

Middle East Bank Kenya Ltd

Qualitative Disclosures – 31/12/2020

1. Financial Performance

The Bank's profit before tax increased from Shs 59.6 million in 2019 to Shs 105.2 million in the year ended 31 December 2020. This was mainly due to growth in interest income from loans and advances and government securities as well as growth in fees and commissions income.

2. Financial Position

The Bank's financial position improved in 2020 compared to similar period in 2019. The balance sheet grew from Shs 8.5 billion to Shs 11 billion in 2020, underpinned by growth in deposits from Shs 6.84 billion to Shs 9.52 billion and loans from Shs 5.96 billion to Shs 7.28 billion.

Total shareholder funds increased from Shs 1.156bn as at 31-12-2019 to Shs 1.274bn as at 31-12-2020 due to increased profitability year on year. Liquidity ratio as at 31-12-2020 was slightly higher at 31.5% compared to 24.2% as at 31-12-2019 due to increased customer 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 our 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.

Impact of Covid-19

Throughout the Covid-19 outbreak, we have supported our customers and adapted our operational processes. Our people, processes and systems have responded to the changes needed and increased the workload in serving our customers through this time. Operational resilience has been evident throughout the Bank, where we have maintained high levels of service throughout the Covid-19 outbreak and the continuing domestic social unrest. The performance of our operations has together with the overall balance sheet and liquidity position of the Bank remained strong. 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.

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during crises. Stress tests are used to calibrate our risk appetite and to review the robustness of our strategic and financial plans, helping to improve the quality of management's decision making. Stress testing analysis assists management in understanding the nature and extent of vulnerabilities to which the Bank is exposed. The results from the stress tests also drive recovery and resolution planning to enhance the Bank's financial stability.

We conducted a range of internal stress tests during the fourth quarter of 2020. These included stress tests to assess the potential future impacts of the Covid-19 crisis and assess the resilience of key balance sheet metrics including our capital adequacy. We continue to monitor emerging political, economic and environmental risks impacting the Bank's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on regulatory and internal stress test outcomes.

Our operations

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. We continue to operate in a challenging environment in which cyber threats are prevalent. We continue to invest in business and technical controls to defend against these threats.

We have remained operationally resilient and have continued to keep our customers at the forefront of our operations. We have maintained close to normal levels of operations across our branches.

So far, there have been no adverse impact that may cast doubt on the ability of the Bank to continue as a going concern. Directors do not anticipate any major impact on the operations of the Bank going forward as a result of the pandemic.

5. Related Parties

Our total insider loans and advances to Directors, shareholders, associates and employees decreased from Shs 417.7m as at 31-12-2019 to Shs 244.5m as at 31-12-2020. The Bank has complied with the Prudential Guidelines on the prescribed level of insider lending.

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 4 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.

***Prepared by
Finance Department***