	4	-	74
Total foreign currency assets	629,758	1,609	1,812	3,952	418	637,549
Customer deposits	534,806	808	809	337	-	536,760
Due from other banking institutions	103,337	-	-	-	-	103,337
Other liabilities	47	-	-	-	-	47
Total foreign currency liabilities	638,190	808	809	337	-	640,144
Exposure as at 31 December 2017	(8,432)	801	1,003	3,615	418	(2,595)

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk (Continued)

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

The following significant exchange rates were applied during the year.

Currency	Closing		Average	
	2017	2016	2017	2016
USD	103.30	102.50	103.40	101.50
GBP	138.75	125.42	133.11	137.64
EUR	108.17	111.72	116.70	112.36
AED	28.10	27.90	28.15	27.63
ZAR	8.35	7.39	7.78	6.93

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

(e) 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.

(f) 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Operational risk (Continued)

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.

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.

(g) 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 (2016 – KShs 1,000 million).
- (b) Maintain a core capital of not less than 8% (2016 – 8%) of total deposit liabilities.
- (c) Maintain a minimum core capital to risk weighted assets including off-balance sheet assets of 10.5% (2016 – 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% (2016 – 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.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(g) Capital management (Continued)

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

Credit risk weights are measured by means of a hierarchy of four risk weights classified according to the nature of (and reflecting an estimate of the credit risk associated with) each asset and counterparty. This treatment is also adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

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

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

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

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

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

	2017	2016
	KShs'000	KShs'000
Core capital (Tier 1)		
Paid up share capital	2,000,000	2,000,000
Shares awaiting allotment	561,270	-
Retained earnings	(692,583)	(240,353)
Net after tax profits	(599,847)	(452,230)
Core capital	1,267,068	1,307,417
Statutory credit reserve	1,772	-
Total capital	<u>1,268,840</u>	<u>1,307,417</u>
On balance sheet risk weighted assets	1,560,627	1,059,578
Off balance sheet risk weighted assets	9,470	-
Total risk weighted assets	<u>1,570,097</u>	<u>1,059,578</u>
Capital adequacy ratios		
Percentage of Core Capital to Risk Weighted Asset ratio	70.0%	123.4%
Minimum requirement	10.5%	10.5%
Percentage of Total Capital to Risk Weighted Asset ratio	70.1%	123.4%
Minimum requirement	14.5%	14.5%
Percentage of Core Capital to Deposits ratio	107.2%	*
Minimum requirement	<u>8.0%</u>	<u>8.0%</u>

* There were no deposit liabilities in 2016 as the Bank had not begun operations.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

(g) 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.

(h) 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:

	Financing assets and receivables	Other amortised cost	Total carrying amount	Fair value
As at 31 December 2017	KShs'000	KShs'000	KShs'000	KShs'000
Assets				
Cash and balances with Central Bank	109,584	-	109,584	109,584
Balances due from banking institutions	761,400	-	761,400	761,400
Financing arrangements	290,621	-	290,621	290,621
Other receivables	17,493	-	17,493	17,493
Total assets	1,179,098	-	1,179,098	1,179,098
Customer deposits	-	1,181,421	1,181,421	1,181,421
Balances due to banking institutions	-	103,337	103,337	103,337
Other Liabilities	-	56,711	56,711	56,711
Total liabilities	-	1,341,469	1,341,469	1,341,469
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	-	91,641	91,641	91,641
Total liabilities	-	91,641	91,641	91,641

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

5. FINANCIAL RISK MANAGEMENT (Continued)

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

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

6. INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2017	2016
	KShs'000	KShs'000
Income from financing arrangements	5,198	-
Income from investing assets – Placements	<u>7,964</u>	<u>-</u>
	<u>13,162</u>	<u>-</u>

Included in income from investing activities is income derived from Murabaha and Wakala placements made with Islamic banks and Islamic windows of conventional banks.

7. DEPOSITORS SHARE OF PROFITS

	2017	2016
	KShs'000	KShs'000
Time deposits	8,486	-
Savings deposits	386	-
Interbank deposits	<u>37</u>	<u>-</u>
	<u>8,909</u>	<u>-</u>

8. FEES AND COMMISSION INCOME

Credit related fees and commissions	6,320	-
Other fees	<u>2,917</u>	<u>-</u>
	<u>9,237</u>	<u>-</u>

9. OPERATING EXPENSES

(a) Personnel expenses

Salaries	299,423	348,444
Directors' emoluments– executive	15,830	16,532
Other staff costs	<u>72,091</u>	<u>25,216</u>
	<u>387,344</u>	<u>390,192</u>

The number of persons employed by the Company as at the year-end was 106 (2016 – 98). These are analysed as follows:

Average number of employees	2017	2016
Senior Management	15	14
Junior Management and supervisors	39	39
Other Staff	<u>52</u>	<u>45</u>
	<u>106</u>	<u>98</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

9. OPERATING EXPENSES (Continued)

(b) Other operating expenses	2017	2016
	KShs'000	KShs'000
Insurance expenses	7,244	1,480
Legal & professional expenses	22,677	12,960
Occupancy expenses	72,840	65,162
Directors' emoluments – non executive (Note 25(e))	8,566	-
Other operating expenses	<u>192,912</u>	<u>87,006</u>
	<u>304,239</u>	<u>166,608</u>

10. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

Depreciation expense (Note 15)	125,325	74,962
Amortisation of intangible assets (Note 16)	34,737	-
Amortisation of prepaid operating lease rentals (Note 26)	72,840	65,162
Directors' remuneration – Non executive (Note 25(e))	8,566	-
– Executive 9(a)	15,830	16,532
Auditors' remuneration	<u>2,400</u>	<u>300</u>

11. INCOME TAX

(a) Current tax expense/ (credit)

- Current year

Deferred tax (Note 18):

- Deferred tax credit for the year

- Prior year over provision

Total tax credit

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

	2017	2016
	KShs'000	KShs'000
Loss before income tax	(839,301)	(631,303)
Tax applicable at 30%	(251,790)	(189,391)
Tax effect of non-chargeable income and non-deductible Expense	<u>12,336</u>	<u>10,318</u>
Income tax credit	<u>(239,454)</u>	<u>(179,073)</u>

12. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Cash on hand	70,744	-
Balances with Central Bank of Kenya:		
Restricted balances (cash reserve ratio)	38,840	-
Unrestricted balances with Central Bank of Kenya	<u>-</u>	<u>-</u>
	<u>109,584</u>	<u>-</u>

By law, commercial banks are required to maintain prescribed cash balances with Central Bank of Kenya as a cash ratio requirement which is non-yield bearing. This balance is determined on the basis of outstanding customer deposits at the end of the preceding month and is maintained over a cycle of one month.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

12. CASH AND BALANCES WITH CENTRAL BANK OF KENYA (Continued)

As at 31 December 2017, the cash ratio requirement was 5.25% (2016 - 5.25%) of customer deposits. These funds are however available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3% of the requirement and provided that the overall average in the month is at least 5.25%.

13. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2017 KShs'000	2016 KShs'000
Placements with other banks	220,090	-
Deposits and other balances with banks	541,310	71,830
	<u>761,400</u>	<u>71,830</u>

14. FINANCING ARRANGEMENTS

(a) Classification

Murabaha	132,108	-
Ijarah	159,659	-
Gross financing arrangements	291,767	-
Impairment provisions	(1,146)	-
Net financing arrangements	<u>290,621</u>	<u>-</u>
Repayable within:		
Less than 3 months	-	-
3 months to 1 year	775	-
1 to 5 years	209,600	-
Over 5 years	81,392	-
	<u>291,767</u>	<u>-</u>

(b) Impairment provisions

	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
2017			
At 1 January 2017	-	-	-
Charge for the year	1,146	-	1,146
At 31 December 2017	<u>1,146</u>	<u>-</u>	<u>1,146</u>
2016			
At 1 January 2016	-	-	-
Charge for the year	-	-	-
At 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15. PROPERTY AND EQUIPMENT

2017	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 2017	242,548	278,052	6,734	1,703	529,037
Additions	17,621	17,855	-	691	36,167
Transfers	-	1,703	-	(1,703)	-
At 31 December 2017	260,169	297,610	6,734	691	565,204
Depreciation					
At 1 January 2017	-	101,485	1,398	-	102,883
Charge for the year	41,556	82,083	1,686	-	125,325
At 31 December 2017	41,556	183,568	3,084	-	228,208
Carrying amount as at December 2017	218,613	114,042	3,650	691	336,996
2016					
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 as at 31 December 2016	242,548	176,567	5,336	1,703	426,154

No assets were fully depreciated as at 31 December 2017 (2016 – Nil) hence there is no notional depreciation.

No assets were pledged as security as at 31 December 2017 (2016 – Nil).

Capital work in progress relates to instant debit card pins project.

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

16. INTANGIBLE ASSETS – SOFTWARE

2017	Intangible assets	Work in progress	Total
Cost	KShs'000	KShs'000	KShs'000
At 1 January 2017	492,870	7,672	500,542
Additions	26,802	-	26,802
Transfer	7,672	(7,672)	-
At 31 December 2017	<u>527,344</u>	<u>-</u>	<u>527,344</u>
Amortisation			
At 1 January 2017	-	-	-
Amortisation during the year	<u>34,737</u>	<u>-</u>	<u>34,737</u>
At 31 December	<u>34,737</u>	<u>-</u>	<u>34,737</u>
Carrying amount as at 31 December 2017	<u>492,607</u>	<u>-</u>	<u>492,607</u>
2016			
Cost			
At 1 January 2016	305,033	4,064	309,097
Additions	<u>187,837</u>	<u>3,608</u>	<u>191,445</u>
At 31 December 2016	<u>492,870</u>	<u>7,672</u>	<u>500,542</u>
Amortisation			
At 1 January 2016	-	-	-
Amortisation during the year	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount as at 31 December 2016	<u>492,870</u>	<u>7,672</u>	<u>500,542</u>

17. OTHER ASSETS

	2017	2016
	KShs' 000	KShs' 000
Due from group	-	56,730
Other receivables	17,493	16,445
Prepayments	74,355	42,860
Prepaid operating lease rentals	<u>5,783</u>	<u>2,481</u>
	<u>97,631</u>	<u>118,516</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

18. DEFERRED TAX ASSET

The deferred tax asset at 31 December 2017 and 31 December 2016 are attributable to the items detailed in the table below:

	At January 2017	Recognised in	Over	At
	KShs' 000	profit or loss	provision in	31
2017		KShs' 000	prior year	December
			KShs' 000	2017
				KShs' 000
Property and equipment	57,375	2,821	(295)	59,901
Impairment losses	-	(344)	-	(344)
Tax losses	(339,391)	(241,636)	-	(581,027)
	<u>(282,016)</u>	<u>(239,159)</u>	<u>(295)</u>	<u>(521,470)</u>

	At January 2016	Recognised in	Over	At
	KShs' 000	profit or loss	provision in	31
2016		KShs' 000	prior year	December
			KShs' 000	2016
				KShs' 000
Property and equipment	29,492	27,883	-	57,375
Impairment losses	-	-	-	-
Tax losses	(132,435)	(206,956)	-	(339,391)
	<u>(102,943)</u>	<u>(179,073)</u>	<u>-</u>	<u>(282,016)</u>

The tax losses expire within 10 years from the year in which they arose under the current tax laws.

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

Year of Origin	Amount KShs'000	Year of expiry
2015	441,449	2024
2016	689,855	2025
2017	805,446	2026
Total	1,936,750	

19. DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

	2017	2016
	KShs'000	KShs'000
Deposits from banking institutions due within 12 months	<u>103,337</u>	-

20. CUSTOMER DEPOSITS

Time deposits	605,345	-
Current accounts deposits	566,637	-
Savings accounts deposits	<u>9,439</u>	-
	<u>1,181,421</u>	-

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

21. OTHER LIABILITIES	2017	2016
	KShs'000	KShs'000
Accruals	26,533	35,563
Due to group	14,079	-
Other payables	<u>16,099</u>	<u>56,078</u>
	<u>56,711</u>	<u>91,641</u>

22. CHARITABLE WELFARE ACTIVITIES		
As at January	610	156
Additions during the year	828	454
Donated to charitable activities	<u>-</u>	<u>-</u>
As at 31 December 2017	<u>1,438</u>	<u>610</u>

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

23. SHARE CAPITAL AND RESERVES

(a) Share capital

Shares Authorised, issued and fully paid	2017	2016
	KShs'000	KShs'000
At 1 January	2,000,000	1,000,000
Issue of shares during the year (2016 – 1,000,000 shares at KShs 1,000 each)	<u>-</u>	<u>1,000,000</u>
At 31 December	<u>2,000,000</u>	<u>2,000,000</u>

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 2017 the Bank had KShs 561,270,000 worth of shares awaiting allotment (2016 – KShs Nil).

	2017	2016
	KShs'000	KShs'000
At 31 December	<u>561,270</u>	<u>-</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

24. NOTES TO THE STATEMENT OF CASH FLOWS

	2017 KShs' 000	2016 KShs' 000
Loss before income tax	(839,301)	(631,303)
Adjusted for:		
Depreciation (Note 15)	125,325	74,962
Amortisation of intangible asset (Note 16)	<u>34,737</u>	<u>-</u>
Operating loss before working capital changes	(679,239)	(556,341)
(Increase)/decrease in operating assets		
Central Bank of Kenya cash reserve ratio	(38,840)	-
Financing arrangements	(290,621)	-
Other assets	20,885	(72,899)
Increase/(decrease) in operating liabilities		
Customers' deposits	1,181,421	-
Deposits and balances due to banking institutions	103,337	-
Other liabilities	<u>(34,930)</u>	<u>61,561</u>
Net cash flow from/(used in) operating activities	<u>262,013</u>	<u>(567,679)</u>

Analysis of the balances of cash and cash equivalents

	2017 KShs'000	2016 KShs'000	Change in the year KShs'000
Cash on hand (Note 12)	70,744	-	70,744
Balances with other banks (Note 13)	<u>761,400</u>	<u>71,830</u>	<u>689,570</u>
	<u>832,144</u>	<u>71,830</u>	<u>760,314</u>

25. RELATED PARTY TRANSACTIONS

(a) Key management remuneration	2017 KShs'000	2016 KShs'000
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Salaries and other short-term employment benefits	<u>114,619</u>	<u>131,574</u>
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Salaries and other short-term employment benefits include those relating to the executive director disclosed in Note 9 (a).

(b) Financing arrangements – key management	2017 KShs'000	2016 KShs'000
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At 1 January	-	-
Advanced during the year	43,016	-
Repaid during the year	<u>(482)</u>	<u>-</u>
At 31 December	<u>42,534</u>	<u>-</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

25. RELATED PARTY TRANSACTIONS (Continued)

(b) Financing arrangements – key management (continued)

Profit earned on financing arrangements to key management amounted to KShs 208,686 (2016 – KShs Nil).

All outstanding balances with key management personnel are performing. No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

(c) Deposits - directors and their associates	2017	2016
	KShs'000	KShs'000

Deposits as at 31 December	<u>2,633</u>	<u>-</u>
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(d) Deposits – key management

Deposits as at 31 December	<u>26,240</u>	<u>-</u>
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(e) Directors remuneration

Fees for services as directors	3,812	-
Other remuneration	<u>4,754</u>	<u>-</u>
	<u>8,566</u>	<u>-</u>

(f) Due from group

Dubai Islamic Bank PJSC	<u>-</u>	<u>56,730</u>
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The balances due from group of KShs 56,730,000 in 2016 related to additional funding to be received in addition to the available capital of KShs 1,943,270,000 so as to make up the issued share capital of KShs 2 Billion. These funds were received in 2017.

(g) Due to group	2017	2016
	KShs' 000	KShs' 000

Dubai Islamic Bank PJSC (Note 21)	<u>14,079</u>	<u>-</u>
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The balances due to group of KShs 14,079,000 in 2017 related to reimbursements of expenses incurred by the subsidiary but paid for by the parent.

26. OPERATING LEASES

Operating lease rentals are payable as follows:

	2017	2016
	KShs' 000	KShs' 000
Within one year	72,840	65,162
Between one and five years	<u>265,277</u>	<u>365,264</u>
	<u>338,117</u>	<u>430,426</u>

DIB BANK KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

27. CONTINGENT LIABILITIES

	2017 KShs' 000	2016 KShs' 000
Letters of credit	<u>9,470</u>	<u>—</u>

28. HOLDING COMPANY

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

29. CAPITAL COMMITMENTS

The Bank is committed to incur a capital expenditure of KShs 46,201,000 (2016 – KShs 1,820,000) to purchase intangible assets. These commitments are expected to be settled in 2018.

30. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the accounting date and the date of this report.