I&M Bank LIMITED

RWANDA

2016

Annual Report and Financial Statements For The Year Ended 31st December 2016

Vibrant Colors of Growth

East African people have a long history of producing intricate textiles from back in the earlier ages to the introduction of looms and printing in modern times. Today, East Africa continues to emphasize the use of natural fibres - such as cotton, wool, palm, jute, flax, and silk for weaving. The use of woven colorful yarns, textured fabrics, applique designs, embroidery, tie-dye, batik and resist dyeing result in vibrant designs and textures.

They make each fabric a canvas for communities and cultures to express themselves - from Khanga, Kitenge, Kikoi to Kente designs that are popular in Kenya, Tanzania, Uganda and Rwanda. As we grow in Sub-Saharan Africa, we are discovering the richness in the culture of our people.

The vibrancy and energy of these colours reflect, in many ways, the spirit that has driven the growth of I&M Bank in the past many years. Join us in a celebration of our growth as is reflected in the colours of these varied and vibrant fabrics.

CONTENTS

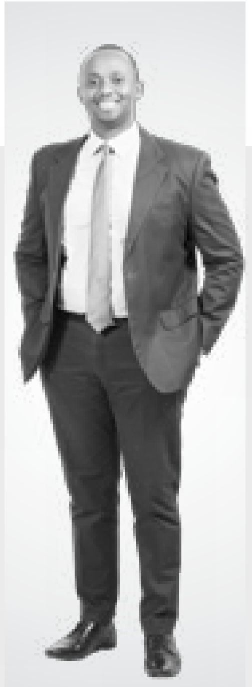
BOARD OF DIRECTORS - 2016

SENIOR MANAGEMENT TEAM - 2016

Robin Bairstow
Managing Director

Faustin Byishimo
Executive Director and Div. Head of Business Development

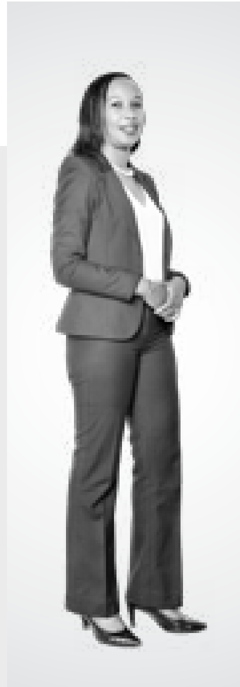
Michael Obiero
General Manager / Operations & Internal Services



Ngagi Kabarega
Head of Risk

Alfred Baguma
Head of Credit

Benjamin Mutimura
Head of Corporate Banking



Cynthia Rwamamara
Head of Internal control and Compliance

Louise Kagaju
Chief Internal Auditor

Diana Kwarisiima
Head of Human Resources

John Gatashya
Chief Finance Officer

Callixte Nyilindekwe
Head of Business Banking

Blaise Pascal Gasabira
Head of Treasury

Nicolas Uwimana
Head of Legal

I&M Bank (Rwanda) LTD Annual Report and Financial Statements for the year ended 31st December 2016

BANK INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

BOARD OF DIRECTORS
Bill Irwin – Chairman
Robin C. Bairstow – Managing Director
Faustin Byishimo – Executive Director
Richard Mugisha – Non Executive Director
Arun S. Mathur – Non Executive Director
Soundararajan Madabhushi – Non Executive Director
Bonaventure Niyibizi - Non Executive Director
Jonathan Nzayikorera – Non Executive Director

PRINCIPAL PLACE OF BUSINESS
I&M Bank (Rwanda) Limited
KN 3 AV/9
P.O. Box 354
Kigali
Rwanda

REGISTERED OFFICE
I&M Bank (Rwanda) Limited
KN 3 AV/9
P.O. Box 354
Kigali
Rwanda

BANKERS
National Bank of Rwanda
P.O. Box 531
Kigali
Rwanda

I&M Bank (T) Limited
Maktaba Square
Maktaba Street
P.O. Box 1509
Dar es Salaam
Tanzania

CORRESPONDENT BANKS
CITIBANK, N.A
3800 Citibank Center
Building B,3rd Floor
Tampa, FL 33610

ING BELGIQUE S.A
Avenue Marnix 24
B- 1000 Bruxelles
RPM Bruxelles

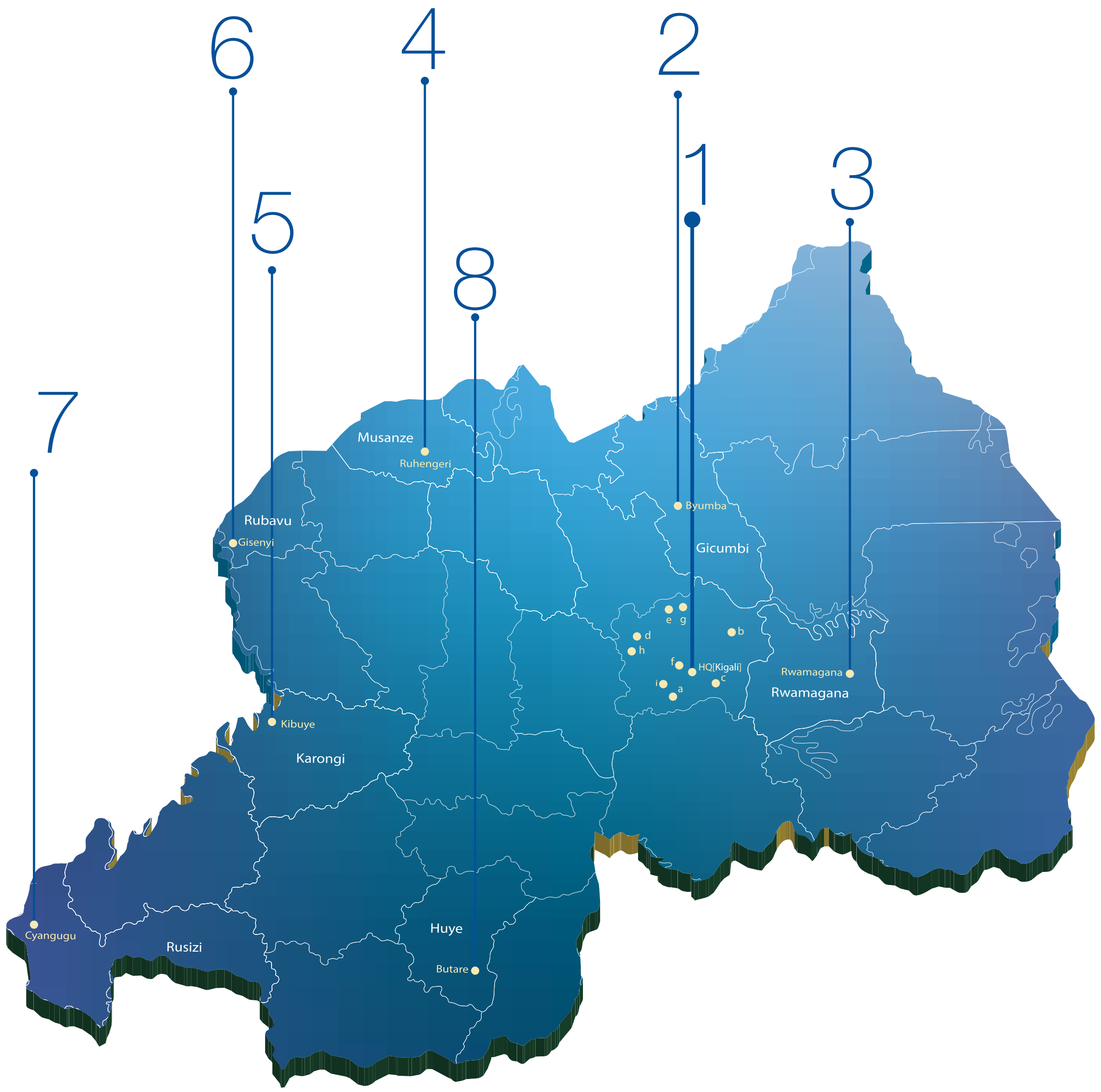
I&M Bank Limited
I&M Bank House
2nd Ngong Avenue
P.O. Box 30238- 00100 GPO
Nairobi
Kenya

Bank One Limited
16 Sir William Newton Street
Port Louis
Mauritius

AUDITORS
Ernst & Young Rwanda Limited
M-Peace Plaza
Avenue de la Paix
P.O. Box 3638
Kigali
Rwanda

SECRETARY
Lena Militisi
KN 3 AV/9
P.O. Box 354
Kigali
Rwanda

OUR LOCATIONS



OUR LOCATIONS

[1] Kigali *(Head Office)*
[a] Kacyiru - Umubano
[b] Remera
[c] Nyamirambo
[d] CHIC
[e] Nyabugogo
[f] Kenya Airways *(Cash & Deposit Counter)*
[g] Magerwa *(Cash & Deposit Counter)*
[h] KCM *(Kigali City Market)*
[i] Kigali Heights
[2] Gicumbi
[3] Rwamagana
[4] Musanze
[5] Karongi
[6] Rubavu
[7] Rusizi
[8] Huye

OUR LOCATIONS

HEAD OFFICE - RWANDA
KN 3 Av / 9
Tel: +250 788 162 026
Customerservices@imbank.co.rw

REMERA
Gasabo District
Tel: +250 788 162 161

NYAMIRAMBO
Nyarugenge District
Tel: +250 788 162 188

NYABUGOGO
Nyarugenge District
Tel: +250 788 162 162

CHIC COMPLEX
Nyarugenge District
Tel: +250 788 162 198

KIGALI CITY MARKET
Nyarugenge District
Tel: +250 788 162 182

KIGALI HEIGHTS
Gasabo District
Tel: +250 788 162 160

KENYA AIRWAYS
(Cash & Deposit Counter)
Nyarugenge District (UTC Building)
Tel: +250 788 162 026

MAGERWA
(Cash & Deposit Counter)
Kicukiro District (MAGERWA office)
Tel: +250 788 162 169

RUSIZI
Rusizi District
Tel: +250 788 162 164

RUBAVU
Rubavu District
P.O.Box 169
Western Province
Tel: +250 788 162 197

MUSANZE
Musanze District
P.O. Box 120
Musanze Rwanda
Tel: +250 788 162 170

GICUMBI
Gicumbi District
Tel: +250 788 162 165

RWAMAGANA
Rwamagana District
Tel: +250 788 162 174

KARONGI
Karongi District
RSSB Building
Tel: +250 788 162 181

HUYE
Huye District.
P.O.Box 616 Huye Rwanda
Tel: +250 788 162 163

HEAD OFFICE - TANZANIA
I&M Bank (T) Limited: Maktaba Square,
Maktaba Street.
Tel: +255 22 2127330 - 4.

HEAD OFFICE - KENYA
I&M Bank (Kenya) Limited:
Kenyatta Avenue: I&M Bank Tower.
Tel: 254-20-3221001.

HEAD OFFICE - BANK ONE, MAURITIUS
16 Sir William Newton Street,
Port Louis, Mauritius.
Tel: (230) 202 9200.

NEWS AND CSR 2016

KIRA Reach For Riches Campaign

Winners from Gicumbi branch pose with their cheques flanked by management

Wa launched the first Kira Reach for Riches account opening campaign in July. The three months campaign was an opportunity for customers to win weekly cash prizes and a grand prize all totaling up to 15,000,000 Frw. The aim of the campaign was not only to extend financial services to customers across the country but also to increase the usage electronic delivery channels like Online and Mobile Banking. During the campaign, more than 2200 accounts were opened, 235 of which were new to the bank business relationships.

Support of more bankable ideas into startup businesses

The Bank continued in its support of the Hanga Umurimo Government initiative. In a bid to improve access to finance for new entrepreneurs, the Government of Rwanda introduced the Hanga Umurimo programme which aims to provide advocacy and the guarantee cover required by banks through BDF.

Workmen at Ms. Nsegiyunva's quarry which has grown significantly since she became a Hanga Umurimo beneficiary

Among the financed projects, 37.5% were implemented from upcountry and 44% of the total financed projects are owned by women.

Ms. Nsegiyunva, one of the beneficiaries – an owner of a stone quarry financed by I&M Bank Rwanda, has been able to provide jobs and managed to buy another stone crushing machine plus a piece of land where she extracts stone aggregates.

She is now able to cover all her business expenses, service the loan and still have enough left over to re-invest in the business and for savings – which she is more than she could do as a salaried employee.

Launch of mVisa Phase II

In the continuing journey towards a cashless future, we recently made another big step closer to a cashless future by introducing I&M mVisa campaign.

mVisa is an interoperable branchless banking platform that allows the Bank to support the exchange of funds between accounts by utilizing a mobile phone as the devise for access to the service.

SME Skills Training

NEWS AND CSR 2016

Executive Director Mr Faustin Byishimo giving certificates to SME Operators

In partnership with the European Investment Bank, I&M Bank Rwanda organized two successful SME Skills training workshops for customers and more than 60 Businesses benefitted from two financial literacy workshops which aim to provide SMEs with basic financial and management skills to be able to run their business efficiently.

The workshops were organized by I&M Bank Report supported by EIB and BDF and the training covered several subjects including understanding business plans, business models, market analysis and marketing, as well as financial statements. Speaking at the close of the April session, Faustin Byishimo the Executive director of I&M Bank Rwanda said; "Training is embedded in the culture of our Bank since 2011 under our corporate social responsibility to the SMEs sector that represent the cornerstone of Rwanda's economy. Supporting these businesses has been made a bi-annual program to close financial literacy gap".

New Branches

2016 was a good year for the improvement of our distribution network. The Bank relocated Remera Branch from Kisementi to Umuyenzi plaza, Matteus counter was expanded into a full service branch and relocated to CHIC where we can now better serve the business community. The new Kacyiru Branch was opened at Kigali Heights and 3 new ATMs were deployed in high traffic areas.

Vice Mayor of the City of Kigali officiating the opening of CHIC Branch

Health and Welfare

In support of Cancer Awareness and sensitizing the public on prevention and good health practices the Bank sponsored and participated in Childhood Cancer awareness walk, the Ulinzi Breast Cancer Awareness Walk and attended Umuganda with Rwanda Children's Cancer relief to advocate for cancer awareness.

Up to 300 Residents of Musanze District became beneficiaries of Medical Insuarenccce (Metuelle de Sante) through an I&M Bank Rwanda Sponsorship

Staff at Umuganda with the Rwanda Children's Cancer Relief team

The bank also contributed to the Gira Inka government Initiative, which helps some of the poorest families in Rwanda attain financial stability and reclaim their dignity.

NEWS AND CSR 2016

Kwibuka 22

I&M Bank Rwanda on 15th April 2016 joined Rwandans across the in the 22nd commemoration of the 1994 genocide against the Tutsi.

The day's events started with a trip to Musamira in Kamonyi, Muhanga province where a team of 40 members of staff led by the Managing Director Mr. Robin Bairstow participated in the final stages of the renovation of Virginie Mukarubega's home. Madam Mukarubega is an 80yr old widow and a survivor of the genocide.

The renovation work, which had begun earlier that week. Since 2014, I&M Bank Rwanda through its partnership with Aegis Trust Rwanda continues to fulfill its commitment to honour the memory of the victims of the 1994 Genocide against the Tutsi, help survivors rebuild their lives as well as contribute to the prevention of future conflict through education and confronting the prejudices and beliefs that lead to genocide.

The 22nd commemoration was also a time for the bank to pay tribute to its former staff members that were among the more than one million victims of the genocide.

Members of staff put the finishing touches on Madame Virginie's home

KANGA
Made of slightly lesser density than the kitenge, the kanga is popularly known as 'leso'. It is rectangle and made of pure cotton, and can be worn in pairs known as 'doti.' Kangas are extremely popular for their multipurpose uses – by both men and women and normally have some strips of messages written on it. Most women buy kangas not for the color but for the text to send subtle 'messages' to their husbands.

2016 MANAGEMENT MOVES

Ngagi Kabarega
Head of Risk

Ngagi is the Head of Risk with over 10 years' banking experience. He joined the Bank in 2007 as an auditor in the Audit Department deputizing the Head of Audit and was subsequently appointed as the Head of Recoveries prior to his appointment as Head of Risk, Ngagi served on the Executive comitee for 6 years as the Head of Internal Control and Compliance. He holds a BBA degree in accounting and is pursuing ACCA studies.

Norbert Mwanangu
Head of Retail Banking

In June 2016 Norbert Mwanangu was promoted from Retail Sales Manager to Head of Retail Banking Norbert has 12 years of experince in Banking sector. During the past 5 years, he worked in Retail Credit Department as Retail Sales Manager and Deputy to the Head of Retail banking and Since June 2016, He is now the Head of Retail Banking. He holds a bachelor's degree in Management from Université Libre de Kigali.

Patrick Ntwali
Head of IT and Channels

Patrick joined the bank in the last Quater of 2016 with 9 years of experience in the IT industry in Rwanda and Africa. He is equipped with nearly 8 years in the banking industry where he worked on various projects including IT Management, core banking migration, CRM systems and software integration.

He holds a bachelor's degree in Business Administration (Information Technology).

Cynthia Rwamamara
Head of Internal Control and Compliance

Cynthia is the Head of Internal Control and Compliance with over 10 years' experience in the Rwandan banking industry mainly in the fields of audit, compliance and risk.

She joined the bank in 2009 as the Deputy Manager in the Internal Control and Compliance unit until June 2016 when she was promoted to Head of Internal Control and Compliance. She holds a bachelor's degree in Accounting Sciences from the National University of Rwanda and is pursuing ACCA studies.

Nicolas Uwimana
Head of Legal

Nicolas holds a Master degree and Bachelor degree in Law respectively from the University of Turin, Italia and the University of Rwanda.

He joined the bank in 2009 and served as Deputy Head of Legal for 7 years before joining the Bank he worked in the Public Sector where he served as Legal Advisor at Rwanda Public Procurement Authority and Legal Expert in the Procurement Reform Task Force within the Ministry of Finance and Economic Planning.

I&M Bank (Rwanda) LTD Annual Report and Financial Statements for the year ended 31st December 2016

Mr. Bill Irwin
Chairman

CHAIRMAN'S STATMENT

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 31st December 2016 and also share with you the key advances, changes and projects undertaken by your Bank in the course of the past year.

Economy.

In 2016, Rwanda was ranked as one of the top performers on the World Bank's 'Ease of Doing Business' index. The economy continues to show steady growth, in the year 2016 Rwanda's national GDP grew at 5.9%, a slight drop compared to medium-term average growth. The decline was due to a continued drop in mining activities, a slow growth in agriculture and the impact of ongoing external sector adjustment measures.

During this year, inflation averaged 5.7% compared to 2.5% in 2015, and this was due to high food price inflation after multiple poor harvests. In March 2017, inflation was at 7.7% but is expected to be contained to 5%.

Rwanda's trade deficit narrowed by 5.9% in 2016 as a result of a decrease in formal imports by 2.4% against an increase in formal exports by 6.1%;

We look towards 2017 with optimism as the economy is predicted to remain robust over the medium term with the GDP expected to grow by 6.2% based on a foundation of continued sound macroeconomic management and fiscal discipline.

Banking Industry.

The total assets of the banking sector grew by 11% in 2016 with Credit risk increasing in both banks and MFIs. The non-performing loans (NPLs) ratio of banks increased to 7.5% in December of 2016, compared to 6.2% in December 2015 indicating a difficult operating environment because of international pressures.

The financial sector continued to generate profits, albeit lower compared to 2015, with average net profits of Rwf 40 Billion in December 2016 - 7.0% lower than the Rwf 43 Billion for the same period in 2015.

The banking sector as a whole remains well capitalized with a high level of liquidity 42.5% (as opposed to a minimum of 20%) and capital as a proportion of risk-weighted assets at 21.8% (as opposed to a minimum of 15%);

The sector also experienced shakeups with the sale of BPR's equity stake to Atlas Mara and the merger of BPR and BRD Commercial, the entry of Bank of Africa and the Uganda based Crane Bank. The number of banks in the country now stands at 15. These new entrants demonstrate the confidence of investors in the sector and have allowed us the opportunity to rise to the challenge that competition presents.

2016 Financial Performance.

On the backdrop of this environment, the Bank has produced an encouraging set of results with interest and related income up by 29% on the back of strong loan growth across the businesses. Treasury recorded strong growth in returns on the securities portfolio. Interest expense increased by 30% but in line with portfolio growth. There was a decline in non-interest revenues primarily as a result of FX margin pressure even though volumes remain healthy.

The Bank, in 2016 was rated as one of the most efficient banks in the industry with a Return on Equity (ROE) of 19% as of December 2016. We also registered a growth of 18% in profit before tax which increased to Rwf 8.4 Billion in 2016 from Rwf 7.1Billion in 2015. The asset base expanded to Rwf 206 Billion backed by a 18% growth in customer deposits and our loan portfolio also increased similarly by 18%. We saw a marked reduction in gross non-performing loans with the NPL ratio standing at 2.7% by December 2016

2016 Major Achievements.

The Bank continues to expand its branch network and in October 2016, a new business centered branch was opened at CHIC complex in Muhima. Earlier in the year, Remera Branch was relocated from Kisementi to Umuyenzi Plaza a move that provided a bigger, more customer focused banking experience for our customers. Three new ATMs where also deployed in high traffic areas around the city to improve accessibility and cater to customer convenience.

CHAIRMAN'S STATMENT

The I&M "Kira" Account Opening Campaign was an overwhelming success with more than 2000 new accounts opened in both Retail and SME Business banking. In order to meet the government objective of increasing the penetration of banking services, we shall repeat the KIRA Campaign in 2017.

Staff and Management

We continue to invest in our people and 86.2% of our staff attended at least 2 technical training courses to develop skills and keep updated on the ever changing industry trends. As part of the Capacity Enhancement Plan, a Management Trainee Program was introduced to develop the next generation of managers. We intend to add 10 more candidates in the first quarter of 2017.

To ensure customer satisfaction and retention, the Bank created a Business Development Division in 2016. This resulted in the Bank's sales related units reporting into one functional head, this improves service delivery and keeps the customer at the heart of the Bank's value propositions. In addition comprehensive service delivery training was conducted for all staff resulting in our being awarded the Best Service Bank in Rwanda by Global Banking and Finance Review.

In the course of 2016 the Bank recruited 31 staff in order to strengthening the team focusing on Diaspora banking, SMEs, Compliance and Risk, ICT projects and alternate banking channels.

Corporate Social Responsibility

The Bank as a corporation and our staff continue to actively support our CSR responsibilities, under the Health Initiative, the Bank undertook to cover the medical insurance of 300 vulnerable individuals in Musanze Districts for the 2016-17 period, it is hoped that in 2017, we can extend this support to other districts where we have a presence.

Other contributions included a significant contribution to the Gira Inka government Initiative, which will see some of the poorest families in the nation achieve self reliance and dignity.

In line with capacity building, up to 60 business owners benefited from this year's Financial Literacy Training workshops for SMEs conducted in April and November in partnership with BDF and European Investment Bank. These workshops promote financial stability for small business establishments by providing them with knowledge and practical tools to use in business planning and financial literacy.

Future Plans

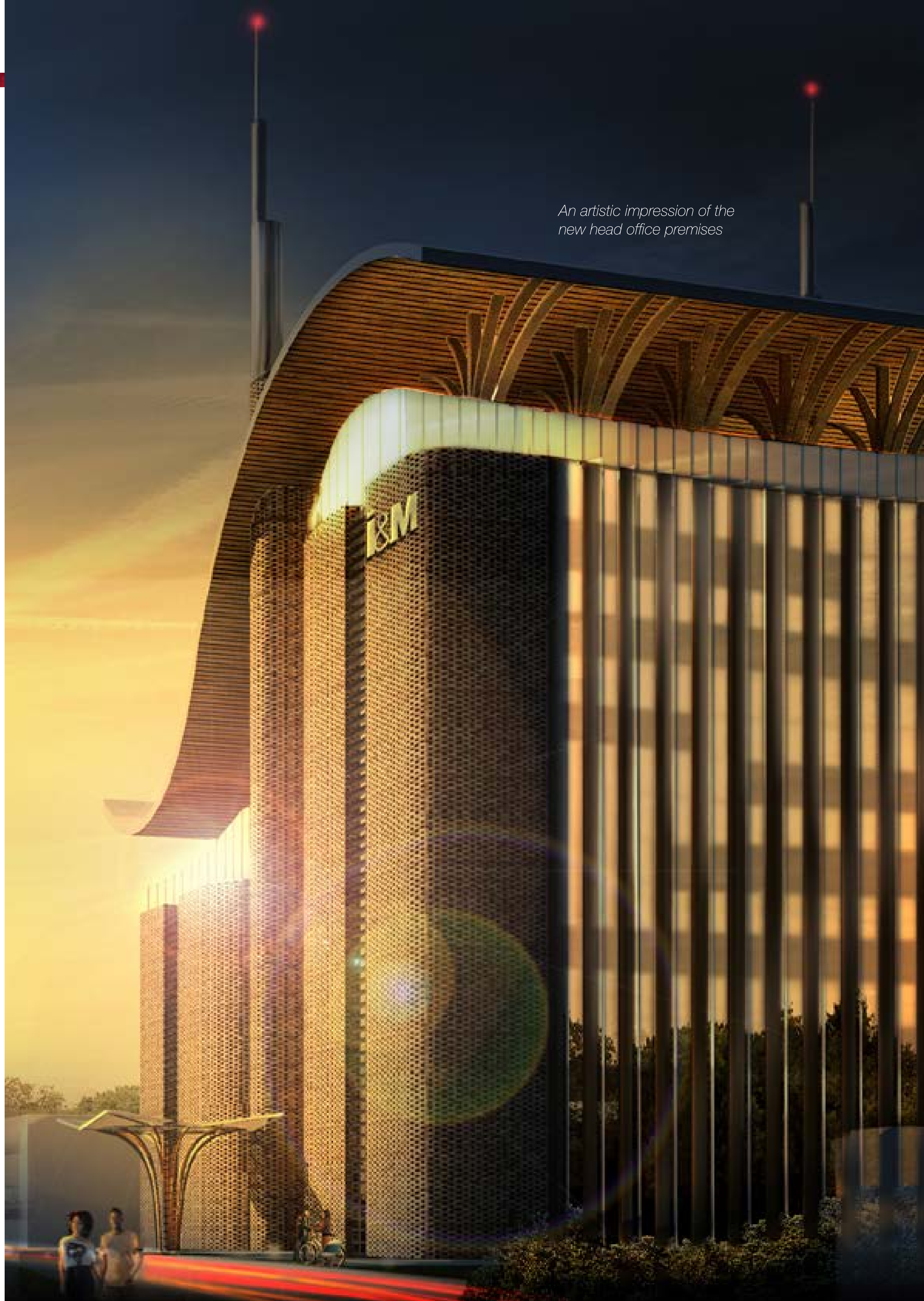
We have two major initiatives underway at present, one involves the replacement of our core banking system which we hope will be operational in early 2018. This will provide a reliable and flexible operating system, provide much improved management information, facilitate easier customer access and enable us to increase our product range.

Other key initiatives for 2017 will include the first phase of the New Premises project, which we expect to be finalized by the end of 2018. We also intend to extend our distribution channels, a pilot phase of Agency Banking will be run in the second half of 2017

The much-anticipated Government of Rwanda Offer for Sale of Shares held in I&M Bank was completed in March, the offer was oversubscribed by more than 200% evidencing strong confidence in our brand and we welcome more than one thousand new shareholders.

In conclusion I take this opportunity to thank the Board of Directors and the Senior management for their efforts in producing what has been a good set of results for 2016, I thank the Government of Rwanda for providing a stable and investor friendly environment in which to operate and for their contribution as a shareholder in the business. Finally and most importantly thank you our clients for your continued loyalty and support, we trust that this will continue in 2017 and we will do our best to meet your expectations.

Bill Irwin
Chairman of the Board of Directors
I&M Bank(Rwanda) Limited



An artistic impression of the new head office premises

KIKOYI

Standing out from its bold colors, the Kikoi is a work of art of rectangular shape. Evenly colored in the middle and stripped along the edge, the kikoi was traditionally worn by men but has now become a fashion statement for all.

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 Bank.

1. ACTIVITIES
The Bank is engaged in the business of banking.

2. RESULTS
The results of the Bank for the year are set out on page 6.

3. DIVIDEND
The directors have recommended payment of dividend with respect to the year ended 31 December 2016 of Rwf 2,322,000,000 (2015: Rwf 1,970,000,000).

4. DIRECTORS
The directors who served during the year and to the date of this report were:

Bill Irwin	-	Chairman - Independent Director
Richard Mugisha	-	Independent Director
Soundararajan Madabhushi	-	Independent Director
Bonaventure Niyibizi	-	Independent Director
Robin C. Bairstow	-	Managing Director
Arun S. Mathur	-	Non-executive Director
Jonathan Nzayikorera	-	Non-executive Director
Faustin Byishimo	-	Executive Director - Appointed on 28 April 2016

5. AUDITOR
In accordance with the auditor rotation regulations issued by the National Bank of Rwanda, the term of the bank's current auditor, Ernst and Young Rwanda Limited has ended.

By order of the board Company Secretary

6th February 2017
Date

STATEMENT ON CORPORATE GOVERNANCE

The hallmark of I&M Bank Group's Corporate Governance Framework is a Group-wide commitment to ensuring that the highest standards of corporate governance are implemented and upheld in all its entities. This in turn ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels.

The restructuring of I&M Bank Group resulted in the creation of the Bank's holding company – I&M Holdings Limited ("IMHL"). IMHL is listed on the Nairobi Securities Exchange and regulated by Capital Markets Authority, and the Central Bank of Kenya. Set up of the holding company structure is expected to aid in enhancing the levels of accountability and governance within the Group as it continues to expand its presence in the region.

The Corporate Governance Framework, established by the Board of Directors of I&M Bank (Rwanda) Ltd. ('I&M Bank' or 'I&M' or 'the Bank'), includes a robust management structure built on a platform of stringent internal control and pre-approved policies, practice and procedures to deliver sustainable value to its shareholders, whilst also remaining focused on the Group's wider role & responsibility to society at large.

The Bank has in place a Code of Conduct and Code of Ethics that binds all its Directors and employees to ensure that the Bank's business is carried out in an ethical, fair and transparent manner, in keeping with the local regulations and international best practices.

RISK MANAGEMENT FRAMEWORK
I&M Bank Group has over the years maintained a keen focus on risk management, both in its business processes and products, and which have supported the Bank's steady and sustainable growth.

The Risk Management Framework at the Bank ensures that risks are identified and effectively managed on an on-going basis.

Given that risk taking is core to the Bank's innovation capacity and ultimately its entrepreneurial success, I&M Group's approach to Risk Management is characterized by a strong risk oversight at the Board level and a strong risk management culture at all levels across the Bank. This approach supports and facilitates decision making process which not only ensures that the risk reward trade-off is optimized but also that risks assumed are within the overall Risk Appetite and Risk Tolerance levels as laid down by the Board of Directors.
I&M's Risk Management Process is guided by the following principles:

a) Its Risk Appetite & Risk Tolerance Levels
b) An Independent Audit
c) A Compliance & Internal Control Department
d) Zero Tolerance for violations
e) Protection of Reputation
f) Enhanced Stakeholder Satisfaction

The Bank endeavours to be compliant with Best Practices in its Risk Management

THE BOARD OF DIRECTORS
Constitution, Appointment and Composition
The Bank's Articles of Association provides for a unitary Board of up to ten Directors and the number of Directors of the Company shall not be less than five.

The Bank's Board, led by a non-executive Chairman, consists of seven Non-Executive Directors the Executive Director and the Managing Director.

Of the seven Non-Executive Directors, more than 50% are independent. The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include, inter alia Banking, General Management, Law, Accounting and Investment Analysis, apart from hands on experience in various industries. The unique collective experience of our Board members provides a superior mix of skills as required by the Board, in not only discharging its responsibilities and providing a strategic vision and direction for the Bank, but more importantly also adds value to, and brings in the element of independent judgment and risk assessment to bear on the decision making process.

I&M Bank recognizes and appreciates that all Directors make valuable contributions to the Board and to the Bank by virtue of their experience and judgment.

The table below contains the names, positions and academic/professional qualifications of the Directors and their profiles:

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Bill IRWIN **Independent Non-Executive** **Year of Birth: 1944**	Board Chairman 1. BALCO 2. BRC, Chairman 3. BCC 4. BAPRECO	AIB (Irl.)	Mr. Irwin was appointed as the Board Chairman on October 2009. He is an experienced banker with extensive cultural and commercial experience in strategy, business development and risk, and change management. Prior to joining I&M Bank Rwanda, he was employed for more than thirty years by Standard Chartered Bank serving in Africa, the US and Asia. Latterly he was Area General Manager with responsibility for their various businesses in South, Central, and East Africa.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Arun S. MATHUR **Non-Executive Director** **Year of Birth: 1953**	1.BAC 2.BALCO 3.BRC 4.BCC 5. BAPRECO	B. Tech (Hons) Metallurgical Eng. Banaras Hindu University (BHU) Varanasi, India	Mr. Mathur joined the Bank's Board in July 2012. He is an experienced Banker with his career spanning over 40 years in India, Kenya, and the Middle East. He started his banking career in 1976 with the State Bank of India. He later joined Grindlays Bank, India in 1982, and worked in their office in Nairobi, Kenya from 1990 to 1994. He then worked for several banks in Eastern Africa until he joined I&M Bank Ltd in 2000 and was promoted as CEO in 2002. Mr. Mathur has served as a director of I&M Bank Ltd (Kenya) until May 2016 until his retirement as the CEO after a successful stint of 14 years, Bank One Mauritius, I&M Bank (T) in Tanzania as well as Kenswitch in Kenya.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Jonathan NZAYIKORERA **Non-Executive Director** **Year of Birth: 1983**	1. BAC 2. BALCO 3. BCC	Master of Sciences in Economics at the National University of Rwanda, Kigali	Mr. Nzayikorera was appointed to the Board in May 2013 as a Government representative on the Board of Directors. He is currently working as the Division Manager of Finance Decentralization and has occupied several other positions over the last 8 years in the Ministry. With his experience in public finance management, economic policy management as well as in revenue mobilization, he constitutes a valuable asset to the sound management of the bank. Academic/ Professional qualification Master of Sciences in Economics at the National University of Rwanda, Kigali;

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Richard MUGISHA **Independent Non-Executive Director** **Year of Birth: 1969**	1. BCC 2. BAPRECO, Chairman	Master of Laws (LLM), New York University, School of Law	Mr. Mugisha was appointed to the Board on February, 2010. He is a lawyer by profession and currently serves as the Managing Partner at the Trust Law Chambers which specializes in commercial Litigation and conveyance. Richard brings to the board depth and expertise from managing transactions in the Energy, Banking and Finance sectors in Rwanda; as a current Member of Governing Council Kigali Bar Association and Disciplinary Committee of Chartered Public Accountants. He also participated as a member on the Rwanda Financial Sector deepening planning committee and the National Committee for Regional integration. In November 2016, he was elected as the President of the East Africa Law Society.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Bonaventure NIYIBIZI Independent Non-Executive Director **Year of Birth: 1954**	1. BAC 2. BRC 3. BAPRECO	Degree in Agricultural Economics; Currently pursuing a MBA (Finance) program	Mr. Niyibizi joined I&M Bank (Rwanda) Board in December of 2015. He comes with an extensive experience in the public and private sector and has played a major role in the creation and implementation of policies during his service at the Ministry of Commerce, Cooperatives and Industries and the Ministry of Energy and Natural Resources. Before joining the public, Mr. Niyibizi had long served with the United States Agency for International Development and Managing Director of COGEBANK for almost 4 years.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
M. SOUNDARARAJAN Independent Non-Executive Director **Year of Birth: 1950**	1. BAC, Chairman 2. BALCO, Chairman 3. BCC, Chairman 4. BRC	Master of Arts, Madras University, India	Mr. Soundararajan was appointed to the Board in September 2012 as an independent non-executive director. He is a career banker and financial services professional with extensive experience spanning 44 years in commercial and corporate banking, investment banking, general and life insurance, fiduciary services and wealth management. He held senior positions in State Bank of India in India and New York, Standard Chartered group in India and Kenya, Commercial Bank of Africa and CFC Bank in Kenya where he served as Managing Director of both commercial banking and investment banking businesses. After a brief engagement as a consultant on the transaction advisory panel with PwC Kenya between 2011 and 2013, he is currently leading the Kenyan associate of a fiduciary services and corporate finance business with its head office in Jersey, Channel Islands. Mr Soundararajan serves on the Board of I & M Bank Kenya, insurance companies in Kenya and Tanzania and a logistics and equipment distribution business, listed on the Nairobi Securities Exchange.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Andreas GRENACHER Non-Executive Director Year of Birth: 1974	No Board committees	Master of Finance at the Westfaelische Wilhelms University Muenster, Germany	Mr Andreas Grenacher was appointed to the Board in February 2017. He is currently working as the Regional Director East Africa for the German Development Finance Institute, DEG. Before joining DEG, Mr. Grenacher held senior positions in the investment banking and asset management divisions of Deutsche Bank and Credit Suisse and worked in London, Frankfurt and Zurich. He has more than 16 years of experience in the finance sector.

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Robin BAIRSTOW Managing Director **Year of Birth: 1966**	All save for BAC	Graduate of the SMNA General Botha Dip. Bus Man. CIBM(SA)	Mr. Bairstow joined the Bank and was appointed as an Executive Director in September 2015 and has 23 years of experience in the financial services sector, having worked in both local and international banking organizations. Prior to his appointment, he held senior positions at Standard Chartered Bank across Central Africa, East Africa and South-East Asia

NAME	COMMITTEE MEMBERSHIP	ACADEMIC/ PROFESSIONAL QUALIFICATION	DIRECTOR'S PROFILE
Faustin BYISHIMO Executive Director **Year of Birth: 1978**	All save for BAC BCC	BBA in Accounting	Mr. Byishimo was appointed as an Executive Director in December, 2015. He has served the Bank under various senior positions that include his recent tenures as Head of Corporate Banking and previously Head of Retail Banking. As the Division Head for Business Development, he oversees all the business segments i.e. Corporate, Business and Retail Banking as well as the Transactional Banking Service, Electronic Banking and Product Development functions of the Bank

Roles & Responsibilities

Entrusted with the overall responsibility of the Bank, the Board's key role is to provide effective, responsible leadership characterized by the ethical values of responsibility, accountability, fairness and transparency.

The Board ensures that appropriate steps are taken to protect and enhance the value of the assets of the Bank in the best interests of its shareholders and other stakeholders. This entails the approval and oversight of the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, as well as the oversight of Senior Management. Further, the Board ensures that at the heart of the organisation, there is a culture of honesty, integrity and excellent performance.

Board Meetings

The Board meets at least quarterly each year for scheduled meetings and on other occasions when required to deal with specific matters between scheduled meetings. During the last financial year, four scheduled Board meetings were held. All members attended at least 75% of the meetings held during the year.

Board members receive board papers well in advance of their meetings, thereby facilitating meaningful deliberations therein. They also have full and unlimited access to the Bank's records and consult with employees and independent professional advisors, as the Board or its committees deem appropriate.

Board Evaluation

The Bank has an established and effective process of evaluating the Board's Chairman's and individual Directors performance, on an annual basis. This performance evaluation process is reviewed periodically to incorporate global best practice and any amendments issued by the National Bank of Rwanda, the Regulator, from time to time.

Conflict of Interest

Directors are committed to avoiding instances that may give rise to conflicts of interests or which may be perceived by others as conflicting situations. Full information on any conflict or potential conflict of interest must be made known to the Board and fellow directors and the onus will be on the directors to advise the Board on any change in their situation.
On declaration of his/her interest, the concerned Director shall not participate in the discussions and / or decision making process on the transaction in relation to which conflict arises. The transaction may however be concluded and approved at market terms and conditions. Related party transactions will also be disclosed in accordance with disclosure requirements and accounting policies and standards.

Governance Principles

The Board ensures that Accountability among staff is enhanced through a system of objective goal setting and periodic performance appraisals. Additionally, the Board has delegated financial and other powers with clearly defined accountabilities for each.

In order to ensure that high levels of efficiency and effectiveness are maintained, the Bank has a good pool of well-trained staff with the appropriate skills required to perform their duties. Further, the Bank ensures that all staff undergo regular training to improve and develop their skills.

The Code of Ethics that all staff are expected to adhere to, encompasses, inter alia, matters touching upon safety and health, environment, compliance with laws and regulations, confidentiality of customer information, financial integrity and relationships with external parties. This Code of Ethics is reviewed periodically and amendments incorporated if necessary.

The Board has set up five Board Committees and several top level Management Committees to assist in discharging its responsibilities.
These include:

Board Committees

Board Audit Committee (BAC)

An independent non-executive Director chairs this Committee consisting of four members. BAC, which meets at least once every quarter, assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, performance and findings of the Internal Audit functions.

The members of the Audit Committee comprise 4 members:

- Chairman - Independent Non-Executive Director
- Three (3) Non -Executive Directors
- Head of Internal Audit

Board Risk Management Committee (BRC)

The BRC, comprising four members is chaired by an independent non-executive Director, and meets at least once every quarter. Through the Bank's risk management function, BRC is responsible for translating the Risk Management Framework established by the Board of Directors into specific policies, processes and procedures that can be implemented and verified within the different business units, so that risks faced by the Bank are adequately considered and mitigated.

Board Credit Committee (BCC)

The BCC, which consists of six members is chaired by an independent non-executive Director and is responsible for the review of the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits, ensure statutory compliance and be overall responsible for the overall management of credit risk. The Credit Risk Management Committee (CRMC) assists the BCC in its role.

Board Administration Procurement and Remuneration Committee (BAPRECO)

This Board Committee comprising four members is chaired by an independent non-executive Director, and meets at least once every quarter and on other occasions to deal with specific matters. The BAPREco is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. The Committee also vets any agreements with and procurements from related parties.

Board Assets and Liabilities Committee (BALCO)

The Board Assets & Liability Management Committee is comprised of four members and is chaired by an independent non – executive director and meets at least once every quarter. Board ALCO (as delegated by the board) is ultimately responsible for effective asset/liability Management and for establishing and reviewing the asset/ liability Management Policy and ensuring that the Bank's funds are managed in accordance with this policy.

Management Committees

Executive Committee (EXCO)

This provides the link between the Board, Top Management and Department Heads. It is responsible for reviewing and benchmarking the Bank's financial and business performance, review of progress of special projects and identification of risks or opportunities in addition to providing a platform for review of new products, initiatives & ideas and developments in the banking industry and impact of changes in regulations / legislation.

Assets & Liabilities Committee (ALCO)

The Bank's Assets & Liabilities Committee primary functions include measurement, management and monitoring of liquidity, interest rate, foreign exchange and equity risks of the Bank in order to protect the Bank's net worth from adverse movements of market.

STATEMENT ON CORPORATE GOVERNANCE

Credit Risk Management Committee (CRMC)

This Committee is the link between the Board and Management in terms of establishing and implementing the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy, effective management and follow-up of all credit-related matters and review of Non-Performing Accounts.

Human Resources Committee (HRC)

This committee assists the Board in fulfilling its Human Resource Management responsibilities with due recognition to this key resource. HRC oversees implementation of all major HR initiatives, rendering support and guidance as appropriate. It also facilitates periodic review of the Bank's HR policies and practices to ensure the Bank remains competitive and able to attract and retain competent Talent for its business.

IT Steering Committee (ITSC)

This committee has been set up to enhance ICT governance in a growing ICT enabled banking environment with emphasis on assessment and management of ICT risks, ensuring optimum use of ICT resources, determining prioritization of ICT investments in line with the Bank's strategy, monitoring service levels and adopting best practices.

Corporate Social Responsibility (CSR)

I&M Bank is very conscious of its responsibility towards the Community and those around it. It is in this endeavour that the Bank has put in place guidelines that support the discharge of its Corporate Social Responsibility mandate, which is well integrated within the Bank. The Bank has continued to deepen its relationship with various stakeholders while providing opportunities to its employees to participate in various CSR activities. Of note is the technical assistance the Bank received from DEG to implement its Environmental and Social Management System (ESMS) in 2013, which allows it to analyze and improve its environmental and social impact in carrying out its activities.

I&M Bank considers 'the community' as a key stakeholder in its business initiatives, and during 2013, the Bank's CSR activities were aimed at making sustainable difference under four key social pillars: Education, Health, Environment and Community Support. The Bank enhanced its resources towards supporting various projects that included: Cancer awareness, Medical Insurance, community work and Financial literacy training for SME's

The Bank strongly believes in the importance of giving back to the society at large and sharing its success with the communities in which it operates. It is this underlying philosophy that guides the Bank's CSR programmes and which are designed to achieve maximum impact to enhance the lives of the communities around us, and Rwanda as a whole.

BOARD COMMITTEES

Tabulated below are Board Committees, their composition and membership, functions and frequency of meetings:

	BOARD AUDIT COMMITTEE	BOARD RISK COMMITTEE	BOARD CREDIT COMMITTEE	BOARD ADMINISTRATION & REMUNERATION COMMITTEE	BOARD ASSETS & LIABILITIES COMMITTEE
CHAIRMAN	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
MEMBERS (Including Chairman)	• 4 Non-Executive Directors • Head of Internal Audit **Invitees** • Board Chairman • MD • Executive Director	• 4 Non-Executive Directors **Invitees** • Managing Director • Head of Risk • Executive Director	• 5 Non-Executive Directors • Managing Director **Invitees** • Head of Credit • Head of Business • Executive Director	• 4 Non-Executive Directors **Invitees** • Managing Director • Head of HR • Executive Director	• 3 Non Executive Directors **Invitees** • Managing Director • Head of Treasury • Chief Financial Officer • Executive Director
FREQUENCY OF MEETINGS	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
MAIN FUNCTIONS	• Ensure establishment of an adequate, efficient and effective internal audit function • Review structure and adequacy of internal Controls • Review and co-ordinate between External Auditors and Internal Audit Department • Review and receive BNR Inspection Report, and ensure implementation of recommendations therein. • Review internal audit reports and their overall effectiveness • Review Management reports and reports from external auditors and recommending to the Board of Directors.	• Ensure that the Risk management framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure BCP is formulated, tested and reviewed periodically • Review of policies, procedures and exposure limits • Review of proposed strategic initiatives • Creating awareness about Risk Management Process in the Bank.	• Review lending policy • Consider loan applications beyond discretionary limits granted to CRMC • Review lending by CRMC • Direct, monitor, review all aspects that will impact upon present and future Credit risk management at the Bank. • Ensure compliance with Banking Act and Prudential Guidelines • Conduct independent loan reviews as and when appropriate.	• Succession planning for Board and key Management members • Induction programs for new members and development programs to build individual skills and improve Board effectiveness • Performance evaluation of the Board of Individual Directors and of the ED & MD • Set remuneration policies & strategic objectives of Board & MD	• Establish and review the assets/liabilities Management Policy and ensure that the Bank's funds are managed in accordance with this policy. The Committee may review the annual policy on an annual basis or more frequently if circumstances dictate. • Set Policy, establish board guidelines on the Bank's tolerance for risk , review performance against limits and approve approaches to opportunities and threats. • Review the Bank's budget before recommending the same to the full board. Potential impacts of changes in rates on new product introduction, growth, deposit and loan pricing, investment strategy and customer behavior will all be considered,

MANAGEMENT COMMITTEES

Tabulated below are Management Committees, their composition and membership, functions and frequency of meetings:

	EXECUTIVE COMMITTEE	ASSETS & LIABILITIES COMMITTEE	CREDIT RISK MANAGEMENT COMMITTEE	HUMAN RESOURCES COMMITTEE	IT STEERING COMMITTEE
CHAIRMAN	MD	MD	MD	MD	MD
MEMBERS	CEO, , Heads of department: Corporate Banking Business Banking • RetailRisk • Treasury • Corporate & Strategic Planning. • Head of Credit • COO • Head of IT and EDC • CFO • Head of HR • CIA • Head of Internal Control • Head of Legal Invitees: • Consultant	Heads of: • Business Development • Business Support • Corporate & Strategic Planning • Finance • Treasury • Risk (Secretary)	Heads of : • Business Development • Risk • Credit (Secretary)	ED, CEO, Senior General Manager Heads of: • Business Development • Business Support • HR (Secretary)	CEO, Heads of : • Business Development • Business Support • Central Marketing • Chief Manager – CEO's Office • ICT (Secretary) • Projects
FREQUENCY OF MEETINGS	Once every 2 weeks	Monthly	Fortnightly	Monthly	Quarterly
MAIN FUNCTIONS	• Review and benchmark Bank's financial and business performance • Review issues that warrant policy changes for other management committees • Review progress of special projects and implementation status of policy initiatives • Review and formulate marketing strategies • Platform for discussing and review of innovations to enhance efficiency and performance • Identify and manage key risks • Review disaster preparedness and business continuity.	• Liquidity management • Interest Rate Risk management • Maturity Gap management • Currency Risk management • Capital Risk management • Determining investment strategies of the Bank for maximization of risk adjusted returns over the long term • Counter Party and Settlements Risk management.	• Set Credit Policy and Credit Risk Management Policy • Sanction Credit Proposals in line with Policy and CBK Guidelines • Review NPAs • Consider and approve new asset-based products • Control and follow-up on credit-related matters • Regularly report to Board Credit Committee.	• Review and monitor implementation of various staff development and welfare initiatives to ensure maintenance of productive and healthy staff relations • Review of Bank's Manpower Plan • Review and take decisions on disciplinary issues • Review staff remuneration vis-à-vis overall Bank's performance and industry to ensure the Bank remains competitive in attracting and retaining talent • Update Board on HR matters.	• Draw up the Strategic ICT Plan • Guide development of the information architecture and determine the technological direction • Define ICT processes, organisation and relationships • Identify, assess and manage IT risks • Define and manage ICT and ICT-dependent projects • Ensure optimum use of IT resources and manage ICT investments.

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Law No. 07/2009 of 27/04/2009 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates in conformity with International Financial Reporting Standards and the requirements of Law No. 07/2009 of 27/04/2009. 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 Bank 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.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director

Director

.........6 FEBRUARY........./......./ 2017

Date

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M BANK (RWANDA) LIMITED

EY
Building a better working world

Ernst & Young Rwanda Limited
Certified Public Accountants
M-Peace Plaza, Executive Wing 6th floor
Avenue de la Paix
P.O. Box 3638
Kigali, Rwanda

Tel: +250 788 309 977 | +250 788 303 322
Email. info@rw.ey.com
www.ey.com

REPORT ON THE FINANCIAL STATEMENTS

Opinion
We have audited the accompanying financial statements of I&M Bank (Rwanda) Limited, which comprise the statement of financial position as at 31 December 2016, statement of 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, as set out on pages 6 to 56.

In our opinion, the financial statements present fairly, in all material respects, the financial position of I&M Bank (Rwanda) Limited as 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 requirements of Law No. 07/2009 of 27/04/2009 and Laws and Regulations governing Banks in Rwanda.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and we have fulfilled our other responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by Law No. 07/2009 of 27/04/2009 and Laws and Regulations governing Banks in Rwanda and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M BANK (RWANDA) LIMITED (continued)

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Building a better working world

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
The Law No. 07/2009, which was promulgated on 27 April 2009, requires that in carrying out our audit, we consider and report to you on the following matters:

We confirm that: -

i) We have no relationship, interests and debts in the Bank;

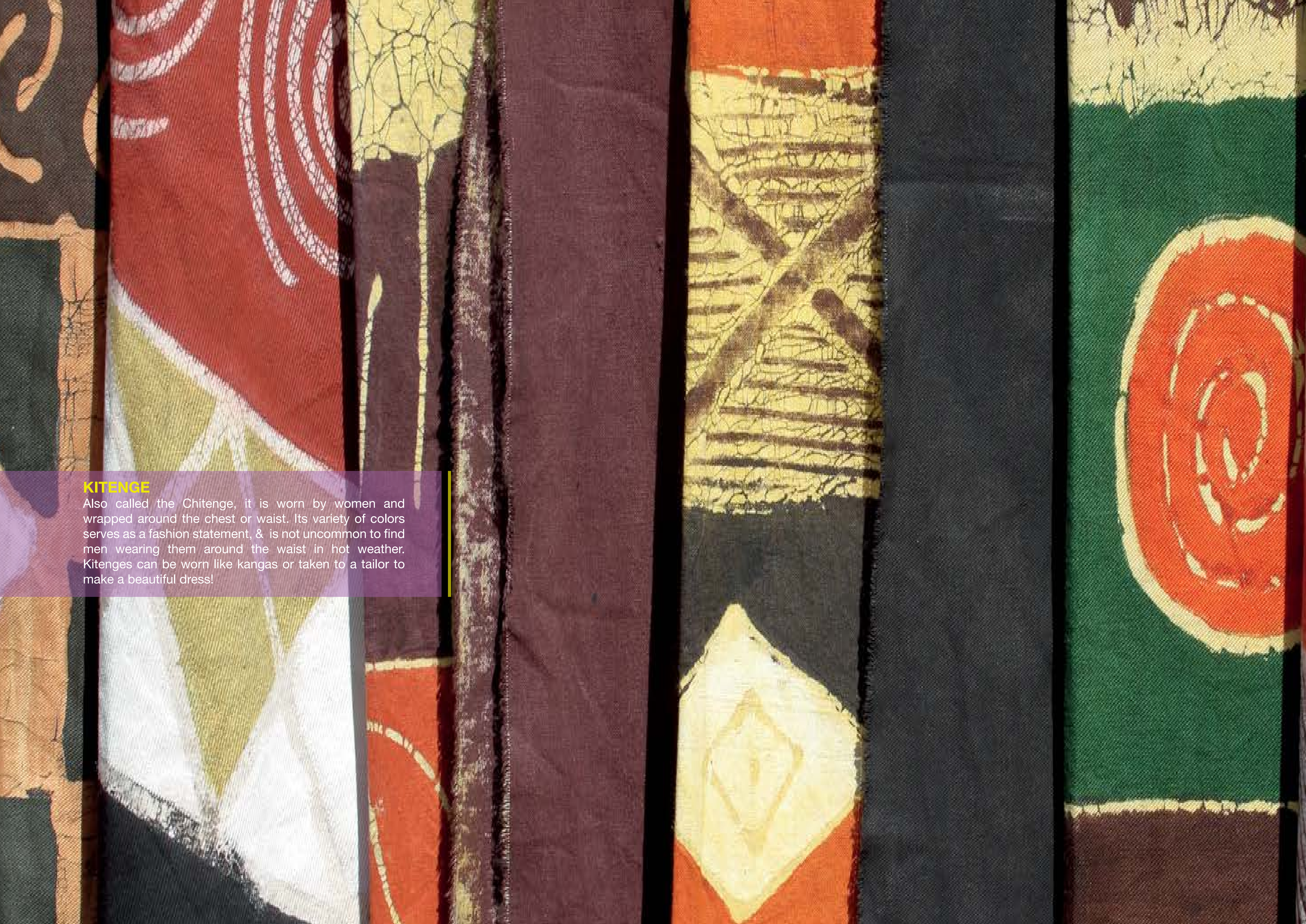
ii) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

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

iv) We have communicated to you through the management letter, internal control weaknesses identified in the course of our audit including our recommendations with regard to those matters.

Allan Gichuhi
For Ernst & Young Rwanda Limited 2017

06 FEBRUARY/2017



KITENGE

Also called the Chitenge, it is worn by women and wrapped around the chest or waist. Its variety of colors serves as a fashion statement, & is not uncommon to find men wearing them around the waist in hot weather. Kitenges can be worn like kangas or taken to a tailor to make a beautiful dress!

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2016

	Note	2016 Rwf'000	2015 Rwf'000
Interest and similar income	3	19,717,625	15,830,877
Interest and similar expense	4	(5,836,180)	(4,491,131)
Net interest income		13,881,445	11,339,746
Fees and commission income	5(a)	3,519,831	3,483,970
Fees and commission expense	5(b)	(384,439)	(198,357)
Net fees and commission income		3,135,392	3,285,613
Net foreign exchange income		3,466,676	4,803,683
Net profit/(loss) on financial assets and liabilities designated at fair value through profit or loss	6	821,898	(42,888)
Other operating income	7	90,958	480,611
Operating income		21,396,369	19,866,765
Impairment losses on financial assets	8	(554,373)	(1,476,314)
Operating income after impairment losses		20,841,996	18,390,451
Personnel expenses	9	(6,769,300)	(5,978,969)
Depreciation of property and equipment	10	(632,441)	(694,215)
Amortisation of intangible assets	11	(103,485)	(94,839)
Other operating expenses	12	(4,921,565)	(4,498,342)
Total operating expenses		(12,426,791)	(11,266,365)
Profit before tax		8,415,205	7,124,086
Income tax charge	18(b)	(2,612,054)	(2,199,787)
Profit for the year		5,803,151	4,924,299
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Fair value loss on available for sale financial assets		(15,862)	(114,864)
Reclassification to income statement on disposal	7	-	(202,462)
Deferred tax on fair value adjustment on available for sale	18(a)	4,759	95,198
Net loss on available for sale financial assets		(11,103)	(222,128)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation surplus on land and buildings	10	3,057,715	-
Deferred tax revaluation	18(a)	(917,314)	-
Net gain on revaluation on land and buildings		2,140,401	-
		2,129,298	(222,128)
Total comprehensive income		7,932,449	4,702,171

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2016

	Note	**2016 Rwf'000**	**2015 Rwf'000**
ASSETS			
Cash in hand	13(i)	5,048,664	3,632,003
Due from the National Bank of Rwanda	13(ii)	14,202,956	8,054,234
Due from other banking institutions	13(iii)	31,844,955	16,818,145
Derivative financial instruments	14	284,782	72,027
Financial investments - held for trading	15(a)	16,631,698	7,596,882
Loans and advances to customers	16	111,083,056	94,028,874
Financial investments - available for sale	15(b)	826	16,688
Financial investments - held to maturity	15(c)	16,492,504	35,801,888
Other assets	17	1,217,924	1,454,348
Property and equipment	10	7,992,369	3,982,220
Intangible assets	11	139,126	152,117
Deferred tax assets	18(a)	312,415	217,342
Non-Current assets Held for sale	19	1,200,000	-
TOTAL ASSETS		**206,451,275**	**171,826,768**
LIABILITIES			
Deposits from customers	20	134,152,364	119,884,096
Deposits from banks and other financial Institutions	21	26,707,032	17,327,252
Tax payable	18(b)	978,698	544,282
Other payables	22	5,565,809	5,338,661
Corporate bond	23	313,913	523,188
Borrowed funds	24	5,987,275	2,639,073
Provisions	25	803,247	616,166
Deferred tax liabilities	18(a)	1,519,812	493,374
TOTAL LIABILITIES		**176,028,150**	**147,366,092**
EQUITY			
Share capital	26(a)	5,000,000	5,000,000
Retained earnings		20,250,802	17,478,880
Available for sale reserve	26(b)	693	11,796
Revaluation reserve	26(c)	2,140,401	-
Other reserves	26(d)	709,229	-
Proposed dividend	26(e)	2,322,000	1,970,000
Total equity		**30,423,125**	**24,460,676**
TOTAL LIABILITIES AND EQUITY		**206,451,275**	**171,826,768**

The financial statements were approved by the Board of Directors on ....6 FEBRUARY..........2017 and signed on its behalf by:-

....
Director

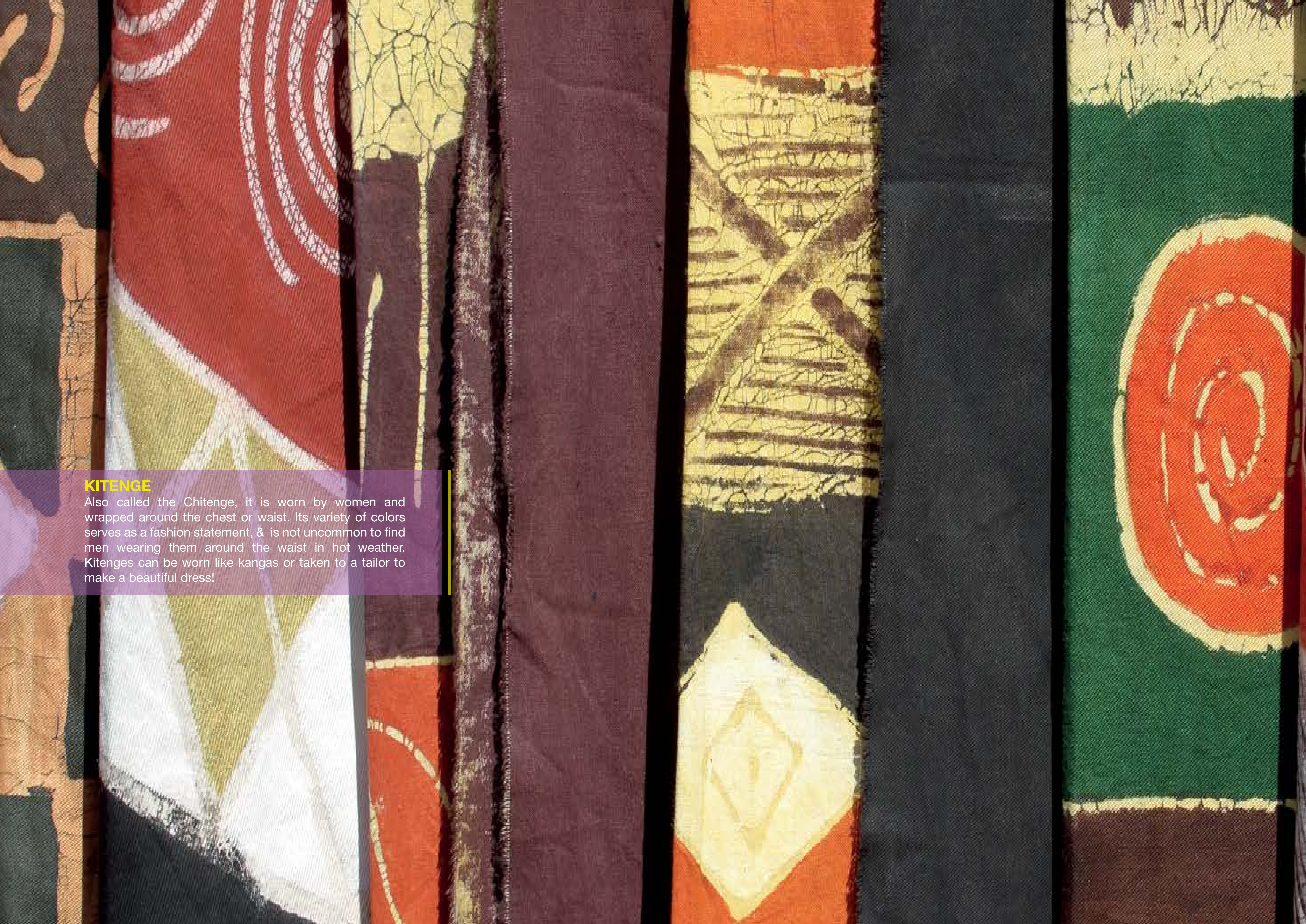
....
Director

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

	Note	Share capital Rwf'000	Retained earnings Rwf'000	Available for sale reserve Rwf'000	Revaluation reserve Rwf'000'	Other reserves Rwf'000	Proposed dividends Rwf'000	Total equity Rwf'000
As at 01st January 2015		5,000,000	14,530,653	233,924	-	-	1,850,000	21,614,577
Total comprehensive income:								
Profit for the year		-	4,924,299	-	-	-	-	4,924,299
Other comprehensive income		-	-	(222,128)	-	-	-	(222,128)
Cancellation of shares		(1,536)	(4,536)	-	-	-	-	(6,072)
Issue of bonus shares		1,536	(1,536)	-	-	-	-	-
Dividends:								
Final for 2014 paid		-	-	-	-	-	(1,850,000)	(1,850,000)
Proposed for 2015		-	(1,970,000)	-	-	-	1,970,000	-
At 31st December 2015		5,000,000	17,478,880	11,796	-	-	1,970,000	24,460,676
As at 01st January 2016		5,000,000	17,478,880	11,796	-	-	1,970,000	24,460,676
Total comprehensive income:								
Profit for the year		-	5,803,151	-	-	-	-	5,803,151
Other comprehensive income		-		(11,103)	2,140,401	-	-	2,129,298
Transfer to other reserves	26(d)	-	(709,229)	-	-	709,229	-	-
Dividends:								
Final for 2015 paid		-	-	-	-	-	(1,970,000)	(1,970,000)
Proposed Dividend for 2016		-	(2,322,000)	-	-	-	2,322,000	-
At 31st December 2016		**5,000,000**	**20,250,802**	**693**	**2,140,401**	**709,229**	**2,322,000**	**30,423,125**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st DECEMBER 2016

	Note	2016 Rwf'000	2015 Rwf'000
Cash flows from operating activities :			
Profit before tax		8,415,205	7,124,086
Adjustments for:			
Depreciation on property and equipment	10	632,441	694,215
Net change in financial assets designated at fair value through profit or loss		(821,898)	42,888
Amortisation of intangible assets	11	103,485	94,839
Gain/(loss) on disposal of property and equipment		7,805	(68,274)
Finance cost	4	308,213	252,538
Gain on disposal of financial investments - available for sale		-	(202,462)
Operating profit before changes in operating working capital		8,645,251	7,937,830
Changes in working capital:			
Increase in loans and advances		(17,054,182)	(11,279,742)
Increase in other assets		236,424	(516,655)
Increase in deposits from customers		14,268,268	5,416,570
Increase in deposits from banks		9,379,780	11,342,090
Financial investments - held to maturity		27,264,282	(23,826,090)
Financial investments - held for trading		(8,411,178)	(5,898,518)
Derivative financial instruments		(14,495)	(47,028)
Provisions for litigations		187,081	20,908
Restricted balances with the Central Bank		(1,242,124)	(986,624)
Increase in other payables		227,148	1,071,776
Cash generated from operations		33,486,255	(16,765,483)
Income taxes paid		(2,158,829)	(1,826,118)
Net cash from / (used in) operating activities		31,327,426	(18,591,601)
Cash flows from investing activities :			
Purchase of property and equipment	10	(1,668,638)	(582,686)
Purchase of intangibles	11	(47,491)	(105,905)
Purchase of a Non-Current Asset held for sale		(1,200,000)	
Proceeds from sale of property and equipment		32,954	68,738
Proceeds from sale of shares	29(f)	-	263,098
Net cash used in investing activities		(2,883,175)	(356,755)
Cash flows from financing activities :			
Dividend paid		(1,970,000)	(1,850,000)
Proceeds from long term borrowings		3,348,203	750,372
Repayment of long term borrowings		(209,275)	(209,274)
Interest paid on term borrowings		(269,538)	(192,571)
Interest paid on corporate bond borrowings		(38,675)	(59,967)
Cancelation of shares		-	(6,072)
Net cash used in financing activities		860,715	(1,567,512)
Net increase / (decrease) in cash and cash equivalents		29,304,966	(20,515,868)
Net foreign exchange difference on cash and cash equivalents		(407,327)	(541,302)
Cash and cash equivalents at 01 January		21,733,275	42,790,445
Cash and cash equivalents	13(iv)	50,630,914	21,733,275
Operational cash flows from interest:-			
Interest income		18,940,277	15,586,482
Interest expense		4,683,290	4,810,692



KITENGE

Also called the Chitenge, it is worn by women and wrapped around the chest or waist. Its variety of colors serves as a fashion statement, & is not uncommon to find men wearing them around the waist in hot weather. Kitenges can be worn like kangas or taken to a tailor to make a beautiful dress!

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

1. CORPORATE INFORMATION

I&M Bank (Rwanda) Limited (the bank) is a financial institution licensed to provide corporate and retail banking services to corporate, small and medium size enterprises and retail customers in various parts of Rwanda. The Bank is a limited liability bank incorporated and domiciled in Rwanda. The ultimate parent of the Bank is I&M Holdings Ltd, a limited liability company registered and domiciled in Kenya.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for available for sale financial instruments, derivative financial instruments, land and buildings, and corporate bond that have been measured at fair value. The financial statements are presented in Rwandan Francs (Rwf) which is the functional and reporting currency and all values are rounded to the nearest thousand (Rwf'000) except when otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Law No. 07/2009 of 27 April 2009 relating to companies.

2.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations.

The following new and amended standards did not have an impact on the bank.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements Cycle - 2012-2014 (IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Assets (or disposal groups), IFRS 7 Financial Instruments: Disclosures - Servicing contracts and IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- IAS 19 Employee Benefits - Discount rate: regional market issue

Revaluation of Land and Buildings

The Bank elected to change the method of accounting for Land and Buildings classified as property and equipment. The bank had previously measured all property and equipment using the historical model whereby, after initial recognition of the asset classified as property and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses. On 01 December 2016, the Bank elected to change the method of accounting for Land and Buildings classified as property and equipment, as the Bank believes that the revaluation model provides more relevant information to the users of its financial statements and is more aligned to practices adopted by its competitors. In addition, available valuation techniques provide reliable estimates of the land and buildings fair value. The Bank applied the revaluation model prospectively. After initial recognition, land and buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

For details refer to Note 10 (a).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)

2.3. Significant accounting judgments, estimates and assumptions (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date.

(a) Classification and measurement

The Bank expects a significant impact on its statement of financial position on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The Available for Sale (AFS) reserve currently presented as accumulated other comprehensive income (OCI) will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Bank expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would have a significant impact. If the Bank were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans and advances, financial assets held to maturity and amounts due from other banks are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Bank expects to apply expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, and contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases. The Bank expects a significant impact on its profit and loss due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

(b) Impairment (continued)
to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date. The Bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. This amendment did not have any impact to the Bank during the current period as the Bank does not have investments in associate or joint ventures.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. The amendments are intended to provide information to help investors better understand changes in a company's debt. The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank is currently evaluating the impact.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank is currently evaluating the impact.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (continued)
The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank is currently evaluating the impact.

IFRS 16 Leases
The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features
- The new standard requires lessees to account for all leases under a single on-statement of financial position model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today.

Key statement of financial position metrics such as leverage and finance ratios, debt covenants and statement of comprehensive income metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the statement of cash flow for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Bank are in the process assessing the potential effect of IFRS 16 and will report on 2017 financial statements.

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Refer to Note 29.

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual Bank's). Refer to Note 15.

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the National Bank of Rwanda (NBR) Instruction No. 02/2011 to estimate losses on loans and advances. Where provisions determined using IFRS are lower than provisions determined using this regulation, the difference shall be treated as an appropriation from retained earnings and placed in a non-distributable reserve. Where provisions determined under IFRS are higher than those determined using this regulation, they will be considered to be adequate for the purpose of the regulation.

A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances is established by the National Bank of Rwanda.

The Bank is required to make provisions for impairment in accordance with the National Bank of Rwanda Instruction No. 02/2011 as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

Class Minimum provisions required

Normal	(between 0-30 days)	0%
Watch list	(between 31- 90 days)	0%
Substandard	(between 91-180 days)	20%
Doubtful	(between 181-360 days)	50%
Loss	(over 360 days)	100%

In addition to the arrears period, banks must follow subjective criteria in arriving at the classification attributable to the assets.

Impairment of available-for-sale investments
The Bank records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The impairment loss on available-for-sale investments held by the Bank is disclosed in more detail in note 15(b).

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. The deferred tax assets are disclosed in note 18(a).

(a) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities at fair value through profit or loss which are expensed in profit or loss.

(iii) Derivatives recorded at fair value through profit or loss
The Bank uses derivatives such as interest rate swaps and cross currency swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in profit or loss.

(iv) Financial assets held for trading
Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in Interest and similar income. Interest income is recorded in Interest and similar income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

(a) Financial instruments – initial recognition and subsequent measurement (continued)
(v) Available-for-sale financial investments
Available-for-sale investments include equity securities. Equity investments classified as available-for sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and accumulated in equity. Upon disposal, the gain/loss is recycled into profit or loss. Dividends earned whilst holding available-for sale financial investments are recognised in profit or loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in profit or loss in 'Impairment loss on financial assets' and removed from the 'Fair value reserve'.

(vi) Held-to-maturity financial investments
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest method ('EIR'), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment of such investments are recognised in profit or loss line 'Impairment loss on financial assets'.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.
The Bank's held to maturity financial investments as at 31 December 2016 are disclosed in note 15(c).

(vii) Due from banks and loans and advances to customers
Due from banks include 'Cash balances with the National Bank and 'Due from other banking institutions. Due from banks, 'Loans and advances to customers' and 'Other assets' (other than prepayments), include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates at fair value through profit or loss;
- Those that the Bank, upon initial recognition, designates as available-for-sale; or
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment are recognised in profit or loss in 'Impairment loss on financial assets'.

The Bank may enter into certain lending commitment. The commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

(viii) Customer deposits, deposits from other banks and financial institutions and other payables
Financial instruments or their components issued by the Bank, which are not designated at fair value through profit or loss, are classified as liabilities under 'Customer deposits', 'Deposits and balances with other banks and financial institutions', 'Other payables', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(x) Borrowings and Corporate bonds
Borrowings and corporate bonds are recognised initially at fair value. After initial measurement borrowings are subsequently measured at amortised cost using effective interest rate. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar expense in the statement of comprehensive income.

(b) Derecognition of financial assets and financial liabilities

(i) Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
    - o the Bank has transferred substantially all the risks and rewards of the asset, or
    - o The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Gains and losses on borrowings are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

(c) Determination of fair value
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.

(c) Determination of fair value (continued)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, option pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available.

Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(d) Impairment of financial assets
The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a Bank of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers are experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.
d) Impairment of financial assets (continued)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost (such as placements and balances with other banking institutions, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment loss on financial assets.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a Bank of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 8 for an analysis of impairment allowance on loans and advances.

ii) Available-for-sale financial investments
For available-for-sale financial investments, the Bank assess at each reporting date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss - is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in the fair value after impairment are recognised directly in other comprehensive income.
(d) Impairment of financial assets (continued)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

ii) Available-for-sale financial investments (continued)
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The difference between the old carrying amount and the new carrying amount arising from impairment losses initially recognised are reversed. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(e) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

(f) Leasing
The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee
Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor
Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

(g) Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense
For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recognised in profit or loss using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

(g) Recognition of income and expenses (continued)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

(i) Interest and similar income and expense (continued)

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income
The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- **Fees income earned from services that are provided over a certain period of time**
  Fees earned for the provision of services over a period of time are accrued over that period.
  Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

- **Fees income from providing transaction services**
  Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Other operating income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'Held-for-trading' as well as gain and losses on sale of property and equipment and operational rental income.

(h) Operating expenses
All operating expenses include staff costs, office expenses, travel expenses, professional charges, audit fees, allowance for impairment losses on financial assets, depreciation, amortisation, postage and communication, training expenses and other operating expenses. General operating expenses incurred in the current year are recognised in profit or loss. Any payment in excess of the expenses incurred during the year is recorded in the statement of financial position under prepayments. Expenses incurred but not paid for in the current year are accrued in the current year.

(i) Cash and cash equivalents
Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, current accounts with National Bank of Rwanda, and amounts due from banks and government securities on demand or with an original maturity of three months or less.

(j) Property and equipment
Property and equipment are stated at cost or fair value less depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.
All other repairs and maintenance are charged to profit or loss during the financial period in which they

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

are incurred.

Land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

Freehold land is not depreciated. Depreciation on other assets is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	5%
Furniture, fittings	15%
Equipment	15%
Motor vehicles	25%
Computers	33%

Freehold land is not depreciated as it is deemed to have an indefinite life. Work in progress is stated at cost and not depreciated. Depreciation on work in progress commences when the assets are ready for their intended use.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in profit or loss in the year the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

(k) Intangible Assets
The Bank's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
(k) Intangible Assets (continued)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or 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 amortisation. Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives at 3 years.

(l) Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Such impairment is recognised in profit or loss.

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. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used.

(m) Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other payables') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee in terms of IAS 37.

Any increase in the liability relating to financial guarantees is recorded in profit or loss. The premium received is recognised in profit or loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

(n) Statutory defined contribution pension scheme
The Bank contributes to a statutory defined contribution pension scheme, the Rwanda Social Security Board (RSSB). Contributions are determined by local statute and are currently limited to 5% of an employee's basic salary. The Bank's RSSB contributions are charged to profit or loss in the period to which they relate.

(o) Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(p) Taxes

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(q) Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are declared and approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(r) Foreign currency translation

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

2. ACCOUNTING POLICIES (continued)
2.3. Significant accounting judgments, estimates and assumptions (continued)

The financial statements are presented in Rwandan Franc (Rwf) which is the functional currency of the entity.

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All translation gains and losses arising on non-trading activities are taken to Other operating income/expenses' in the statement of comprehensive income.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

	2016 Rwf'000	2015 Rwf'000'
3. Interest and similar income		
Loans and advances	15,981,540	13,356,933
Government Securities	3,363,724	2,017,245
Placements in other banks	372,361	456,699
	19,717,625	**15,830,877**
4. Interest and similar expense		
Deposit from customers	5,297,302	4,238,593
Borrowings	308,213	252,538
Deposit from banks	230,665	-
	5,836,180	**4,491,131**
5. Fees and commission		
a) Fees and Commission income		
Current account ledger fees	988,586	1,002,620
Local and international transfers	433,129	385,323
Credit related fees and commissions	723,881	702,416
Commissions on guarantees and letters of credit	371,453	503,707
Other commissions	1,002,782	889,904
	3,519,831	**3,483,970**

Other commissions relate to money transfer fees, VISA card commission, ATM card fees and other revenue on banking transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

5. Fees and Commission (Continued)

	2016 Rwf'000	2015 Rwf'000'
b) Fees and commission income		
Banking services	104,931	71,641
Other commissions expenses	279,508	126,716
	384,439	**198,357**

6. Net profit (loss) on financial assets and liabilities designated at fair value through profit or loss

	2016 Rwf'000	2015 Rwf'000'
Financial Instruments - held for trading	623,638	(68,865)
Derivative financial instruments (Note 14)	198,260	25,977
	821,898	**(42,888)**

7. Other operating income

	2016 Rwf'000	2015 Rwf'000'
Operating lease income	90,958	209,875
Gain on disposal of property and equipment	-	68,274
Gain on disposal of financial investments - available for sale	-	202,462
	90,958	**480,611**

8. Impairment losses on financial assets

	2016 Rwf'000	2015 Rwf'000'
Balance as at January	4,661,822	2,630,288
Specific provisions	1,381,183	2,023,571
Recoveries on provisions	(449,004)	(352,526)
Loans written off	(2,737,645)	(302,859)
Interest suspended during the year	(942,095)	663,348
Balance as at December	**1,914,261**	**4,661,822**
Charge for the year :		
Specific provisions	(1,381,183)	(2,023,571)
Loans written off	(11,306)	(31,076)
Recoveries on amounts previously provided for	449,004	352,526
Recoveries on amounts previously written off	389,112	225,807
Impairment gain/(loss) on financial assets	**(554,373)**	**(1,476,314)**

9. Personnel expenses

	2016 Rwf'000	2015 Rwf'000'
Salaries and wages	6,011,400	5,288,593
Medical insurance costs	266,589	208,408
Mileage allowances	234,970	112,845
Other personnel expenses	105,414	120,649
Contribution to defined contribution plan	150,927	248,474
	6,769,300	**5,978,969**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

10. Property and Equipment

a) Year ended 31 December 2016

	Land and Buildings Rwf '000	Motor Vehicles Rwf '000	Equip-ment Rwf '000	Comput-ers Rwf '000	Furniture and Fittings Rwf '000	Work In Progress Rwf '000	Total Rwf'000
COST:							
At 1 January 2016	3,610,876	887,832	1,549,782	1,170,578	692,519	583,289	8,494,876
Additions	124,086	22,750	57,662	62,434	40,868	1,360,838	1,668,638
Revaluation	3,057,715	-	-	-	-	-	3,057,715
Transfers from WIP	757,534	9,750	121,175	-	586	(889,045)	-
Transfers to Intangibles	-	-	-	-	-	(43,003)	(43,003)
Write off	(1,035,567)	-	(298,532)	(127,198)	(189,552)	-	(1,650,849)
Disposal	-	(157,661)	-	-	-	-	(157,661)
At 31 December 2016	**6,514,644**	**762,671**	**1,430,087**	**1,105,814**	**544,421**	**1,012,079**	**11,369,716**
ACCUMULATED DEPRECIATION:							
At 1 January 2016	1,274,896	715,258	973,727	997,538	551,237	-	4,512,656
Charge for the year	215,894	85,746	161,237	94,912	74,652	-	632,441
Disposal	-	(157,661)	-	-	-	-	(157,661)
Write off	(994,807)	-	(298,532)	(127,198)	(189,552)	-	(1,610,089)
At 31 December 2016	**495,983**	**643,343**	**836,432**	**965,252**	**436,337**	**-**	**3,377,347**
NET BOOK VALUE							
At 31 December 2016	**6,018,661**	**119,328**	**593,655**	**140,562**	**108,084**	**1,012,079**	**7,992,369**

Revaluation of Land and Buildings
Management determined that the land and buildings constitute a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property. The fair value of the land and buildings has been determined on a market value basis in accordance with the RICS Valuation Professional Standards (January 2014) (''Standards") which comply with the International Valuation Standards. The valuations were performed by Landmark Limited, an accredited independent valuer with a recognized and relevant professional qualification with recent experience in the category of the investment property being valued in 2016. A net gain from the revaluation of the Land and building of Rwf 2,140,401 in 2016 was recognized in other comprehensive income. Fair value measurement disclosures for revalued land and buildings are provided in Note 29(f). None of property and equipment has been pledged as security over borrowings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

10. Property and Equipment (continued)

b) Year ended 31 December 2015

	Land and Buildings Rwf '000	Motor Vehicles Rwf '000	Equip-ment Rwf '000	Comput-ers Rwf '000	Furni-ture and Fittings Rwf '000	Work In Progress Rwf '000	Total Rwf'000
COST:							
At 1 January 2015	3,610,876	1,143,543	1,345,921	1,032,109	699,071	442,148	8,273,668
Additions	-	31,899	92,116	175,940	10,666	272,065	582,686
Transfers from WIP	-	-	127,030	-	3,894	(130,924)	-
Disposal	-	(287,610)	(15,285)	(37,471)	(21,112)	-	(361,478)
At 31 December 2015	**3,610,876**	**887,832**	**1,549,782**	**1,170,578**	**692,519**	**583,289**	**8,494,876**
ACCUMULATED DEPRECIATION:							
At 1 January 2015	1,065,079	867,535	813,604	934,151	499,086	-	4,179,455
Charge for the year	209,817	135,333	174,944	100,858	73,263	-	694,215
Disposal	-	(287,610)	(14,821)	(37,471)	(21,112)	-	(361,014)
At 31 December 2015	**1,274,896**	**715,258**	**973,727**	**997,538**	**551,237**	**-**	**4,512,656**
NET BOOK VALUE							
At 31 December 2015	**2,335,980**	**172,574**	**576,055**	**173,040**	**141,282**	**583,289**	**3,982,220**

Work in progress is composed of leasehold improvements which relate mainly to furniture and fittings for new branches. These are capitalised when the improvements are complete on the leased property.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

11. Intangible Assets

	2016 Rwf'000	2015 Rwf'000'
COST		
As at 01 January	1,598,449	1,492,544
Additions	47,491	105,905
Transfer from property, plant and equipment	43,003	-
At 31 December	**1,688,943**	**1,598,449**
AMORTISATION		
As at 01 January	1,446,332	1,351,493
Charge for the year	103,485	94,839
At 31 December	**1,549,817**	**1,446,332**
NET CARRYING AMOUNT		
At 31st December	**139,126**	**152,117**

12. Other operating expenses

	2016 Rwf'000	2015 Rwf'000'
Travelling costs	194,851	184,659
Professional Fees	360,283	99,097
Directors remuneration	188,450	126,760
Auditors remuneration	57,165	43,719
Communication expenses	322,489	323,703
Administrative local taxes	15,970	22,489
Insurance costs	104,842	110,849
Water and electricity	164,312	138,125
Fuel expenses	80,317	89,007
Bank supervision Fees	100,203	86,067
Operating licenses	113,668	89,404
Courier and postage services	22,736	21,678
Consultancy fees	751,923	493,307
Security expenses	343,164	269,163
Printing and stationery	197,014	169,071
Advertising expenses	414,836	387,085
Rent and accommodation	455,855	409,400
Printing security instruments	59,968	50,684
Repairs and maintenance	405,919	416,571
Donations and membership fees	77,905	91,293
VISA fees	110,998	98,030
Provisions	21,220	290,259
Loss on disposal of property and equipment	7,805	-
Other tax charges	49	251,094
Other expenses	349,623	236,828
	4,921,565	**4,498,342**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

13. Cash and Bank Balances

	2016 Rwf'000	2015 Rwf'000'
i) Cash in hand		
Cash in foreign currencies	2,917,649	1,986,740
Cash in local currency	2,131,015	1,645,263
	5,048,664	**3,632,003**
ii) Due from the National Bank		
Balances in foreign currencies	734,660	2,905,786
Balances in local currency	13,468,296	5,148,448
	14,202,956	**8,054,234**
iii) Due from other banking institutions		
Current accounts with other banks	22,810,256	11,603,320
Money market placements	9,034,699	5,214,825
	31,844,955	**16,818,145**
iv) Cash and cash equivalents,		
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:-		
Cash in hand	5,048,664	3,632,003
Due from the National Bank	14,202,956	8,054,234
Restricted balances with the National Bank	(8,389,184)	(7,147,060)
Due from other banking institutions	31,844,955	16,818,145
Short term Treasury Bills Securities	8,953,278	998,381
Unrealised exchange gains	(1,029,755)	(622,428)
Cash and cash equivalents	**50,630,914**	**21,733,275**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts with National Bank of Rwanda, amounts due from banks and government securities (treasury bills) with an original maturity of three months or less, and restricted balances with National Bank of Rwanda. Banks are required to maintain a prescribed minimum cash balances with the National Bank of Rwanda that is not available to finance day to day activities, The amount is determined as 5% of the average outstanding customer deposits over a cash reserve cycle period of one month.

14. Derivative financial instruments

The bank entered into a three year SWAP transaction with the National Bank of Rwanda that took effect on 28 November 2014. In the SWAP transaction, the bank paid to National Bank of Rwanda US$ 2 million which was swapped with Rwf 1,382,764,094 that was received from the National Bank of Rwanda. The Bank will receive interest of 2% on the US$2 million investment and will pay interest of 8% to the National Bank of Rwanda on the Swapped local currency amount.

On 19 August 2015, the bank entered into a second three year SWAP transaction with the National Bank of Rwanda. In this SWAP transaction, the bank paid to National Bank of Rwanda US$ 3 Million which was swapped with Rwf 2,175,655,383 that was received from the National Bank of Rwanda. The Bank will receive interest of 2% on the US$3 million investment and will pay interest of 8% to the National Bank of Rwanda on the Swapped local currency amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

14. Derivative Financial Instruments (Continued)

In the current year, the bank entered into a third two year SWAP transaction with the National Bank of Rwanda that took effect on 24 June 2016. In the SWAP transaction, the bank paid to National Bank of Rwanda US$ 3 million which was swapped with Rwf 2,346,838,914 that was received from the National Bank of Rwanda. The Bank will receive interest of 2% on the US$3 million investment and will pay interest of 8% to the National Bank of Rwanda on the Swapped local currency amount.

In line with IAS 39, financial instruments (Swap) are carried at fair value. As at 31 December 2016, the fair value of the derivative financial instrument (swap) was a net asset of Rwf 284,782,274 (2015: net asset of Rwf 72,027,000). The bank's exposure under derivative instruments is monitored as part of the overall management of its market risk.

The table below shows the derivative financial instruments recorded as an asset at year-end.

	2016 Rwf'000'	2015 Rwf'000'
Balance as at 1 January	72,027	(978)
Payments under swap arrangement	3,782,140	571,543
Fair value gain (note 6)	198,260	25,977
Receipts under swap agreement	(3,767,645)	(524,515)
Net derivative asset	**284,782**	**72,027**

15. Financial Investments

a) Held for trading

	2016 Rwf'000'	2015 Rwf'000'
Government debt securities - Treasury bonds	**16,631,698**	**7,596,882**
Maturing within five years from the date of acquisition	12,821,974	5,789,802
Maturing after five years from the date of acquisition	3,809,724	1,807,080
	16,631,698	**7,596,882**

Government debt securities - treasury Bonds held for trading are made up of financial instruments purchased with an intention to sell in the near future and are classified as Held for trading. The change in fair value adjustment recognized in profit or loss for the current year is a gain of Rwf 623,637,732 (2015: loss Rwf 68,864,893).

b) Available for sale	2016 Rwf'000	2015 Rwf'000'
Investments in shares of unquoted entities:		
Banque de Développement des Etats des Grand Lacs S.A (BDGL)	5,000	5,000
Rswitch Limited	83,566	99,428
Air Rwanda	4,000	4,000
SWIFT	826	826
Gross Investment	93,392	109,254
Less: Impairment losses	(92,566)	(92,566)
Net investment carrying value	**826**	**16,688**

15. Financial Investments (continued)

Available for sale financial assets are valued using models which sometimes only incorporates data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Investment in BDGL and Air Rwanda and Rswitch are fully impaired whereas the net carrying amount for available for sale financial assets relates to fair value of investment in Swift of Rwf 826,000.

	2016 Rwf'000	2015 Rwf'000'
c). Held to maturity		
Government debt securities - Treasury bills	15,906,034	34,451,824
Government development bond	208,200	401,874
Government debt securities - Treasury bonds	378,270	948,190
	16,492,504	35,801,888
Current	16,163,941	35,243,688
Non-current	328,563	558,200
	16,492,504	**35,801,888**

	2016 Rwf'000	2015 Rwf'000'
16. Loans And Advances To Customers		
Mortgage loans	36,394,999	27,573,747
Equipment loans	19,181,241	21,143,256
Consumer loans	21,623,395	16,737,597
Overdrafts	27,997,058	21,558,502
Others	7,800,624	11,677,594
Total	**112,997,317**	**98,690,696**
Individual impairment	(1,566,620)	(4,294,505)
Collective impairment	(347,641)	(367,317)
Total (Note 8)	**(1,914,261)**	**(4,661,822)**
Net Loans and advances	**111,083,056**	**94,028,874**
Current (settled no more than 12 months)	55,796,966	48,502,491
Non-current portion (settled more than 12 months after reporting year)	55,289,090	45,526,383
	111,083,056	**94,028,874**
17. Other Assets		
Items in the course of collection	305,829	441,810
Prepayments	245,803	345,736
Other commissions receivable	61,226	465,047
Other receivable	605,066	201,755
	1,217,924	**1,454,348**

Other receivables, Items in the course of collection, and other commissions receivable are non-interest bearing and are generally on short term period of 30 to 90 days.

18. Taxes

a) Deferred tax

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the income tax expense or in OCI:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

18. Taxes (continued)
a) Deferred tax (continued)

	1 January 2016 Rwf '000	Current year charge / (credit) to PL Rwf '000	Charge to OCI Rwf '000	31 December 2016 Rwf '000
Year ended 31 December 2016				
Property and equipment	485,795	116,702	917,314	1,519,812
Fair value gains on available for sale equity investments	4,759	-	(4,759)	-
Leases	2,820	(2,820)	-	-
Deferred tax liability	**493,374**	**113,882**	**912,555**	**1,519,812**
Provisions	(217,342)	(95,073)	-	(312,415)
Deferred tax asset	(217,342)	(95,073)	-	(312,415)
Deferred tax liability	**276,032**	**18,809**	**912,555**	**1,207,105**

Year ended 31 December 2015	1 January 2015 Rwf '000	Current year charge/ (credit) to PL Rwf '000	Charge to OCI Rwf '000	31 December 2015 Rwf '000
Property and equipment	496,667	(10,872)	-	485,795
Fair value gains on available for sale equity investments	99,957	-	(95,198)	4,759
Leases	2,820	-	-	2,820
Deferred tax liability	599,444	(10,872)	(95,198)	493,374
Provisions	(214,258)	(3,084)	-	(217,342)
Deferred tax asset	(214,258)	(3,084)	-	(217,342)
Deferred tax liability	**385,186**	**(13,956)**	**(95,198)**	**276,032**

b). Corporate tax	2016 Rwf '000	2015 Rwf '000
Statement of financial position		
Balance brought forward	544,282	156,657
Charge for the year	2,593,245	2,152,728
Under/(Over) provision of current tax in prior years	-	133,015
Tax Credit from Rwanda Revenue Authority	-	(72,000)
Paid during the year	(2,158,829)	(1,826,118)
Tax payable	**978,698**	**544,282**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

18. Taxes (continued)

	2016 Rwf'000	2015 Rwf'000'
18. Taxes (continued)		
b. Corporate tax (continued)		
Profit and loss :		
Current tax at 30% on the taxable profit for the year (31 December 2015: 30%)	2,593,245	2,152,728
Deferred tax expense	18,809	(13,956)
Under/(over) provision of current tax in prior years	-	133,015
Tax Credit from Rwanda Revenue Authority	-	(72,000)
Income tax expense	**2,612,054**	**2,199,787**
Reconciliation of the total tax charge:		
Accounting profit before tax	**8,415,205**	**7,124,086**
At statutory income tax rate of 30% (31 December 2015: 30%)	2,524,562	2,137,226
Tax effect on non-deductible expenses	521,639	790,263
Tax effect on allowable deductions on income	(434,147)	(675,415)
Reversal of tax (over)/under provision	-	133,015
Tax credit from Rwanda Revenue authority	-	(72,000)
Tax discount in accordance with Rwandan tax laws	-	(113,302)
	2,612,054	**2,199,787**

19. Non-current asset held for sale

During the year, the Bank acquired a commercial building through an auction and has a statement of financial position value of Rwf 1.2 billion at the year end, which the Bank is in the process of selling and which is included in non-current assets held for sale.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds generally at auctions to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

20. Deposits from customers

	2016	2015
Term deposits	26,002,732	10,969,266
Current and demand deposits	90,110,496	94,637,165
Saving deposits	16,211,680	13,442,460
Interest payable	1,827,456	835,205
	134,152,364	**119,884,096**
Break down between current and non-current deposits:-		
Current	126,204,696	119,615,773
Non-current	7,947,668	268,323
Total	**134,152,364**	**119,884,096**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

20. Deposits from customers (continued)

The summary of terms and conditions for the various categories of deposits are below:

a) Term deposits - These are high interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for specified term periods of time. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.

b) Demand deposits – These are non-interest bearing accounts that are due on demand. They are operated by both individuals and institutions with the use of a cheque book. They are subject to transaction activity fees and/or monthly maintenance charges.

c) Term and savings accounts - This is a deposit account designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is paid into the account bi-annually.

	2016 Rwf'000	2015 Rwf'000'
21. Deposits from banks and other financial Institutions		
Demand deposits	4,778,825	5,761,723
Term and savings deposits	**21,928,207**	**11,565,529**
	26,707,032	**17,327,252**
Current	**26,707,032**	**17,327,252**
22. Other payables		
Cheque clearing accounts	2,416,683	2,232,954
Accruals	2,475,698	2,200,756
Others taxes payable	241,017	286,006
Other creditors	**432,411**	**618,945**
	5,565,809	**5,338,661**
Current	**5,565,809**	**5,338,661**
23. Corporate bond		
Rwanda Social Security Board	109,869	183,116
CORAR	109,869	183,116
SORAS	62,511	104,637
SONARWA	**31,664**	**52,319**
	313,913	**523,188**
Current	213,913	223,188
Non - current	**100,000**	**300,000**
	313,913	**523,188**

The bank issued a corporate bond at an interest rate of 10.5% p.a. at a nominal value of Rwf 1 billion through the Rwanda over-the-counter market in January 2008. The bond has a maturity period of 10 Years and is unsecured.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

24. Borrowed Funds

	2016 Rwf'000	2015 Rwf'000'
24. Borrowed funds		
Loan from European Investment Bank	5,916,989	2,569,837
Business Development Fund (BDF)	30,271	29,221
Amount due to Development Bank of Rwanda (BRD)	40,015	40,015
	5,987,275	2,639,073
Current	1,146,393	281,828
Non-current	**4,840,882**	**2,357,245**
	5,987,275	**2,639,073**

At the end of the year, the following loan balances were outstanding:

a) Loan from European Investment Bank –
Long term loan of Euro 1,299,599, Euro 593,600, Euro 165,650, Euro 1,573,000, Euro 1,073,600, USD 450,300, from European Investment Bank. The first five loans are denominated in Rwandan Franc equivalent whereas the last is denominated in USD and accrue interests at a fixed rate of 9.9% p.a, 8.8% p.a; 7.8% p.a, 8% p.a, 8% p.a and 4.4% p.a respectively and will mature on 15 May 2023, 15 November 2021, 17 May 2021, 17 May 2021, 15 May 2021 and 15 May 2019 respectively. A finance cost of Rwf 270M (2015: Rwf 193M) has been included in profit and loss for the year. The loan is not secured.

b) Business Development Fund (BDF)
The loan "CREDIT (IDA)" was given by National Bank of Rwanda to finance the rural sector support projects (RSSP) in agriculture related project through commercial banks in Rwanda at a nominal interest rate of 5%. On 9 July 2014, this loan was transferred to Business Development Fund (BDF). The loan is not secured.

c) Amount due to Development Bank of Rwanda (BRD)
A 20 year's housing loan was given to different customers through commercial banks by the National Bank of Rwanda in December 1998 at a fixed interest rate of 6%. This loan was later transferred to the Housing Bank in July 2008 that subsequently was transferred to Development Bank of Rwanda. A finance cost of Rwf Nil (2015: Rwf 6.5M) has been included in profit and loss for the year.

	2016 Rwf'000	2015 Rwf'000'
25. Provisions		
Balance as at 1 January	616,166	595,258
Additional provisions	196,069	20,908
Unused provisions reversed	(8,988)	-
Balance as at 31 December	**803,247**	**616,166**
Current	**803,247**	**616,166**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

25. Provisions (continued)

The provisions above relate to on-going legal disputes where the directors, having taken legal advice, are of the opinion that the judgement could be against the bank.

	2016 Rwf'000	2015 Rwf'000'
26. Share capital and reserves		
a) Share capital		
Issued and paid for share capital		
(5,000,000 shares @ Rwf 1,000 each)	**5,000,000**	**5,000,000**

b) Available for sale reserve
The reserve is attributable to changes in fair value of investment securities classified under the available-for-sale category. This is shown on the statement of comprehensive income and also in profit or loss when the underlying asset has been derecognised or impaired.

c) Revaluation reserves
Revaluation reserve represents revaluation surplus on land and buildings assets.

d) Other reserves
Other reserves relate to excess provisions on loans and advances that bank would have made based on the new directive No 03/2016 issued by National Bank of Rwanda on submission of general provisions status. The reserve is non-distributable.

	2016 Rwf'000	2015 Rwf'000'
e) Proposed dividend		
Proposed dividend	**2,322,000**	**1,970,000**
27. Related parties		
Loans to employees and directors	2,229,357	2,289,575
	28,927	29,286
Loans and advances to employees		
Loans and advances to directors and their associates		
	2,258,284	**2,318,861**

Interest rates charged on balances outstanding are two thirds of the rates that would be charged in an arm's length transaction. There were no loans that were impaired as at 31 December 2016 (2015 Nil) and as such no impairment losses have been recorded against balances outstanding during the year.

	2016 Rwf'000	2015 Rwf'000'
a) Key management personnel compensation		
Remuneration to key management		
Salaries and wages	**1,303,745**	**1,455,607**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

27. Related parties (continued)
a) Key management personnel compensation (continued)

In addition to their salaries, the Bank also contributes to a post-employment defined contribution plan, Rwanda Social Security Board, on their behalf.

	2016 Rwf'000'	2015 Rwf'000'
27. Related parties (continued)		
a) Amounts due from related parties on		
I&M Bank Ltd	2,674,330	692,265
I&M Bank (T) Ltd	758,342	284,741
	3,432,672	**977,006**

I&M Bank Ltd and I&M Bank (T) Ltd are part of the banking group of I&M Holdings Ltd who is the parent company of I&M Bank (Rwanda) Ltd. The above mentioned outstanding balances arose from the ordinary course of business. The balances above relates to deposits held by related parties which are available to the bank on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, there were no provisions for doubtful debts relating to amounts owed by related parties. All the transactions with the related parties are priced on arm's length basis and have been entered into in the normal course of business.

	2016 Rwf'000	2015 Rwf'000'
d). Directors' emoluments		
As non-executive	188,450	126,760
As executives	450,423	524,442
	638,873	**651,202**
e). Purchase of services		
Management fees	**144,239**	**132,703**

Management fees relates to cost of shared services incurred by I&M Bank Ltd Kenya on behalf of the bank.

28.Off statement of financial position, contingencies and commitments
In the ordinary course of business, the Bank conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year-end, the contingencies were as follows:

	2016 Rwf'000	2015 Rwf'000'
Acceptances and letters of credit	9,254,203	3,654,295
Guarantees	9,482,099	9,621,771
	18,736,302	**13,276,066**

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28.Off statement of financial position, contingencies and commitments (continued)

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers. An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under other derivative financial assets / liabilities as appropriate.

Capital Commitments
Capital expenditure contracted for the new office building at the statement of financial position date but not recognised in the financial statements is as follows:

	2016 Rwf'000	2015 Rwf'000'
Within one year	9,176,720	-
After one year but not more than five years	10,311,309	-
	19,488,029	-

29. Financial Risk Management

(a) Introduction and overview
The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

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

(b) 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 loans and advances to customers and other banks and treasury bills. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Bank is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitment risks
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity

29.Financial Risk Management (continued)
(b) Credit risk (continued)

needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The Board of Directors is responsible for management and periodically reviewing the credit risk of the Bank.

A Board Credit Committee, reporting to Board of Directors is responsible for oversight of the Bank's credit risk, including:

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

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various Credit committees as stipulated in the Bank's Credit Charter.

- Reviewing and assessing credit risk. The Bank Credit risk management Committee 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 loans 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 as follows:-

- The current risk grading framework consists of five 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 Banks's Credit Risk 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 Bank Credit on the credit quality of local portfolios and appropriate corrective action is taken.

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement the Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each business unit has a Head of department who reports on all credit-related matters to local management and the Bank Credit risk management 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 Bank's approval. Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)

Exposure to credit risk
(i) Loans and advances to customers

	2016 Rwf'000'	2015 Rwf'000'
Amortised cost – maximum exposure to credit risk	112,997,317	98,690,696
Individually impaired:-		
Gross amount	3,563,964	6,286,837
Allowance for impairment	(1,566,620)	(4,294,505)
Carrying amount	1,997,344	1,992,332
Collectively impaired:-		
Gross amount	109,433,353	92,403,859
Allowance for impairment	(347,641)	(367,317)
Carrying amount	109,085,712	92,036,542
Total carrying amount	**111,083,056**	**94,028,874**
Neither past due nor impaired	104,189,769	85,128,332
Past due but not impaired	5,243,584	7,275,527
Impaired loans advances	3,563,964	6,286,837
Total Gross loans advances	112,997,317	98,690,696
Past due but not impaired:		
More than one month and not more than three months	**5,243,583**	**7,275,527**

Collective impairment has been made for loans and advances that the bank has determined that no objective evidence of impairment exists for them to be individually assessed.

For the year ended 31 December 2016, the bank has not recorded any impairment of the amount due from banking institutions abroad neither the amount due from related parties. The assessment is undertaken each financial year through examining the financial position of the counterparty and market in which operates. The carrying value may not be affected by changes in the credit risk of the counterparties. Refer to cash and cash equivalents in Note 13(iv).

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

Impaired loans
Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans
These are loans where contractual interest 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)

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

Write-off policy
The Bank writes off a loan balance when credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions generally are based on a product specific past due status.

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

	2016 Rwf'000'	2015 Rwf'000'
Construction	26,696,028	21,574,392
Wholesale and retail	24,883,236	20,127,041
Manufacturing	12,575,537	10,738,390
Agriculture	15,365,050	13,487,134
Transport, warehousing and communication	6,620,629	3,102,965
Mining	60,948	396,106
Other Industries	24,881,628	24,602,846
	111,083,056	**94,028,874**

Collateral on Loans and Advances
The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and is updated on a periodic basis.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below.

	2016 Rwf'000'	2015 Rwf'000'
Individually assessed impaired loans and advances	3,563,964	6,286,837
Fair value of collateral held	3,162,314	3,176,641

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

29. Financial Risk Management (continued)

(ii) Commitments and guarantees

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

	2016 Rwf'000'	2015 Rwf'000'
Acceptances and letters of credit	9,254,203	3,654,295
Guarantees	9,482,099	9,621,771
	18,736,302	**13,276,066**

(c) Liquidity risks

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

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The 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 Asset and Liabilities Committee.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Details of the reported Bank ratios of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

	2016	**2015**
Average	51%	52%
Maximum	54%	55%
Minimum	49%	48%
Minimum statutory requirement	20%	20%

The table below shows details of the contractual maturities of undiscounted cash flows of Bank net liquid assets and liabilities at the reporting date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Managementt (continued)

(c) Liquidity risks (continued)

31st December 2016 Assets	**Less than 1 Month Rwf '000**	**1-3 Months Rwf '000**	**3-12 Months Rwf '000**	**1-5 Years Rwf '000**	**Over 5 years Rwf '000**	**Total Rwf '000**
Cash and balances with National Bank of Rwanda	19,251,620	-	-	-	-	19,251,620
Due from other banking institutions	31,844,955	-	-	-	-	31,844,955
Derivative financial instruments	-	-	30,981	(1,278)	-	29,703
Loans and advances to customers	38,112,145	5,771,095	14,066,441	54,325,643	35,758,668	148,033,992
Financial investment	4,002,950	5,177,473	7,571,747	414,403	-	17,166,573
Held for trading	16,631,698	-	-	-	-	16,631,698
Other Assets	972,121	-	-	-	-	972,121
Total Financial Assets	**110,815,489**	**10,948,568**	**21,669,169**	**54,738,768**	**35,758,668**	**233,930,662**
Liabilities						
Customers deposits	90,147,127	1,304,275	36,512,831	8,978,698	-	136,942,931
Deposits from other banks	8,936,138	2,057,694	17,190,274	-	-	28,184,106
Borrowings	-	-	915,039	5,065,644	1,528,878	7,509,561
Corporate bonds	113,913	-	110,000	126,906	-	350,819
Other liabilities	5,324,793	-	-	-	-	5,324,793
Total Financial Liabilities	**104,521,971**	**3,361,969**	**54,728,144**	**14,171,248**	**1,528,878**	**178,312,210**
Liquidity Gap-31 December 2016	**6,293,518**	**7,586,599**	**(33,058,975**	**40,567,520**	**34,229,790**	**55,618,452**

31st December 2015 Assets	**Less than 1 Month Rwf '000**	**1-3 Months Rwf '000**	**3-12 Months Rwf '000**	**1-5 Years Rwf '000**	**Over 5 years Rwf '000**	**Total Rwf '000**
Cash and balances with National Bank of Rwanda	11,686,237	-	-	-	-	11,686,237
Due from other banking institutions	14,568,145	-	2,430,000	-	-	16,998,145
Loans and advances to customers	32,000,924	5,908,951	12,551,417	44,242,179	30,148,327	124,851,798
Investment Securities						
Held for trading	7,596,882	-	-	-	-	7,596,882
Held to Maturity	2,802,582	10,087,944	24,156,217	661,073	-	37,707,816
Other Assets	1,108,612	-	-	-	-	1,108,612
Total Financial Assets	**69,763,382**	**15,996,895**	**39,137,634**	**44,903,252**	**30,148,327**	**199,949,490**
Liabilities						
Customers deposits	92,049,279	726,093	28,194,599	303,132	-	121,273,103
Deposits from other banks	5,761,723	-	12,606,426	-	-	18,368,149
Derivative financial instruments	-	-	123,768	95,895	-	219,663
Borrowings	-	-	334,266	2,388,770	620,838	3,343,874
Corporate bonds	123,188	-	110,000	507,623	-	740,811
Other liabilities	5,052,653	-	-	-	-	5,052,653
Total Financial Liabilities	**102,986,843**	**726,093**	**41,369,059**	**3,295,420**	**620,838**	**148,998,253**
Liquidity Gap-31 December 2015	**(33,223,461)**	**15,270,802**	**(2,231,425)**	**41,607,832**	**29,527,489**	**50,951,237**

I&M Bank (Rwanda) LTD Annual Report and Financial Statements for the year ended 31st December 2016

29.1. Financial Risk Management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is managed by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolio for risk management purposes.

Overall authority for market risk is vested in the Board. The Finance and Treasury Departments in collaboration with the Risk Management Department are responsible for the development of detailed risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

Exposure to market risks – trading portfolio

Currently, the Bank does not hold a significant trading portfolio and is therefore not largely exposed to market risks associated with such portfolios.

Exposure to interest rate risk – non-trading portfolio

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The Treasury back office and Finance Department is the monitoring body for compliance with these limits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29.1. Financial Risk Management (continued)

(d) Market risk (continued)

A summary of the Bank's interest gap position on non-trading portfolio is as follows:

31st December 2016	Less than 1 Month Rwf '000	1-3 Months Rwf '000	3-12 Months Rwf '000	1-5 Years Rwf '000	Over 5 years Rwf '000	Non-Interest bearing Rwf '000	Total Rwf '000
Assets							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	19,251,620	19,251,620
Due from other banking institutions	19,653,203	5,738,524	1,000,000	-	-	5,453,228	31,844,955
Derivative Financial instruments	-	-	79,065	205,717	-	-	284,782
Loans and advances to customers	38,112,145	5,503,084	12,178,737	37,892,208	17,396,882	-	111,083,056
Investment Securities							
- Held for trading	16,631,698	-	-	-	-	-	16,631,698
- Held to Maturity	4,002,950	5,063,154	7,076,400	350,000	-	-	16,492,504
Other assets	-	-	-	-	-	972,121	972,121
Total Assets	**78,399,996**	**16,304,762**	**20,334,202**	**38,447,925**	**17,396,882**	**25,676,969**	**196,560,736**
Liabilities							
Customers deposits	9,725,248	1,283,444	34,774,124	7,947,668	-	80,421,880	134,152,364
Deposits from other banks	11,098,881	2,000,000	8,829,326	-	-	4,778,825	26,707,032
Borrowings	-	-	839,485	4,083,838	1,063,952	-	5,987,275
Corporate bonds	100,000	-	100,000	100,000	-	13,913	313,913
Other liabilities	-	-	-	-	-	5,324,792	5,324,792
Total Liabilities	**20,924,129**	**3,283,444**	**44,542,935**	**12,131,506**	**1,063,952**	**90,539,410**	**172,485,376**
Interest rate sensitivity gap 31 December 2016	**57,475,867**	**13,021,318**	**(24,208,733)**	**26,316,419**	**16,332,930**	**(64,862,441)**	**24,075,360**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)

(d) Market risk (continued)

31st December 2015	Less than 1 Month Rwf '000	1-3 Months Rwf '000	3-12 Months Rwf '000	1-5 Years Rwf '000	Over 5 years Rwf '000	Non-Interest bearing Rwf '000	Total Rwf '000
Assets							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	11,686,237	11,686,237
Due from other banking institutions	2,759,305	250,000	2,000,000	-	-	11,808,840	16,818,145
Derivative Financial instruments	-	-	(64,006)	136,078	-	-	72,072
Loans and advances to customers	32,000,925	5,634,538	10,867,028	30,858,978	14,667,405	-	94,028,874
Investment Securities							
- Held for trading	7,596,882	-	-	-	-	-	7,596,882
- Held to Maturity	2,802,582	9,865,203	22,575,903	558,200	-	-	35,801,888
Other assets	-	-	-	-	-	1,108,612	1,108,612
Total Assets	**45,159,694**	**15,749,741**	**35,378,925**	**31,553,256**	**14,667,405**	**24,603,689**	**167,112,710**
Liabilities							
Customers deposits	21,072,678	714,496	25,360,702	268,323	-	72,467,897	119,884,096
Deposits from other banks	2,000,000	2,115,000	7,450,529	-	-	5,761,723	17,327,252
Borrowings	-	-	281,828	1,925,786	406,621	24,838	2,639,073
Corporate bonds	100,000	-	100,000	300,000	-	23,188	523,188
Other liabilities	-	-	-	-	-	5,052,653	5,052,653
Total Liabilities	**23,172,678**	**2,829,496**	**33,193,059**	**2,494,109**	**406,621**	**83,330,299**	**145,426,262**
Interest rate sensitivity gap 31 December 2015	**21,987,016**	**12,920,245**	**2,185,866**	**29,059,147**	**14,260,784**	**58,726,610**	**21,686,448**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)

(d) Market risk (continued)

Sensitivity analysis:	Rwf '000'
31 December 2016 (+/-) 2%	(+/-) 481,507
31 December 2015 (+/-) 2%	(+/-) 433,729

Sensitivity to pre-tax profit or loss is the effect of the assumed change in interest rates on interest bearing assets and liabilities.

Foreign currency exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions and revaluations are monitored on daily basis to ensure that positions are maintained within the established limits. The amounts below summarizes the foreign currency exposure position as at 31 December 2016.

31st December 2016	USD Rwf '000	EUR Rwf '000	GBP Rwf '000	Other Rwf '000	Total Rwf '000
Assets					
Cash and balances with National Bank of Rwanda	2,472,157	918,917	259,992	1,243	3,652,309
Due from other banking institutions	25,865,197	2,841,455	73,084	27,038	28,806,774
Loans and advances to Customers	13,380,052	1,055	125		13,381,232
Total Assets	**41,717,406**	**3,761,427**	**333,201**	**28,281**	**45,840,315**
Equity and liabilities					
Customer deposits	38,725,152	3,590,836	335,988	-	42,651,976
Borrowings	369,211	5,547,778	-	-	5,916,989
Deposits from other banks	9,319,445	171,582	-	-	9,491,027
Total Liabilities	**48,413,808**	**9,310,196**	**335,988**		**58,059,992**
Net financial position	**(6,696,402)**	**(5,548,769)**	**(2,787)**	**28,281**	**(12,219,677)**

Sensitivity analysis

The following table demonstrates the sensitivity, to a reasonable possible change in the USD, GBP and EUR, with all other variables held constant, of the Bank's profit before tax due to changes in fair value of monetary assets and liabilities. The Bank's exposure to foreign currency changes for all other currencies is not material.

31 December 2016	Effect on profit before tax Rwf '000
Changes in EUR +/- 6.2%	(+/-) 344,024
Changes in USD +/- 9.6%	(+/-) 642,855
Changes in GBP +/- 8.6%	(+/-) 240

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)
(d) Market Risk (continued)

31st December 2016	USD Rwf '000	EUR Rwf '000	GBP Rwf '000	Other Rwf '000	Total Rwf '000
Assets					
Cash balances	4,599,893	266,725	24,748	1,160	4,892,526
Cash and balances with National Bank of Rwanda	10,625,533	2,470,958	412,501	12,935	13,521,927
Loans and Advances to Customers	12,922,447	649	25	-	12,923,121
Total Assets	**28,147,873**	**2,738,332**	**437,274**	**14,095**	**31,337,574**
Equity and liabilities					
Customer deposits	27,648,400	2,857,204	381,368	-	30,886,972
Borrowings	336,557	2,233,280	-	-	2,569,837
Deposits from other banks	5,442,203	93	-	-	5,442,296
Total Liabilities	**33,427,160**	**5,090,577**	**381,368**	**-**	**38,899,105**
Net financial position	**(5,279,287)**	**(2,352,245)**	**55,906**	**14,095**	**(7,561,531)**

31 December 2016	Effect on profit before tax Rwf '000
Changes in EUR +/- 3.2%	(-/+) 75,272
Changes in USD +/- 7.6%	(-/+) 401,226
Changes in GBP +/- 2.8%	(+/-) 1,565

(e) Capital Management

Regulatory capital
The National Bank of Rwanda sets and monitors capital requirements for the banking industry as a whole.

In implementing current capital requirements, the National Bank of Rwanda requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:
Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; there are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)
(e) Capital Management (continued)

The Bank has complied with all externally imposed capital requirements throughout the year.

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

Tier 1 capital	**2016 Rwf'000'**	**2015 Rwf'000'**
Ordinary share capital	5,000,000	5,000,000
Reserves:		
Prior years' retained earnings	17,478,880	14,530,653
Net Profit after tax for current the year (50% only)	2,901,575	2,462,150
Cancelation of shares	-	(6,072)
Other reserves	709,229	-
Less - intangible assets	(139,126)	(152,117)
Tier 1 capital	25,950,558	21,834,614
Tier 2 capital		
Revaluation reserve	535,100	-
Total Capital	**26,485,658**	**21,834,614**
Risk-weighted assets	119,300,838	93,427,510
Capital ratios		
Total minimum Tier 1 regulatory capital expressed as a % of total risk-weighted assets	10%	10%
Total minimum regulatory capital expressed as a % of total risk-weighted assets	15%	15%
Total tier 1 capital expressed as a % of risk-weighted assets	21.8%	23.4%
Total capital expressed as a % of risk-weighted assets	22.2%	23.4%

(f) Fair value measurement
The fair values of investment securities are determined using valuation techniques. The bank uses widely recognised valuation models for determining fair values of investment securities.

Valuation methods and assumptions
Derivative financial instruments
The derivative has been valued using a valuation technique with market-observable inputs. The technique used the swap model using present value calculations of expected future cash flows. Significant inputs are interest rates and fluctuations in exchange rates

Financial Instruments - Held for trading and corporate bonds.
The fair values of the quoted bonds are based on price quotations at the reporting date.

Cash in hand, Due from National Bank, Other assets, Due to banks and other financial institutions, and Other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial assets such as Loans and advances, Due from other banking institutions Financial Assets held to Maturity, Other assets, and financial liabilities like Due to customer and Borrowed funds are stated at amortised costs and these values approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)
(f) Fair value measurement (continued)

The following tables provide the fair value measurement hierarchy of the company's assets and liabilities. The table below includes items that have recurring fair value measurements (i.e. Financial assets- Held for trading and available-for-sale, as well as derivative instruments). The table also shows the fair value measurement of financial instruments at amortised cost (i.e. the corporate bond)

31 December 2016	**Carrying amount Rwf'000'**	**Quoted prices in active markets (Level 1) Rwf'000'**	**Significant observable inputs (Level 2) Rwf'000'**	**Significant unobservable inputs (Level 3) Rwf'000'**
Assets:				
Financial Investments				
- Held for trading	16,631,698	-	16,631,698	-
- Available for sale	826	-	-	826
Derivative financial instruments	284,782	-	284,782	-
Property and equipment				
- Land and buildings	6,018,661	-	-	6,018,661
Total	**22,935,967**	**-**	**16,916,480**	**6,019,487**
Liabilities :				
Corporate bond	**313,913**	**-**	**313,913**	**-**
31 December 2015				
Assets :				
Financial Investments				
- Held for trading	7,596,882	-	7,596,882	16,688
- Available for sale	16,688	-	-	-
Derivative financial instruments	72,027	-	72,027	
Total	7,685,597	-	7,668,909	16,688
Liabilities :				
Corporate bond	523,188	-	523,188	-

Quantitative information of significant unobservable inputs – Level 3:

Description	**Valuation Technique**	**Unobservable input**	**Range**	**2016 Rwf'000**	**2015 Rwf'000**
Financial investments – available for sale	Market based valuation technique	Net asset value and last equity transaction on the shares	SWIFT Shares	826	16,688
Property and Equipment - Land and buildings	Market based valuation technique	Range Price per square metre	Land 14,000 - 118,000 Building 140,000 - 500,000	6,018,661	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

29. Financial Risk Management (continued)
(f) Fair value measurement (continued)

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

i) Financial Investments - Available for sale

	2016 Rwf'000'	**2015 Rwf'000'**
Balance as at 01 January	16,688	394,650
Total FV loss recognized in OCI	(15,862)	-
Disposal of shares	-	(317,326)
Gains recognized through profit and loss on disposal	-	202,462
Disposal proceeds of shares	-	(263,098)
Balance as at 31 December	**826**	**16,688**

Reconciliation of carrying amount	**2016 Rwf'000'**
Carrying amount as at 1 January	2,335,980
Additions and transfers during the year	881,620
Level 3 revaluation gain recognised due to change in accounting policy to revaluation model	3,057,715
Write off	(40,760)
Depreciation for the year	(215,894)
Carrying amount and fair value as at 31 December*	**6,018,661**

* The company changed the accounting policy with respect to the measurement of property and equipment classified under land and buildings during the year on a prospective basis. Therefore, the fair value of land and buildings was not measured in 2015.

30. Retirement benefit obligations

The Bank operates a defined contribution pension scheme for the staff. The Bank contributes to a statutory defined contribution pension scheme, to the Rwanda Social Security Board. The contributions are charged to profit or loss in the year in which they relate.

	2016 Rwf'000'	**2015 Rwf'000'**
Contribution to Rwanda Social Security Board	**266,589**	**248,474**

31. Events after Reporting date

The shareholders have obtained approval from the Capital Markets Authority to issue its shares through an Initial Public Offer in 2017. The directors are not aware of any other events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

31. Events After Reporting Date (continued)

ITEM		Figures in Rwf'000
1. Off balance sheet items		19,619,755
2. Non-performing loan indicators		
(a)	Non-performing loans	3,563,964
(b)	NPL Ratio	2.7%
3. Capital Strength		
a.	Core Capital (Tier1)	25,950,558
b.	Supplementary Capital (Tier 2)	535,100
c.	Total Capital	26,485,658
d.	Total risk weighted assets	119,300,838
e.	Core capital/Total risk weighted assets ratio	21.8%
f.	Tier 1 ratio	21.8%
g.	Total capital/total risk weighted assets ratio	22.2%
h.	Tier 2 Ratio	22.2%
4. Liquidity		
a.	Liquidity ratio	54.50%
5. Insider lending		
a.	Loans to directors, shareholders and subsidiaries	28,927
b.	Loans to employees	2,229,357
6. Management and board composition		
a.	Number of Board members	8
b.	Number of executive directors	2
c.	Number of Non-executive directors	6
d.	Number of female directors	-
e.	Number of male directors	8
f.	Number of executive committee	13
g.	Number of females in the Executive committee	3
h.	Number of males in the Executive committee	10

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