I&M Bank LIMITED

2015 | Annual Report and Financial Statements 31 December 2015

R W A N D A

Happiness, Joy & Laughter

Happiness, Joy & Laughter

Our young customer were asked to express Happiness, Joy & Laughter through the strokes of their brushes. In a competition that encourages creativity and free expression, children made statements that also reflect the spirit of I&M Bank.

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BOARD OF DIRECTORS

Bonaventure Niyibizi
[Non Executive Director]

M. Soundararajan
[Non Executive Director]

Robin Bairstow
[Managing Director]

Faustin Byishimo
[Executive Director]*

*Faustin Byishimo appointed 21st December 2015, confirmed June 2016

Arun S. Mathur
[Non Executive Director]

Bill Irwin
[Chairman]

Jonathan Nzayikorera
[Non Executive Director]

Richard Mugisha
[Non Executive Director]

SENIOR MANAGEMENT TEAM

Robin Bairstow
Managing Director

Faustin Byishimo*
Executive Director and
Div. Head for Business Development

Lena M. Militsi
Head of Legal & Company Secretary

John Gatashya
Chief Finance Officer

Michael Obiero
General Manager - Operations & Internal Services

Louise Kagaju
Chief Internal Auditor

Ngagi Kabarega
Head of Risk

Alfred Baguma
Head of Credit

Benjamin Mutumira
Head of Corporate Banking

Callixte Nyilindekwe
Head of Business Banking

Norbert Mwanangu
Head of Retail Banking Designate

Diana Kwarisiima
Head of Human Resources

Blaise Pascal Gasabira
Head of Treasury

Innocent Muhizi
Head of IT & Channels

DIRECTORS, OFFICIALS AND ADMINISTRATION

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

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

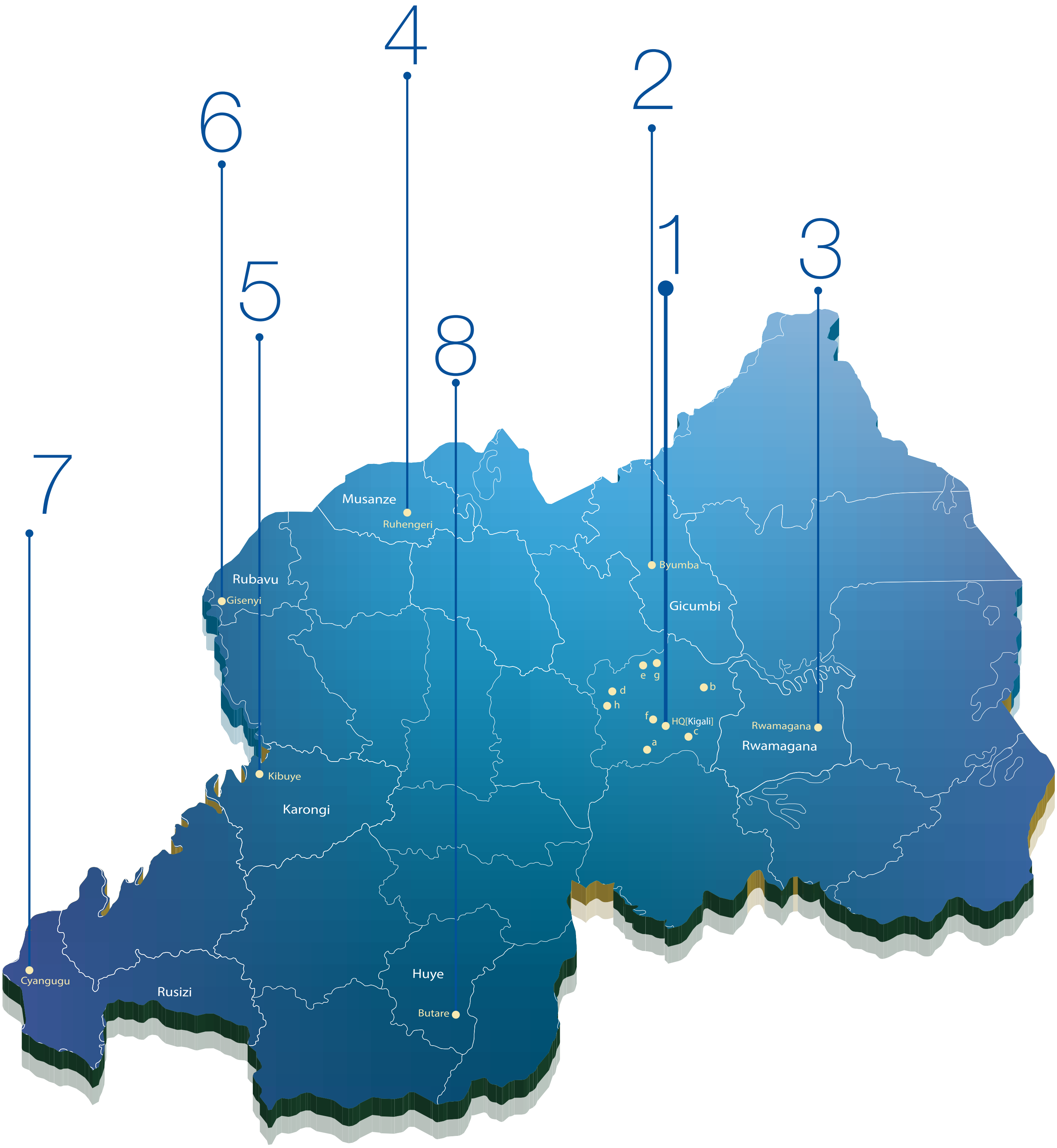
ING BELGIQUE S.A
Avenue Marnix 24
B- 1000 Bruxelles
RPM Bruxelles

AUDITORS
Ernst & Young Rwanda Limited
Bank of Kigali Building
Avenue de la Paix
P. O. Box 3638
Kigali
Rwanda

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

*Faustin Byishimo appointed 21st December 2015, confirmed June 2016

Our locations



Our locations

[1] HEAD OFFICE
KN 3 AV/9 Kigali
Tel: 0788162026
Operating Hours:
Monday - Friday : 08:00am to 06:00pm
Saturday: 08:00am to 01:00pm

[f] KENYA AIRWAYS (Cash & Deposit Counter)
UTC BUILDING
Nyarugenge District, Kigali
Tel: 0788162026
Operating Hours:
Monday - Friday: 8.00 am to 6.00pm

[g] MAGERWA (Cash & Deposit Counter)
Gikondo, Kigali
Tel: 0788162169
Operating Hours:
Monday - Friday: 7:00am to 12:00am
Saturday: 7:00am to 1:00pm

[d] MATEUS (Cash & Deposit Counter)
Rue du Travail Nyarugenge District
Quartier Mateus, Kigali
Tel: 0788162198
Operating Hours:
Monday - Saturday : 12:00pm to 7:00pm

[a] KACYIRU - UMUBANO
Umubano Hotel
Tel: 0788162160
Operating Hours:
Monday - Saturday: 8:00am to 8:00pm
Sunday: 10:00am to 4:00pm

[b] REMERA
Gasabo District Kisimenti Kigali
Tel: 0788162161
Operating Hours:
Monday - Saturday: 8:00am to 8:00pm
Sunday: 10:00am to 4:00pm

[c] NYAMIRAMBO
Rwezamenyo Secteur,
Nyarugenge District, Kigali
Tel: 0788162188
Operating Hours:
Monday - Friday: 8:00am to 6:00pm
Saturday: 8:00am to 1:00pm

[e] NYABUGOGO
Nyabugogo Sector Building
Inkundamahoro, Kigali
Tel: 0788162162
Operating Hours:
Monday - Friday : 8:00am to 06:00pm
Saturday: 8:00am to 01:00pm

[h] KCM (KIGALI CITY MARKET)
Tel: 0788388433
Operating Hours:
Monday - Friday: 8.00am to 6.00pm
Saturday: 7:00am to 1:00pm

[6] RUBAVU
Rubavu District Secteur, Gisenyi
P.O.Box 169 Western Province
Tel: 0788162197
Operating Hours:
Monday - Friday: 8:00am to 6:00pm
Saturday: 8:00am to 1:00pm

[5] KARONGI
RSSB Building, District Karongi
Tel: 0788162181
Operating Hours:
Monday - Friday: 8:00am to 6:00pm
Saturday: 8:00 am to 1:00 pm
Saturday: 9:00 am to 2:00pm

[7] RUSIZI
Rusizi District, Kamembe Sector
Western Province,
Tel: 0788162164
Operating Hours:
Monday - Friday: 8:00am to 6:00pm
Saturday: 8:00am to 1:00pm

[8] HUYE
Ngoma Sector, Southern Province.
P.O.Box 616 Huye, Rwanda
Tel: 0788162163
Operating Hours:
Monday - Friday: 8:00am to 6:00pm
Saturday: 8:00am to 1:00pm

[4] MUSANZE
Muhoza Sector, Musanze District
P.O. Box 120 Musanze
Tel: 0788162170
Operating Hours:
Monday - Friday : 8:00 am to 6:00pm
Saturday: 8:00am to 1:00pm

[2] GICUMBI
Byumba Sector, Gicumbi District
P.O. Box 08, Byumba, Rwanda.
Tel: 0788162165
Operating Hours:
Monday - Friday: 8:00 am to 6:00pm
Saturday: 8:00 am to 1:00pm

[3] RWAMAGANA
Rwamagana District, Kigabiro Sector
Eastern Province
Tel: 0788162174
Operating Hours:
Monday - Friday: 8:00 am to 06:00 pm
Saturday: 8:00am to 01:00pm

2015 News & CSR

Introduction of New Managing Director

The bank, on 22nd October 2015 formally introduced its newly appointed Managing Director Mr. Robin Bairstow to its stakeholders, customers and members of the general public, at a customer appreciation cocktail held at the Kigali Serena Hotel.

Mr. Bairstow joined the Bank in September 2015 and brings with him 23 years of experience from 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.

Mr. Bairstow and BNR Governor Mr. John Rwangombwa share a light moment during the event.

Use & Win Visa Campaign

More than 30 I&M Bank customers were on Friday 18th September 2015, rewarded for transacting with VISA cards. There were three categories of winners; five clients who transacted more than 20 times won Rwf200,000, sixteen people who transacted between 15 to 20 times walked away with Rwf50,000 each, while 10 who transacted between 10 to 15 Times won Rwf100,000 each. Only clients who transacted online and POS more than 10 times participated in the draw.

The campaign that run 3 months from June 1st - August 31st saw a 300 per cent increase in uptake of VISA cards, as well as significant growth in usage at merchant locations. The aim of the campaign was to drive people to make payments by card at points of sale and online, especially because there is no added charge when a customer uses their card and it is safe and convenient.

Robin Bairstow hands over a cash voucher to one of the lucky winners

Revamped Home Loans Campaign

During the 2015 third quarter, I&M Bank (Rwanda) launched three revised and improved housing finance products under the umbrella name I&M Home Loans.
The products include Mortgage Loans, Construction Loans and Home Equity Loans.
The added features for the loan products include a Mortgage top up facility, and the ability to borrow up to 70% of the value of an existing property on the Home Equity offer

Support To Ntare Rebero Campus

I&M Bank Rwanda in 2015 contributed Rwf 20,000,000 during a fundraising dinner organized by the Ntare Old Boys Association (NSOBA) – Rwanda . The Rwandan model, expected to accommodate about 1,000 students, will be built on a 60-hectare plot of land on Rebero hill near Nyamata town with provision for a boarding section.

The school is being developed by NSOBA Rwanda whose patrons include the President of The Republic of Uganda Mr. Yoweri K. Museveni and the President of Rwanda, Mr. Paul Kagame.

Lycee de Kigali Head Teacher, Martin Masabo, now an honourary member of Nsoba, speaking about the project said “We need to develop our human capital and I would encourage as many people as possible to support this very noble cause. The project is important for Rwanda as it is supporting an important sector.”

Annual Childhood Cancer Awareness Walk

I&M Bank Rwanda joined the RCCR, Rwandans and the rest of the world in solidarity awareness of childhood cancers during the 2nd Annual Childhood Cancer Awareness Walk. The walk which started from the Main Bus Park through the main roundabout and ended at Camp Kigali was attended by medical students, survivors, school children and other wellwishers from the general public including the I&M Bank Managing Director and members of staff.

I&M Bank Hosts School Bank Visit During The Global Money Week

The Global Money Week aims to engage children worldwide in learning how money works, including saving, creating livelihoods, gaining employment, and entrepreneurship.

In Rwanda, it was co-ordinated by AIESEC and local banks, most of which trained youth in financial literacy, and handling money.

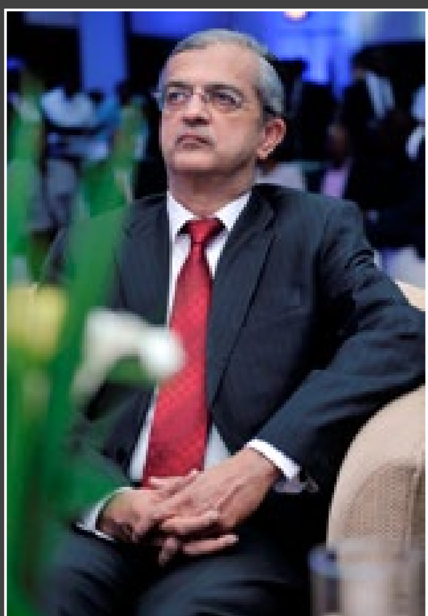
During the training held at I&M Bank head offices in Kigali, students were also able to interact with the bank staff from different departments who explained to them about their roles and other banking activities.

Michael Obiero, the General Manager for Operations explained to students the different banking services and products, including forex trading; loan processing and coordination between commercial banks and the central bank. “We are regulated by the National Bank of Rwanda and hence all our operations are done in accordance with the rules by the central bank. Therefore, customers need not to worry over safety of their savings,” Obiero said while replying to some of the questions from the students.

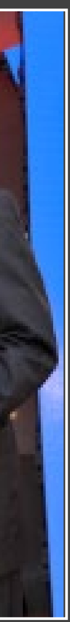
He advised students to develop a savings culture as part of their life-long strategy to set aside money for future investment. “Students receive a lot of money from parents and guardians, but only a few save some of this money. Therefore, it is important to understand that as young people you need to save to safeguard your future,” Obiero added.

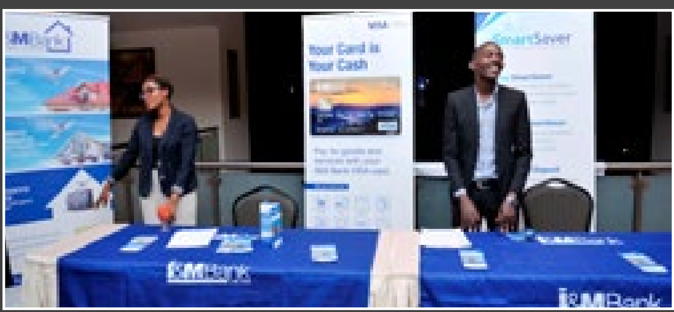
Henry Umunnakwe, the country co-ordinator of AIESEC, said the project which operates in 125 countries has a target to reach one million youth who are fully aware of financial operations.

CUSTOMER Appreciation Party For 2015




I&MBank
LIMITED




Your Card is
Your Cash
SmartSaver
I&MBank
I&MBank

I&M Bank Marks The 21St Commemoration of The Genocide Against TheTutsi

On Friday 10th April 2015 I&M Bank (Rwanda) Limited joined the rest of the Rwandan community to commemorate the 1994 Genocide against the Tutsi and to remember the victims, in particular those who were employees of the bank

For the 21st commemoration, the event took place at I&M Bank (Rwanda) Limited Head Office main parking, facilitated by Aegis Trust Rwanda. Early in the morning a group of 50 staff representing the bank visited Murambi memorial sites in Nyamagabe. During the visit staff have been introduced to diiferents parts of the memorial and explained in details Genocide history fromm the preparation to the execution.

Later in the evening the same day, the group of staff joined other for a night to remember at I&M bank Headquarters where government authorities including, senator Laurent Nkusi the guest of honor, Dr Bideri the CNLG Legal Advisor, Gatera Jonathan BNR representative, police and army representatives, Families of Former staff remembered and I&M Bank Staff.

The Managing Director thanked all who joined for the commemoration night to remember 22 former staff and 12 families' representative who were present to honor and remember the victims.


UNITED
WE’LL KEEP
THE FLAME
BURNING
©IBRAHIM ABAHO BIN HASSAN

2015 Management Moves

Robin Bairstow
Managing Director

Faustin Byishimo
Executive Director & Division Head
for Business Development

Faith Kobusingye
Head of Transactional Banking
Services & Product Development .

Faustin R. Byishimo who has served the bank for 13 years was appointed as an Executive Director and Division Head for Business Development. In his current role, he oversees all business segments of the Bank i.e. Retail Banking, Business Banking and Corporate Banking both on the lending and depository side. He has served the bank for over 13 years under different managerial positions. Faustin has in-depth operational and strategic management experience that was acquired through various top level assignments within the Bank which include his most recent tenures as the Head of Corporate Banking and Head of Retail Banking, Marketing and Product Development. He previously worked in Finance, Internal Audit and headed the Branches Network Operations.

Mr. Bairstow joined I&M Bank Rwanda in September 2015 as the new Managing Director. Prior to his appointment, he held senior positions at Standard Chartered Bank across Central Africa, East Africa and Southeast Asia. Robin has a reputation for innovation, is an experienced Corporate Banker and has a highly successful track record with over 23 years in the financial services sector with both domestic and international banking organisations. He has developed skills to grow business units in diverse markets, has corporate finance abilities and has an exemplary record in the risk and control environments.

Faith Kobusingye who previously served the bank as the Transactional Banking Services Manager was promoted to Head of Transactional Banking services and Product Development. She has over 10 years' working experience in various aspects under the Retail Banking and Product Development space. She has built her experience through various roles that include; Retail Sales and Sales Management, Product development, Strategic Marketing, Project Management, and Strategy development and implementation (both at Departmental & Organizational levels). Faith has an in-depth understanding of Payments products as well as the traditional Retail Asset and Liability product propositions. She has worked with Retail Banking departments in; Standard Chartered Bank (Uganda) limited, Barclays Bank Uganda Limited, Barclays Bank Zambia (PLC), and I&M Bank (Rwanda) limited.


Mr. Bill Irwin
Chairman

CHAIRMAN'S STATMENT

On behalf of the Board of Directors, I present to you the Annual Report and Financial Statements for the year ended December 31st 2015. The bank has made and continues to make great strides, sustaining growth and maintaining its position as a leading provider of financial services in Rwanda.

Financial Performance

The Rwanda Banking sector has continued to perform well with authorized loans increasing by 13.7% while NPLs stood at 6.2% up from 6.0% in 2014. Average CAR stood at 22.5% down from 24.0% in 2014 with return on assets (ROA) and return on equity (ROE) increased to 2.1% and 11.2% respectively from 1.9% and 10.5% in 2014.

The following are the key highlights of our financial performance for 2015:

- Our net profit for the year increased by 8.69% to Rwf 5Bln.
- Revenues increased by 16% largely due to interest income, foreign exchange gain, and fees and commissions which increased by 13%, 23% and 17% respectively;
- Total operating income increased from Rwf 17.4B to Rwf 20B, as a result our cost to income ratio was contained at 56.5% and reflected continued operating efficiency;
- Our loans and advances grew by 14% in 2015 slightly ahead of the market average with the main contributors to this growth being in the SME and Retail book.
- Our customer deposits similarly grew by 14%, the contribution to the growth was mainly from Retail and Corporate.
- Profit before tax increased by 12% from Rwf 6.5B in 2014 to Rwf 7.3B, due to an increase in revenues from Rwf 17.2B in 2014 to 19.9B in 2015;
- Our return on average equity was 20.3% compared to an industry average of 11.2%, thereby, indicating an efficient deployment of shareholder funds.
- Our liquidity ratio closed at 51%, where local currency was 52% and foreign currency at 49%, which are both within the limits set by ALCO, and which also reflect ample liquidity.
- Our NPL ratio reduced to 5.68%
- Government securities increased by 93% mainly on account of increased liquidity occasioned by the growth in customer deposits and a lower growth in customer loans and advances.
- Our total shareholder equity improved substantially from Rwf 21.6B to Rwf 25B;

Credit Risk Management

Delinquency rates for Retail and Business banking stood at 1.94% and 3.43% well below the industry average of 7% for these sectors. However the corporate portfolio's delinquency rate stood at 11.2% as a result of a challenging credit environment and default of two significant accounts.

We closed the year with an overall NPL ratio of 5.68% largely due to the two corporate accounts mentioned above.

Nonetheless, despite these credit challenges, the Bank has a strong and independent risk management system that allows Management to monitor Credit, Operational, Market and other risks in a pro-active and consistent manner.

> "The bank has made and continues to make great strides, sustaining growth and maintaining its position as a leading provider of financial services in Rwanda."

Mr. Bill Irwin
Chairman

Business Development

All three business units recorded positive growth in their respective portfolios, and were led by Business banking which grew by 26.3%, Retail by 20.5% and Corporate by 6.9%. All together the businesses earned the bank net revenues of Rwf 17B.

Transactional banking products such as the VISA Card, Mobile and Online Banking recorded more than 150% growth in both volume and revenue.

Detailed business development highlights include:

- 1890 new Business customers to the bank's portfolio;
- On the Retail front, construction and home equity loans showed a positive and equal growth of Rwf 1.5B each compared to the year before. But the Mortgage portfolio showed a lower growth of Rwf 821M, which could be attributed to a lack of housing units in the market, leading potential mortgagees to invest more in their current properties or to use the equity for investments through the Home Equity loan;
- Through our collaboration with the World Food Program and VISA, we were able to increase the subscription to our mVISA platform by 7184 additional customers.
- The number of VISA cards issued increased by more than 600%, mainly due to a successful VISA sales campaign;
- A remarkable 200% increase in transaction values was recorded on Mobile and Online Banking
- Finally a record 135,000 transactions totaling Rwf 79B were channeled through our electronic tax (eTAX) payments channel.

Customer Service

A customer service committee was established, and mandated to review the customer journey nationwide. Following this "Customer Service Weeks" were launched to reintroduce products to customers and re-establish communal ties. These will continue to take place on a quarterly basis across our entire branch network. Our customer facing documentation has been revised to include Kinyarwanda translations to cater for our tri-lingual customer base.

A first of its kind customer service survey was conducted at the close of the year and similar exercises will be conducted periodically throughout the coming year to help us identify and close the gaps in our service delivery. Furthermore, from 2016, customer service staff will be deployed in every branch. We believe that this change will make a significant difference to our service levels as well as customer engagement and will help combat intense competition.

Staff and Management

The current number of permanent staff is 300, comprising 98.7% local staff and 1.3% expatriates.

Departmental changes and Key appointments:

Over 2015, the bank went through major re-segmentation to improve on service delivery. This included the creation of a new Business Development Division that now covers Business, Retail, Corporate and Product Development & Transactional Banking Services.

The IT and Transactional banking unit has been streamlined to focus on IT and Delivery Channels only. The bank appointed Robin Bairstow as the new Managing Director and in a move to promote local leadership, Faustin Byishimo, the bank's former head of Corporate Banking was appointed as an additional Executive Director.

The former Head of Compliance, Ngagi Kabarega was appointed as the Head of Risk.

Training and Staff Retention

Staff turnover for 2015 was 7.6% well below Central Bank threshold and an internal target of 8%. In terms of training, at least 76% of staff trained in at least two technical courses over the course of the year.

To encourage the development of knowledge leaders a "Learning Hour" was introduced by the General Manager of Operations to improve product and process flow in the branch network and Central Operations department. In 2016 this program will be rolled out to other departments.

Specialized training in Credit Risk management will be carried out in 2016 through an EIB Technical assistance program and we plan to conduct a Staff Engagement Survey to determine areas where support is required to improve productivity and efficiency.

We consider our staff to be our core strength and a competitive advantage, and will therefore continuously look to provide development opportunities and training in all areas of banking, service, leadership, governance and ethics.

In addition, we strive to ensure that our promotions are from within in order to provide our staff with development opportunities.

Our compensation policies are fair, transparent and competitive and as a result of this and all the above measures, we are happy to report that staff remain engaged and committed to achieving our institutional objectives.

Corporate Social Responsibility (CSR)

In line with our approved CSR Policy, in 2015 we focused our Corporate Social Responsibility efforts on Education, Capacity building, Rehabilitation, and Health.

Capacity building

A key initiative that we are committed to realizing every year is the Financial Literacy Training Workshop which is open to our SME customers. In 2015, we conducted two of these trainings workshops in partnership with EIB. Topics covered included the Interpretation of financial statements, best practice for tax compliance, Loan application requirements and how to maintain a good credit standing with the Bank.

Commemoration

We also renewed our partnership with the Aegis White Rose Society that is affiliated with the Kigali Memorial Center and the Kigali City Council. With this partnership the bank aims 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.

Educational Infrastructure projects

In the area of education, the bank made a significant contribution of Rwf 20M towards the construction of the Ntare Rebero Campus - a model not-for-profit secondary school to be built in Bugesera District. The school is being developed by NSOBA Rwanda whose patrons include the President of The Republic of Uganda Mr. Yoweri K. Museveni and the President of Rwanda, Mr. Paul Kagame.

Other projects supported by the bank during the year included Contributions towards Childhood Cancer Awareness in Health, Coffee Cup of Excellence in the Agricultural sector, as well as sponsorships of key events such as the Capital Markets East Africa conference on Accelerating Economic Development in Kigali.

Our mVISA services for UNHCR refugee payments have a strong humanitarian characteristic as it facilitates disbursement of food assistance, which was previously subject to delays, errors and frauds.

Last but not least, as a responsible citizen, I&M Bank Rwanda Ltd. supports the government's efforts on attracting foreign and regional direct investment by actively engaging with all concerned government agencies such as Rwanda Development Board and Private Sector Federation, as well as offering advice to potential investors.

Future Plans

We have set ourselves ambitious but attainable growth targets for the year 2016. We expect our association with I&M Bank group to yield increasing benefits as we pursue regional customers, regional products and other regional opportunities.

As part of the efforts to harmonize our operations with the group, we are investing a significant amount in a new Core Banking System that we hope to be up and running by the end of year.

We will continue to upgrade our branches to provide an atmosphere of comfort, security and customer satisfaction. In 2016 we will introduce a "Smart Branch" which will offer electronic self-service capabilities and a "Select Branch" for those customers who are willing to pay for private banking services.

In accordance with the Kigali Master Plan, we will be relocating 3 Branches in 2016; Remera Branch from Kisementi to Umuyenzi Plaza, Umubano Branch to Kigali Heights and Mateus Counter which has been upgraded to a full service branch to CHIC building. We intend to deploy more ATMs in 2016 especially in high traffic areas like malls and service stations in order to better serve our growing customer base. We are also happy to report that a Mobile Branch at the Economic Trade Free zone was successfully piloted.

Plans for our new head office project are at an advanced stage and we expect to break ground at by Q4. 2016.

We shall continue to support our credit extension through good quality loans while at the same extending our focus on deposit growth and developing new products and services.

In 2016, we remain committed to positioning ourselves as a responsible bank, dedicated to its customers and offering them not only the best quality services and products but also providing them with solutions that are appropriate to their needs and competitively and transparently priced.

Conclusion

As we come to the close of another successful year, we take this opportunity to express our appreciation for the support provided by our Shareholders and Directors.

We thank our staff for their hard work and commitment, which was primarily responsible for our success.

We applaud the Central Bank and the Government of Rwanda for their supportive monetary policies and the Government of Rwanda for a creating a conducive business environment, which has led to a flourishing business community, and look forward to 2016 with great optimism.

Bill Irwin
I&M Bank (Rwanda) Chairman

> We have set ourselves ambitious but attainable growth targets for the year 2016. We expect our association with I&M Bank group to yield more and more benefits as we pursue regional customers, regional products and other regional opportunities.

Mr. Bill Irwin
Chairman

Artsit Credit: Jasmin Rose Wambui Kimani / 12 years

REPORT OF THE DIRECTORS ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the Bank.

ACTIVITIES

The Bank is engaged in the business of banking.

RESULTS

The results of the Bank for the year are set out on page 30.

DIVIDEND

The directors have recommended payment of a dividend of Rwf 1,970,000,000 with respect to the year ended 31 December 2015 (2014: Rwf 1,850,000,000).

DIRECTORS

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

Bill Irwin	Chairman	
Robin C. Bairstow	Managing Director	Appointed on 21 August 2015
Richard Mugisha	Non Executive Director	
Arun S. Mathur	Non Executive Director	
Soundararajan Madabhushi	Non Executive Director	
Jonathan Nzayikorera	Non Executive Director	
Bonaventure Niyibizi	Non Executive Director	Appointed on 21 December 2015
Faustin Byishimo	Executive Director	Appointed on 21 December 2015
Sanjeev Anand	Managing Director	Resigned on 10 June 2015
Eric Kaleja	Non Executive director	Resigned on 25 May 2015

AUDITOR

Ernst & Young Rwanda Limited have expressed their willingness to continue in office.

By order of the board

Company Secretary

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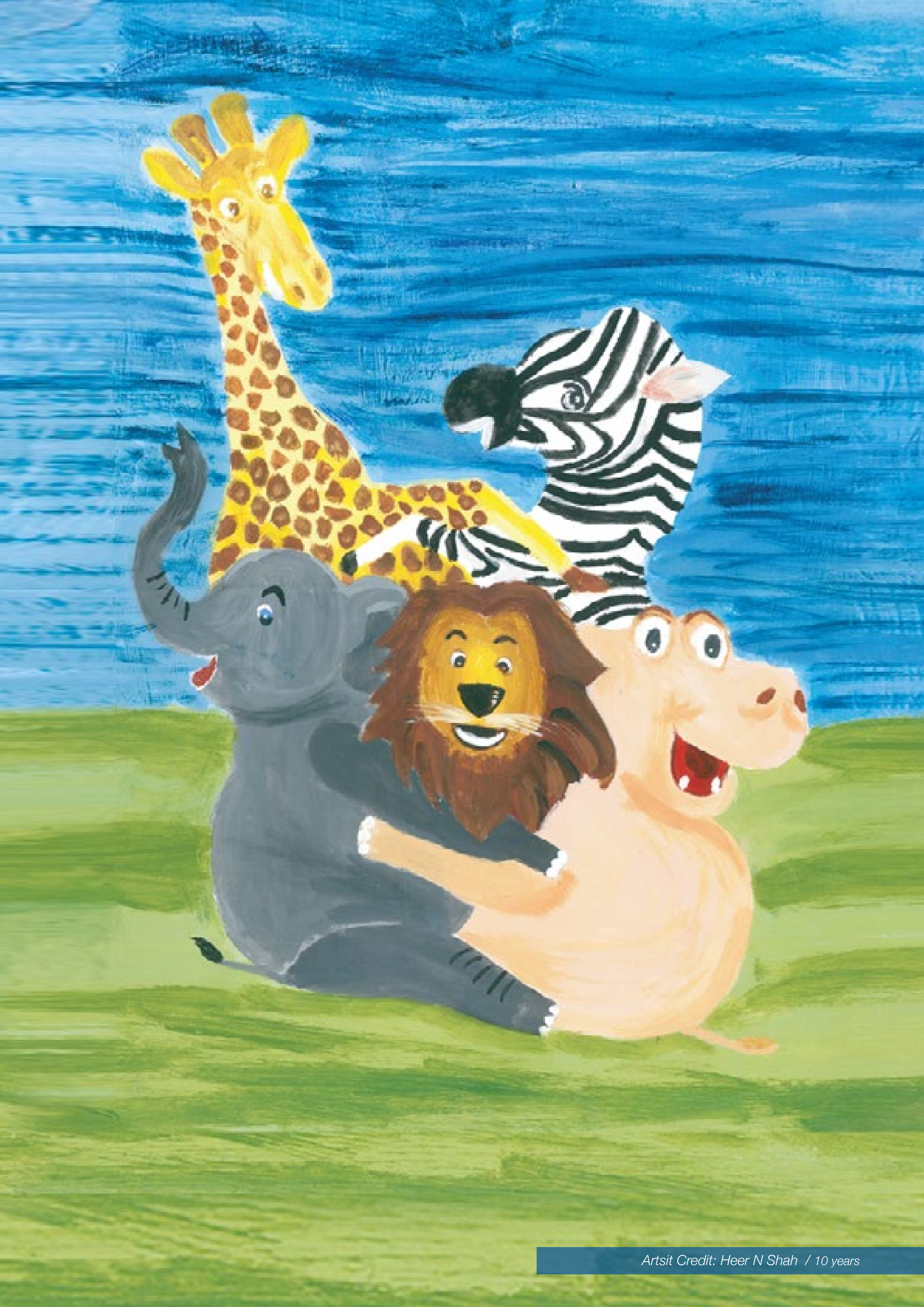


Artsit Credit: Heer N Shah / 10 years

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

The recent 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 grow and expand in other countries within the pan-African region.

The Corporate Governance Framework, established by the Board of Directors of I&M Bank (Rwanda) Limited. ('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.

RISK MANAGEMENT FRAMEWORK

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

The Risk Management Framework in place 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 Bank'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:

- Its Risk Appetite & Risk Tolerance Levels
- An Independent Audit
- A Compliance & Internal Control Department
- Zero Tolerance for violations
- Protection of Reputation
- 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 as per BNR instructions.

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

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 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.

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:

1. Board Audit Committee (BAC)
An independent non-executive Director chairs this Committee consisting of five 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.

2. Board Risk Committee (BRC)
The BRC, comprising five 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.

3. 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.

4. Board Administration Procurement and Remuneration Committee (BAPREC)
The BAPREC comprising five 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 BAPREC is responsible for reviewing and approving significant procurement proposals as well as proposed consultancy assignments and unbudgeted capital expenditure. This committee also vets any agreements with and procurements from related parties. In addition, the BAPREC provides a formal forum for communication between the board and management on Human Resource matters.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

5. Board Assets and Liabilities Commitee (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, Senior 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.

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.

Executive Risk Committee

The purpose of the committee is to oversee I&M Bank (Rwanda) Limited Risk management programme by Ensuring that all risks are identified, measured, assessed, controlled and monitored within I&M Bank (Rwanda) Limited thereby minimizing loss, Making sure that all risks are contained within the limits recommended to and approved by the Board. Engaging the respective Risk Type Owners as the risks reside and are managed in their respective areas and Ensuring the effective management of Compliance, Operational, Strategic and reputational risk throughout the Bank in support of the strategy, in line with the risk appetite and the Governance, Risk and Control Framework.

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 analyse 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 2015, 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:

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.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

BOARD COMMITTEES

Tabulated below are Board Committees, their composition and membership, functions and the 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 (Secretary) • Group Head of Internal Audit (Alternate Secretary) **Invitees:** • Managing Director • Executive Director • Heads of Business	4 Non -Executive Directors **Invitees:** • Managing Director (MD) • Head of Risk • Executive Director	5 Non - Executive Directors Managing Director Head of Credit (Secretary) **Invitees:** • Heads of Business • Head of Credit • Executive Director	4 Non - Executive Directors **Invitees:** • Managing Director • Head of HR • Executive Director	4 Non - Executive Directors **Invitees**: • Managing Director • Head of Treasury • CFO • 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.	• Ensure that the Risk Management Framework and the processes as approved are implemented • Review, monitor and deliberate on the appropriate risk mitigation approach • Ensure that the Business Continuity Plan (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 key Management members Induction programs for new members and development programs to build individual skills and improve Board effectiveness • Board and Senior Management succession planning • 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 asset/ liability Management Policy and ensure that the Bank's funds are managed in accordance with this policy. Board ALCO may review the policy on an annual basis or more frequently if circumstances dictate. • Set policy, establish broad guidelines on the Bank's tolerance for risk, review performance against limits and approve approaches to opportunities and threats. • Review the Bank 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 by Board ALCO in its review.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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

	Executive Committee	Assets & Liabilities Committee	Credit Risk Management Committee	Human Resources Committee	IT Steering Committee	Executive Risk Committee
Chairman	MD	MD	MD	MD	MD	MD
Members	General Manager Operations and Internal Services (GM Ops) – Alternate Chair Senior PA for the MD – (Secretary) • Heads of Business – Corporate, Business, and Retail Banking • Risk • Treasury • Corporate Strategy Planning & Marketing. • Head of Credit • Chief Finance Officer (CFO) • Head of HR • Chief Internal Auditor (CIA) • Head of Internal Control • Head of Legal • Head of IT & Transactional Banking **Invitees:** • Consultant	GM Ops – Alternate Chair Head of Treasury – Secretary **Heads of:** • Business • Credit • Risk • Corporate Strategy, Planning & Marketing	Head of Credit - Alternate Chair Deputy Head of Credit (Secretary) **Heads of:** • Business - Corporate, Business and Retail • Risk	GM Ops – Alternate Chair Head of HR – Secretary Heads of: • Legal • Corporate Banking • Credit	GM Ops – Alternate Chair Head of IT & TBS – Secretary Heads of: • Business • Special Projects • Risk • Internal Audit • Corporate Strategy, Planning & Marketing	Head of Risk - Alternate chair Operational Risk Officer - Secretary • Executive Director • GM Ops • Head of Internal Control and Compliance • Head of Legal (Invitee)
Frequency of meetings	Fortnightly	Fortnightly	Fortnightly	Monthly	Weekly	Monthly
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.	• The Committee will be responsible for ensuring the effective operation of the risk management framework in relation to all risk types, with the exception of Market Risk and Credit Risk which is covered by the Assets and Liabilities Committee (ALCO) and the Credit Risk Management Committee (CRMC) respectively. However, any key risks coming out of ALCO and CRMC should be communicated to the Executive Risk Committee for escalation and evaluation.

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

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

17/03/ 2016
Date

EY
Building a better working world

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of I&M Bank (Rwanda) Limited, which comprise the statement of financial position as at 31 December 2015, 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 34 to 83.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation and fair presentation of these 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 the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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 2015, 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.

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: -

1. We have no relationship, interests and debts in the Bank;
2. 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;
3. In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and,
4. 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

17/03/16

Artsit Credit: Shivi Dharmesh Shah / 11 years

Artsit Credit: Helly Pateli / 16 years

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2015

	Note	2015 Rwf'000	2014 Rwf'000
Interest and similar income	3	15,762,012	14,073,054
Interest and similar expense	4	(4,491,131)	(4,096,747)
Net interest income		11,270,881	9,976,307
Fee and commission income	5(a)	3,483,970	2,810,279
Fee and commission expense	5(b)	(198,357)	(148,308)
Net fees and commission income		3,285,613	2,661,971
Net foreign exchange income		4,803,683	4,240,186
Fair value gain/(loss) on derivative financial instruments	6	25,977	(978)
Other operating income	7	480,611	555,732
Operating income		19,866,765	17,433,218
Impairment losses on financial assets	8	(1,476,314)	(536,098)
Operating income after impairment losses		18,390,451	16,897,120
Personnel expenses	9	(5,978,969)	(6,238,915)
Depreciation of property and equipment	10	(694,215)	(681,830)
Amortisation of intangible assets	11	(94,839)	(133,144)
Other operating expenses	12	(4,498,342)	(3,385,316)
Total operating expenses		(11,266,365)	(10,439,205)
Profit before tax		7,124,086	6,457,915
Income tax charge	17(b)	(2,199,787)	(1,896,312)
Profit for the year		4,924,299	4,561,603
Other comprehensive income:			
Fair value (loss)/gains on available for sale financial assets		(317,326)	139,970
Effect of deferred tax on available for sale	17(a)	95,198	(41,991)
Net change in available for sale financial assets		(222,128)	97,979
Total comprehensive income		4,702,171	4,659,582

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2015

	Note	2015	2014
		Rwf'000	Rwf'000
ASSETS			
Cash in hand	13(i)	3,632,003	3,850,368
Due from the National Bank of Rwanda	13(ii)	8,054,234	3,888,910
Due from other banking institutions	13(iii)	16,818,145	31,493,452
Derivative financial instruments	6	72,027	-
Financial investments - held for trading	14(a)	7,596,882	1,767,229
Loans and advances to customers	15	94,028,874	82,749,132
Financial investments - available for sale	14(b)	16,688	394,650
Financial investments - held to maturity	14(c)	35,801,888	20,776,694
Other assets	16	1,454,348	937,693
Property and equipment	10	3,982,220	4,094,213
Intangible assets	11	152,117	141,051
Deferred tax assets	17(a)	217,342	214,258
TOTAL ASSETS		171,826,768	150,307,650
LIABILITIES			
Deposits from customers	18	119,884,096	114,467,526
Deposits from banks and other financial Institutions	19	17,327,252	5,985,162
Tax payable	17(b)	544,282	156,657
Other payables	20	5,338,661	4,266,885
Corporate bond	21	523,188	732,462
Derivative financial instruments	6	-	978
Borrowed funds	22	2,639,073	1,888,701
Provisions	23	616,166	595,258
Deferred tax liabilities	17(a)	493,374	599,444
TOTAL LIABILITIES		147,366,092	128,693,073
EQUITY			
Share capital	24(a)	5,000,000	5,000,000
Retained earnings		17,478,880	14,530,653
Fair value reserve	24(b)	11,796	233,924
Proposed dividend	24(c)	1,970,000	1,850,000
Total equity		24,460,676	21,614,577
TOTAL LIABILITIES AND EQUITY		171,826,768	150,307,650

The financial statements were approved by the Board of Directors on.................17/03/..........2016 and signed on its behalf by:-

....
Director

Bmugisha
....
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31st DECEMBER 2015

		Share capital	Retained earnings	Fair value reserve	Proposed dividends	Total equity
		Rwf'000	Rwf'000	Rwf'000	Rwf'000	Rwf'000
As at 01 January 2014		5,000,000	11,811,407	135,252	1,800,000	18,746,659
Total comprehensive income:						
Profit for the year		-	4,561,603	-	-	4,561,603
Other comprehensive income		-	-	97,979	-	97,979
Other transfers		-	7,643	693	-	8,336
Dividends:						
Final for 2013 paid		-	-	-	(1,800,000)	(1,800,000)
Proposed for 2014		-	(1,850,000)	-	1,850,000	-
As at 31 December 2014		5,000,000	14,530,653	233,924	1,850,000	21,614,577
As at 01 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	24(d)	(1,536)	(4,536)	-	-	(6,072)
Issue of bonus shares	24(d)	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 31 December 2015		5,000,000	17,478,880	11,796	1,970,000	24,460,676

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st DECEMBER 2015

	Note	2015 Rwf'000	2014 Rwf'000
Cash flows from operating activities :			
Profit before tax		7,124,086	6,457,915
Adjustments for:			
Depreciation on property and equipment	10	694,215	681,830
Amortisation of intangible assets	11	94,839	133,144
Gain on disposal of property and equipmemt		(68,274)	(58,503)
Finance costs	4	252,538	188,711
Gain on disposal of shares		(202,462)	(60,000)
Dividend received		-	(34,527)
Provisions for litigations		20,908	(232,989)
Operating profit before changes in operating working capital		7,915,850	7,075,581
Changes in working capital :			
Increase in loans and advances		(11,279,742)	(17,112,724)
Increase in other assets		(516,655)	(274,266)
Increase in deposits from customers		5,416,570	20,404,572
Increase in deposits from banks		11,342,090	977,346
Financial investments - held to maturity		(23,826,090)	(340,734)
Financial investments - held to for trading		(5,829,653)	(968,810)
Derivative financial instruments		(73,005)	978
Cash reserve requirement		(986,624)	(1,086,290)
Increase in other payables		1,071,776	295,786
Cash generated from operations		(16,765,483)	8,971,439
Income taxes paid		(1,826,118)	(2,401,384)
Net cash from operating activities		(18,591,601)	6,570,055
Cash flows to/from investing activities :			
Purchase of property and equipment	10	(582,686)	(742,757)
Purchase of intangibles	11	(105,905)	(157,796)
Proceeds from sale of property and equipment		68,738	69,858
Proceeds from sale of shares	27(f)	263,098	60,000
Dividends received		-	23,187
Net cash used in investing activities		(356,755)	(747,508)
Cash flows used in financing activities :			
Dividend paid		(1,850,000)	(1,800,000)
Proceeds from long term borrowings		750,372	755,269
Repayment of long term borrowings		(209,274)	-
Interest paid on term borrowings		(192,571)	(98,178)
Interest paid on corporate bond borrowings		(59,967)	(90,533)
Cancelation of shares		(6,072)	-
Net cash used in financing activities		(1,567,512)	(1,233,442)
Net increase in cash and cash equivalents		(20,515,868)	4,589,105
Net foreign exchange difference on cash and cash equivalents		(541,302)	(81,126)
Cash and cash equivalents at 01 January		42,790,445	38,282,466
Cash and cash equivalents at 31 December	13(iv)	21,733,275	42,790,445
Operational cash flows from interest:-			
Interest income		15,586,482	14,182,266
Interest expense		4,810,692	4,470,073

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

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 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 nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Bank, since none of the entities within the Bank has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle
With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. Where applicable, the Bank has applied these improvements for the first time in these financial statements. They include:

IFRS 2 Share-based Payment
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Bank has identified any performance and service conditions which are vesting conditions in previous periods. These amendments did not impact the Bank's financial statements or accounting policies as it is not party to any share-based payments.

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not impact the Bank's financial statements or accounting policies as it has not entered into any business combinations.

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. This amendment did not impact the Bank's financial statements or accounting policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

1. ACCOUNTING POLICIES (continued

2.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Bank during the current period as the Bank does not apply a revaluation policy.

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Bank as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these financial statements. They include:

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

I&M Bank (Rwanda) Limited is not a joint arrangement and did not acquire a joint arrangement, and thus this amendment is not relevant for the Bank and its subsidiaries.

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Bank does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The amendment does not impact the Bank as it does not hold any investment properties.

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. Overall, the Bank expects a significant impact on valuation of financial instruments held to maturity on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement
The Bank does not expect a significant impact on its balance sheet or equity 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 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 not 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

Loans , financial assets held to maturity and receivables and 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 the simplified approach and record lifetime expected losses on all receivables. The Bank expects a significant impact on its equity 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.

Standards issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.
IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

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 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 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank as it is not party to any joint arrangements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

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. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Bank as it does not prepare interim reports.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures

Standards issued but not yet effective (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank as the principles of this amendment is already applied.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank as it is not an investment entity.

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-balance sheet 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 balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Significant accounting judgments, estimates and assumptions

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:

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 27.

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 14.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies

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

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 14(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 17(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 Intesrest and similar income income. Interest income is recorded in Interest and similar income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued

2.3 Summary of Significant Accounting Policies (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 released in profit or loss.. Dividends earned whilst holding available-for sale financial investments are recognised in profit or loss as 'Other 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 'Available-for-sale 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 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 2015 are disclosed in note 14 (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 income in profit or loss. The losses arising from impairment are recognised in profit or loss in 'Impairment loss on financial assets'.

(vii) Due from banks and loans and advances to customers (continued)

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 and deposits, balances with 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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies

(x) Borrowings and Corporate bonds

Borrowings and coprporate 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:
  1. the Bank has transferred substantially all the risks and rewards of the asset, or
  2. 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.

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, options 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(c) Determination of fair value (continued)

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 27.

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.

(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 changes in equity. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(i) Financial assets carried at amortised cost (continued)

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.

ii) Renegotiated loans

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 comprensive 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(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 dutythe 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. 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 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) Fee and commission income

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

- Fee 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.

- Fee 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 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 ental 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(g) Recognition of income and expenses (continued)

(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

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 are incurred.

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(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

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(ii) Deferred tax (continued)

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

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' 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

2. ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

3. Interest and similar income

	2015 Rwf'000'	2014 Rwf'000'
Loans and advances	13,356,933	12,030,539
Government Securities	1,948,380	1,396,165
Placements in other banks	456,699	646,350
	15,762,012	14,073,054

4. Interest and similar expense

Deposit from banks	-	79,099
Borrowings	252,538	188,711
Deposit from customers	4,238,593	3,828,937
	4,491,131	4,096,747

5. Fees and commission

a) Fee and commission income

	2015 Rwf'000'	2014 Rwf'000'
Current account ledger fees	1,002,620	920,573
Local and international local transfer	385,323	284,661
Credit related fees and commissions	702,416	560,932
Commissions on guarantees and letters of credits	503,707	291,146
Other commissions	889,904	752,967
	3,483,970	2,810,279

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

b) Fee and Commission Expense

Banking services	71,641	62,635
Other commissions expenses	126,716	85,673
	198,357	148,308

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

6. 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 USD 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. As part of this single swap transaction to hedge its exposure to adverse movement on currency exchange rates on its US dollar disbursement, the bank hedged this transaction at a forward rate of Rwf 691.382047 to the US dollar.

In the current year, the bank entered into a second three year SWAP transaction with the National Bank of Rwanda that took effect on 19 August 2015. In the SWAP transaction, the bank paid to National Bank of Rwanda USD 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. As part of this single swap transaction to hedge its exposure to adverse movement on currency exchange rates on its US dollar disbursement, the bank hedged this transaction at a forward rate of Rwf 725.218461 to the US dollar.

In line with IAS 39, financial instruments (Swap) are carried at fair value. As at 31 December 2015, the fair value of the derivative financial instrument (swap) was a net asset of Rwf 72,027,000 (2014: net liability of Rwf 978,000). 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 liability at year-end.

	2015 Rwf'000	2014 Rwf'000
Balance as at 1 January	(978)	-
Payments under swap arrangement	571,543	-
Fair value gain /(loss)	25,977	(978)
Receipts under swap agreement	(524,515)	-
Net derivative asset / (liability)	72,027	(978)

7. Other operating income

	2015 Rwf'000'	2014 Rwf'000'
Operating lease income	209,875	238,779
Gain on disposal of property and equipment	68,274	58,503
Gain on disposal of shares	202,462	60,000
Other income	-	198,450
	480,611	555,732

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

8. Impairment losses on financial assets

Balance as at January	2,630,288	1,266,558
Specific provisions for the year	2,023,571	1,086,490
Recoveries on provisions	(352,526)	(67,408)
Loans written off	(302,859)	(99,895)
Interest suspended during the year	663,348	444,543
Balance as at December	4,661,822	2,630,288
Charge for the year :		
Specific provisions	(2,023,571)	(1,086,490)
Loans written off	(31,076)	(26,845)
Recoveries on amounts previously provided for	352,526	67,408
Recoveries on amounts previously written off	225,807	509,829
Impairment loss on financial assets	(1,476,314)	(536,098)

9. Personnel expenses

Salaries and wages	5,288,593	5,639,138
Medical insurance costs	208,408	182,350
Mileage allowances	112,845	106,568
Other personnel expenses	120,649	85,428
Contribution to defined contribution plan	248,474	225,431
	5,978,969	6,238,915

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

10. Property and Equipment

a) Year ended 31 December 2015

	Land and Buildings Rwf '000	Motor Vehicles Rwf '000	Equipment Rwf '000	Computers Rwf '000	Furniture 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. None of the items under property and equipment are pledged as security.

Notes to the Financial Statements for the Year Ended 31 December 2015

10. Property and Equipment (continued)

b) Year ended 31 December 2014

	Land and Buildings Rwf '000	Motor Vehicles Rwf '000	Equipment Rwf '000	Computers Rwf '000	Furniture & Fittings Rwf '000	Work In Progress Rwf '000	Total Rwf '000
COST:							
At 1 January 2014	3,562,697	1,086,156	1,214,941	978,386	687,969	162,111	7,692,260
Additions	6,016	194,775	22,601	53,025	13,015	453,325	742,757
Other transfers	8,336	-	-	-	-	-	8,336
Transfers from WIP	60,131		108,629	698	-	(173,288)	(3,830)
Disposal	(26,304)	(137,388)	(250)	-	(1,913)	-	(165,855)
At 31 December 2014	3,610,876	1,143,543	1,345,921	1,032,109	699,071	442,148	8,273,668
ACCUMULATED DEPRECIATION:							
At 1 January 2015	858,868	851,041	670,459	849,705	422,052	-	3,652,125
Charge for the year	232,515	142,527	143,395	84,446	78,947	-	681,830
Disposal	(26,304)	(126,033)	(250)	-	(1,913)	-	(154,500)
At 31 December 2014	1,065,079	867,535	813,604	934,151	499,086	-	4,179,455
NET BOOK VALUE							
At 31 December 2014	2,545,797	276,008	532,317	97,958	199,985	442,148	4,094,213

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 2015

11. Intangible assets

COST	2015 Rwf'000'	2014 Rwf'000'
As at 01 January	1,492,544	1,330,918
Additions	105,905	157,796
Transfer from WIP	-	3,830
At 31 December	1,598,449	1,492,544
AMORTISATION		
As at 01 January	1,351,493	1,218,349
Charge for the year	94,839	133,144
At 31 December	1,446,332	1,351,493
NET CARRYING AMOUNT		
At 31 December	152,117	141,051

The bank's intangible assets relates to computer software.

12. Other operating expenses

Travelling costs	184,659	200,717
Professional Fees	99,097	91,668
Directors remuneration	126,760	95,820
Auditors remuneration	43,719	49,122
Communication expenses	323,703	319,586
Administrative local taxes	22,489	14,661
Insurance costs	110,849	191,031
Water and electricity	138,125	136,060
Fuel expenses	89,007	90,289
Bank supervision Fees	86,067	83,601
Operating licences	89,404	44,800
Courier and postage services	21,678	18,760
Consultancy fees	493,307	399,065
Security expenses	269,163	206,201
Printing and stationery	169,071	174,272
Advertising expenses	387,085	128,313
Rent and accommodation	409,400	402,805
Printing security instruments	50,684	48,430
Repairs and maintenance	416,571	388,175
Donations and membership fees	91,293	44,932
VISA fees	98,030	89,011
Provisions	290,259	137,793
Other tax charges	251,094	-
Other expenses	236,828	30,204
	4,498,342	3,385,316

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

13. Cash and bank balances

i) Cash in hand

	2015 Rwf'000'	2014 Rwf'000'
Cash in local currency	1,645,263	1,919,424
Cash in foreign currencies	1,986,740	1,930,944
	3,632,003	3,850,368

ii) Due from the National Bank

Balances in foreign currencies	2,905,786	2,345,456
Balances in local currency	5,148,448	1,543,454
	8,054,234	3,888,910

iii) Due from other banking institutions

Current accounts with other banks	11,603,320	15,256,797
Money market placements	5,214,825	16,236,655
	16,818,145	31,493,452

iv) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following as at 31 December:-

	2015 Rwf'000	2014 Rwf'000
Cash in hand	3,632,003	3,850,368
Due from the National Bank	8,054,234	3,888,910
Restricted balances with the Central Bank	(7,147,060)	(6,160,436)
Placements with other banks	16,818,145	31,493,452
Short term Treasury Bills Securities	998,381	9,799,277
Unrealised exchange gains	(622,428)	(81,126)
Cash and cash equivalents	21,733,275	42,790,445

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

14. Financial Investments

a) Held for trading

	2015 Rwf '000	2014 Rwf '000
Government debt securities - Treasury bonds	7,596,882	1,767,229
Maturing within five years from the date of acquisition	5,789,802	1,204,905
Maturing after five years from the date of acquisition	1,807,080	562,324
	7,596,882	1,767,229

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.

b) Available for sale

	2015 Rwf '000	2014 Rwf '000
Investments in shares of unquoted entities:		
Development Bank of Rwanda (BRD)	-	402,962
Banque de Développement des Etats des Grand Lacs S.A (BDGL)	5,000	5,000
Rswitch Limited	99,428	99,428
Air Rwanda	4,000	4,000
SWIFT	826	826
Gross Investment	109,254	512,216
Less: Impairment losses	(92,566)	(117,566)
Net investment carrying value	16,688	394,650

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 themodels 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

14. Financial Investments

c) Held to maturity

	2015 Rwf'000	2014 Rwf'000
Government debt securities - Treasury bills	34,451,824	19,212,254
Government development bond	401,874	582,037
Government debt securities - Treasury bonds	948,190	982,403
	35,801,888	20,776,694

15. Loans and advances to customers

	2015	2014
Mortgage loans	27,573,747	27,203,310
Equipment loans	21,143,256	22,353,124
Consumer loans	16,737,597	15,744,250
Overdrafts	21,558,502	15,661,311
Others	11,677,594	4,417,425
Total	98,690,696	85,379,420
Individual impairment	(4,294,505)	(2,087,630)
Collective impairment	(367,317)	(542,658)
Total	(4,661,822)	(2,630,288)
Net Loans and advances	94,028,874	82,749,132
Current (settled no more than 12 months)	48,502,491	39,558,805
Non-current portion (settled more than 12 months after reporting period)	45,526,383	43,190,327
	94,028,874	82,749,132

b) Other assets

	2015	2014
Items in the course of collection	441,810	282,567
Prepayments	345,736	332,779
Other commissions receivable	465,047	27,730
Other receivable	201,755	294,617
	1,454,348	937,693

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

17. 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:

Year ended 31 December 2015	1 January 2015	Current year charge/ (credit) to PL	Charge to OCI	31 December 2015
	Rwf '000	Rwf '000	Rwf '000	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

Year ended 31 December 2014	1 January 2014	Current year charge/ (credit) to PL	Charge to OCI	31 December 2014
	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Property and equipment	459,165	37,502	-	496,667
Fair value gains on available for sale equity investments	57,966	-	41,991	99,957
Leases	2,820	-	-	2,820
Deferred tax liability	519,951	37,502	41,991	599,444
Provisions	(316,186)	101,928	-	(214,258)
Deferred tax asset	(316,186)	101,928	-	(214,258)
Deferred tax liability	203,765	139,430	41,991	385,186

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

17. Taxes

c) Corporate tax

	2015	2014
	Rwf '000	Rwf '000
Statement of financial position		
Balance brought forward	156,657	801,159
Charge for the year	2,152,728	1,909,773
Under/(Over) provision of current tax in prior years	133,015	(28,500)
Tax Credit from Rwanda Revenue Authority	(72,000)	(124,391)
Paid during the year	(1,826,118)	(2,401,384)
Tax payable	544,282	156,657
Profit and loss :		
Current tax at 30% on the taxable profit for the year (2014: 30%)	2,152,728	1,909,773
Deferred tax expense	(13,956)	139,430
Under/(over) provision of current tax in prior years	133,015	(28,500)
Tax Credit from Rwanda Revenue Authority	(72,000)	(124,391)
Income tax expense	2,199,787	1,896,312
Reconciliation of the total tax charge:		
Accounting profit before tax	7,124,086	6,457,915
At statutory income tax rate of 30% (2014: 30%)	2,137,226	1,937,375
Tax effect on non-deductible expenses	790,263	738,045
Tax effect on allowable deductions on income	(675,415)	(525,703)
Reversal of tax (over)/under provision	133,015	(28,500)
Tax credit from Rwanda Revenue authority	(72,000)	(124,391)
Tax discount in accordance with Rwandan tax laws	(113,302)	(100,514)
	2,199,787	1,896,312

18. Deposits from customers

	2015	2014
Term deposits :	10,969,266	22,985,070
Current and demand deposits	94,637,165	78,175,685
Saving deposits	13,442,460	12,203,239
Interest payable	835,205	1,103,532
	119,884,096	114,467,526

Break down between current and non-current deposits:-

	2015	2014
Current	119,615,773	113,805,026
Non-current	268,323	662,500
Total	119,884,096	114,467,526

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

18. 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.

19. Deposits from banks and other financial Institutions

	2015	2014
	Rwf '000	Rwf '000
Due to local banks:		
Demand deposits	5,761,723	1,836,450
Term and savings deposits	11,565,529	4,148,712
	17,327,252	5,985,162

20. Other payables

Cheque clearing accounts	2,232,954	1,410,747
Accruals	2,200,756	2,040,665
Others taxes payable	286,006	251,363
Other creditors	618,945	564,110
	5,338,661	4,266,885

21. Corporate bond

Rwanda Social Security Board	183,116	256,362
CORAR	183,116	256,362
SORAS	104,637	146,492
SONARWA	52,319	73,246
	523,188	732,462

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 2015

22. Borrowed funds

	2015	2014
	Rwf '000	Rwf '000
Loan from European Investment Bank	2,569,837	1,806,772
Business Development Fund (BDF)	29,221	29,221
Amount due to Development Bank of Rwanda (BRD)	40,015	52,708
	2,639,073	1,888,701
Current		
Non-current	281,828	354,726
	2,357,245	1,533,975
	2,639,073	1,888,701

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

a) Loan from European Investment Bank –

Long term loan of Euro 1,573,000 , EUR 1,073,600, USD 450,300, from European Investment Bank. The first two loans are denominated in Rwandan Franc equivalent whereas the last is denominated in USD and accrue interests at a fixed rate of 8% p.a, 8% p.a and 4.4% p.a respectively and will mature on 17 May 2021,15 May 2021 and 15 May 2019 respectively. A finance cost of Rwf 193M (2014: Rwf 107M) 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 09th 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 6.5M (2014: Rwf 3M) has been included in profit and loss for the year.

23. Provisions

	2015	2014
	Rwf '000	Rwf '000
Balance as at 1 January	595,258	828,247
Additional provisions	20,908	120,000
Unused provisions reversed	-	(264,898)
Utilised during the year	-	(88,091)
Balance as at 31 December	616,166	595,258
Current	616,166	595,258

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

24. Share capital and reserves

a) Share capital

	2015	2014
	Rwf '000	Rwf '000
Issued and paid for share capital (5,000,000 shares @ Rwf 1,000 each)	5,000,000	5,000,000

b) Fair value reserve

The available for sale 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) Proposed dividend

	2015	2014
	Rwf '000	Rwf '000
Proposed dividend	1,970,000	1,800,000

The proposed of dividend is approximately 40% of profit after tax.

d) Cancellation of shares and bonus share issue

During the year, the shareholders' approved restructuring of part of the shareholding entailing simultaneous cancellation of 1,536 shares cum-dividend shares and recapitalization from reserves with no change in paid up capital through a bonus issue on prorate basis for remaining shareholders.

25. Related parties

a) Loans to employees and directors	2015	2014
	Rwf '000	Rwf '000
Loans and advances to employees	2,289,575	1,970,127
Loans and advances to directors and their associates	29,286	31,710
	2,318,861	2,001,837

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 2015 (2014 Nil) and as such no impairment losses have been recorded against balances outstanding during the year.

b) Key management personnel compensation	2015	2014
	Rwf '000	Rwf '000
Remuneration to key management		
Salaries and wages	1,455,607	1,676,782

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

25. Related parties (continued)

c) Amounts due from related parties on	2015	2014
	Rwf '000	Rwf '000
I&M Bank Ltd	692,265	2,129,908
I&M Bank (T) Ltd	284,741	134,412
	977,006	2,264,320

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 2015, 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.

d) Directors' emoluments

As non-executive	126,760	95,820
As executives	524,442	561,516
	651,202	657,336

e) Purchase of services

Management fees	132,703	121,471

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

26. 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:

	2015	2014
	Rwf '000	Rwf '000
Acceptances and letters of credit	3,654,295	6,455,544
Guarantees	9,621,771	3,653,709
Commitment on derivative financial instruments (Note 6)	3,169,007	1,382,764
	16,445,073	11,492,017

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

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

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 assets and other liabilities as appropriate.

Capital Commitments

There was no capital commitment contracted for at the reporting date but not recognised in the financial statements.

27. Risk Management

27.1 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 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial risk management (continued)

(b) Credit risk (Continued)

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 2015

27.1. Financial risk management (continued)

Exposure to credit risk

i) Cash in hand

	2015 Rwf'000	2014 Rwf'000
Amortised cost – maximum exposure to credit risk	98,690,696	85,379,420
Individually impaired:-		
Gross amount	6,286,837	6,256,984
Allowance for impairment	(4,294,505)	(2,087,630)
Carrying amount	1,992,332	4,169,354
Collectively impaired:-		
Gross amount	92,403,859	79,122,436
Allowance for impairment	(367,317)	(542,658)
Carrying amount	92,036,542	78,579,778
Total carrying amount	94,028,874	82,749,132
Neither past due nor impaired	85,128,332	74,064,127
Past due but not impaired	7,275,527	5,058,309
Impaired loans advances	6,286,837	6,256,984
Total Gross loans advances	98,690,696	85,379,420
More than one month and not more than three months	7,275,527	5,058,309

Collective impairement 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 2015, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial risk management (continued)

(b) Credit risk (continued)

i) Loans and advances to customers

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.

	2015 Rwf '000	2014 Rwf '000
Acceptances and letters of credit	3,654,295	6,455,544
Guarantees	9,621,771	3,653,709
	13,276,066	10,109,253

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.

(ii) Commitments and guarantees

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(b) Credit risk (continued)

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

	2015	2014
	Rwf '000	Rwf '000
Concentration by sector:-		
Construction	21,574,392	20,566,046
Wholesale and retail	20,127,041	19,817,936
Manufacturing	10,738,390	8,574,739
Agriculture	13,487,134	15,370,129
Transport, warehousing and communication	3,102,965	2,519,892
Mining	396,106	684,392
Other Industries	24,602,846	15,215,998
	94,028,874	82,749,132

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

	2015	2014
	Rwf'000	Rwf'000
Individually assessed impaired loans and advances	6,286,837	6,256,984
Fair value of collateral held	3,176,641	4,644,304

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.

(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:

	2015	2014
At 31 December:-		
Average for the year	52%	52%
Maximum for the year	55%	59%
Minimum for the year	48%	46%
Minimum statutory requirement	20%	20%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(c) Liquidity risks (Continued)

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

31 Dec-15	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Assets	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Cash and balances with National Bank of Rwanda	11,686,237	-	-	-	-	11,686,237
Placements with other banks	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(c) Liquidity risks (Continued)

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

31 Dec-14	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Assets	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Cash and balances with National Bank of Rwanda	7,739,278	-	-		-	7,739,278
Placements with other banks	29,347,951		1,794,901	794,058		31,936,910
Loans and advances to customers	25,776,495	3,801,740	11,788,254	42,626,039	28,938,418	112,930,946
Investment Securities						
Held for trading	1,767,229	-	-	-	-	1,767,229
Held to Maturity	5,122,633	6,624,364	6,483,067	1,375,180	-	19,605,244
Other Assets	604,914	-	-	-	-	604,914
Total Financial Assets	70,358,500	10,426,104	20,066,222	44,795,277	28,938,418	174,584,521
Liabilities						
Customers deposits	83,961,545	3,770,014	27,440,365	784,444	-	115,956,368
Deposits from other banks	4,072,832	1,322,408	683,430	-	-	6,078,670
Derivative financial instruments	-	-	80,543	103,309		183,852
Borrowings	-	220,466	187,555	1,728,794	268,380	2,405,195
Corporate bonds	132,462	-	110,000	634,529	-	876,991
Other liabilities	4,015,522	-	-	-	-	4,015,522
Total Financial Liabilities	92,182,361	5,312,888	28,501,893	3,251,076	268,380	129,516,598
Liquidity Gap-31 December 2014	(21,823,861)	5,113,216	(8,435,671)	41,544,201	28,670,038	45,067,923

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. 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.

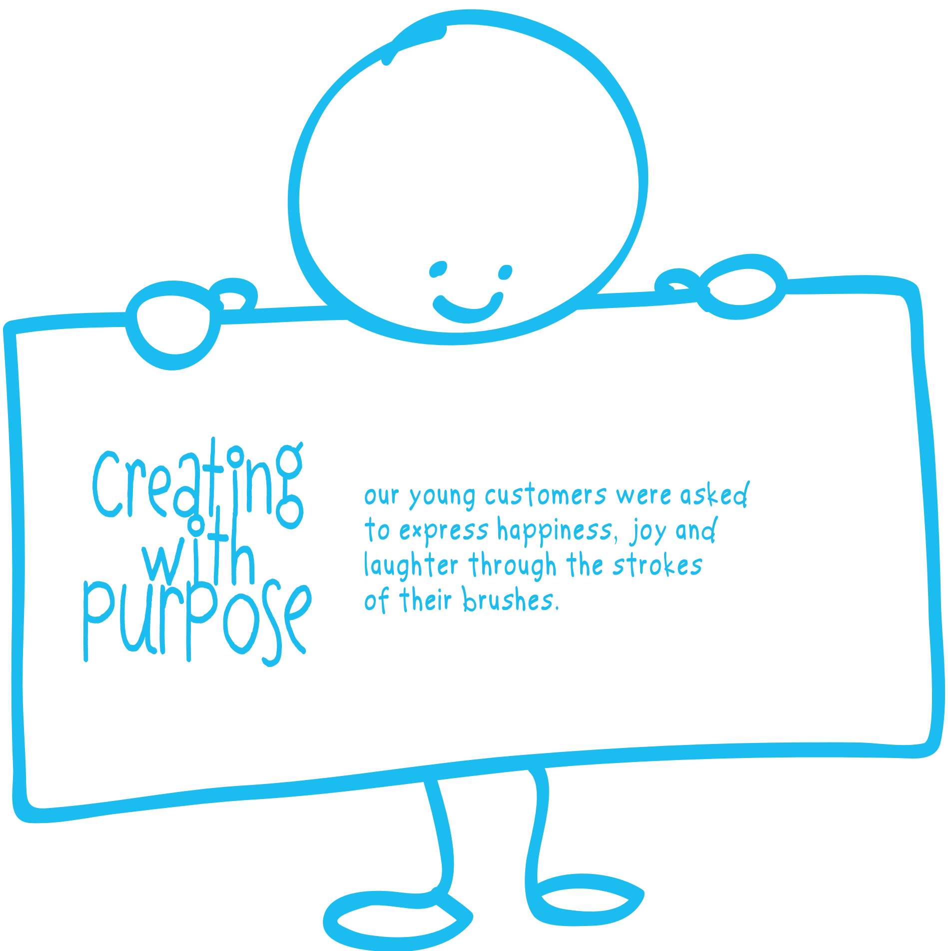
Overall authority for market risk is vested in the Board. The Finance and Treasury Departments in collaboration with the Risk Management Department are responsible for the development of detailed risk management policies (subject to review and approval by Board Risk Management Committee) and for the 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 2015

27.1. Financial Risk Management (continued)

(d) Market risk (Continued)

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

2015

Assets	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Non-Interest bearing	Total
	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Cash and balances with National Bank of Rwanda	-	-	-	-	-	11,686,237	11,686,237
Placements with other banks	2,759,305	250,000	2,000,000	-	-	11,808,840	16,818,145
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
Derivative financial instruments	-	-	(64,006)	136,078	-	-	72,072
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	58,726,611	21,686,448

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(d) Market risk (Continued)

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

2014

Assets	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Non-Interest bearing	Total
	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Cash and balances with National Bank of Rwanda	-	-	-	-		7,739,278	7,739,278
Placements with other banks	20,572,290		1,534,433	462,916		8,923,813	31,493,452
Loans and advances to customers	25,776,495	3,620,022	10,162,288	29,412,369	13,777,958	-	82,749,132
Investment Securities					-		
- Held for trading	1,767,229	-	-	-	-	-	1,767,229
- Held to Maturity	5,122,633	4,676,644	9,412,977	1,564,440	-	604,915	20,776,694
Other assets	-	-	-	-		-	604,915
Total Assets	53,238,647	8,296,666	21,109,698	31,439,725	13,777,958	17,268,006	145,130,700
Liabilities					-		
Customers deposits	9,494,305	3,709,800	26,133,681	662,500	-	74,467,240	114,467,526
Deposits from other banks	3,524,016	1,352,527	627,000	-	-	481,619	5,985,162
Derivative financial instruments	-	-	50,753	(49,775)		-	978
Borrowings	-	200,477	154,249	852,976	649,373	31,626	1,888,701
Corporate bonds	100,000	-	100,000	500,000	-	32,462	732,462
Other liabilities	-	-	-	-	-	4,015,522	4,015,522
Total Liabilities	13,118,321	5,262,804	27,065,683	1,965,701	649,373	79,028,469	127,090,351
Interest rate sensitivity gap 31 December 2014	40,120,326	3,033,862	(5,955,985)	29,474,024	13,128,585	(61,760,463)	18,040,349

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(d) Market risk (Continued)

Sensitivity analysis:	Rwf '000'
31 December 2015 (+/-) 2%	(+/-) 433,729
31 December 2014 (+/-) 2%	(+/-) 360,807

Sensitivity topretax 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 summarise the foreign currency exposure position as at 31 December 2015.

As at 31December 2015	USD	EUR	GBP	Other	Total
	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Assets					
Cash balances	4,599,893	266,725	24,748	1,160	4,892,526
Placements with other banks	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)

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-Dec-15	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(d) Market risk (Continued)

As at 31December 2014	USD	EUR	GBP	Other	Total
	Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000
Assets					
Cash balances	3,486,111	734,139	54,906	1,244	4,276,400
Placements with other banks	15,923,578	2,742,436	618,638	56,971	19,341,623
Loans and Advances to Customers	9,197,137	483	58	-	9,197,678
Total Assets	28,606,826	3,477,058	673,602	58,215	32,815,701
	-	-	-	-	-
Equity and liabilities					
Customer deposits	31,257,217	3,439,928	634,256	-	35,331,401
Borrowings	-	1,806,772	-	-	1,806,772
Deposits from other banks	449,191	-	-	-	449,191
Total Liabilities	31,706,408	5,246,700	634,256	-	37,587,364
Net financial position	(3,099,582)	(1,769,642)	39,346	58,215	(4,771,663)

31 December 2014	Effect on profit before tax Rwf '000
Changes in EUR +/- 8%	(-/+) 141,571
Changes in USD +/- 4%	(-/+) 123,983
Changes in GBP +/- 2%	(+/-) 787

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

(e) Capital management (continued)

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.

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:

	2015	2014
Tier 1 capital	Rwf '000	Rwf '000
Ordinary share capital	5,000,000	5,000,000
Reserves:		
Retained earnings	17,478,880	14,530,653
Fair value reserve	11,796	233,924
Total	17,490,676	14,764,577
Tier 1 capital	22,490,676	19,764,577
Risk-weighted assets	93,427,510	86,576,928
Capital ratios		
Total regulatory capital expressed as a % of total risk-weighted assets	15%	15%
Total tier 1 capital expressed as a % of risk-weighted assets	24%	22.8%

f) Fair value measurement

The fair values of investment securities is determined using valuation techniques. The bank uses widely recognised valuation models for determining fair values of investment securites.

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 cashflows. Significant inputs are interest rates and flacuations 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. Financial Risk Management (continued)

f) Fair value measurement (continued)

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.

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)

		Fair value measurement using		
		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
31 December 2015	Carrying amount	(Level 1)	(Level 2)	(Level 3)
	Rwf'000'	Rwf'000'	Rwf'000'	Rwf'000'
Assets :				
Financial Investments				
- Held for trading	7,596,882	-	7,596,882	
- Available for sale	16,688	-	-	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	-
Total	523,188	-	523,188	-
31 December 2014				
Financial Investments				
- Held for trading	1,767,229	-	1,767,229	-
- Available for sale	394,650	-	-	394,650
Total	2,161,879	-	1,767,229	394,650
Liabilities :				
Derivative financial instruments	978	-	978	-
Corporate bond	732,462	-	726,030	-
Total	733,440	-	727,008	-

Quantitative information of significant unobservable inputs – Level 3:

Description	Valuation Technique	Unobservable input	Range	2015 Rwf'000	2014 Rwf'000
Financial investments – avaibale for sale	Market based valuation technique	Net asset value and last equity transaction on the shares	Rswitch @ Rwf 9,491 per share	16,688	394,650

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.1. 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:

	2015 Rwf'000	2014 Rwf'000
Balance as at 01 January	394,650	254,680
Total FV (loss) /gains recognized in OCI	-	139,970
Disposal of shares	(317,326)	-
Gains recognized through profit and loss on disposal	202,462	60,000
Disposal proceeds of shares	(263,098)	(60,000)
Balance as at 31 December	16,688	394,650

27.2 Operational Risk

The overall responsibility of managing Operational Risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the bank undertakes in managing operational risk:

- Documentation of procedures and controls, including review and updates to reflect changes in dynamic business environment.
- Appropriate segregation of duties, including the independent authorization of transactions
- Reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans.
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the bank to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

27.3 Environmental and Social Risk

Environmental and social risks are the risks that the bank could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the bank and its clients) which could hurt the environment or have negative social impact.

The Bank is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative.

Environmental and Social impacts and is thus committed to ensure that such risks are sufficiently managed through its Environmental and Social Management policy and by adopting the country's Labour and Environment laws. The Bank also adheres to international best practice (IFC Performance standards and ILO standards as ratified by the Rwanda Government). An Environmental and Social Management System has been put in place to ensure due diligence and monitoring of the Environmental and Social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

27.4 Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements.

The compliance function is responsible for establishing and maintaining an appropriate framework of Bank compliance.

28. 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.

	2015	2014
	Rwf'000	Rwf'000
Contribution to Rwanda Social Security Board	248,474	225,431

29. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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 cashflows. Significant inputs are interest rates and flacuations in exchange rates

30. Events after Reporting date

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.

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I&M BANK YEAR IN PICTURES

I&M Bank Rwanda in other activities...

From customer visits, a colourful children's party, a well attended customer appreciation cocktail and a visit from the Governor.

[Clockwise from L - R]

1. Members of staff enjoy the final dance at the end of year party.

2. The bank MD and senior managers Visit SOVEPRO operations in Gicumbi.

3. I&M Kids enjoy the games during the annual Kids party.

4. Members of staff and World vision officials during a visit to Gihembe Refugee camp.

5. Minister Francois Kalimba hands out certificates to participants in the SME skills training workshop.

6. Governor Rwangomba speaks to I&M Bank customers and stakeholders during the Customer appreciation event.

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Happiness, Joy & Laughter