

Middle East Bank Kenya Ltd

Qualitative Disclosures – 30/09/2019

1. Financial Performance

The Bank achieved a net *profit* before tax of Kshs 100m for the period ended 30th September 2019 compared to net *loss* before tax of Kshs 100.6m for a similar period of 2018. The net *profit* achieved after tax was Kshs 70.1m for the period ended 30th September 2019 compared to net *loss* after tax of Kshs 70.6m for a similar period of 2018. The Bank's total assets stood at Kshs 6.914bn from Kshs 5.344bn in the same period last year. The balance sheet increase has largely been driven by increase in Customer deposits. Increase in Customer advances has contributed to higher interest income hence countering the negative impact of interest capping. Facility fees also increased with higher volume of Customer advances. Increased deposits have contributed to higher interest expense.

2. Financial Position

The Bank's financial position has improved in 2019 compared to similar period in 2018. Total shareholder funds increased from Kshs 1.062bn as at 30-09-2018 to Kshs 1.221bn as at 30-09-2019 largely due to increased retained earnings. With regard to the liquidity ratio as at 30-09-2019, this decreased to 36.95% compared to 54.38% as at 30-09-2018. The increase in customer advances contributed to the decrease in liquidity ratio despite increased deposits. The Bank was well above the minimum statutory ratios for core capital to deposit liabilities, risk-weighted assets and total capital to risk weighted assets.

3. Risk Management Strategies and Practices

The Banks' risk management policies and processes are designed to identify and analyze risk, set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date data. Risk management policies, models and systems are regularly reviewed to reflect changes in market, products and best market practice.

The Board of Directors is responsible for setting overall risk appetite of the bank and oversees the management of the most significant risks through regular review of risk exposures and related key controls. The Board Risk and Compliance Committee (BRCC) is responsible for monitoring the Banks' risk profile against the agreed risk appetite and reports on the same to the Board. At management level, there is the Risk Management Committee (RMC) which oversees the risk management process and ensures checks and balances are in place to curb against any would be arising risk. The Risk and Compliance Manager is a member of the Senior Management team of the Bank and has overall day to day responsibility for risk management and reports directly to the

BRCC. The Internal Audit function is responsible for the independent review of risk management and the control environment.

4. Risk Exposures

The Bank has adopted a Risk Management Framework for identifying, monitoring and addressing the various risk exposures faced in day to day operations. In addition various limits are in place with respect to risk exposure within which the Bank must operate. These limits are monitored on a daily basis and reported to the RMC on a monthly basis and to the BRCC and Board of Directors on quarterly basis.

5. Related Parties

Our total insider loans and advances to Directors, shareholders, associates and employees increased from Kshs 112.4m as at 30-09-2018 to Kshs 259.4m as at 30-09-2019. The Bank has complied with the Prudential Guidelines on the prescribed level of insider lending and no insider advance exceeds 20% of the core capital of the Bank.

6. Group Structure

The Bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya with no Group companies. The Bank currently has 5 branches in Nairobi, Mombasa and Eldoret.

7. Accounting Policies

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Additional information required by national regulations is included where appropriate. The measurement basis applied is the historical cost basis except for financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

Our detailed accounting policies are as disclosed in our Annual report and financial statements.

8. Business, management and corporate governance

The Board of Directors has overall oversight on the Bank. There are various Board committees as prescribed by the Prudential Guidelines such as Board Credit Committee, Board Audit Committee, Board Risk and Compliance Committee and these have quarterly meetings. The Bank has competent staff to manage the various functions. In addition, the Bank has several committees that manage the Bank's business such as ALCO, Risk Management, ICT Steering, Financial and Management Committees. These meet at least monthly to assess the Bank's performance and monitor risk with the exception of Financial and Management that meets bi-monthly.