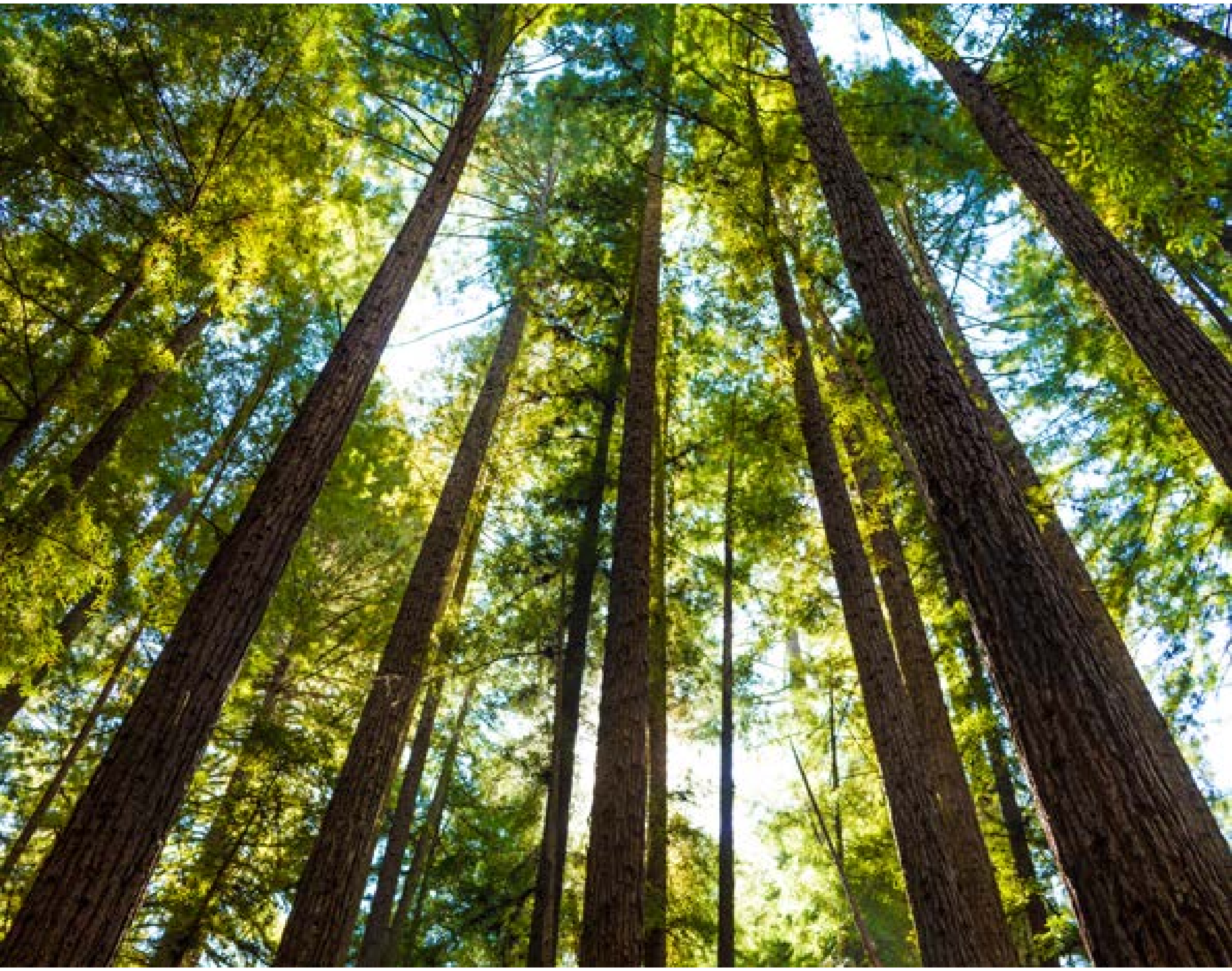
I&M Bank PLC

RWANDA



2018 ANNUAL REPORT

AND FINANCIAL STATEMENTS, FOR THE YEAR ENDED 31ST DECEMBER 2018

CREATING SUSTAINABLE GROWTH

We value sustainable growth based on a strong foundation and sound principles and believe in sustainability: times change but our values do not, which affirms our commitment to being partners of growth for all our stakeholders.

CREATING SUSTAINABLE GROWTH

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Bill Irwin

Chairman of the Board

On behalf of the Board of Directors, I would like to share with you the Bank's Annual Report and Financial Statements for the year ended 31st December 2018. The year demonstrated the continued ability of your Bank to deliver consistent, profitable growth. Our commitment was to continue doing business in a manner that would be beneficial to all our stakeholders. This we planned to do by paying critical attention to service delivery, instituting innovative alternative channels that would enhance our customer experience, expanding our share of available business opportunities and deepening existing relationships.

Chairman's Statement

Economic & Financial Outlook

According to the World Bank's 2019 Doing Business Report, Rwanda remains in 29th position globally and 2nd position on the African continent and was highlighted as one of the 10 economies with most notable improvements in 2018. The country achieved strong GDP growth in 2018, averaging 8.3 percent in the first three quarters of 2018 against 4.6 percent within the same period in 2017. The financial sector continued to improve in 2018 with the total financial sector assets increasing by 14.4 percent year-on-year.

2018 Performance Highlights

The Bank implemented the new IFRS 9 accounting standard that replaced the International Accounting Standards (IAS) 39. As a result of the new IFRS 9 standard, Banks are now required to recognize Expected Credit Loss (ECL) taking into account past events, current conditions and forecast information.

These standards use a more forward-looking approach as opposed to its previous standards. In line with the new directive issued by the Central Bank, the Bank has also adopted a new computation of its capital charge which now includes, in addition to credit risk, charges for market and operational risk.

The Bank's Balance Sheet remained strong with a 13 percent growth in Total Assets. Importantly the Bank's loan book increased by 15.4 percent to FRW 169 Billion, with impairments well under control ending the year at 2.53 percent. Liabilities continued to grow at 13 percent for the year on the back of strong growth in customer deposits, especially current account growth. Overall, Capital remains strong with Capital Adequacy Ratio (CAR) of 17.3 percent (after accounting for the new measurements).

Return on Equity (ROAE) reflected the strong performance of the Bank and closed at 18.06 percent for the year.

The Profit and Loss reflects an encouraging performance across all key financial metrics. Headline earnings for the year grew by 13 percent to FRW 26.8 Billion; driven primarily by growth in interest income as well as trading income. Profit after tax ended at a credible FRW 7.5 Billion representing a growth of 14.6 percent.

The Board of Directors is proposing a final dividend of FRW 2.99 Billion; with the dividend per share being FRW 5.91 per share.

Our Strategic Progress

In order to provide our customers with a cutting edge banking experience, the Bank invested significantly in digitization as a key element in fulfilling customer experience and presenting significant opportunities for operating efficiencies. The launch of a new Core Banking System has transformed and enhanced the Bank's ability to innovate by offering an improved customer experience in all areas that our customers value. We aim to continue building a Bank that is accessible 24/7 with the launch of our Mobile Application, ATM upgrades and online account opening in 2019. In 2018, we continued to be a first-mover in the market by launching the first block chain powered application known as SPENN; a cost free mobile banking application which financially connects the banked with the unbanked population in Rwanda.

We endeavor to place our customers at the centre of everything we do and by understanding their needs we aim to provide all-inclusive, relevant and appropriate products and services seamlessly through their preferred channels. We want to add value to our customers through enhanced digital channels, to facilitate their business. Working with the International Finance Corporation (IFC) we have commenced a key programme to develop end-to-end value proposition for small and medium sized enterprise which remains of strategic importance for the economic development of our market.

Testament to our commitment to Rwanda is our new Head Office building development which is attracting much interest as the building design is considered to be a unique, state-of-the-art iconic design which represents our organization's forward looking philosophy. We look forward to the inauguration of the premises in the fourth quarter of the year and to introducing our customers and staff to a world-class facility where they will be able to conduct their business in a comfortable and convenient environment.

Board Development and Corporate Governance

In the course of the financial year ended 31st December 2018, the Board continued its oversight of governance matters in a rapidly changing and challenging environment; Jonathan Nzayikorera retired from the Board with effect from May 2018, having served as a board director for 5 years. We welcomed two new Independent Non-Executive Directors, Ms. Crystal Rugege and Dr. Estelle Jonkergouw who were approved by our Shareholders in May 2018 at the Annual General Meeting.

We also take this opportunity to thank the outgoing director Jonathan for his valuable contributions to the successful running of I&M Bank Rwanda as we welcome our new directors who bring with them a wealth of experience and knowledge in the areas of Risk Management, Technology and Innovation.

I&M Values, Ethics and Community

Corporate Social Responsibility (CSR) remains an integral and valued part of our Bank. The Bank reiterated its commitment to supporting the community we operate in through a number of CSR activities with a special focus on Education, Capacity Building, Rehabilitation, Health, and Environmental sustainability.

We participated in the commemoration of the 1994 Genocide against the Tutsi commemoration activities and helped survivors rebuild their lives where we supported rehabilitation work in Nyanza district, contributed towards the provision of medical services by offering access to community-based health insurance (Mutuelle de Sante) to 2000 vulnerable people in Rubavu, Huye and Musanze districts.

We participated in Childhood Cancer Awareness activities through Rwanda Children's Cancer Relief (RCCR) for the 5th year in a row and also sponsored the refurbishment of IGIHOZO Early Childhood Development Center in Huye district in partnership with USAID Twiyubake.

We are committed to promoting sustainable economic and social development that improves the lives of people across our communities and transforms their lives for the better.

Awards & Recognition

The strong performance of the Bank was recognised by a number of awards:

- Best Bank in Rwanda award by Global Finance
- Best SME and Best Customer Service Bank in Rwanda award from Global Banking and Finance Review for 3 years in a row.
- Investor of the Year Award in the RDB Business Excellence Awards
- Best Taxpayer of the year by the Rwanda Revenue Authority.

This recognition is achieved as a result of the hard work put in by the Staff and the Management of I&M Bank (Rwanda) Plc. We hereby commit to continue excelling in all we do as we ensure the provision of good service and products tailored to meet our customers' unique needs.

Our Staff, Our People

The Bank has continued to invest in its people, Twenty one members of the leadership team attended a full week Leadership Program conducted by Strathmore Business School. To ensure continuous and more inclusive learning, the Bank launched an e-Learning platform with mandatory programs that cover all areas of Banking and related controls. We continue to sponsor key staff on the Professional Banker program facilitated through the Rwanda Banker's Association. To drive a performance-based culture, we implemented the Balanced Score Card that facilitates tracking of achievements versus set targets and determines resultant rewards.

Conclusion

The continued success of the Bank is a tribute to the strong support that we receive from all our key Stakeholders and timely guidance and encouragement from the regulators and the Government. Our customers continued to trust the Bank whilst we implemented the major system change that has created the platform to provide them with significantly enhanced products and services.

Our staff have demonstrated, once again, great commitment in meeting our customer expectations and we are, indeed fortunate to have such a talented and highly motivated team.

Looking back, 2018 saw the Bank very well placed to deliver its future aspirations and I look forward to continued growth in 2019.

As we welcome a year of opportunities, we thank you for the trust, confidence and continued support you constantly show us.

Bill IRWIN
Chairman of the Board
I&M Bank (Rwanda) Plc.

Robin Bairstow

CEO

It is a pleasure to report that 2018 was another year of record income and profits. Against a background in East Africa of some uncertainty and slower growth, with higher levels of competition domestically, I&M Bank continues to perform above the market. The Bank's performance in 2018 once again demonstrates our ability to deliver sustainable and substantial value for all shareholders.

CEO Highlights

DELIVERING THE DIFFERENCE

I&M Bank is well placed as one of the fastest growing Banks in Rwanda, with a strong capital base, liquidity and customer relationships to make the most of this opportunity against increasing competition. Serving our customers is at the center of the four main pillars of our strategy: Operational Excellence, Optimizing channels, Business growth and Revenue Diversification. The implementation and execution of the strategy is at the core of our strong performance in 2018.

While ensuring that the Bank stays ahead of shifting market dynamics, we rolled out Finacle 10 – a new core banking system designed to empower the Bank to deliver on the expectations of customers and beyond. This also enabled us to overhaul our digital channels with the introduction of a revamped Internet and Mobile banking platforms. We would like to thank our customers for their patience while we bedded the system down at the end of the third quarter last year. 2019 will see the unveiling of substantial improvements to our customer digital experience which is reliant on this world class platform.

Offering a superior banking experience involves constantly improving our existing products and services to allow the customer more choice in a way they appreciate and value the Bank. After the implementation of Finacle 10, the Operations team embarked on the review and streamlining of processes with the aim to ensure faster and better experience in our branches and further decrease our service turn-around time. Ensuring smooth running of our network was achieved through upgrading of our capabilities and security features and by replacing some hardware at selected points to ensure our customers are able to save time and money through efficient self-service. The Bank has engaged an external company to constantly monitor our customer experiences. We are taking this information and using it to also create more efficiencies for our customers making their banking experiences more pleasurable.

In further driving our digital strategy the Bank also pioneered, in partnership with BlockBonds, to unveil SPENN, a blockchain powered mobile wallet which is a cost free transaction-banking based platform – the first of its kind in Rwanda that has helped over 8000 businesses to reach across 200,000 users to benefit from a wide range of services; from swifter money transfer, bill payments to paying suppliers directly through the platform. We are constantly updating the features to meet our customers' expectations. SPENN reflects our underlying commitment to support the Government's plan to facilitate access to finance and commitment to connecting businesses and customers in a way that creates sustainable value for both.

On the business front, we continued our journey to improve our SME offerings and implementation of our Sales Force Effectiveness (SFE) strategies. This has translated into an 11 percent growth of the Corporate Banking' loan portfolio compared to Dec 2017, while overall deposits increased by 7 percent backed by efficient outflows management technique.

Pursuing the value chain strategy in Business Banking (who focused on Small and Medium Enterprises) delivered excellent results. This saw the Loans and Advances growing up to 35 percent year-on-year and deposits of SME customers also increased up to 18 percent since the beginning of 2018.

Retail Banking has continued to attract more customers in core areas across our footprint; including Rwandans in the diaspora, whose portfolio marked a notable increase compared to 2017. We continue to lead the industry with our mortgage loan options, fulfilling the dreams of many Rwandans of owning their own homes. Mortgage loans increased by 22 percent in 2018. The deployment of Direct Sales Agents in Branches has been a game changer since we changed the Bank's outlets from service centers to points of sale providing our customers with more solutions for their banking needs.

CEO Highlights

The long term success of I&M Bank (Rwanda) Plc depends on its ability to attract, retain and develop the best talents to support our growth in a sustainable manner. Helping our people be at their best is the critical enabler of our business strategy and fundamental to delivering our financial targets.

Their ability to deliver as a team remains the driving force for our sustained growth and is at the core of driving business value. It is for this reason that we continue to provide employees with the resources and opportunities to build their careers, reach their full potential and remain effective and motivated. The Bank also partnered with the Gender Monitoring Office (GMO) under the leadership of the United Nations Development Programme (UNDP) to ensure delivery and compliance to gender equality principles by establishing standards that promote an equitable work environment for men and women. In addition, provide the necessary tools and guidance to promote a more equitable work environment that maximizes the capacities of all employees and that enhances their service delivery and productivity.

Given the outlook of improving macroeconomic conditions in Rwanda, the Bank remains resolute in taking advantage of these opportunities to growing earnings, improving profitability and delivering returns to our esteemed shareholders. We are firmly on track towards executing our strategy, achieving our vision and fulfilling our purpose.

I would like to thank our clients for their trust and confidence which has led to an excellent set of results. This sets a solid foundation for future growth. I would also like to thank the chairman and the board of Directors who provide strong guidance and maintain exceptionally high governance standards.

ROBIN BAIRSTOW
CEO

Sustainable growth ensures a future for our youth. Our roots are steadily ingrained by our desire to enrich the lives of all our stakeholders, because success tastes better shared.

SUSTAINING THE PROGRESS

Board of Directors

Dr Estelle Jonkergouw
Independent director

Soundararajan Madabhushi
Independent director

Andreas Grenacher
Non-executive director

Robin C. Bairstow
Managing director

Faustin Byishimo
Executive director

Board of Directors (continued)

Bill Irwin
Chairman
Independent director

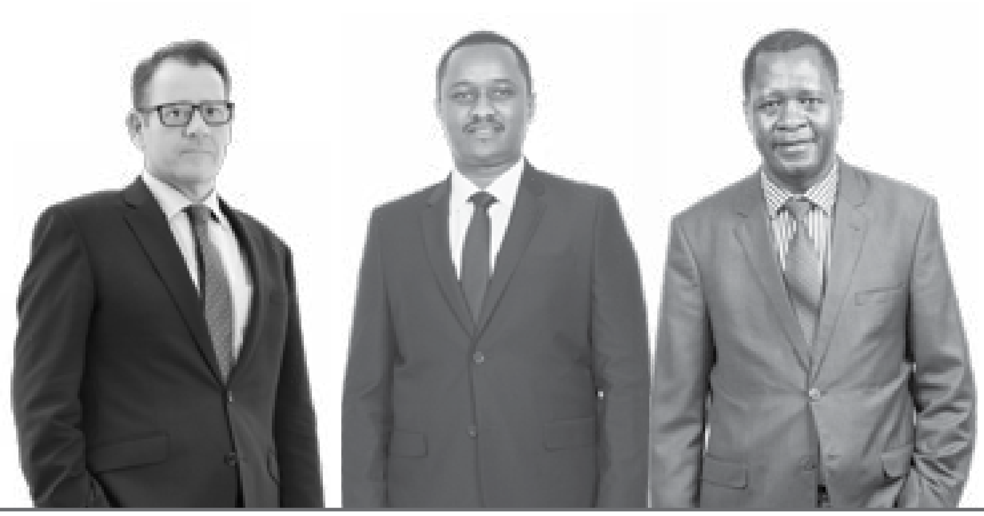
Paul Simon Morris
Independent director

Arun S. Mathur
Non-executive director

Crystal Rugege
Independent director

Richard Mugisha
Independent director

Senior Management



Robin Bairstow
Managing Director

Faustin Byishimo
Executive Director and Div. Head of Business Development

Michael Obiero
General Manager / Operations & Internal Services

Louise Kagaju
Chief Internal Auditor

Diana Kwarisiima
Head of Human Resources

John Gatashya
Chief Finance Officer

Senior Management (continued)

Lise Mugisha
Chief Risk Officer

Norbert Mwanangu
Head of Retail

Benjamin Mutimura
Head of Corporate and institutional Banking

Cynthia Rwamamara
Head of Internal Control and Compliance

Callixte Nyilindekwe
Head of Business Banking

Blaise Pascal Gasabira
Head of Treasury

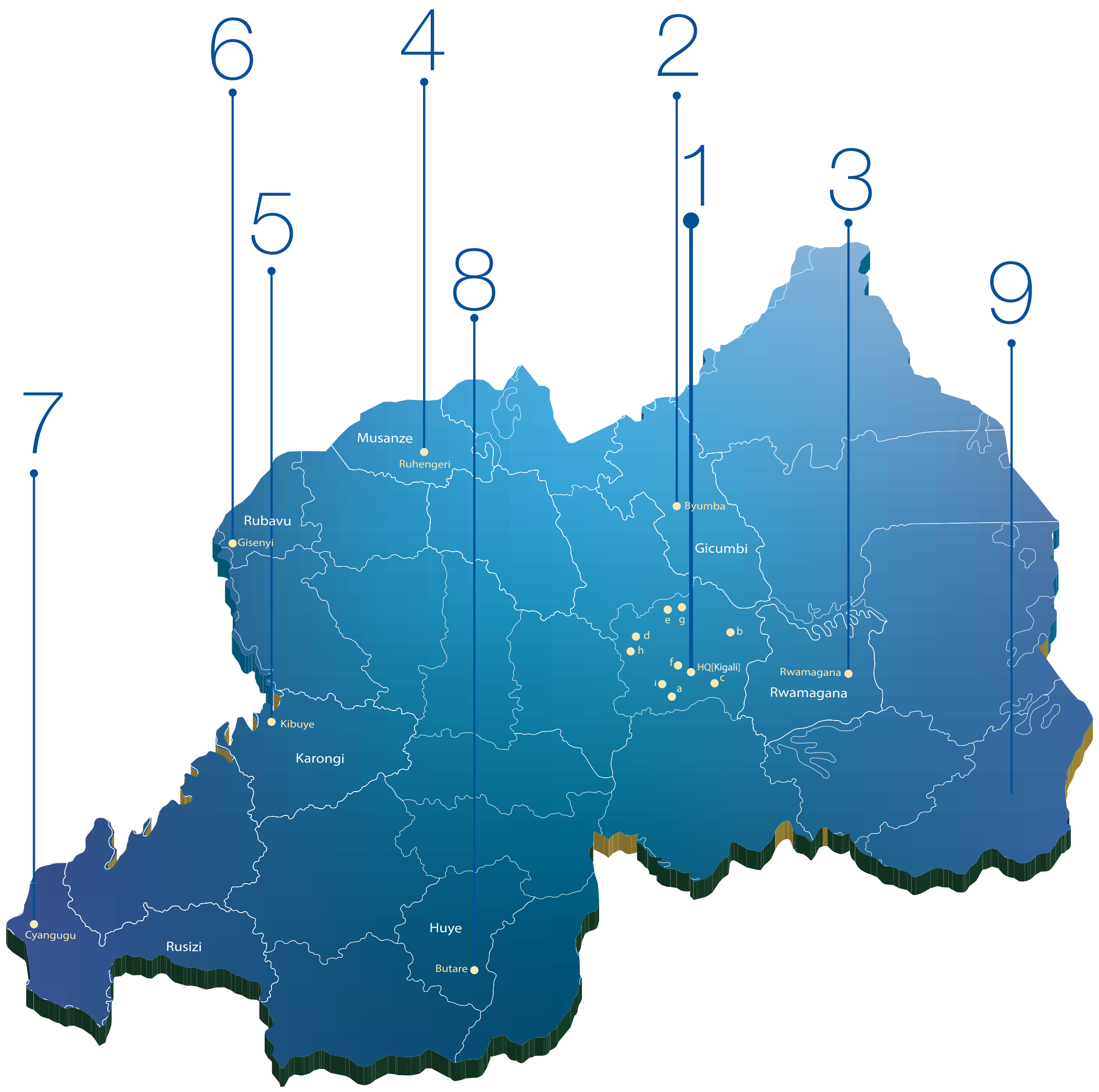
Nicolas Uwimana
Head of Legal

Alfred Baguma
Head of Credit

We are only as strong as the community we are in. We pride ourselves in developing our community and investing in the education of an infinite resource that keeps on giving: our youth.

UPLIFTING THE COMMUNITY

Our Coverage



OUR LOCATIONS

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

Our Locations

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

REMERA
Gasabo District
Tel: +250 788 162 161

NYAMIRAMBO
Nyarugenge District
Tel: +250 788 162 188

NYABUGOGO
Nyarugenge District
Tel: +250 788 162 162

CHIC COMPLEX
Nyarugenge District
Tel: +250 788 162 198

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

KIGALI HEIGHTS
Gasabo District
Tel: +250 788 162 160

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

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

RUSIZI
Rusizi District
Tel: +250 788 162 164

KIREHE
(Cash & Deposit Counter)
Kirehe District
Tel: +250 788 162 174

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

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

GICUMBI
Gicumbi District
Tel: +250 788 162 165

RWAMAGANA
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Tel: +250 788 162 174

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

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

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

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

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

NEWS & CSR

Annual General Meeting

In May 2018, The Bank held its 1st Annual General Meeting with shareholders as a listed company at Kigali Convention Centre. It was a good opportunity to meet shareholders and introduce to them the Board of Directors. The main voted resolutions were the approval of the audited Financial Statements and Reports for the Financial Year ended 31st December 2017, The change and adoption of a new name; "I&M Bank (Rwanda) Plc" from ''I&M Bank (Rwanda) Ltd'' and The distribution of a final dividend of FRW 5.16 per share (before applicable tax).

FRW 5.16 per share

SPENN Launch and Campaign

On 4th June 2018 Blockbonds together with I&M Bank Rwanda, officially announced the rollout of the first blockchain based platform in Rwanda called SPENN. The platform is a mobile banking application that will enable Rwandans to make a range of financial transactions. As in all markets, SPENN initially underwent a soft launch on social media and internally from 1st May 2018 to ensure staff awareness with a structured educational presence in the market. With the support of SPENN sales force, the Ambassador Model, internal staff awareness and social media, 2018 ended with 179,016 subscribers.

Launch of Finacle 10 and iClick

On 1st September 2018 I&M Bank Rwanda officially announced the rollout of its new Core banking system (Finacle 10) and the Bank's new Internet Banking Platform (iClick). The communication roll out mainly focused on iClick and enhanced agility and efficiency of operations, while significantly improving customer experience across channels. The Bank also used the opportunity to give training to different customers to ensure smooth transition.

Infosys® Finacle 10

Kigali International Trade Fair (Expo)

I&M Bank Rwanda was present at the 20th Kigali International Trade Fair (Expo 2018) to serve clients visiting this big fair. This year, the Bank was focusing on the awareness of its digital products in line with the Government's campaign of promoting a cashless economy. There was a branch at the Expo ground, with access to all bank services for clients but mainly focusing on digital products.

Launch of Kirehe Branch and reopening of Nyabugogo Branch

In the last quarter of 2018, the Bank opened a new counter in Kirehe District, Eastern province to expand our services and strengthen our partnership with the UN missions in Rwanda especially UNHCR. This branch will serve UNHCR staff, all their stakeholders and other customers in Kirehe District. On the 22nd November 2018, The Bank also reopened the Nyabugogo branch which had been closed for renovation.

News and CSR

Awards and Recognitions

In 2018, the strong performance of the bank was recognized by a number of awards including Best Bank in Rwanda award by Global Finance, Best SME and Best Customer Service Bank in Rwanda award from Global Banking and Finance Review for 3 years in a row. The Bank also won Best Investor by RDB Business Excellence Awards and we were also awarded best Taxpayer of the year by the Rwanda Revenue Authority for the 2nd time in a row.

Kwibuka 24

The commemoration ceremony was held on Friday, April 27th, 2018 at Nyanza-Kicukiro Genocide Memorial Site which is a final resting place for more than 5000 victims of the Genocide against the Tutsi. I&M Bank Staff visited the memorial site where they were taken through various parts of Genocide Memorial and later on a night vigil followed.

It didn't end at that because on August 18th, 2018, a team of the Bank's staff travelled to Rwabicuma sector, Nyanza province for the handover ceremony of a house built for Madam Elina Mukandekezi, who is a genocide survivor. This CSR activity was as a result of the Bank's partnership with Avega agahozo, Ibuka and Aegis Trust. It is through these partnerships that the Bank continues to fulfil its commitment to help survivors rebuild their lives as well as contribute to the prevention of future conflicts through education and confronting the prejudices that lead to genocide.

NEWS & CSR

Rwanda Children's Cancer Relief Awareness Walk

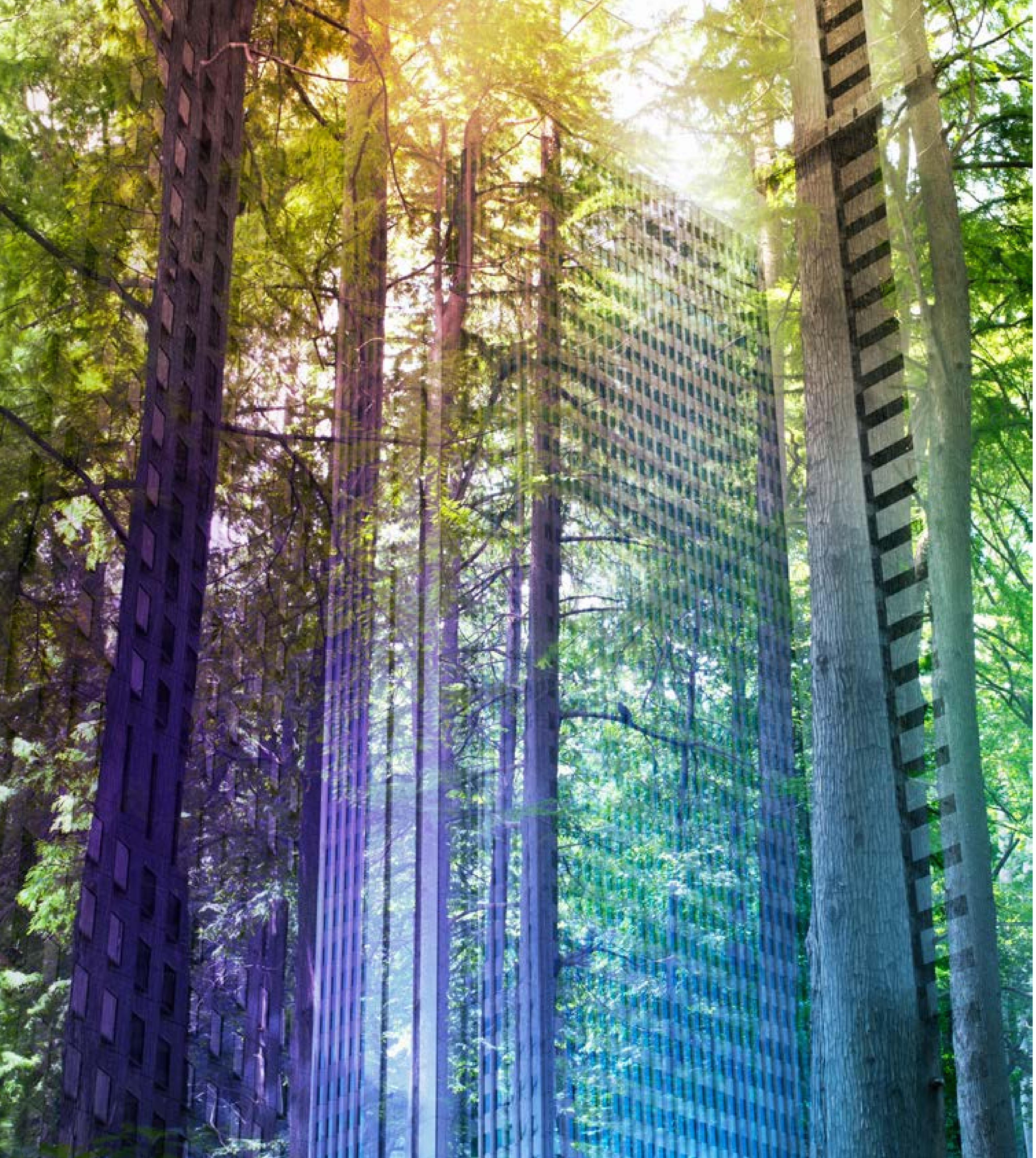
On 21st September, 2018, the Bank joined the Rwanda Children's Cancer Relief and the general public in the 5th Cancer Awareness Annual Walk as part of conducting awareness on sensitization about symptoms of cancer and cure upon early detection. Participants included high school students , children cancer survivors, medical students, government officials and I&M Bank representatives.

Construction of an Early Childhood Development Center

On Thursday 2nd August, 2018, USAID Twiyubake in collaboration with Huye district inaugurated the community owned Igihozo Early Childhood Development center newly refurbished through a sponsorship donated by I&M Bank Rwanda Plc. The donation was part of the Bank's Corporate Social Responsibility efforts to improve communities in which the Bank operates in.

Umuganda and Medical Insurance

Throughout 2018, The Bank joined the Rubavu district in Umuganda community service, this was also an opportunity to announce to the Rubavu, Huye and Musanze districts officials that the Bank will cover medical insurance for 2000 vulnerable people in 2019. We pledged our continued support to the community in areas of health, education and capacity building.



Our customers are at the core of our business. We are honored to provide cutting edge solutions for their problems, inspired by their success because when they grow, we grow.

RISING TO THE CUSTOMERS' NEEDS

Corporate Information

BOARD OF DIRECTORS

Bill Irwin	Chairman – Independent director
Robin C. Bairstow	Managing director
Richard Mugisha	Independent director
Soundararajan Madabhushi	Independent director
Arun S. Mathur	Non-executive director
Andreas Grenacher	Non-executive director
Crystal Rugege	Independent director
Dr Estelle Jonkergouw	Independent director appointed in March 2018
Paul Simon Morris	Independent director appointed in September 2018
Faustin Byishimo	Executive director
Jonathan Nzayikorera	Non-executive director resigned in May 2018

COMPANY SECRETARY
Lena Militisi
KN 3 AV/9
PO Box 354
Kigali
Rwanda

AUDITOR
PricewaterhouseCoopers Rwanda Limited
5th Floor Blue Star House
Blvd de l'Umuganda, Kacyiru
PO Box 1495
Kigali, Rwanda

REGISTERED OFFICE
I&M Bank (Rwanda) PLC
KN 3 AV/9
PO Box 354
Kigali
Rwanda

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

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

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

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

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

Bank One Limited
16 Sir William Newton Street
Port Louis
Mauritius

Report of the directors
For the year ended 31st december 2018

The directors have pleasure in submitting their Annual report together with the audited financial statements for the year ended 31st December 2018, which disclose the state of affairs of the I&M Bank (Rwanda) Plc (the "Bank" / "Company").

1. Principal activities
The Bank is engaged in the business of banking: Banking is a business activity of accepting and securing money owned by individuals and enterprises, which also involves transactions carried out to produce profits. It is a principal procedure which creates and controls the money supply of the country.

It not only provides liquidity needs for businesses and families to invest for the future but also makes use of its deposits to give out loans. The loan can either be short term or long term and it claims repayment in the form of instalments. The Bank also charges a certain amount of rate of interest on the amount sanctioned. The deposits collected from the customers can be of different types, namely savings, fixed, current and recurring deposits, respectively.

2. Results / Business review
As at 31st December 2018, profit before income tax for the year was Frw 10.8 billion (2017: profit of Frw 9.8 billion). Net interest income increased from Frw 17.6 billion in 2017 to Frw 20.2 billion in 2018 in correlation to the increase in the loans which increased from Frw 146.5 billion to Frw 169 billion in 2018.

The Bank`s results for the year are as follows:

	2018 Frw'000	2017 Frw'000
Profit before income tax	10,817,422	9,848,331
Income tax expense	(3,354,850)	(3,334,930)
Net profit for the year after tax	7,462,572	6,513,401

The results of the Bank for the year are set out from page 59.

3. Dividends
The directors have recommended payment of dividend with respect of the year ended 31st December 2018 of Frw 2,985,000,000 (2017: Frw 2,605,000,000) which represents Frw 5.91 per share (2017: Frw 5.16 per share).

4. Directors
The directors who served during the year and up to the date of this report are set out on page 30.
The Company provides professional indemnity for all the Directors.

5. Auditors
PricewaterhouseCoopers Rwanda Limited have expressed their willingness to continue in the office in accordance with the law No 17/2018 of 13/04/2018 governing Companies.

6. Relevant audit information
The Directors in office at the date of this report confirm that:

(i) There is no relevant audit information of which the Company's auditor is unaware; and

(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Report of the directors
For the year ended 31st december 2018

7. Approval of financial statements
The financial statements were approved and authorised for issue at a meeting of the Board of Directors held on 22-March 2019.

BY ORDER OF THE BOARD
Secretary

Date: 22-March ***2019.***

Statement of directors' responsibilities
For the year ended 31st december 2018

The Law No 17/2018 of 13/04/2018 governing companies 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 Period 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. 17/2018 of 13/04/2018 governing companies. 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.

Approval of the financial statements
The year-end financial statements on pages 59 to 134 were approved and authorized for issue by the Board of Directors on 22-March 2019 and signed on its behalf by:-

Director ***Director***

This report describes how the Bank remains not only compliant with Corporate Governance regulations issued by the National Bank of Rwanda, the Capital Market Authority and Rwanda Stock Exchange regulations but also remains committed in adopting best practices and creating a culture of good practices which is in line with our Group wide commitment to ensure 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, and in particular that at each level, each entity is well and honestly run, generating long term shareholders value.

Our Bank runs its operations in an ever changing and increasingly complex environment. In the past years, the regulator in Rwanda but also in the region in which the Group operates has undergone several legislative and regulatory reforms with regards Corporate Governance principles, new Company Law, enhanced corporate governance requirements, alignment to EAC framework etc. In February 2018, the National Bank of Rwanda published the final version of the revised Corporate Governance regulation which purpose is to establish new requirements on Corporate Governance, identify responsibilities in the managerial and operational structure of the Banks and reinforce key component of risk governance. Banks were given 6 months to conform their corporate governance practices to the requirements provided in this Regulation and a period of one (1) year to replace Board members who served at least (9) years ;

At our Bank, we have embraced the changes and believe that Governance is more than just complying with laws and regulations; it is also creating a culture of good practices. The Bank has already a well-defined and structured Corporate Governance framework to support the Board achieving our mission of being: *Partners of growth for all our stakeholders which will be achieved through: "Meeting our Customers' expectations; Motivating & developing every Employee and Enhancing Shareholder value".*

Our Shareholders, Board of Directors and Senior Management believe that Corporate Governance is a necessary condition for sustainable performance and will therefore undertake every effort to create awareness and ensure compliance with corporate governance policies and practices within our organization.

In its quest to ensure that highest standards of Corporate Governance are complied with and upheld at all times, I&M Bank (Rwanda) Plc., through its Board of Directors, which is responsible for setting the standard of Corporate Governance and for updating these standards as appropriate is consistently reviewing corporate governance standards within the Bank .

OUR SHAREHOLDERS PROFILE

79.22% are owned by BCR Investment Company (BCRICL) a diversified investment company established in Mauritius.

The Bank has as shareholders through BCRICL: I&M Holdings Limited with 54.46%, DEG has12.38% and PROPARCO12.38%;

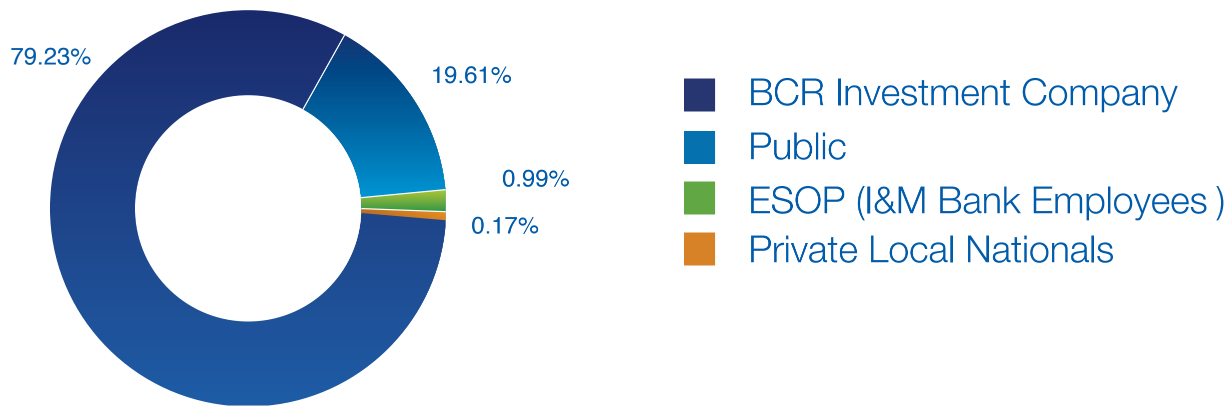
19.62% previously owned by the Government of Rwanda was successfully issued to the public.
0.99% is held by I&M Bank employees ESOP.

The shareholding composition has remain largely unchanged in the last 24 months since March 2017.

The top15 shareholders jointly hold 79.5% of the total floated shares.

The shareholding structure composition has evolved, with the floated shares held by foreign & local institutions as well as few retail investors

1	BCR Investment Company	79.22%
2	Private Investors	0.17%
3	ESOP (I&M Bank Employees)	0.99%
4	The KIBO FUND II LLC	7.22%
5	Nile Holding Company For Development and Investment	2.45%
6	AGDF Corporate Trust LTD	2.11%
7	Rwanda Social Security Board	1.94%
8	Dyer & Blair Investment Bank LTD	0.86%
9	Rwanda Mountain Tea	0.73%
10	GA Insurance LTD	0.45%



OUR LEGAL STATUS

The Bank is a Public Limited Company incorporated in Rwanda on 25th May 1963 and domiciled in Rwanda. It has been incorporated under the name of Banque Commerciale du Rwanda (BCR) and later changed its name to I&M Bank (Rwanda) Ltd in 2013 after a change in majority ownership.

The Bank is governed by its Articles of Association. In March 2017, the shareholders had agreed to review the Bank' Articles of Association in order to reflect the requirement under the Banking Act. In May 2018, the Shareholders also approved the change of name to I&M Bank (Rwanda) Plc.
I&M Bank (Rwanda) ordinary shares are listed on the Rwanda Stock Exchange.

SHARE INFORMATION

The paid up capital of I&M Bank Rwanda Plc. consists of 5,050,000 ordinary shares. Currently, only ordinary shares are issued, each share in the capital of I&M Bank (Rwanda) gives entitlement to cast one vote.

I&M Bank (Rwanda) has an authorized share capital of Frw 6,000,000,000 which is the maximum amount of capital allowed to be issued under the terms of the Articles of Association.

In August 2018, we have formalized our custodial service outsourced to KCB Custodial Services trustee for our ESOP, services were expanded to maintain our share register and advisory services.

CREDIT RATINGS

Global Credit Ratings has assigned to I&M Bank (Rwanda) Plc. a long-term and short-term national scale ratings of A-(RW) and A2 (RW) respectively; with the outlook accorded as Stable.

This reemphasizes the bank solid position on the market, including good revenue diversity and stability, an adequate level of capitalization, with a strong deposit base.

OUR BOARD

The Board of Directors refers to the governing body elected by the Shareholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.
Our Board of Directors comprises directors who:

- Are named as such in the Articles of Incorporation under article 74.
- Are duly elected in subsequent meetings of the Shareholders and
- Are elected to fill vacancies in the Board of Directors.

Our Memorandum and Articles of Association provides at its article 74 that the number of directors shall not be less than five directors and not more than ten directors in number. Within this, the Board determines the appropriate number of its members to ensure that the number is commensurate with the size and complexity of the Bank's operations.

The Board has the power to appoint a director to fill a vacancy. Appointed directors must stand for election by the shareholders at the next Annual General Assembly following their appointments. In this regards, Simon Morris has been appointed by the Board in September 2018 and he will stands for election at the forthcoming General Assembly in May 2019.

As at December 2018, the Board is constituted by ten Directors: two Executive Directors, two Nominee Non-Executive Directors and Six Independent Non-Executive Directors including the Board Chairman;

The current Board of Directors are detailed as follows:

No	Name	Nationality	Qualifications	Position held on the Board	Committee Assignment
1	***William (Bill) Carlisle IRWIN***	British	Banker	Independent Board Chair	BCC Chair BALCO, BRC, BAPRECO, NOMINATION
2	***Richard MUGISHA***	Rwandan	Lawyer	Independent NED	BAPRECO & Nomination Chair BAC, BCC
3	***Arun S. MATHUR***	Indian	Banker	Nominee NED	IT & BALCO Chair BALCO, BAC, BRC, BCC, BAPRECO, NOMINATION.
4	***Soundararajan MADABUSHI***	Indian	Banker	Independent NED	BAC Chair BRC, BCC, BALCO
5	***Andreas GRENACHER***	German	Investment Banker	Nominee NED	-
6	***Crystal RUGEGE***	Rwandan	IT Professional	Independent NED	BRC, IT, BAPRECO
7	***Estelle JONKERGOUW***	South African	Risk Management Professional	Independent NED	BRC Chair BAC, IT
8	***Paul Simon MORRIS***	British	Banker	Independent NED	BRC, BAC, IT
9	***Robin BAIRSTOW***	South African	Banker	Managing Director	BALCO. BRC, BCC, IT & BAPRECO
10	***Faustin BYISHIMO***	Rwandan	Banker	Executive Director	BALCO, BRC, IT & BAPRECO

At the last Annual General Meeting on 28th May 2018, Jonathan Nzayikorera, the nominee of the Government of Rwanda, stepped down as a Non-Executive Director, Ms. Crystal Rugege and Ms. Estelle Jonkergouw, who joined the Board during the year as Independent NED, offered themselves for election;

The Board Nominations Committee reviews regularly the Board composition. In reviewing the Board composition, this Committee considers the benefits of collective relevant working knowledge, experience or expertise; it ensures that its composition reflects an appropriate mix with regards to skill representation, Board experience, tenure, gender, age, and geographic experience. Other considerations are personal qualities, communication capabilities, ability and commitment to devote appropriate time to properly discharge the task, professional reputation, community standing and alignment of the quality of directors with the Bank's strategic directions.

The Directors, collectively have vast experience stemming out of their varied backgrounds in different disciplines, which include Banking, Management, Law, Accounting, Investment and hands-on experience in various industries.

The Board determines the process of appointing a director, after a recommendation by the Nominations Committee. The Board takes into consideration recommendations from shareholders, existing directors and any broad pool of qualified candidates for sourcing of possible candidates as directors; Directors must at all-time be and remain fit and proper to carry out their roles and in accordance with suitability criteria issued by the Bank' regulators.

A revised code of Ethics for Directors have been approved in August 2018 which conforms to relevant laws and regulatory requirements and takes into consideration Corporate Governance best practices.

The Board considers the number of directorship that its members can hold in other companies; however, in general, board seats in other companies shall not exceed five (5). In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the Boards they serve should not be compromised. All Director or officer shall disclose concurrent position he holds in other company by filing annually the register of interest which register was filled this year by all directors;

The initial appointment period is up to three years subject to annual re-election by shareholders, which may be extended by a further two additional periods of up to three years, subject to the director still meeting the criteria for directorship. As a rule, the Board's Non- Executive directors may serve for a maximum cumulative term of nine (9) years, making sure however that the shareholders' legal right to vote and be voted remains inviolable.

The Board Charter, which serves as a guide to the Board of Directors on how to discharge their functions, mainly states the roles, responsibilities and accountabilities of which the Board of Directors should consistently and properly perform; it touches on the Board structure and composition as well.

BOARD MEETINGS

The Board holds regular and special meetings in accordance with the Articles of Association. It has in place an annual calendar that sets out board activities annually.

The Board usually has a minimum of four (4) scheduled Board meetings per year requiring an attendance of two to three days. All directors are expected to attend each meeting, unless there are exceptional circumstances that prevent them from doing so.

The Board Charter defines, under the attendance section, the attendance requirements. The attendance and participation of members in committee meetings is considered in the assessment of continuing fitness and suitability of each director as member of Board-level committees and the Board of directors.

Papers relevant to the agenda of each Board and Board committee are sent to the Board and committee members as appropriate ten (10) days in advance of the meeting as per the Memorandum and articles' requirements.

During the year ended 31st December 2018, the Board held four (4) board meetings. A number of directors visited the bank for ad-hoc meetings and a Strategy Refresher meeting was held in October which focused on strategic initiatives to be undertaken and what will be done differently in the next 3 years to come;

Details of directors' attendance at board and Committees are detailed as follow:

	BOARD	AUDIT (1)	RISK (1)	CREDIT	ASSET & LIABILITIES	IT (2)	ADMNI. PROC., REMUN. (1)	NOMINATION
Number of meetings	4	5	4	5	4	2	4	1
Bill IRWIN	4	-	4	5	4	-	4	1
Richard MUGISHA	4	3	-	4	-	-	4	1
Soundararajan MADABUSHI	4	5	4	5	4	-	-	-
Arun MATHUR	4	5	4	5	4	2	4	1
Andreas GRENACHER	4	-	-	-	-	-	-	-
Crystal RUGEGE	4	-	2	-	-	2	2	-
Estelle JONKERGOUW (3)	2	1	1	-	-	1	-	-
Simon MORRIS (4)	1	1	1	-	-	-	-	-
Robin BAIRSTOW	4	-	4	5	4	2	4	-
Faustin BYISHIMO	4	-	4	-	4	2	-	-

(1) Audit, Risk and ADMNI. PROC., REMUN membership change effective in December 2018
(2) IT Committee was established in August 2018
(3) Appointed in March 2018
(4) Appointed in September 2018

The attendance rate illustrates that the members of the Board are engaged with the Bank and are able to devote sufficient time and attention to oversee the Bank' affairs

ROLE OF OUR BOARD COMMITTEES

The Board has in place Board committees to increase efficiency and facilitate deeper focus in specific areas. In accordance with article 22 of the Corporate Governance regulation, the Bank standing Committees of the Board are Audit (BAC) , Risk (BRC), Administration, Procurement and Remuneration (BAPRECO), Credit (BCC) , Nominations (BNC) and IT (BITCO) Committee. In addition to these committees, the Board has resolved to maintain the Assets & Liabilities Committee (BALCO); each committee reports directly to the Board. The committees meet as prescribed in their respective charters.

During the year under review, in August 2018, the Bank established a Board IT Committees comprised of four (4) NED and the two (2) ED;

The Board may from time to time, establish or maintain additional committees as deemed appropriate. The number and nature of Board-level committees would depend on the size of the Bank and the Board, complexity of operations, as well as the Board's long-term strategies and risk tolerance. The Nominations Committee, taking into account the desires and qualifications of individual members recommends allocation of members to committee which is to be ratified by the Board; In making such appointments, the Board considers the rotation of committee membership and chairs at appropriate intervals to avoid undue concentration of power and promote fresh perspective.

In this regards, Board committees' membership were reviewed at the August board with effect at the December board meetings and are in fully compliance with the BNR Corporate Governance regulation provisions on board committee composition.

The Board approves reviews and updates at least annually or whenever there are significant changes therein, the respective terms of reference of each committee that set out its mandate, scope and working procedures. Last reviews were approved in August and December to cater for all the requirements of the new Corporate Governance regulation.

The Board ensures that each committee maintains appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions. The Board receives a verbal update on key area of discussions at the Board meeting by the committee chair.

Each standing committees is composed of at least 3 members, a majority of independent directors and an independent chair.

Role and Responsibility		Membership	Last Update
AUDIT	Assist the Board in fulfilling its responsibilities by reviewing the integrity of financial reporting and related announcements; the effectiveness of the internal control system of the Bank, its performance and the effectiveness of the internal and external audit processes; the findings of the internal and external audit and to recommend appropriate remedial action at least quarterly. For the year ended 31st December 2018, the BAC met five times. The Committee discussed the quarterly results, the interim accounts and the annual accounts. Key audit matters, as included in the auditors' reports and management letter were also a topic of discussion. In addition, the overall internal control environment was reviewed, the internal and external auditor reports were discussed. The BAC also approved the internal audit plan, budget and structure. The Terms of Reference were also amended to reflect the new regulations. A special attention to IFRS 9 implementation, review of the implementation of the new core banking system was noted. The BAC chairman held regular meetings with external auditors.	1. Soundararajan Madabushi Chairperson (Independent NED) 2. Richard Mugisha (Independent NED) 3. Estelle Jonkergouw (Independent NED) 4. Arun Mathur (NED) 5. Simon Morris (Independent NED)	5th December 2018

Role and Responsibility		Membership	Last Update
RISK	The BRC considers and recommends to the Board the approval of Bank's overall Risk Appetite, tolerance and strategy, review the Bank's risk profile on an on-going basis. The Committee is responsible for ensuring adherence to the Bank's risk management policy and procedures as set out by the board Through the Risk Management Function, the Committee draw up a comprehensive Risk Management Framework/ Program for the Bank in line with the Guidelines issued from time to time by the National Bank of Rwanda (BNR). This year, the Committee met four times. In each meetings, status of the bank' metrics with regards risk rating on operational, technology, liquidity, credit, compliance, Forex exchange, HR, Strategy and reputational were reviewed. Direction of each risk as well as mitigation plan were discussed. Furthermore, compliance status of the Bank was reviewed and discussed at each meetings with a review of the regulatory compliance assessment report which was tabled, recommendation of prudential meetings with the regulator were reviewed systematically, new regulations and laws were advised and compliance status noted. Following the migration to Finacle, the link to the Electronic Data warehouse views to the new Core Banking System was an area of focus. IT risk was also another major area of focus. The BRC terms of reference were reviewed with the aim of aligning responsibilities with the new IT committee but also to conform to the new Corporate Governance regulation.	1. Estelle Jonkergouw Chairperson (Independent NED) 2. Soundararajan Madabushi (Independent NED 3. Arun Mathur – (NED) 4. Bill Irwin – (Independent Board Chairman) 5. Crystal Rugege (Independent NED) 6. Simon Morris (Independent NED (Interim Chair) 7. Robin Bairstow – MD 8. Faustin Byshimo – ED	February 2019

Statement on Corporate Governance (continued)

Role and Responsibility		Membership	Last Update
CREDIT	The BCC assists the Board in fulfilling its primary responsibility to ensure that the quality of the Bank's credit related asset book remains within acceptable parameters consistent with the Bank's risk appetite as well as regulatory requirements and prudential risk management practices. Further, the BCC ensures that the Bank has in place a credit policy which has a balanced approach to risk versus rewards and is effective, efficient, meets best practice, consistent with both BNR risk management guidelines and the Bank's risk management framework. The Committee reviews credit policies and related policies, sanction credit proposals, review of the delegated lending authority, on an ongoing basis review the credit portfolio. The BCC met five time to discuss various topics including credit portfolio, various credit applications, main grading changes, NPLs per sector, large exposure and recovery update;	1. Bill Irwin – Independent Chair 2. Soundararajan Madabushi - Independent NED 3. Richard Mugisha - Independent NED 4. Arun Mathur – NED 5. Robin Bairstow - MD	5th December 2018

Role and Responsibility		Membership	Last Update
ASSET & LIABILITIES	BALCO is the ultimately responsible for effective asset/liability management. Its first responsibility is to assist the Board by establishing and reviewing the asset/ liability management Policy and related procedures; it ensures that the Bank's funds are managed in accordance with this policy, reviews the treasury dealing strategy, discuss and review the capital position and ensure that capital level are maintained in accordance with regulatory requirements and internal limit. The Committee also reviews the budget before it is approved by the Board. This committee is not a compulsory committee as per the BNR regulation. During the year under review, the Committee met four times. Members discussed various items including liquidity projection, treasury update, members reviewed the CAMEL pack, various counter party limits. The Committee also review its terms of reference.	1. Arun Mathur – Chairperson – NED 2. Soundararajan Madabushi - Independent NED 3. Bill Irwin- Independent Board Chairman 4. Robin Bairstow – MD 5. Faustin Byishimo - ED	5th December 2018

Role and Responsibility		Membership	Last Update
IT	The BITCO assists the Board in fulfilling its primary responsibilities by reviewing recommendations with respect to IT needs, projects, plans and policies. Review the design and implementation of ICT strategies, ICT Investment Oversight (Value delivery), ICT Risks, Security and Cyber Security; it ensures that the Bank's Disaster Recovery Program is drawn up / formulated, aligned to the Business Continuity Plans and regularly tested. The Committee met twice and discussed various items including cyber security actions, in depth discussion on the Core Banking Migration from Delta to Finacle 10, IT strategy, Disaster Recovery plan.	1. Arun Mathur – Chairperson (NED) 2. Crystal Rugege– Independent NED 3. Estelle Jonkergouw - Independent NED 4. Simon Morris – Independent NED 5. Robin Bairstow – MD 6. Faustin Byishimo - ED	August 2018

Role and Responsibility		Membership	Last Update
ADMNI. PROC, REMUN.	The BAPRECO assists the Board to retain authority over major decisions concerning the overall administration of the Bank, procurement of goods and services (excluding ICT related) and Human Resources function, including remuneration and disciplinary matters. The Committee reviews and consider matters related to appointment of contractors, suppliers for goods and services, consultants, etc… approves authorized signatories of the Bank and recommends to the Board granting of powers of attorney to Bank officials. The committee met four times; A wide range of other topics were discussed, such as resourcing matters, training and development, employee relations and welfare; implementation of the balanced scorecard was an area of focus; remuneration related matters were also reviewed; administrative matters were discussed such as renewal of consultant contract, ratification of tender committee proposals. The Committee reviewed also its terms of reference	1. Richard Mugisha – Chairperson (Independent NED) 2. Arun Mathur - NED 3. Bill Irwin – Independent Board Chairman 4. Crystal Rugege - Independent NED 5. Robin Bairstow – MD	5th December 2018

Role and Responsibility		Membership	Last Update
NOMINATION	The BNC assists the Board in ensuring that a formal, rigorous and transparent process is in place for the appointment of directors to the Board. The purpose of this Committee is to seek and nominate qualified candidates for recommendation to the AGM for appointment to Board, in a fair and objective manner, subject statutory and shareholder approvals. The Committee met twice in May and December; in both meetings, the Committee recommended the appointment of two directors Simon Morris and Nikhil Hira.	1. Richard Mugisha – Committee Chair Independent NED 2. Bill Irwin – Independent Chairman 3. Arun Mathur – NED	5th December 2018

OUR REMUNERATION POLICY

The Board, through the Nominations Committee implements and approves the remuneration policy for Board members which is aligned with the long-term interests of the Bank including the overall business and risk strategy. Directors who are also officers of the Bank are not compensated in their capacity of Directors. The level of remuneration reflects the time commitment and responsibilities of the role.
Fixed Annual Fees - Each director is eligible to receive a fixed annual fee as approved by the Board and ratified at the General Assembly for service on the Board; these net annual fees are paid in quarterly installments; The Chairperson receives a higher compensation commensurate with higher responsibilities as Board Chairperson.

Any director, who serves as a member of the Board for less than a full quarterly period receive a prorated payment for retainership fee for such quarterly period.

Sitting Fee for attending each meeting of the Committee/Board as approved by the Board from time to time;

The fees paid to the Non-Executive Directors shall be reviewed periodically by the Nominations Committee every two years and, under the terms of this Policy, may be adjusted in line with changes in compensation benchmarks or industry standards.

As per article 79 al 2 of the Articles, the Bank have in place a Directors' & Officers' Liabilities Insurance in favor of all nominated directors for an amount of not less than US$ three million (US$ 3,000,000) which provides a cover for the Directors and Officers against litigation by Third Parties. As per section 172 of the Company Law 2018 relating to indemnity and insurance for Board, directors are to be indemnified to the extent permitted by law. Directors' appointment letters confirm the extent of the indemnity provided to them.

	Q1	Q2	Q3	Q4	Total
Bill Irwin	7,586,250	9,406,250	7,947,000	8,046,000	**32,985,500**
Soundararajan Madabushi	6,242,400	8,006,250	6,622,500	6,705,000	**27,576,150**
Arun S. Mathur	6,285,750	7,875,000	8,388,500	8,493,000	**31,042,250**
Jonathan Nzayikorera	4,985,250	6,562,500			**11,547,750**
Estelle Jonkergouw	-	3,500,000	5,739,500	-	**9,239,500**
Richard Mugisha	4,551,750	4,593,750	6,004,400	6,079,200	**21,229,100**
Crystal Rugege	2,817,750	3,500,000	5,209,700	5,274,600	**16,802,050**
Paul Simon Morris				6,526,200	**6,526,200**
	32,469,150	**43,443,750**	**39,911,600**	**41,124,000**	**156,948,500**

INDUCTION AND CONTINUING EDUCATION

On appointment to the Board and to Board Committees, all directors receives: a comprehensive induction pack tailored to their individual requirement in order to be an effective member of the Board and help lead the Bank in the right direction. The induction, which is designed and arranged by the Company secretary in consultation with the Chairperson includes meetings with directors, senior management to assist directors in building a detailed understanding of how the Bank works and the key issues it faces. Where appropriate, additional business briefing sessions and updates on particular issues identified in consultation with the Chairperson and non-executive directors is arranged by the Company secretary. The business awareness and development needs of each non-executive director will be reviewed annually as part of the performance evaluation process.

The Board as a group and as individual directors should have sufficient knowledge relevant to the Bank's activities to provide effective governance and oversight. They are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the Bank.

In collaboration with the other Group of Companies, the Nominations Committee design a board training program, based on training needs identified by each board member at the time of annual evaluation subject to the approval of the Nominations Committee and confirmation by the Board; This training program includes courses on corporate governance matters relevant to the Bank, including audit, internal controls, risk management, sustainability and strategy. Senior Management also provide training support to the Board through regular briefings on new regulatory issuances and updates on status of compliance program and other business initiatives.

A number of other educational sessions on specific topics were organized and attended by Board throughout the year: a Corporate Governance Workshop organized by the Central Bank, a specialized training conducted by Holdco on various topics such as cyber crime, cyber security, anti money laundering new regulation under IFRS and their implications and another Corporate Governance Seminar organized in December by the IFC Advisory Services were attended by majority of the directors.

OUR BOARD EFFECTIVENESS REVIEW – BOARD EVALUATION APPRAISAL

Our Board recognizes that reviewing its performance is a key driver of good governance. The Board ensures that all the Directors appreciate the importance of the review process which includes enabling the Board reinforce a culture of accountability, help Directors reflect on the contribution they make to the Board in a given year and their impact on governance practice in general. Individual reviews encourage Directors to have an open discussion about areas where they require support to hone their competencies especially in specialized areas.

In this regards a performance evaluation policy has been approved at the December board meetings which purpose is to give all Board members an opportunity to evaluate and discuss the Board's performance with candor and from multiple perspectives.

The process has been initiated this year at the December Board meetings where questionnaires were distributed to each Board Member. Directors have completed the forms and returned them to the company secretary during the month of January. Results were tabulated and analyzed and presented in a summary report to include composite scoring at the February meetings;

The Board thought the Nominations Committee has discussed areas that are working well, and those that need attention. The evaluation form consists of 2 parts: an Overall Board Evaluation and a Chairman Board Evaluation;

DISCLOSURE AND TRANSPARENCY

Transparency is consistent with sound and effective corporate governance. The objective of transparency is to provide to Shareholders, depositors and other relevant stakeholders with relevant information necessary to enable them to assess the effectiveness of the Board and senior management.

The Bank believes in maintaining full and open communication with its shareholders and observing the highest standards in corporate governance and Shareholder communications; to this effect, the Board commits at all times to fully disclose material information dealings, it shall cause the filing of all required information for the interest of the Shareholders. Disclosure is to be accurate and clear in view of Shareholders and other stakeholders consulting the information easily.

SHAREHOLDERS RELATIONS

The Bank's aim to ensure that all Shareholders, both individual and institutional, have simultaneous access to all information. Ordinarily, market analysts, the stock exchange and industry bodies will also have access to information at the same time as the shareholders.

The Bank shall at all times guarantee equal treatment of all shareholders that are in the same position with regard to information, participation and voting in the General Meeting of Shareholders.

The Bank's Investor Relations Office is designed to ensure constant engagement with its shareholders. The Investor Relations Office provides an avenue to receive feedback, complaints and queries from shareholders it also assures their active participation with regard to activities and policies of the Bank. Further, it provide clear, accurate and timely financial information that is in compliance with applicable rules and regulations. The Investor Relations Officer is present at every shareholders meeting.

In addition to the Annual General Meeting, the Bank have communicated with its shareholders, the investment community and the general public through quarterly Investor Briefing that includes extensive financial statements with relevant explanatory remarks of the previous quarter, meetings with analysts, investors, media briefing and Investor conference calls.

This is in accordance with the applicable regulatory requirements intended to ensure that all shareholders and other market participants have equal and simultaneous access to information that could potentially influence the price of the bank' shares price. Information provided during such occasions or in any contacts with the press is limited to what is already publicly available.

The communications are also conducted to directly with shareholders via email to more comprehensive discussions with analysts or institutional investors that take place via telephone or face to face. Our Investor Relations Officer is the main point of contact for these communications.

GENERAL MEETINGS

Bank' General Meetings are generally held in May to discuss the course of business in the preceding financial year with a focus on: approval of the preceding financial statement, approval of the proposed dividend, election and reelection of directors.

The AGM is convened in accordance with section 51 of the Articles, to enable shareholders exercise their rights. In the holding of the meeting, the Bank prepares and sends the notice at least 30 days prior to the date of the meeting; General Meetings are convened by placing an announcement in one of the newspapers with the largest circulation in Rwanda, on the company's website and on the website of the Rwanda Stock Exchange at least one month in advance of the meeting date.

Board members, in particular, the Chairpersons of Board committees or their delegates, and appropriate management executives attend general meetings to answer shareholders' questions;

The Board also ensure that the external auditor attends the AGM and is available to answer shareholders' questions about the financial position of the Bank, conduct of the audit and the preparation and content of the auditor's report.

At the Annual General Meeting held on 20th May 2018, PwC Rwanda was appointed as the external audit firm for the Bank for the financial years 2018 through 2019. This appointment includes the responsibility to audit the financial statements of the bank for the financial year 2018, to audit the effectiveness of internal control over financial reporting on 31st December 2018, and to provide an audit opinion on the financial statements of the Bank.

The external auditor may be questioned at the Annual General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to address this meeting. The external auditor attended the meetings of the Audit Committee and in addition to the audit committee meetings, the Board Audit Committee chairman held separate session meetings with the independent external auditors and the CFO.

STAKEHOLDERS RELATIONS

At our Bank, we have a wide range of stakeholders, who are important to our business. This is articulated in our Vision *To Become a Company where the Best People want to Work; the First Choice where Customers want to do Business and where Shareholders are happy with their investment;* Achieving our vision requires us to build trusted and mutually beneficial relationship with our stakeholders, which long term supports our long term success and sustainability.

Our Mission Statement also resonated with this vision as we want to be recognized *as partners of growth for all our stakeholders through Meeting our Customer expectations, motivating and developing every employee and enhancing shareholders value;*

Our Bank's methods of engagement include various channels and means of communications reliant on each specific stakeholder group.

Stakeholder engagement is decentralized within the Bank so there is not a single team that manages all relationships and queries or concerns from stakeholders. All I&M Bank employees are accountable for managing relationships and meeting expectations of internal and external stakeholders within their areas of responsibility. Should a stakeholder not be satisfied with the service or assistance that they receive from their I&M Bank Rwanda point of contact, there are a number of opportunities that allow for anonymity (if desired) as well as independence to ensure a voice for concerned stakeholders. These include our client call centre that is the first point of call for all clients' requests and the section "Contact us" on the Bank's corporate website.

We have in place a formal complaints handling procedure in place whose purpose is to address irregularities of a general, operational and financial nature. We do also have a comprehensive revised whistle blowing policy for employees and third parties where issues can be reported anonymously.

Risk Management

The Bank's Enterprise Risk Management Framework identifies the principal risks for which the Bank is exposed to, outlines the assessment and measurement process, defines the mitigation strategies, institutes a consolidated risk appetite framework both qualitatively and quantitatively, emplace risk appetite and philosophy statements, and sets up an organization structure to manage these risks. The implementation of the framework has brought in a disciplined and focused approach to managing risks across the bank.

Embedding Bank-wide Enterprise Risk Management Culture
The Bank's risk culture is driven by the tone and statements from the Board of Directors on zero tolerance for non-compliance with internal policies and regulatory guidelines. This is in addition to Senior Management Oversight of the Bank's risks on a day to day basis led by the Managing Director.

As part of the initiatives to embed an Enterprise Risk Management Culture across the Bank, annual risk refreshers conducted are done to educate and embed risk culture in our day to day decision, this in addition to bank-wide trainings conducted on Enterprise Risk Management, Anti-Money Laundering and Terrorists Financing. We have made good progress on embedding this risk culture and increased focus on frontline ownership of risk as we entrenched the three lines of defence for the implementation of our Enterprise Risk Management Framework. This risk culture has facilitated more dynamic risk identification and enables us to establish a clear linkage between strategic decision making and risk management, as well as identifying and managing correlations across risk types. A key development in 2018 in embedding the Risk Management Culture was the introduction of risk mandatory courses on Operational, Information and Cyber Security Risks to be undertaken by all Staff through an online Learning Management System.

RISK MANAGEMENT APPROACH

The Board of Directors has adopted a Risk Management approach/program of holistic and integrated risk management to facilitate identification, measurement, monitoring and control and reporting of all risks.

This is characterized by a strong Board and Senior Management risk oversight across all functions within the Bank. Such an approach supports and facilitates the 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 in the various Policy document.

RISK MANAGEMENT GOVERNANCE

The Board of Directors has the ultimate responsibility for the risk assumed by the Bank. As a result, it shall approve all of the Bank's business strategies and major policies, including those regarding risk management and risk assumptions.

The Board Risk Management Committee has the responsibility to ensure quality, integrity and reliability of the Banking institution's risk management. The Committee assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The committee reviews and assesses the integrity of the risk control systems and ensures that the risk policies and strategies are effectively managed. The committee sets out the nature, role, responsibility and authority of the risk management function and outlines the scope of risk management work.

The Executive Risk Committee assists the Board of Directors in carrying out its role and is responsible for the Risk Management Program. It is responsible for the implementation of the Risk Management program, policies and appetite and tolerance as approved by the Board of Directors. It assists in Institutionalizing the Risk Culture in the Bank.

The Risk Management function ensures that management has appropriate tools in place for identifying, measuring, monitoring and controlling risk; it keeps all stakeholders up to date on risk management practices; it coordinates the Bank risk management activities and practices; it reviews and assess the integrity of the risk control systems and ensures that the risk policies and strategies are effectively managed.

The Bank management and control model is based on three lines of defense. The first line is constituted by the business units and the support areas which as part of their activity give rise to the Bank's risk exposure. These units are responsible for managing, monitoring and reporting adequately the risk generated, which must be adjusted to the risk appetite and the various limits of risk management.

The Risk and Compliance functions serve as the Bank's second line of defense. It has the responsibility for recommending and monitoring the Bank's risk appetite and policies and for following up and reporting on risk issues across all risk types. They oversee, review the risk activities of the first line of defense and guide/support to discharge their functions effectively while still providing second line risk management activity. They facilitate and monitor the implementation of effective risk management practices and the compliance function monitors various specific risks such as non-compliance with applicable laws and regulations. They assist in identifying known and emerging risk issues, providing risk management framework, assisting management in developing processes and controls to manage risks, monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting and timely remediation of deficiencies.

Internal audit is the third line of defense and as the last layer of control in the Bank, it regularly assesses the policies, methods and procedures to ensure they are adequate and are being implemented effectively.

CREDIT RISK MANAGEMENT

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 loans and advances to customers, financial institutions/banks and investment securities.

The Relationship Management Team and Business Heads are the risk owners and the first line of defense since they are the originator and underwriter of credit applications and are expected to identify, assess and mitigate risks inherent in each application based on the Bank's credit risk strategy, appetite and policy. The Credit team provides a second level independent review and is responsible for identifying, controlling, monitoring and reporting credit risk related issues. The team also serves as the secretariat for the Credit Risk Management Committee. Credit risk is the most critical risk for the Bank as credit exposures, arising from lending activities account for the major portion of the Bank's assets and source of its revenue. Thus, the Bank ensures that credit risk related exposures are properly monitored, managed and controlled.

The Credit team is responsible for managing the credit exposures, which arise as a result of the lending and investment activities as well as other unfunded credit exposures that have default probabilities, such as contingent liabilities.

MARKET RISK MANAGEMENT

Market risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

The Board of Directors through the Board Asset and Liability Committee and Board Risk Committee have the oversight function for Bank's market risk exposures while the Assets and Liability Management Committee (ALCO) manages the bank's market risks on a daily basis. The Bank's ALCO is responsible for managing the Bank's market risk control framework and also setting limits within the context of the Bank's market risk appetite on a daily basis.

Risk Management (continued)

The ALCO Committee meets monthly to review the Bank's assets and liabilities position, project exogenous factors, develop an assets & liability strategy and follow up with the implementation of the strategy.

The objective of the Bank's market risk is to focus on controlling and managing risk exposures while optimizing the return on risk and still maintain an industry profile as one of the foremost providers of financial products and services.

The most significant Market risks the Bank faces are: interest rate risk both on the trading and banking book, foreign exchange, and investment risks.

Interest rate risk is the current or prospective risk to earnings and capital of the Bank arising from adverse movements in interest rates both in the trading and banking book.

Foreign Exchange Risk: is the current or prospective risk to earnings and capital of the Bank arising from adverse movements in currency exchange rates. The Bank is exposed to foreign exchange risk because it trades in various currencies on behalf of our clients. This risk is managed using net- open foreign exchange position, value at risk and stress testing.

Price Risk: is the risk that a bank may experience loss in its investment portfolio of government securities due to unfavourable movements in market prices. We manage the price risk in the investment portfolio using modified duration, mark to market, basis point movement and stress testing.

In addition to all of the above, ALCO also monitors trends and developments in the foreign exchange and fixed income markets to ensure that business units keep within the Bank's market risk appetite threshold.

OPERATIONAL RISK MANAGEMENT

Operational Risk is the direct or indirect risk of loss resulting from inadequate and/or failed internal processes, people, and systems or from external events. In our case, Operational risks arise from the broad scope of activities carried out across the Bank.

The first line of defense has the responsibility to conduct inherent risk assessment of their third party services, outsourcing, project management activities, processes, products, people and system and proffer adequate controls to mitigate the identified risks while the Operational Risk Management team provides independent review of such assessment to ensure it is adequate enough to mitigate the identified risks, monitor emerging risks implications on the bank and response to major disruptions and external threats.

Risk Tolerance: is the amount of uncertainty the bank is prepared to accept in total or more narrowly in pursuance of the bank's strategy objective.

The Board has articulated the broad operational risk appetite through a quantitative statement in line with the bank's overall risk management objectives. The board approved the operational loss ratio risk tolerance of 0.375% of Profit Before Tax.

The following practices, tools and methodologies have been deployed in the Bank for the purpose of Operational Risk identification and management:

Risk Event and Loss Incident Reporting – Loss incidents are reported to Operational Risk. All staff are encouraged to report operational risk events as they occur in their respective business spaces whether these risks crystallize into actual losses or not.

Risk Assessments of the Bank's new and existing products, services, branches and vendors/ contractors are also carried out. This process tests the quality of controls the Bank has in place to mitigate likely identified risks.

Business Continuity Management (BCM) – To ensure the resilience of our business arising from any disruptive eventuality, the Bank has in place a Business Continuity Plan (BCP) to be able to promptly resume business operations with minimal financial losses, reputational damage and disruption of service to customers, vendors and regulators.

Various testing and exercising programs are conducted bank-wide to ensure that recovery coordinators are aware of their roles and responsibilities.

LIQUIDITY RISK MANAGEMENT

Liquidity Risk is the risk to a bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. The oversight for liquidity risk management resides with the Board of Directors through Board Asset and Liability Committee and the Board Risk Committee.

The Bank's liquidity risk management process is primarily the responsibility of the Asset and Liability Management Committee (ALCO). The Treasurer is responsible for daily management of liquidity in liaison with ALCO. The Treasury and Finance functions provide independent oversight of the first line risk management activities relating to liquidity risk while the Market Risk Function is the second line control function that performs independent monitoring and oversight of the market risk management practices of the first line of defence.

The Bank manages its liquidity risk using metrics and measurement tools such as Liquidity Ratio, Loan to Deposit Ratio, Liquidity Maturity Mismatch, and Assets & Liability Committee (ALCO) limits.

STRATEGIC RISK MANAGEMENT

Strategic risk is the current and prospective impact on earnings or capital of the Bank arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Strategic Risk is measured using quantitative tools such as Corporate Balance Score Card, Budget, Key Performance Indicators (Return on Equity, PBT, and Cross Selling Ratios) during the monthly Executive Committee, ALCO, Bi-monthly Business Strategy Meeting and quarterly report to Board of Directors.

INFORMATION TECHNOLOGY RISK

Technology is one of the key enablers in our Strategy and to this extent, will continue to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. Given this, Information Technology is important to the overall performance and success of the Bank. The IT department, being a risk owner, has in place a framework to identify, monitor, control and report on IT related risks. The Bank's IT governance framework (Management IT Steering Committee) aligns its IT strategy with its overall business objective.

MANAGEMENT OF CYBER RISK

As part of the process to combat the increasing Cyber Crime, the Bank developed a Cyber Security Policy in line with BNR guidelines and global best practice to be approved by the Board Risk Committee. The Bank organized a series of training and communications on Cyber Risk for both staff and Management to sensitize all about Cyber Criminal activities and how to manage these.

The Bank also adopts the following mitigation strategies to manage information security risks:

- Network Controls – The Bank has put in place different controls on the network to facilitate access to network resources on need to have basis. Different network segmentations exist on the network to protect specific areas from access by to unauthorized personnel. Also, a network access control security solution has been implemented to guard against enterprise network access by rogue systems.
- Application Security Controls (e.g. Secure Coding controls) – The Bank ensures that new and modified applications are well tested before deployment to production environment. Such tests include functional and security tests. Also, applications running on endpoint systems are reviewed to ensure that unauthorized applications are not freely used within the enterprise environment. In addition to this, security solutions such as Web Application Firewall, Database Activity Monitoring, Anti-malware Solution and Threat Management have been deployed to provide enhanced security for web facing applications in Bank.
- Patch management – A benchmark threshold of permissible patch compliance status was instituted by the Management. The compliance status is obtained for review and informed decision making.
- Continuous Monitoring – The IS Operations team carries out continuous monitoring of user activities as well as external events to ensure risk events are detected and addressed before materialization.

COMPLIANCE RISK MANAGEMENT

The Bank organizes its compliance function and sets priorities for the management of its compliance risk in a way that is consistent with its own risk management strategy and structures. The compliance function has redefined its approach from a tick check box into an advisory role with intense focus on regulatory intelligence gathering and closer cooperation with business units within the Bank, and acting as a contact point within the Bank for compliance queries from staff members and external regulators.

RISK APPETITE

The Bank's appetite for Compliance Risk is zero tolerance for payment of fines and other penalties associated with regulatory infractions and non-compliance with laws, standards and rules.

AML PROGRAMME

I&M Bank (Rwanda) Plc. has a Board approved AML/KYC programme. This is contained in the Bank's Anti-Money Laundering Policy and Compliance Policy which are reviewed and updated at least on an annual basis. Our AML/KYC Policy contains Board approved guidelines on Politically Exposed Persons (PEP) Policy, Risk Based AML/KYC, Correspondence Banking, etc.

I&M Bank (Rwanda) Plc. has an Anti-Money Laundering system that tracks the watch lists and sanctions lists under the UN sanctions in addition to monitoring all transactions.

COMPLIANCE RISK GOVERNANCE

The oversight responsibility on compliance risk resides with Bank's Board of Directors through Board Risk Committee. Compliance Risk Management involves close monitoring of KYC compliance by the Bank, follow up of BNR recommendations, and observance of the Bank's zero-tolerance culture for regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practices on an on-going basis.

REPUTATIONAL RISK MANAGEMENT

Reputational risk is the potential that negative publicity regarding a Bank's brand, business practices, whether true or not, can have resulting in a decline in the customer base, costly litigation, or revenue reductions.

Another form of risk leading to potential reputational risk is the Social Media Risk which is the risk to bank's earnings or capital arising from negative publicity about the bank on social media. Social Media in the bank is defined as forms of electronic communication (as Web sites for social networking and microblogging) through which users (both customers and non-customers) create online communities to share information, ideas, personal messages, and other content.

Risk arises when the Bank's reputation is exposed from negative publicity from one or more reputational/ social media events regarding the organization's business practices, services, staff conduct or financial condition. It measures the change in perception of the Bank by its stakeholders. It is linked with customers' expectations regarding the Bank's ability to conduct business securely and responsibly.

All staff are brand ambassadors of the Bank and are expected to conduct their services to the client in a professional and dignified way while Marketing Communications department is the risk owner and saddled with managing the bank's brand and visibility. The department is mandated to protect the Bank from potential threats to its reputation. The team continuously uses proactive means in minimizing the effects of reputational events, thereby averting the likelihood of major reputational crises with the view of ultimately ensuring the survival of the organization.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Environmental and Social Management risk is the risk to the earnings and capital of the Bank due to potential negative consequences suffered as a result of it financing businesses that impact negatively (or perceived impacts) on the natural environment (i.e. air, water, soil) or communities of people (e.g. employees, customers, local residents).

As a Bank, we are committed to sustainable banking and sustainable finance in our business relationships and as a good corporate citizen to protect and preserve the environment under which we operate.

The Bank's Environmental and Social Risk Appetite is not to finance projects mentioned in the Environmental and Social Exclusion List.

BASEL IMPLEMENTATION

As part of the bank's ERM Implementation Road Map and migration to the Global best practice in Risk Management, we commenced implementation of Basel II & III in the following risk areas:

- Liquidity Risk – adoption and implementation of Basel III metrics on liquidity Risk- Liquidity Coverage Ratio and Net Stable Fund Ratio as a regulatory requirement.
- Putting in place the Internal Capital Adequacy Assessment Plan and the Internal Liquidity Adequacy Assessment Plan.
- Credit Risk Impairment- IFRS 9 Implementations: we commenced implementation of IFRS 9 impairment on loan portfolio of 31st DECEMBER 2017

Report of the Independent Auditor to the Shareholders of I&M Bank (Rwanda) PLC

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Report on the audit of the financial statements

Our Opinion

In our opinion, I&M Bank (Rwanda) PLC's (the "Bank" / "Company") financial statements give a true and fair view of the financial position of the Bank as at 31st December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in accordance with law no 17/2018 of 13/04/2018 governing companies.

What we have audited

I&M Bank (Rwanda) PLC's financial statements are set out on pages 59 to 134 and comprise:

- the statement of financial position as at 31st December 2018;
- the tatement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The matter below was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

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Tel: +250 (252) 588203/4/5/6, www.pwc.com/rw

Directors: B Kimacia, F Gatome, M Nyabanda, P.Ngahu

Key audit matter	
Expected credit losses on loans and advances at amortised cost	**How key audit matter was addressed in the audit**
IFRS 9 was implemented by Bank on 1st January 2018. This new and complex standard requires the Bank to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates. ECL provisions as at 31st December 2018 was Frw 4.461 billion. Significant judgements are made to determine the staging of facilities as per IFRS 9. A backstop is applied and the financial instrument considered to have experienced significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. **Unidentified impairment** The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus are: • Economic scenarios – IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them. **Model estimations:** • Probability of default (PD): The Bank has estimated the PD using the migration matrix technique on 12 month basis. The PD for off-balance sheet items has been assumed to be equal to the PD of the business segment they relate to; • Loss given default (LGD): The methodology used to estimate the LGD reflects the expected cash flows from collateral made by the bank in the event of default; • Exposure at default: EAD constitutes total exposure amount subject to provisioning process and includes on-balance sheet and off balance sheet exposures. The EAD for off balance sheet exposures takes into account a credit conversion factor. The credit conversion factors were based on Basel guidance. **Identified impairment** Identified impairment for loans and advances to customers is individually calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. The key judgement applied is in determining the cashflow to be discounted for each impaired loan. This also involves directors estimating the period it will take to recover the collateral and what value to assign to the collateral.	• For significant judgements made on staging, we have challenged how staging has been determined by reviewing management and board credit committee meeting minutes and corroborated the same through review of corresponding customer credit files. We have tested how the Bank's extracts 'days past due' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans we recalculated the 'days past due' applied in the model to the Bank's IT system and to the respective customer files. • We have compared management variables used in the macro economic variables to third party sources and websites as they are publicly available information, tested the correlation and understood management judgement on the weightings applied; • We have tested completeness of data used in deriving the probabilities of default and recomputed these probabilities based on the Bank's past credit related financial information; • We checked the computation of the exposure of default for loans and advances in the model; • For loss given default we traced the expected future cash flows from collaterals for a sample of Bank's customers to information produced by external valuers. We also tested directors' assumptions on the timing of the cash flows based on the Bank's empirical evidence. For identified impairment, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner. Where impairment had been identified, we examined the forecast of future cash flows prepared by management to support the calculation of the impairment provisions, challenging the assumptions and comparing estimates to external evidence where available

Other information
Directors are responsible for the other information. The other information comprises Corporate information, report of the directors and statement of directors' responsibilities but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of directors for the financial statements
Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in accordance with law no 17/2018 of 13th April 2018 governing companies, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Directors are responsible for overseeing the Bank's financial reporting process.

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

- As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

Report of the Independent Auditor to the Shareholders of I&M Bank (Rwanda) PLC (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors;

- Conclude on the appropriateness of director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Law no. 17/2018 of 13/04/2018 governing companies requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i. There are no circumstances that may create threat to our independence as auditor of the Bank;
ii. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
iii. In our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
iv. We have communicated to the Bank's Board of Directors, through a separate management letter, internal control matters identified in the course of our audit including our recommendations in relation to those matters.

For PricewaterhouseCoopers Rwanda Limited

Moses Nyabanda
Director

26 March 2019

Kigali, Rwanda

Statement of Profit or Loss and other Comprehensive Income for the year ended 31st December 2018

	Note	2018 Frw'000	2017 Frw'000
Interest income	8	30,960,821	24,483,000
Interest expense	9	(10,734,531)	(6,918,428)
Net interest income		**20,226,290**	**17,564,572**
Fee and commission income	10	3,112,599	3,187,321
Fee and commission expense	10	(696,614)	(527,091)
Net fee and commission income	10	**2,415,985**	**2,660,230**
Net trading income	11	3,222,590	2,903,890
Other operating income	12	922,611	507,933
Net operating income before change in expected credit losses and other credit impairment charges		**26,787,476**	**23,636,625**
Net impairment charge on loans and advances	21(c)	(1,041,472)	(598,745)
Net operating income		**25,746,004**	**23,037,880**
Staff costs	13	(8,056,864)	(7,132,211)
Premises and equipment costs	13	(832,438)	(700,850)
General administrative expenses	13	(4,639,628)	(4,314,760)
Depreciation and amortisation	13	(1,399,652)	(1,041,728)
Operating expenses		**(14,928,582)**	**(13,189,549)**
Profit before income tax	14	10,817,422	9,848,331
Income tax expense	15(a)	(3,354,850)	(3,334,930)
Net profit for the year after tax		**7,462,572**	**6,513,401**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Fair Value through the Other Comprehensive Income (FVOCI)		157,599	-
Deferred tax - FVOCI	25	(47,280)	-
Reversal of revaluation reserve		(126,680)	-
Total other comprehensive income for the year		**(16,361)**	**-**
Total comprehensive income for the year		**7,446,211**	**6,513,401**
Basic and diluted earnings per share - (Frw)	**16**	**14.78**	**12.92**

The notes set out on pages 64 to 134 form an integral part of these financial statements.

Statement of Financial Position as at 31st December 2018

	Note	2018 Frw'000	2017 Frw'000
ASSETS			
Cash and balances with National Bank of Rwanda	18	23,840,151	25,697,111
Loans and advances to banks	20	21,840,408	25,223,803
Loans and advances to customers	21(a)	169,032,838	146,513,373
Financial assets at fair value through profit or loss (FVTPL)	22(a)	6,617	17,989,485
Financial assets measured at fair value through other comprehensive income (FVOCI)	22(b)	5,832,253	826
Other financial assets at amortised cost	22(c)	47,703,866	19,812,580
Property and equipment	23	17,076,248	12,252,110
Intangible assets - software	24	4,785,353	2,011,418
Due from group companies	26(a)	1,342,900	5,580,368
Other assets	27	2,704,999	5,093,118
TOTAL ASSETS		**294,165,633**	**260,174,192**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	28	38,097,584	28,600,057
Items in the course of collection	19	1,571,851	1,978,173
Deposits from customers	29	192,840,285	177,422,107
Deferred income tax	25	1,502,217	1,362,083
Due to group companies	26(b)	-	3,108,543
Other liabilities	30	5,350,912	4,923,385
Current income tax	15(b)	872,369	1,098,315
Long term debt	31	5,543,644	6,617,003
Subordinated debt	32	8,819,273	-
		254,598,135	**225,109,666**
Shareholders' equity			
Share capital	33(a)	5,050,000	5,050,000
Share premium	33(b)	400,000	400,000
Revaluation reserves	33(c)	2,011,095	2,140,401
Retained earnings		28,763,104	24,056,367
Proposed dividend		2,985,000	2,605,000
Statutory credit risk reserve	33(e)	145,151	812,065
Fair value reserve	33(d)	213,148	693
		39,567,498	**35,064,526**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**294,165,633**	**260,174,192**

The notes set out on pages 64 to 134 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31st December 2018

2018:	Share capital	Share premium	Revaluation reserves	Retained earnings	Proposed dividends	Statutory credit risk reserve	Fair value reserve	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
At 1st January 2018	**5,050,000**	**400,000**	**2,140,401**	24,056,367	2,605,000	812,065	693	35,064,526
Day one transition adjustment								
Government securities amortised cost (Note 41(a))	-	-	-	(348,999)	-	-	-	(348,999)
Fair value through the other comprehensive income (Note 41(a))	-	-	-	(145,909)	-	-	145,909	-
Impairment charge on loans and advances (Note 41(b))	-	-	-	(134,199)	-	-	-	(134,199)
Deferred tax on day one adjustments (Note 25)	-	-	-	188,732	-	-	(43,773)	144,959
	-	-	-	**(440,375)**	-	-	**102,136**	**(338,239)**
	5,050,000	**400,000**	**2,140,401**	**23,615,992**	**2,605,000**	**812,065**	**102,829**	**34,726,287**
Net profit after tax	-	-	-	7,462,572		-	-	7,462,572
	-	-	-	**7,462,572**	-	-	-	**7,462,572**
Other comprehensive income								
Statutory credit reserve	-	-	-	666,914	-	(666,914)	-	-
Fair value through the other comprehensive income (FVOCI)	-	-	-	-	-	-	157,599	157,599
Deferred tax - FVOCI (Note 25)	-	-	-	-	-	-	(47,280)	(47,280)
Reversal of revaluation reserve	-	-	(129,306)	2,626	-	-	-	(126,680)
Total other comprehensive income	-	-	**(129,306)**	**669,540**	-	**(666,914)**	**110,319**	**(16,361)**
Total comprehensive income	-	-	**(129,306)**	**8,132,112**	-	**(666,914)**	**110,319**	**7,446,211**
Transactions with owners recorded directly in equity								
Final dividend - 2017	-	-	-	-	(2,605,000)	-	-	(2,605,000)
Proposed dividend - 2018	-	-	-	(2,985,000)	2,985,000	-	-	-
Total transactions with owners for the year	-	-	-	(2,985,000)	380,000	-	-	2,605,000
Balance as at 31st December 2018	**5,050,000**	**400,000**	**2,011,095**	**28,763,104**	**2,985,000**	**145,151**	**213,148**	**39,567,498**

The notes set out on pages 64 to 134 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31st December 2018 (continued)

2017:	Share capital	Share premium	Revaluation Reserves	Retained earnings	Proposed Dividends	Statutory credit risk reserve	Fair value reserve	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
At 1st January 2017	**5,000,000**	**-**	**2,140,401**	**20,250,802**	**2,322,000**	**709,229**	**693**	**30,423,125**
Total comprehensive income for the year								
Net Profit after tax	-	-	-	6,513,401	-	-	-	**6,513,401**
	-	**-**	**-**	**6,513,401**	**-**	**-**	**-**	**6,513,401**
Other comprehensive income								
Statutory credit reserve			-	(102,836)	-	102,836	-	-
Total other comprehensive income	**-**	**-**	**-**	**(102,836)**	**-**	**102,836**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	**6,410,565**	**-**	**102,836**	**-**	**6,513,401**
Transactions with owners recorded directly in equity								
Issue of shares	50,000	400,000	-	-	-	-	-	450,000
Dividends;								-
Final for 2016 paid - 2017	-	-	-		(2,322,000)	-	-	(2,322,000)
Proposed for 2017	-	-	-	(2,605,000)	2,605,000	-	-	-
Total transactions with owners for the year	**50,000**	**400,000**	**-**	**(2,605,000)**	**283,000**	**-**	**-**	**(1,872,000)**
Balance as at 31st December 2017	**5,050,000**	**400,000**	**2,140,401**	**24,056,367**	**2,605,000**	**812,065**	**693**	**35,064,526**

The notes set out on pages 64 to 134 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31st December 2018

	Note	2018 Frw'000	2017 Frw'000
Net cash flows (used in) / generated from operating activities	**34(a)**	**(10,692,843)**	**11,064,193**
Cash flows from investing activities			
Purchase of property and equipment	23	(6,134,648)	(5,231,901)
Purchase of intangible assets	24	(3,138,728)	(1,959,474)
Proceeds from disposal of property and equipment		206,100	-
Proceeds from disposal of repossessed assets		2,721,333	27,500
Net cash used in investing activities		**(6,345,943)**	**(7,163,875)**
Cash flows from financing activities			
Dividend paid		(2,605,000)	(2,322,000)
Proceeds from long term debt		8,819,273	1,548,807
Principal repayment on long term debt		(1,342,757)	(831,087)
Principal repayment on corporate bond		-	(200,000)
Issue of shares		-	450,000
Net cash inflows / (outflows) from financing activities		**4,871,516**	**(1,354,280)**
Net (decrease) / increase in cash and cash equivalents	**34(b)**	**(12,167,270)**	**2,546,038**
Cash and cash equivalents at start of the year	**34(b)**	**47,246,307**	**44,700,269**
Cash and cash equivalents at end of the year	**34(b)**	**35,079,037**	**47,246,307**

The notes set out on pages 64 to 134 form an integral part of these financial statements.

1. Reporting Entity

I&M Bank (Rwanda) Plc (the "Bank") is a public 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 public listed company incorporated and domiciled in Rwanda. The ultimate parent of the Bank is I&M Holdings PLC, a limited liability company registered and domiciled in Kenya. The address of its registered office is as follows:

I&M Bank (Rwanda) Plc
KN 3 AV/9
PO Box 354
Kigali
Rwanda

2. Basis Of Preparation

(a) Statement of compliance

The Company's financial statements for the year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

This is the first set of the Bank's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 4.

Details of the significant accounting policies are included in Note 3.

For the Rwanda Companies Act, reporting purposes, in these financial statements the "balance sheet" is represented by/is equivalent to the statement of financial position and the "profit and loss account" is presented in the statement of profit or loss and other comprehensive income.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) and buildings which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Rwanda Francs (Frw), which is also the functional currency and presentation currency and all values are rounded to the nearest thousand (Frw'000) except where otherwise stated.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. See Note 3(d) (ii).

2. Basis Of Preparation (continued)

(d) Use of estimates and judgments (continued)

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). See Notes 3(d) (iii) and 5(a).

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Foreign currencies

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognized in the Statement of Income or Statement of Comprehensive Income consistent with the gain or loss on the non-monetary item.

(b) Income recognition

Policy applicable before and after 1st January 2018

Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of FVOCI financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

(i) Net interest income

Effective interest rate and amortised cost

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3. Significant Accounting Policies (continued)

(i) Net interest income (continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1st January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(d) (iv).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income / expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(ii) Net fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Notes to the Financial Statements
for the year ended 31st December 2018 (continued)

3. Significant Accounting Policies (continued)

(ii) Net fee and commission income (continued)

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income and net income on financial assets at fair value through profit or loss

'Net trading income and net income on financial assets at fair value through profit or loss' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

(iv) Other operating income

Other operating income includes rental income and gain on disposal of property and equipment.

(v) Rental income – other operating income

Rental income is recognised in the profit or loss on a straight-line basis over the term of the lease.

(c) Income tax expense

Policy applicable before and after 1st January 2018

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

A deferred income tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Significant Accounting Policies (continued)
(d) Financial assets and financial liabilities
Policy applicable from 1st January 2018

(i) Recognition
The Company initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the Company becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification
On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI . This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

3. Significant Accounting Policies (continued)
Business model assessment (continued)

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the right to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision.
The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortised cost
Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying

3. Significant Accounting Policies (continued)

Debt instruments measured at amortised cost (continued)

amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship.

When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

(i) Are held for trading purposes;
(ii) Are held as part of a portfolio managed on a fair value basis; or
(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Bank upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

3. Significant Accounting Policies (continued)

Debt instruments designated at FVTPL (continued)

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

(iii) Impairment

The Company recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances and trade receivables;
- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.
The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds, and loans and advances to banks; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition i.e. stage 1 (see Note 5(a)).

Loss allowances for lease receivables (on investment property), and trade receivables are always measured at an amount equal to lifetime ECL.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Significant Increase in Credit Risk (SIR)

At each reporting date, the Bank performs both qualitative and quantitative assessments whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

3. Significant Accounting Policies (continued)

Significant Increase in Credit Risk (SIR) (continued)

The common assessments for SIR is largely determined by the Prudential Guidelines classification augmented by macroeconomic outlook, management judgement, and delinquency and monitoring.

Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include a significant departure from the primary source of repayment, changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and legislative changes impacting certain portfolios.

With regards to delinquency and monitoring, there is a rebuttable presumption that delinquency backstop when contractual payments are more than 30 days past due.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date(stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover. See also Note 4(a).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(d)(iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 financial assets). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

3. Significant Accounting Policies (continued)

Credit-impaired financial assets (continued)

A loan that is overdue for 90 days or more is considered impaired. In addition, a loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Government securities

In making an assessment of whether an investment in sovereign debt (Government Bills and bonds, Balances due from central banks) is credit-impaired, the Company considers the following factors;

The country’s ability to access own local capital markets for new debt issuance.
The respective government ability to maintain sovereignty on its currency
The intentions and capacity, reflected in public statements, of governments and agencies honour these commitments.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; (See Note 30)
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying
- amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

(iv) De-recognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

3. Significant Accounting Policies (continued)

(iv) De-recognition (continued)

Financial assets (continued)

From 1st January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Modifications of financial assets and financial liabilities

Financial assets

Policy applicable from 1st January 2018

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 3(d)(iii)

3. Significant Accounting Policies (continued)

(v) Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(vi) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(i) Recognition

The Bank initially recognised loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) were initially recognised on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

A financial asset or liability was initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) were measured at their amortized cost using the effective interest method.

(ii) Classification

The Bank classified its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determined the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category had two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading were those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or were securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading were subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses were included in profit or loss. Interest earned whilst holding held for trading investments was reported as interest income.

Foreign exchange forward and spot contracts were classified as held for trading. They were marked to market and were carried at their fair value. Fair values were obtained from discounted cash flow models which were used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts were included in foreign exchange income as they arose.

Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They arose when the Bank provided money directly to a debtor with no intention of trading the receivable. Loans and advances were initially measured at fair value

3. Significant Accounting Policies (continued)

Loans and receivables (continued)

plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables composed of loans and advances and cash and cash equivalents.

Held to maturity

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management had the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments included treasury bills and bonds. They were subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale financial investments were those non-derivative financial assets that were designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets were recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein were recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment was derecognized, the gain or loss accumulated in equity was re-classified to profit or loss.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Bank assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss were impaired. Financial assets were impaired when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset, and that the loss event had an impact on the future cash flows on the asset than could be estimated reliably.

The Bank considered evidence of impairment at both a specific asset and collective level. All individually significant financial assets were assessed for specific impairment. Significant assets found not to be specifically impaired were then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that were not individually significant were collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) were impaired included default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer would enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

In assessing collective impairment the Bank used historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions were such that the actual losses were likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries were regularly benchmarked against actual outcomes to ensure that they remained appropriate.

Impairment losses on assets carried at amortized cost were measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continued to be recognised through the unwinding of the discount.

3. Significant Accounting Policies (continued)

(iii) Identification and measurement of impairment of financial assets *(continued)*

Impairment losses on available-for-sale securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

When a subsequent event caused the amount of impairment loss to decrease, the impairment loss was reversed through profit or loss.

(iv) De-recognition

The Bank derecognized a financial asset when the contractual rights to the cash flows from the financial asset expired, or when it transferred the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in transferred financial assets that was created or retained by the Bank was recognized as a separate asset or liability.

The Bank derecognized a financial liability when its contractual obligations were discharged or cancelled or expired.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income was recognised in profit or loss.

The Bank entered into transactions whereby it transferred assets recognized on its statement of financial position, but retained either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards were retained, then the transferred assets were not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards included repurchase transactions.

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities were offset and the net amount reported in the statement of financial position when there was a legally enforceable right to offset the recognized amounts and there was an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses were presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Fair value of financial assets and financial liabilities

Fair value was 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, in the principal, or in its absence, the most advantageous market to which the Bank had access at that date.

(vii) Amortized cost measurement

The amortized cost of a financial asset or liability was the amount at which the financial asset or liability was measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(e) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

3. Significant Accounting Policies (continued)

(e) Fair value measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measure at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(g) Property and equipment

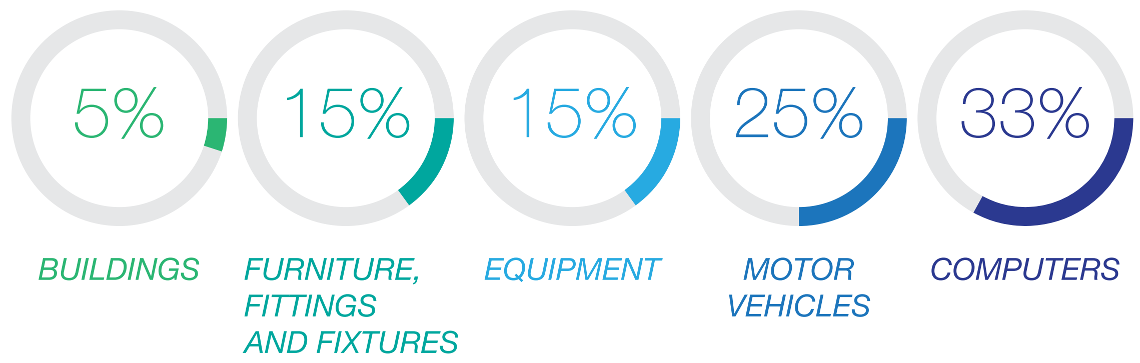
Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred. Valuations are performed every 5 years to ensure that the carrying amount of a revalued asset does not differ materially from its fair value A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognized 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.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:



Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

Any gains or losses on disposal of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in other income in profit or loss.

(h) Intangible assets

Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Costs associated with

3. Significant Accounting Policies (continued)

Computer software (continued)

maintaining software are recognised as an expense as incurred. Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives between 3 and 5 years.

Amortisation methods, residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

(i) Operating leases

(a) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases arrangements (whether prepaid or post-paid) are charged to the profit or loss on a straight-line basis over the period of the lease.

(b) Finance lease receivables

Minimum lease receipts are apportioned between the interest income and the reduction of outstanding asset. The interest income is allocated to each period during the lease term so as to produce a constant period of rate of interest on the remaining balance of the liability.

(j) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

(k) Derivative financial instruments

The Bank uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is the amount of the mark to market adjustment at the reporting date.

(l) Employee benefits

Defined contribution plan

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 5.3% of an employee's basic salary. The Bank's RSSB contributions are charged to profit or loss in the period to which they relate.

Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited / credited to the profit or loss.

3. Significant Accounting Policies (continued)

(l) Employee benefits (continued)

Employee Share Ownership Plan (ESOP)

Share-based compensation benefits are provided to employees via the Employee Stock Plan. Information relating to these schemes is set out in note 32.

The fair value of options granted under the Stock Plan is recognized as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. Profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognized the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective the date of the forfeiture.

(m) Share capital and share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instruments.

(n) Earnings per share

Earnings per share are calculated based on the profit attributable to owners of the company divided by the number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year.

(o) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(p) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

(r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as the Executive Committee that makes strategic decisions. Segment information is included under Note 40.

3. Significant Accounting Policies (continued)

(s) Non-current assets held for sale

Non –current assets are classified as held for sale when their carrying amounts are to be recovered principally through a sale transaction rather than continuing use. In order to be classified as held for sale, the asset must be available for immediate sale in its present condition and the sale must be highly probable. Non –current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(t) Comparative information

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

4. New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31st December 2018, including consequential amendments to other standards with the date of initial application by the Bank being 1st January 2018. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 Jan 2018
IFRS 9 Financial Instruments (2014)	1 Jan 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 Jan 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 Jan 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 Jan 2018
IAS 40 Transfers of Investment Property	1 Jan 2018
Annual improvements cycle (2014-2016)	1 Jan 2018

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

The standard specifies how and when the Bank will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The Bank applied IFRS 15 on 1st January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1st January 2018 without restating comparative periods.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

Notes to the Financial Statements
for the year ended 31st December 2018 (continued)

4. New standards, amendments and interpretations (continued)

IFRS 9: Financial Instruments (2014)

On 24th July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 4(a) and 5(a).

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(d) (ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(d) (ii).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(d) (ii) and Note 5(a).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

4. New standards, amendments and interpretations (continued)

Transition (continued)

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1st January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The Bank used the exemption not to restate comparative periods.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- Determination of factors to consider in determining whether there has been a significant increase in credit risk.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4(a).

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

The following clarifications and amendments are contained in the pronouncement

- *Accounting for cash-settled share-based payment transactions that include a performance condition.*
  Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.
- *Classification of share-based payment transactions with net settlement features.*
  IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled.*
  Up until this point, IFRS 2 did not specifically address situations where a cash settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:
  - On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
  - Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments were effective for annual periods beginning on or after 1 January 2018. Earlier application was permitted. The amendments were to be applied prospectively. However, retrospective application was allowed if possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of this standard did not have a material impact on the Bank's financial statements.

4. New standards, amendments and interpretations (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1st January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1st April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1st January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of this standard did not have a material impact on the Bank's financial statements

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1st January 2018, with early application permitted.

The adoption of this standard did not have a material impact on the Bank's financial statements.

4. New standards, amendments and interpretations (continued)

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property. The adoption of this standard did not have a material impact on the amounts and disclosures of the Bank's financial statements.

Annual improvement cycle (2014 – 2016) – various standards

Standards	Amendments
IFRS 1 First-time Adoption of IFRS	Outdated exemptions for first-time adopters of IFRS are removed.
IAS 28 Investments in Associates and Joint Ventures	Outdated exemptions for first-time adopters of IFRS are removed. The amendments apply prospectively for annual periods beginning on or after 1st January 2018.
	A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The adoption of these standards did not have a material impact on the amounts and disclosures of the Bank's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31st December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31st December 2018, and have not been applied in preparing these financial statements.

The Bank does not plan to adopt these standards early. These are summarised below:

IFRS 16 Leases	1st Jan 2019
IFRIC 23 Uncertainty over income tax treatments	1st Jan 2019
IFRS 9 Prepayment Features with Negative Compensation	1st Jan 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1st Jan 2019
Annual improvements cycle (2015-2017)	1st Jan 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1st Jan 2019
IFRS 3 Definition of a Business	1st Jan 2019
Amendments to references to the Conceptual Framework in IFRS Standards	1st Jan 2019
Amendments to IAS 1 and IAS 8 Definition of Material	1st Jan 2019
IFRS 17 Insurance contracts	1st Jan 2019
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

IFRS 16: Leases

On 13th January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

4. New standards, amendments and interpretations (continued)

IFRS 16: Leases (continued)

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.
(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.W

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1st January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

As at the reporting date, the Company has non-cancellable operating lease commitments of FRW 1,942,273,982. Of these commitments, approximately FRW 28,499,229 relate to short-term and low value leases which will both be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the Company expects to recognise right-of-use assets of approximately FRW 1,197,987,138on 1st January 2019, lease liabilities of FRW 1,274,157,478 (after adjustments for prepayments and accrued lease payments recognised as at 31st December 2018). The Company expects that net profit after tax will decrease by approximately FRW 126,844,808 for 2019 as a result of adopting the new rules.

4. New standards, amendments and interpretations (continued)

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1st January 2019.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1st January 2019 with retrospective application, early adoption is permitted.

The adoption of these amendments will not have an impact on the financial statements of the Bank.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1st January 2019. Early adoption is permitted.

The adoption of these standards will not have an impact on the financial statements of the Bank.

4. New standards, amendments and interpretations (continued)

Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: — If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. — If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1st January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Bank's financial statements.

The Bank did not early adopt new or amended standards in the year ended 31st December 2018.

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1st January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Bank.

4. New standards, amendments and interpretations (continued)

IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- **Optional concentration test**
  The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.
- **Substantive process**
  If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1st January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Bank.

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1st January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

4. New standards, amendments and interpretations (continued)

IAS 1 and IAS 8 Definition of Material (continued)

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1st January 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

5. Financial Risk Management

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk.

Financial risk

The more significant types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's 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

5. Financial Risk Management (continued)
(a) Credit risk (continued)
Credit-related commitment risks (continued)
payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

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

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various Credit committees as stipulated in the Bank's Credit Charter.
- Reviewing and assessing credit risk. The Bank Credit risk management Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures as follows:-
- The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Banks's Credit Risk department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Each business unit is required to implement the Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each business unit has a Head of department who reports on all credit-related matters to local management and the Bank Credit risk management Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Central Bank's approval. Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

(i) Credit Quality analysis
The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on Note 3(d)(iii) for the explanation of the terms: 12-month ECL, lifetime and credit-impaired.

5. Financial Risk Management (continued)
(a) Credit risk (continued)
***(i) Credit Quality analysis* (continued)**

Risk classification	12 month ECL Frw'000	Lifetime ECL Not Credit Impaired Frw'000	Lifetime ECL Credit Impaired Frw'000	Total 31st December 2018 Frw'000	Total 31st December 2017 Frw'000
Loans and advances to Customers at amortised cost					
Normal	158,121,099	-	-	158,121,099	136,725,575
Watch	-	10,094,751	-	10,094,751	8,424,691
Non-Performing loans	-	-	5,278,387	5,278,387	4,447,322
Gross carrying amount	158,121,099	10,094,751	5,278,387	173,494,237	149,597,588
Loss allowance	(495,700)	(510,194)	(3,455,505)	(4,461,399)	(3,084,215)
Carrying amount	**157,625,399**	**9,584,557**	**1,822,882**	**169,032,838**	**146,513,373**

The Bank has estimated that the ECL for the following financial assets was not significant as of 31 December 2018. These financial assets have been assessed to be in Stage 1 (normal).

	Classification	2018 Frw'000	2017 Frw'000
Cash and balances with central banks	Normal	23,840,151	25,697,111
Loans and advances to banks	Normal	21,840,408	25,223,803
Financial assets at fair value through other comprehensive income (FVOCI)	Normal	5,832,253	826
Other financial assets at amortised cost		47,703,866	19,812,580
Due from group companies	Normal	1,342,900	5,580,368
		100,559,578	**76,314,688**

5. Financial Risk Management (continued)
(a) Credit risk (continued)
***(i) Credit Quality analysis* (continued)**
The following shows the grading of loans and advances to customers in line with local prudential guidelines

Loans and advances to customers	**2018 Frw'000**	**2017 Frw'000**
Identified impairment:		
Grade 3: Substandard	818,455	601,589
Grade 4: Doubtful	2,428,550	1,524,709
Grade 5: Loss	2,031,382	2,321,024
	5,278,387	**4,447,322**
Specific allowance for impairment	(3,455,505)	(2,455,032)
Carrying amounts	**1,822,882**	**1,992,290**
Unidentified impairment:		
Grade 2: Watch	10,094,751	8,424,691
Grade 1: Normal	158,121,099	136,725,575
	168,215,850	**145,150,266**
Portfolio impairment provision	(1,005,894)	(629,183)
Carrying amounts	**167,209,956**	**144,521,083**
Total carrying amounts	**169,032,838**	**146,513,373**

Identified impairment:	**Gross Frw'000**	**Net Frw'000**
31st December 2018		
Grade 3: Substandard	818,455	453,543
Grade 4: Doubtful	2,428,550	866,161
Grade 5: Loss	2,031,382	503,178
	5,278,387	**1,822,882**
31st December 2017		
Grade 3: Substandard	601,589	534,792
Grade 4: Doubtful	1,524,709	754,798
Grade 5: Loss	2,321,024	702,700
	4,447,322	**1,992,290**

Unidentified impairment:	**Gross Frw'000**	**Net Frw'000**
31st December 2018		
Grade 1: Normal	158,121,099	157,625,399
Grade 2: Watch	10,094,751	9,584,557
	168,215,850	**167,209,956**
31st December 2017		
Grade 1: Normal	136,725,575	136,096,392
Grade 2: Watch	8,424,691	8,424,691
	145,150,266	**144,521,083**

5. Financial Risk Management (continued)
(a) Credit risk (continued)
***(i) Credit Quality analysis* (continued)**
Impaired loans and securities
Impaired loans and securities 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 agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Bank's internal credit risk and grading system.

Neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the Bank's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with National Bank of Rwanda prudential guidelines.

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. These loans are stage 2 (Watch) in the Bank's internal credit risk and grading system.

(ii) Collateral and other security enhancements
The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31st December 2018 or 2017.

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

	2018 Frw'000	**2017 Frw'000**
Fair value of collateral held – against impaired loans	3,340,346	3,309,840

(iii) Amounts arising from ECL
Inputs, assumptions and techniques used for estimating impairment (continued)

See accounting policy in Note 3(d) (iii).

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information an analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grading

Other than for loans and advances to banks and investment securities where the Bank relies on internal credit rating models, the Bank relies substantially on the prudential guidelines applicable for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

In addition, the prudential guidelines are supplemented;

- by Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The following are additional considerations for each type of portfolio held by the Bank:

Customer loans and advances

After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness. A relationship manager will also incorporate any updated or new information/ credit assessments into the credit system on an ongoing basis.

Inputs, assumptions and techniques used for estimating impairment

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for loans and advances. The Bank collects performance and default information about its credit risk exposures analysed by country and borrower as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Notes to the Financial Statements
for the year ended 31st December 2018 (continued)

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)
***Generating the term structure of PD* (continued)**

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

The Bank has applied a simpler methodology (lifetime ECL) for its other exposures including lease receivables and trade receivables.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(d) (iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)
Definition of default **(continued)**

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The economic scenarios used as at 31st December 2018 included the following ranges of key indicators:

Incorporation of forward-looking information

Macro-Economic variable	2019			
	Coefficient / Sensitivity	Base %	Upside %	Downside %
Weighting		90.00%	5.00%	5.00%
Repo rate	(0.63)	3.65%	5.50%	1.80%
Treasury bills 182 days	(0.53)	7.05%	9.74%	4.36%
Lending rate	0.87	16.98%	17.82%	16.14%
GDP	0.12	6.78%	7.70%	5.85%
Constant	0.06	-	-	-

The correlation of the above factors with the Bank's non-performing loans (NPL %) were also used to determine whether these factors should be lagged.

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)

182 Day T-bills was lagged by 10 months while GDP was lagged by 5months. The REPO rates and Lending Rates were not lagged.

Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) were applied.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- ***Probability of default (PD);***
- ***Loss given default (LGD);***
- ***Exposure at default (EAD).***

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(d) (iii). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)
Loss allowance **(continued)**

Loans and advances to Customers at amortised cost	Provisions				*Exposure*			
	12 month ECL (Stage 1) Frw'000	Lifetime ECL not credit impaired (Stage 2) Frw'000	Lifetime ECL credit impaired (Stage 3) Frw'000	Total Frw'000	12 month ECL (Stage 1) Frw'000	Lifetime ECL not credit impaired (Stage 2) Frw'000	Lifetime ECL credit impaired (Stage 3) Frw'000	Total Frw'000
Balance at 1st January 2018	**412,549**	**216,634**	**2,455,032**	**3,084,215**	**136,725,581**	**8,424,685**	**4,447,322**	**149,597,588**
Day one transition adjustment - note 41 (b)	24,651	12,944	-	**37,595**	-	-	-	-
Adjusted balance at 1st January 2018	**437,200**	**229,578**	**2,455,032**	**3,121,810**	**136,725,581**	**8,424,685**	**4,447,322**	**149,597,588**
Transfer from 12 months ECL (Stage 1)	(20,984)	15,600	5,384	-	(5,840,437)	3,818,395	2,022,042	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	37,352	(70,730)	33,378	-	1,055,257	(1,900,077)	844,820	-
Transfer from Lifetime ECL credit impaired (Stage 3)	8,614	11,230	(19,844)	-	17,329	33,178	(50,507)	-
Net remeasurement of loss allowance	4,442	312,381	1,603,021	**1,919,844**	1,581,049	(616,359)	1,533	**966,223**
New financial assets originated or purchased	49,185	19,541	41,745	**110,471**	33,516,073	522,995	86,921	**34,125,989**
Financial assets derecognised	(20,109)	(7,406)	(663,211)	**(690,726)**	(8,933,753)	(188,066)	(2,073,744)	**(11,195,563)**
Balance at 31st December 2018	**495,700**	**510,194**	**3,455,505**	**4,461,399**	**158,121,099**	**10,094,751**	**5,278,387**	**173,494,237**

5. Financial Risk Management (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)
Loss allowance **(continued)**

Loan commitments and financial guarantee contracts	Provisions			Exposure		
	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance at 1st January 2018	-	-	-	**24,010,779**	**102,101**	**24,112,880**
IFRS 9 adjustment	93,040	3,564	96,604	23,517,101	100,002	23,050,302
Adjusted balance at 1st January 2018	**93,040**	**3,564**	**96,604**	**47,527,880**	**202,103**	**47,729,983**
Transfer from 12 months ECL (Stage 1)	(20)	20	-	(6,865)	6,865	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	216	(216)	-	31,144	(31,144)	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-	-	-
Net remeasurement of loss allowance	(13,778)	30	(13,748)	5,615,430	(2,828)	5,612,602
New financial assets originated or purchased	4,051	47	4,098	2,738,234	1,775	2,740,009
Financial assets derecognised	(21,760)	(3,288)	(25,048)	(7,915,840)	(170,377)	(8,086,217)
Balance at 31st December 2018	**61,749**	**157**	**61,906**	**47,989,983**	**6,394**	**47,996,377**

5. Financial Risk Management (continued)

(b)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. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the National Bank of Rwanda. The Bank has also arranged for long term funding as disclosed under Note 31 and Note 32.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows;

	2018	2017
At 31st December 2018	35%	47%
Average for the period	43%	47%
Highest for the period	50%	50%
Lowest for the period	35%	45%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2018 to the contractual maturity date.

31st December 2018	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Total Frw'000
Deposits from banks	16,152,572	1,878,699	16,298,052	1,957,598	3,163,892	**39,450,814**
Items in the course of collection	1,571,851	-	-	-	-	**1,571,851**
Deposits from customers	54,696,188	26,131,531	57,818,883	26,001,990	38,003,395	**202,651,988**
Other liabilities	5,350,912	-	-	-	-	**5,350,912**
Long term debt	-	-	103,927	5,522,008	1,299,180	**6,925,115**
Subordinated debt	-	-	-	10,690,356	-	**10,690,356**
forward contracts	-	-	12,856,771	-	-	**12,856,771**
Letters of credit	-	-	6,893,910	-	-	**6,893,910**
Guarantees	-	-	27,979,302	-	-	**27,979,302**
Capital commitments	-	-	17,305,956	-	-	**17,305,956**
Leases	-	-	237,352	944,699	760,224	**1,942,275**
At 31st December 2018	**77,771,523**	**28,010,230**	**139,494,153**	**45,116,652**	**43,226,692**	**333,619,250**

5. Financial Risk Management (continued)

(b)Liquidity risk (continued)

31st December 2017	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Total Frw'000
Deposits from banks	8,564,371	2,029,516	19,042,066	-	-	**29,635,953**
Items in the course of collection	1,978,173	-	-	-	-	**1,978,173**
Deposits from customers	125,697,914	3,657,066	48,989,298	-	-	**178,344,278**
Other liabilities	3,108,543	-	-	-	-	**3,108,543**
Long term debt	5,878,323	-	-	-	-	**5,878,323**
Subordinated debt	104,638	-	1,479,828	5,958,253	2,723,347	**10,266,066**
forward contracts	-	-	13,336,736	-	-	**13,336,736**
Letters of credit	-	-	2,397,437	-	-	**2,397,437**
Guarantees	-	-	21,715,443	-	-	**21,715,443**
Capital commitments	-	-	19,299,044	-	-	**19,299,044**
Leases	-	-	703,669	332,502	24,250	**1,060,421**
At 31st December 2017	**145,331,962**	**5,686,582**	**126,963,521**	**6,290,755**	**2,747,597**	**287,020,417**

Deposits from customers represent business transaction, personal transaction, savings, call and fixed deposit balances, which past experience has shown to be stable.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads 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 optimizing the return on risk.

Traded market risk: the risk of the Bank being impacted by changes in the level or volatility of positions in the trading book. The bank currently holds financial assets at fair value through profit or loss amounting to Frw 6.6 billion.

Non-traded market risk: the risk of the Bank's earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities. Market risk on the currency swap is based on the differential of the interest rates between the two currency swaps. This interest rate is fixed at the onset of the contract. The Bank holds a derivative financial instrument valued at Frw 68 million.

5. Financial Risk Management (continued)

(c) Market risk *(continued)*

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. Management actively engage with their clients to continually roll forward their deposits.

Exposure to market risks – trading portfolio

The bank holds financial assets at fair value through profit or loss amounting to FRW 6.6 billion that is exposed to market risk. Less than 1% of listed bonds have been traded in 2016 and 2017. Management adopted the use of the yield curve in the current year as it is a better representation of fair value.

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. All of the interest rate risk is due to fair value. 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.

Exposure to interest rate risk

A summary of the Bank's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below.

5. Financial Risk Management (continued)

(c) Market risk *(continued)*

Exposure to interest rate risk (continued)

31st December 2018	Within 1 month	Due within 1-3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Non-interest bearing	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
ASSETS							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	23,840,151	**23,840,151**
Items in the course of collection	-	-	-	-	-	-	**-**
Loans and advances to banks	-	11,016,174	-	-	-	10,824,234	**21,840,408**
Loans and advances to customers	21,485,318	21,966,728	17,850,445	66,471,208	41,259,139		**169,032,838**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	6,617	-	-	**6,617**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	2,493,689	3,223,815	114,749	-	**5,832,253**
Other financial assets at amortised cost	4,785,264	7,293,129	14,608,482	4,618,704	16,398,287	-	**47,703,866**
Due from group companies	-	-	-	-	-	1,342,900	**1,342,900**
Other assets	-	-	-	-	-	2,704,999	**2,704,999**
At 31st December 2018	**26,270,582**	**40,276,031**	**34,952,616**	**74,320,344**	**57,772,175**	**38,712,284**	**272,304,032**
LIABILITIES							
Deposits from banks	16,152,572	1,878,699	16,298,052	1,614,969	2,153,292	-	**38,097,584**
Items in the course of collection	-	-	-	-	-	1,571,851	**1,571,851**
Deposits from customers	54,696,188	26,131,531	57,818,883	23,404,309	30,789,374	-	**192,840,285**
Due to group companies	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	5,350,912	**5,350,912**
Long term debt	-	-	103,927	4,555,517	884,200	-	**5,543,644**
Subordinated debt	-	-	-	8,819,273	-	-	**8,819,273**
At 31st December 2018	**70,848,760**	**28,010,230**	**74,220,862**	**38,394,068**	**33,826,866**	**6,922,763**	**252,223,549**
Interest rate gap	**(44,578,178)**	**12,265,801**	**(39,268,246)**	**35,926,276**	**23,945,309**	**31,789,521**	**20,080,483**

5. Financial Risk Management (continued)
(c) Market risk *(continued)*
Exposure to interest rate risk (continued)

31st December 2017	Within 1 month	Due within 1-3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Non-interest bearing	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
ASSETS							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	25,697,111	25,697,111
Items in the course of collection	-	-	-	-	-	-	-
Loans and advances to banks	24,183,002	300,000	700,000	-	-	40,801	25,223,803
Loans and advances to customers	59,880,599	5,775,999	15,885,227	49,186,982	15,784,566	-	146,513,373
Derivative financial instruments	-	-	-	68,510	-	-	68,510
Investment securities:							
Available for sale	826	-	-	-	-	-	826
Held for trading	17,920,975	-	-	-	-	-	17,920,975
Held to maturity	1,915,152	5,464,045	12,074,191	359,192	-	-	19,812,580
Due from group companies	-	-	-	-	-	5,580,368	5,580,368
Other assets	-	-	-	-	1,131,251	3,961,867	5,093,118
At 31st December 2017	**103,900,554**	**11,540,044**	**28,659,418**	**49,614,684**	**16,915,817**	**35,280,147**	**245,910,664**
LIABILITIES							
Deposits from banks	-	10,882,587	9,153,211	-	-	8,564,259	28,600,057
Items in the course of collection	-	-	-	-	-	1,978,173	1,978,173
Deposits from customers	38,228,955	3,638,735	24,380,764	-	-	111,173,653	177,422,107
Due to group companies	-	-	-	-	-	3,108,543	3,108,543
Other liabilities	-	-	-	-	-	4,923,385	4,923,385
Long term debt	-	-	1,405,117	4,055,087	1,156,799	-	6,617,003
At 31st December 2017	**38,228,955**	**14,521,322**	**34,939,092**	**4,055,087**	**1,156,799**	**129,748,013**	**222,649,268**
Interest rate gap	**65,671,599**	**(2,981,278)**	**(6,279,674)**	**63,480,572**	**15,759,018**	**(94,467,866)**	**23,261,396**

5. Financial Risk Management (continued)
(c) Market risk *(continued)*
Exposure to interest rate risk (continued)

Customer deposits up to three months represent current, savings and call deposit account balances, which past experience has shown to be stable and of a long term nature.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Sensitivity Analysis

A change of 200 basis points in interest rates at the reporting date would have increased / decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31st December 2018	Equity net of tax
200 basis points	**Increase/decrease in basis points ('000)**
Assets	3,332,744
Liabilities	(3,434,211)
Net position	**(101,467)**
31st December 2017	**Equity net of tax**
Assets	3,199,721
Liabilities	(1,300,618)
Net position	**1,899,103**

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Bank is exposed to as at 31st December 2018 and 31st December 2017.

5. Financial Risk Management (continued)
(c) Market risk *(continued)*
Currency risk *(continued)*

At 31st December 2018	USD Frw'000	GBP Frw'000	Euro Frw'000	Other Frw'000	Total Frw'000
ASSETS					
Cash and balances with National Bank of Rwanda	2,117,412	54,773	809,407	18,468	**3,000,060**
Loans and advances to banks	40,761,698	495,921	3,027,104	1,118,384	**45,403,107**
Loans and advances to customers	27,642,943	55	2,715	-	**27,645,713**
Due from group companies	729,506	326,697	276,323	10,374	**1,342,900**
Other assets	136,410	-	2	33	**136,445**
At 31st December 2018	**71,387,969**	**877,446**	**4,115,551**	**1,147,259**	**77,528,225**
LIABILITIES					
Deposits from banks	1,816,222	-	-	-	**1,816,222**
Items in the course of collection	98,265	8,591	567	-	**107,423**
Deposits from customers	63,899,832	736,757	4,120,041	939,225	**69,695,855**
Other liabilities	43,955	-	-	6,625	**50,580**
Long-term borrowings	82,710	-	-	-	**82,710**
Subordinated debt	8,819,273	-	-	-	**8,819,273**
At 31st December 2018	**74,760,257**	**745,348**	**4,120,608**	**945,850**	**80,572,063**
Net on statement of financial position	**(3,372,288)**	**132,098**	**(5,057)**	**201,409**	**(3,043,838)**
Net notional off balance sheet position	**5,336,855**	**(111,540)**	**1,822,184**	**(91,376)**	**6,956,123**
Overall net position – 2018	**1,964,567**	**20,558**	**1,817,127**	**110,033**	**3,912,285**

At 31 December 2017	USD Frw'000	GBP Frw'000	Euro Frw'000	Other Frw'000	Total Frw'000
ASSETS					
Cash and balances with National Bank of Rwanda	1,876,442	1,184,700	17,598	3,184	**3,081,924**
Loans and advances to banks	20,722,650	3,041,393	532,811	2,677,478	**26,974,332**
Loans and advances to customers	32,187,563	148	152,037	-	**32,339,748**
At 31st December 2017	**54,786,655**	**4,226,241**	**702,446**	**2,680,662**	**62,396,004**
LIABILITIES					
Deposits from banks	10,912,925	230,449	-	-	**11,143,374**
Deposits from customers	55,928,918	4,161,348	542,074	2,627,868	**63,260,208**
Long-term borrowings	233,328	-	5,770,475	-	**6,003,803**
At 31st December 2017	**67,075,171**	**4,391,797**	**6,312,549**	**2,627,868**	**80,407,385**
Net on statement of financial position	**(12,288,516)**	**(165,556)**	**(5,610,103)**	**52,794**	**(18,011,381)**
Net notional off balance sheet position	**10,437,338**	**1,188,349**	**1,711,049**	**-**	**13,336,736**
Overall net position – 2017	**(1,851,178)**	**1,022,793**	**(3,899,054)**	**52,794**	**(4,674,645)**

5. Financial Risk Management (continued)
(c) Market risk *(continued)*
Sensitivity Analysis
A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Rwanda Francs (FRW) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

At 31st December 2018	Profit or loss Strengthening/ weakening of currency Frw'000	Equity net of tax Strengthening/weakening of currency Frw'000
USD (± 2.5% movement)	49,821	34,875
GBP (± 2.5% movement)	514	360
EUR (± 2.5% movement)	45,428	31,800
At 31st December 2017	**Profit or loss Strengthening/ weakening of currency Frw'000**	**Equity net of tax Strengthening/weakening of currency Frw'000**
USD (± 2.5% movement)	(46,279)	(32,396)
GBP (± 2.5% movement)	25,570	17,899
EUR (± 2.5% movement)	(97,476)	(68,233)

(d) Capital management
Regulatory capital – Rwanda
The Bank's objectives when managing capital, which is a broader concept than the "equity" on the balance sheet, are:

To comply with the capital requirements set by the National Bank of Rwanda;
To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
To maintain a strong capital base to support the development of its business.

The National Bank of Rwanda (BNR) sets and monitors capital requirements for the banking industry as a whole. In implementing its current capital requirements, BNR, requires Banks in Rwanda to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital consists only of Tier 1 capital, which includes ordinary share capital, retained earnings, revaluation reserves and statutory reserves. 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 recognized and the Bank recognizes 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.

5. Financial Risk Management (continued)
(d) Capital management *(continued)*
Regulatory capital – Rwanda (continued)

Company:		2018 Frw'000	2017 Frw'000
Core capital (Tier 1)			
Share capital		5,050,000	5,050,000
Share premium		400,000	400,000
Retained earnings		27,347,278	23,404,666
		32,797,278	**28,854,666**
Less: Other reserves		882,688	812,065
Intangible assets		(4,785,353)	(51,944)
Total Core capital		**28,894,613**	**29,614,787**
Supplementary capital (Tier 2)			
Revaluation reserve		647,925	535,100
Subordinated debt		8,791,009	-
		9,438,934	**535,100**
Total capital		**38,333,547**	**30,149,887**
Total risk weighted assets		**222,343,194**	**152,194,191**
Capital ratios	Minimum*		
Core capital /Total risk weighted assets	**10.0%**	**13.00%**	**19.46%**
Total capital /Total risk weighted assets	**15.0%**	**17.24%**	**19.81%**

***As defined by the National Bank of Rwanda**

The minimum level of regulatory capital is FRW 5 billion

(e) 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 the Bank's compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

6. USE OF ESTIMATES AND JUDGEMENT
Key sources of estimation uncertainty
(a) Allowance for credit losses
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3(d) (iii) which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 2(d).

(b) Income taxes
Significant estimates are required in determining the liability for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax liability in the period in which such determination is made.

(c) Property and equipment
Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out under accounting policy Note 3(g).

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

In classifying financial assets as financial asset amortised cost, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the Bank's accounting policies.

7. FAIR VALUE HIERARCHY

Accounting classifications at carrying amounts and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Company	Carrying amounts						Fair value		
31st December 2018	Non financial assets	Financial assets at amortised cost	Financial assets at FVOCI	Financial assets at FVTPL	Other financial liabilities	Total	Level 2	Level 3	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Financial assets									
Balances with Central Bank of Rwanda	-	-	20,337,671	-	-	**20,337,671**	-	20,337,671	**20,337,671**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	6,617	-	**6,617**	6,617	-	**6,617**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	5,832,253	-	-	**5,832,253**	-	5,832,253	**5,832,253**
Other financial assets at amortised cost	-	47,703,866	-	-	-	**47,703,866**	47,703,866	-	**47,703,866**
Property and equipment									
Land and building	5,090,622	-	-	-	-	**5,090,622**	5,090,622	-	**5,090,622**
Loans and advances to banks	-	21,840,408	-	-	-	**21,840,408**	-	21,840,408	**21,840,408**
Loans and advances to customers	-	169,032,838	-	-	-	**169,032,838**	-	169,032,838	**169,032,838**
Due from group companies	-	1,342,900	-	-	-	**1,342,900**	-	1,342,900	**1,342,900**
Other assets	-	2,704,999	-	-	-	**2,704,999**	-	2,704,999	**2,704,999**
	5,090,622	**242,625,011**	**26,169,924**	**6,617**	**-**	**273,892,174**	**52,801,105**	**221,091,069**	**273,892,174**
Financial liabilities									
Deposits from banks	-	-	-	-	38,097,584	**38,097,584**	-	38,097,584	**38,097,584**
Deposits from customers	-	-	-	-	192,840,285	**192,840,285**	-	192,840,285	**192,840,285**
Long term borrowings	-	-	-	-	5,543,644	**5,543,644**	-	5,543,644	**5,543,644**
Subordinated debt	-	-	-	-	8,819,273	**8,819,273**	-	8,819,273	**8,819,273**
Other liabilities		-	-	-	61,906	**61,906**	-	61,906	**61,906**
	-	**-**	**-**	**-**	**245,362,692**	**245,362,692**	**-**	**245,362,692**	**245,362,692**

7. FAIR VALUE HIERARCHY (continued)

Accounting classifications at carrying amounts and fair values (continued)

Company	Carrying amounts							Fair value		
31st December 2017	Non financial assets	Financial assets held for trading	Held to maturity	Loans and receivables	Available -for-sale	Other amortised cost	Total	Level 2	Level 3	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Financial assets										
Balances with Central Bank of Rwanda	-	-	-	22,675,563	-	-	**22,675,563**	-	22,675,563	**22,675,563**
Investment securities:										
Available for sale	-	-	826	-	-	-	**826**	-	826	**826**
Held for trading	-	17,920,975		-	-	-	**17,920,975**	17,920,975	-	**17,920,975**
Held to maturity	-	-	19,812,580	-	-	-	**19,812,580**	19,816,893	-	**19,816,893**
Property and equipment										
Land and building	5,756,281	-	-	-	-	-	**5,756,281**	5,756,281	-	**5,756,281**
Loans and advances to banks	-	-	-	25,223,803	-	-	**25,223,803**	-	25,223,803	**25,223,803**
Loans and advances to customers	-	-	-	146,513,373	-	-	**146,513,373**	-	146,513,373	**146,513,373**
Due from group companies	-	-	-	5,580,368	-	-	**5,580,368**	-	5,580,368	**5,580,368**
Other assets	-	-	-	-	2,120,000	2,973,118	**5,093,118**	-	5,093,118	**5,093,118**
	5,756,281	**17,920,975**	**19,813,406**	**199,993,107**	**2,120,000**	**2,973,118**	**248,576,887**	**43,494,149**	**205,087,051**	**248,581,200**
Financial liabilities										
Deposits from banks	-	-	-	-	-	28,600,057	**28,600,057**	-	28,600,057	**-**
Deposits from customers	-	-	-	-	-	177,422,107	**177,422,107**	-	177,422,107	**-**
Due to group companies	-	-	-	-	-	3,108,543	**3,108,543**	-	3,108,543	**-**
Long term borrowings	-	-	-	-	-	6,617,003	**6,617,003**	-	6,205,425	**-**
Other liabilities	-	-	-	-	-	4,923,385	**4,923,385**	-	4,923,385	**-**
	-	**-**	**-**	**-**	**-**	**220,671,095**	**220,671,095**	**-**	**220,259,517**	**-**

7. FAIR VALUE HIERARCHY (continued)

Accounting classifications at carrying amounts and fair value (continued)

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31st December 2018 and 31st December 2017

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss (FVTPL)	Market based valuation technique	Reference to information from similar transactions in the market.	Not applicable
Investment securities – Fair Value through Other Comprehensive Income	Market based valuation technique	Net asset value and last equity transaction on the shares	Not applicable
Property and Equipment - Land and buildings	Market based valuation technique	Price per square metre	Not applicable

8. Interest Income

	2018 Frw'000	2017 Frw'000
Loans and advances to customers	25,030,201	20,466,617
Loans and advances to banks	606,861	592,138
Investment securities:-		
- At amortised cost	2,491,622	2,074,172
- FVOCI (2017: Available-for-sale)	2,832,137	1,350,073
	30,960,821	**24,483,000**

9. Interest Expense

	2018 Frw'000	2017 Frw'000
Deposits from customers	6,064,074	4,964,016
Deposits from banks	3,578,170	1,393,829
Long term debt	771,557	560,583
Subordinated debt	320,730	-
	10,734,531	**6,918,428**

10. Net Fee And Commission Income

	2018 Frw'000	2017 Frw'000
Fee and commission income		
Commissions	2,404,746	2,585,132
Service fees	707,853	602,189
	3,112,599	**3,187,321**
Fees and commission expense		
Interbank transaction fees	(112,200)	(160,317)
Other	(584,414)	(366,774)
	(696,614)	**(527,091)**
Net fee and commission income	**2,415,985**	**2,660,230**

11. Net Trading Income

	2018 Frw'000	2017 Frw'000
Income from foreign exchange dealings	**3,222,590**	**2,903,890**

12. Other Operating Income

	2018 Frw'000	2017 Frw'000
Profit on sale of assets previously repossessed and property and equipment - note 27	844,675	9,886
Other income	77,936	498,047
	922,611	**507,933**

13. Operating Expenses

	2018	2017
Staff costs		
Salaries and wages	6,823,845	6,118,425
Statutory contribution	361,988	298,805
Medical expenses	348,484	320,329
Mileage expenses	135,524	125,235
Training expenses	144,696	107,622
Other staff costs	242,327	161,795
	8,056,864	**7,132,211**
Premises and equipment costs		
Rental of premises	616,102	488,257
Utilities	216,336	212,593
	832,438	**700,850**
General administrative expenses		
Deposit protection insurance contribution	133,344	123,907
Travelling cost	125,577	258,667
Professional fees	285,183	285,166
Directors' emoluments	129,293	83,491
Auditors' remuneration	55,477	43,377
Insurance costs	146,772	102,237
Board expenses	222,802	124,609
Marketing expenses	528,969	371,458
Communication expenses	402,354	464,886
Printing and stationery	196,475	176,633
Repairs and maintenance	423,426	291,312
Computer expenses	330,496	330,913
Donations and membership fees	105,179	62,708
Other general expenses	1,554,281	1,595,396
	4,639,628	**4,314,760**
Depreciation and Amortisation		
Depreciation on property and equipment (Note 23)	1,000,784	954,547
Amortisation of intangible assets (Note 24)	398,868	87,181
	1,399,652	**1,041,728**

The average number of employees employedby the Company are as follows:

	2018	2017
Management	13	13
Others	347	338
	360	**351**

14. Profit Before Income Tax

	2018 Frw'000	2017 Frw'000
Profit before income tax is arrived at after charging / (crediting):		
Depreciation	1,000,784	954,547
Amortisation of intangible assets	398,868	87,182
Directors' emoluments	129,293	83,491
Auditors' remuneration	55,477	43,377
(Loss)/Gain on disposal of property and equipment	(79,419)	9,886
Gain on disposal of repossessed assets (Note 27)	844,675	-

15. Income Tax Expense and Tax Payable

	2018 Frw'000	2017 Frw'000
(a) Income tax expense		
Current year's tax at 30%	3,131,320	3,038,618
(Over)/under provision in prior year - current tax	(14,283)	141,626
Current tax expense	**3,117,037**	**3,180,244**
Deferred income tax (Note 25)	237,813	154,686
Income tax expense	**3,354,850**	**3,334,930**
The tax on the Bank`s profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before tax	**10,817,422**	**9,848,331**
Computed tax using the applicable corporation tax rate at 30%	3,245,227	2,954,499
(Over)/under provision in the prior year	(14,283)	141,626
Effect on non-deductible costs /non-taxable income	123,906	238,805
	3,354,850	**3,334,930**
b) Tax Payable / (Recoverable)		
At 1 January	1,098,315	978,698
Income tax expense (Note 15)	3,117,037	3,180,244
Tax paid (Note 34(a))	(3,342,983)	(3,060,627)
At 31st December	**872,369**	**1,098,315**

16. Earnings Per Share

	2018 Frw'000	2017 Frw'000
Net profit after tax attributable to owners of the company (Frw '000')	**7,462,572**	**6,513,401**
Weighted average number of ordinary shares in issue during the year ('000)	**505,000**	**503,750**
Earnings per share (Frw)	**14.78**	**12.92**

17. Dividends Per Share

	2018 Frw'000	2017 Frw'000
The calculation of dividend per share is based on:		
Final dividend proposed during the year (Frw'000)	2,985,000	2,605,000
	2,985,000	**2,605,000**
Weighted average number of ordinary shares in issue during the year ('000)	**505,000**	**505,000**
Final dividend per share (Frw.)	**5.91**	**5.16**

18. Cash and Balances With Central Bank

	2018 Frw'000	2017 Frw'000
Cash on hand	3,502,480	3,021,548
Balances with National Bank of Rwanda:		
-Restricted balances (Cash reserve ratio)	**11,797,436**	**10,681,099**
-Unrestricted balances	**8,540,235**	**11,994,464**
	23,840,151	**25,697,111**

The Bank's Cash Reserve Ratio is non-interest earning based on a requirement to maintain a prescribed minimum cash balances with the National Bank of Rwanda that is not available to finance day to day activities and is excluded from the computation. The amount is determined as a percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At 31 December 2018, the cash ratio requirement was 5% (2017: 5%).

19. Items in the course of collection

	2018 Frw'000	2017 Frw'000
Liabilities	1,571,851	1,978,173

Items in the course of collection represent net settlement balances through the inter-banking clearing process

20. Loans and advances to banks

	2018 Frw'000	2017 Frw'000
Due within 90 Days	21,840,408	25,223,803

21. Loans and advances to customers

(a) Classification

	2018 Frw'000	2017 Frw'000
Mortgage loans	50,885,163	41,754,144
Equipment loans	35,406,736	33,088,004
Consumer loans	40,048,569	35,475,828
Overdrafts	36,857,380	29,933,745
Others	10,296,389	9,345,867
Gross Loans and advances	**173,494,237**	**149,597,588**
Less impairment	(4,461,399)	(3,084,215)
Net Loans and advances	**169,032,838**	**146,513,373**

21. Loans and advances to customers (continued)

(b) Impairment loss reserve

	Specific impairment allowance Frw'000	Portfolio impairment allowance Frw'000	Total Frw'000
At 1st January 2017	1,566,620	347,641	1,914,261
Impairment made for the year	1,003,180	281,542	1,284,722
Net recoveries	(79,664)	-	(79,664)
Write offs	(35,104)	-	(35,104)
At 31st December 2017	**2,455,032**	**629,183**	**3,084,215**

The 2018 movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 5(a)(iii).

(c) Impairment losses on loans and advances

	2018			2017
	Loans and advances to Customers at amortised cost Frw'000	Loan commitments and financial guarantee contracts Frw'000	Total Frw'000	Loans and advances to Customers Frw'000
Net remeasurement of loss allowance	1,919,844	(13,748)	1,906,096	1,284,722
New financial assets originated or purchased	110,471	4,098	114,569	-
	2,030,315	**(9,650)**	**2,020,665**	**1,284,722**
Recoveries and impairment no longer required	(690,726)	(25,048)	(715,774)	(79,664)
(Recoveries of loans and advances previously written off)/write off of loan commitments and guarantees	(360,023)	96,604	(263,419)	(624,923)
Amounts directly written off during the year	-	-	-	18,610
	979,566	**61,906**	**1,041,472**	**598,745**

(d) Impairment losses on loans and advances

	2018 Frw'000	2017 Frw'000
Interest on impaired loans and advances which has not yet been received in cash	586,779	801,645

21. Loans and advances to customers (continued)

(e) Loans and advances concentration by sector

	2018		2017	
	Frw '000	%	Frw '000	%
Manufacturing	36,106,040	21%	25,939,761	17%
Wholesale and retail trade	36,283,683	21%	28,236,115	19%
Building and construction	19,176,000	11%	19,801,653	13%
Agriculture	3,492,073	2%	1,949,366	1%
Transport and communication	14,693,468	8%	7,496,476	5%
Mining and quarrying	206,534	0%	1,531,970	1%
Others	63,536,439	37%	64,642,247	43%
	173,494,237	**100%**	**149,597,588**	**100%**

22. Financial Assets

(a) Financial assets at fair value through profit or loss (FVTPL)

	2018 Frw'000	2017 Frw'000
Derivative assets (Non liquid)	6,617	68,510
Government securities (Non Liquid)	-	17,920,975
	6,617	**17,989,485**

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

	2018	2017
Equity investment	-	826
Government securities (Liquid)	5,832,253	-
	5,832,253	**826**

(c) Other financial assets at amortised cost

	2018	2017
Government securities (Non Liquid)	47,703,866	19,812,580
	47,703,866	**19,812,580**

22. Financial Assets (contined)

(d) The change in the carrying amount of investment securities held by is as shown below:

	Financial assets measured at FVOCI	Other financial assets at amortised cost	Financial assets measured at FVTPL	Total
	Frw'000	Frw'000	Frw'000	Frw'000
At 1st January 2018	826	19,812,580	17,989,485	37,802,891
Day 1 adjustment	(5,283,492)	23,204,467	(17,920,975)	-
Additions	73,630,014	48,385,452	28,565,198	150,580,664
Disposals and maturities	(64,765,005)	(43,830,200)	(28,571,814)	(137,167,019)
Revaluation gain	110,319	-	(55,277)	72,460
Amortisation of discounts and premiums	88,252	(527,492)	-	(456,658)
Interest receivable	2,051,339	659,059	-	2,710,398
At 31st December 2018	**5,832,253**	**47,703,866**	**6,617**	**53,542,736**
		-	-	
At 1st January 2017	826	16,492,504	16,916,480	33,409,810
Additions	-	60,464,123	11,059,433	71,523,556
Disposals and maturities	-	(58,541,769)	(11,113,630)	(69,655,399)
Revaluation gain	-	-	(162,075)	(162,075)
Amortisation of discounts and premiums	-	1,397,722	1,289,277	2,686,999
At 31st December 2017	**826**	**19,812,580**	**17,989,485**	**37,802,891**

23. Property and equipment

2018	Land and Buildings	Furniture, fittings, fixtures and office equipment	Computers	Motor Vehicles	Capital work in progress	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Cost/ Valuation						
At 1 January 2018	6,641,914	2,178,480	1,752,908	721,030	5,164,359	16,458,691
Additions	3,921	236,548	32,171	190,050	5,671,958	6,134,648
Transfer to intangible work in progress	-	-	-	-	(34,075)	(34,075)
Disposals	(129,307)	-	-	(80,458)	-	(209,765)
Reclassification/internal transfers	-	166,133	-	-	(166,133)	-
Write offs/back	(148,387)	-	-	-	(583)	(148,970)
At 31st December 2018	**6,368,141**	**2,581,161**	**1,785,079**	**830,622**	**10,635,526**	**22,200,529**
Depreciation						
At 1st January 2018	885,633	1,504,299	1,180,020	636,629	-	4,206,581
Charge for the year	394,512	247,493	267,273	91,506	-	1,000,784
On disposals	(2,626)	-	-	(80,458)	-	(83,084)
At 31st December 2018	**1,277,519**	**1,751,792**	**1,447,293**	**647,677**	**-**	**5,124,281**
Net book value at 31 December 2018	**5,090,622**	**829,369**	**337,786**	**182,945**	**10,635,526**	**17,076,248**

Had the revaluation not taken place, the NBV of the land and buildings would have been Frw 3,057,241,000 (2017: Frw 3,722,900,000)

23. Property and equipment (Continued)

2017	Land and Buildings Frw'000	Furniture, fittings, fixtures and office equipment Frw'000	Computers Frw'000	Motor Vehicles Frw'000	Capital work in progress Frw'000	Total Frw'000
Cost/ Valuation						
At 1st January 2017	6,514,644	1,974,508	1,105,814	762,671	1,012,079	11,369,716
Additions	16,875	180,654	182,610	30,500	4,821,262	5,231,901
Disposal	(70,785)	-	-	(72,141)	-	(142,926)
Reclassification/internal transfers	181,180	23,318	464,484	-	(668,982)	-
At 31st December 2017	**6,641,914**	**2,178,480**	**1,752,908**	**721,030**	**5,164,359**	**16,458,691**
Depreciation						
At 1st January 2017	495,983	1,272,769	965,252	643,343	-	3,377,347
Charge for the year	442,821	231,530	214,768	65,428	-	954,547
On disposals	(53,171)	-	-	(72,142)	-	(125,313)
At 31st December 2017	**885,633**	**1,504,299**	**1,180,020**	**636,629**	**-**	**4,206,581**
Net book value at 31 December 2017	**5,756,281**	**674,181**	**572,888**	**84,401**	**5,164,359**	**12,252,110**

Revaluation of Land and Buildings

Management determined that the land and buildings constitute a separate class of property and equipment, based on the nature, characteristics and risks of the property. The fair value of the land and buildings has been determined on a market value basis in accordance with the RICS Valuation Professional Standards (January 2014) (''Standards'') which comply with the International Valuation Standards. The valuations were performed by Landmark Limited, an accredited independent valuer with a recognized and relevant professional qualification. A net gain from the revaluation of the Land and building of FRW 2,140,401 in 2016 was recognized in other comprehensive income. Fair value measurement disclosures for revalued land and buildings are provided in Note 7. None of property and equipment has been pledged as security over borrowings.

24. Intangible Assets

2018:	Computer Software Frw'000	Capital work in progress Frw'000	Total Frw'000
Cost			
At 1st January	**1,688,943**	**1,959,474**	**3,648,417**
Additions	73,595	3,065,133	3,138,728
Transfer from tangible work in progress	-	34,075	34,075
Transfer to from work in progress	4,396,415	(4,396,415)	-
At 31st December 2018	**6,158,953**	**662,267**	**6,821,220**
Amortisation			
At 1st January	**1,636,999**	**-**	**1,636,999**
Amortisation for the year	398,868	-	398,868
At 31st December 2018	**2,035,867**	**-**	**2,035,867**
Carrying amount at 31st December 2018	**4,123,086**	**662,267**	**4,785,353**

2017:	Computer Software Frw'000	Capital work in progress Frw'000	Total Frw'000
Cost			
At 1st January	1,688,943	-	1,688,943
Additions	-	1,959,474	1,959,474
At 31st December 2017	1,688,943	1,959,474	3,648,417
Amortisation			
At 1st January	1,549,817	-	1,549,817
Amortisation for the year	87,182	-	87,182
At 31st December 2017	**1,636,999**	**-**	**1,636,999**
Carrying amount at 31 December 2017	**51,944**	**1,959,474**	**2,011,418**

25. Deferred Tax Liability

	Balance at 1 January Frw'000	Day one transition adjustment Frw'000	Recognised in equity Frw'000	Recognized in profit or loss Frw'000	Balance at 31 December Frw'000
2018:					
Deferred tax asset					
Other provisions	306,989	40,260	-	197,076	544,325
	306,989	**40,260**	**-**	**197,076**	**544,325**
Deferred tax liability					
Property and equipment	1,669,072	-	-	434,889	2,103,961
Government securities amortised cost (Note 41(a))	-	(104,699)	-	-	(104,699)
Fair value through the other comprehensive income (FVOCI)	-	-	47,280	-	47,280
	1,669,072	**(104,699)**	**47,280**	**434,889**	**2,046,542**
Deferred tax asset/(liability)	**(1,362,083)**	**144,959**	**(47,280)**	**(237,813)**	**(1,502,217)**
2017:					
Deferred tax asset					
Other provisions	312,415	-	-	(5,426)	306,989
	312,415	**-**	**-**	**(5,426)**	**306,989**
Deferred tax liability					
Property and equipment	1,519,812	-	-	149,260	1,669,072
	1,519,812	**-**	**-**	**149,260**	**1,669,072**
Deferred tax asset/(liability)	**(1,207,397)**	**-**	**-**	**(154,686)**	**(1,362,083)**

26. Balances With Related Party

(a) Due from related party

	2018 Frw'000	2017 Frw'000
I&M Bank (Kenya) Limited	1,342,858	5,332,564
I&M Bank (T) Limited	42	247,804
	1,342,900	**5,580,368**

(b) Due to related party

I&M Bank (Kenya) Limited	**-**	**3,108,543**

27. Other Assets

Prepayments	1,009,169	1,418,492
Repossessed property	-	2,120,000
Other receivables	1,695,830	1,554,626
	2,704,999	**5,093,118**

The Bank acquired two commercial properties in 2016 and 2017 respectively each worth Frw 1.2 billion from its former clients pledged as collateral through an auction as a result of default by the clients in settling outstanding loans. An impairment charge of Frw 280 million was recognised in respect of the assets held for sale in the previous year. Both of these assets have been disposed and a gain of Frw 844 million recognised on the sale.

28. Deposits From Banks

Due within 90 Days (Liquid)	30,724,193	28,600,057
Due after 90 days (Non liquid)	7,373,391	-
	38,097,584	**28,600,057**

29. Deposits From Customers

Government and Parastatals	6,841,239	9,808,317
Private sector and individuals	185,999,046	167,613,790
	192,840,285	**177,422,107**

30. Other Liabilities

Accruals	2,492,456	2,346,435
Provisions for loan commitments*	61,906	-
Provisions	393,021	455,331
Other accounts payables	2,403,529	2,121,619
	5,350,912	**4,923,385**

This represents impairment allowance for loan commitments and financial guarantee contracts.

Accruals relate to mainly accrued expenses payable (Frw 945m), payables for staff (Frw 542m) : Taxes, Social security funds, Retirement benefit provision.

Other accruals relate mainly to: MTN operative account (Frw 364m), Master Card funds (Frw 682m).

31. Long Term Debt

	2018 Frw'000	2017 Frw'000
Less than one year	103,927	1,479,828
One to five years	4,555,517	4,915,408
Over five years	884,200	221,767
	5,543,644	**6,617,003**

Loan movement schedule		
At 1st January	6,617,003	5,916,989
Funds received	-	1,460,349
Payments on principal and interest	(1,667,479)	(1,300,565)
Interest payable	585,754	540,230
Translation differences	8,366	-
At 31st December	**5,543,644**	**6,617,003**

Long term debt constituted the following:

(a) Loan from European Investment Bank (EIB)
Long term loan from EIB of Euro 1,645,642, Euro 921,627, Euro 384,500, Euro 384,271, Euro 152,478, Euro 784,187 from European Investment Bank. Repayment amounts are fixed in Rwandan Francs. The loans accrue interests at a fixed rate of 9.9% p.a, 8.8%, 8.8% p.a, 8% p.a, 8% p.a, 10.31% p.a respectively and will mature on 15th May 2023, 15th May 2023, 15th November 2021, 15th November 2021, 15th November 2021, 15th November 2023 respectively. The loan is not secured.

(b) Business Development Fund (BRD)
The Borrowing relates to a 9 year loan aimed at providing funds for loans to export oriented small and medium enterprises (SMEs) in Rwanda at preferential rate of 8%. The loan is not secured.

32. Subordinated Debt

	2018 Frw'000	2017 Frw'000
One to five years	8,819,273	-

The Bank acquired within the year a 5 year subordinated loan with IFC at an interest rate of Libor +6.5%. The purpose of the loan is to provide the Bank with a subordinated loan which qualifies as Tier 2 capital therefore enabling the Bank to increase its lending to clients.

33. Share Capital and Reserves

(a) Share capital and share premium

	Shares outstanding	Ordinary shares Frw'000	Share premium Frw'000	Total Frw'000
At 31st December 2017 and 2018	**505,000,000**	**5,050,000**	**400,000**	**5,450,000**

The total authorised number of ordinary shares is 505,000,000 (2017: 500,000,000), with a par value of Frw 10 per share (2016: Frw 10 per share). All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

33. Share Capital and Reserves (continued)

(b) Share premium
Share premium comprises additional paid-in capital in excess of the par value. This reserve is not ordinarily available for distribution.

(c) Revaluation reserve
The revaluation reserve arises on revaluation of buildings. When revalued property is disposed, the portion of the revaluation reserve that relates to that asset is transferred to retained earnings.

(d) Fair value reserve
The reserve is attributable to changes in fair value of investment securities classified under the fair value reserve category. This is shown on the statement of comprehensive income and also in profit or loss when the underlying asset has been derecognized or impaired.

(e) Statutory credit risk reserve
Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable.

34. Notes to the Statement of Cash Flows

(a) Reconciliation of profit before income tax to net

	Note	2018 Frw'000	2017 Frw'000
Cash flows from operating activities			
Profit before income tax		**10,817,422**	**9,848,331**
Adjustments for:			
Depreciation on property and equipment	23	1,000,784	954,547
Amortisation of intangible asset	24	398,868	87,182
(Loss)/Gain on disposal of property and equipment	14	(79,419)	9,886
Gain on disposal of repossessed assets (Note 27)		(844,675)	-
Impairment loss recognised		1,041,472	598,745
Interest income earned		(30,960,821)	(24,483,000)
Interest expense incurred		10,734,531	6,918,428
		(7,891,838)	**(6,065,881)**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(22,519,465)	(35,240,317)
Movement in repossessed assets		(2,120,000)	(1,200,000)
Movement in financial assets at amortised cost		(29,578,655)	(3,625,046)
Movement in financial assets measured at (FVOCI)		12,151,441	(1,289,277)
Movement in financial assets at fair value through profit or loss (FVTPL)		-	216,272
Cash and balances with National Bank of Rwanda:		(1,116,337)	(2,291,915)
Other assets		2,388,119	(1,945,194)
		(40,794,897)	**(45,375,477)**

34. Notes to the Statement of Cash Flows

(a) Reconciliation of profit before income tax to net

		2018 Frw'000	2017 Frw'000
Increase / (decrease) in operating liabilities			
Customer deposits		15,418,178	43,269,744
Balances due to group companies		(3,108,543)	-
Deposits from banks		9,497,527	5,001,568
Other payables		(21,203)	318,553
		21,785,959	**48,589,865**
Cash flows generated from operating activities		**(26,900,776)**	**(2,851,493)**
Interest received		29,862,231	22,709,452
Interest paid		(10,311,315)	(5,733,139)
Tax paid	13(b)(ii)	(3,342,983)	(3,060,627)
Net cash flows generated from operating activities		**(10,692,843)**	**11,064,193**

(b) Analysis of cash and cash equivalents

	2018 Frw'000	2017 Frw'000	Change Frw'000
Cash and balances with National Bank of Rwanda	12,042,715	15,016,012	(2,973,297)
Investment securities	10,827,888	1,687,908	9,139,980
Deposits from banks	11,012,520	25,315,724	(14,303,204)
Due from group companies	1,342,900	5,488,447	(4,145,547)
	35,226,023	47,508,091	(12,282,068)
Net Foreign exchange difference on foreign denominated balances	(146,986)	(261,784)	114,798
	35,079,037	47,246,307	(12,167,270)

35. Off Balance Sheet Contingent Liabilities and Commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31st December 2018. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Contractual off-balance sheet financial liabilities

In the ordinary course of business, banking entities in the Bank conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

35. Off Balance Sheet Contingent Liabilities and Commitments (continued)

(b) Contractual off-balance sheet financial liabilities (continued)

	2018 Frw'000	2017 Frw'000
Contingencies related to:		
Letters of credit	6,893,910	2,397,437
Guarantees	27,979,302	21,715,443
	34,873,212	**24,112,880**
Commitments related to:		
Outstanding spot/forward contracts	12,856,771	13,336,736
	47,729,983	37,449,616

Nature of contingent liabilities

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 a bank to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

36. Related Party Transactions

I&M (Rwanda) Bank Plc immediate parent is BCR Investment Company incorporated in Republic of Mauritius. The ultimate parent is I&M Holding Limited incorporated in Kenya. All entities within the I&M Holding Group are related parties.

In the normal course of business, the Bank enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties are at market interest rates. There were no provisions held towards impairment of any of the advances to related parties.

(a) Transactions with directors / shareholders	2018 Frw'000	2017 Frw'000
Loans to directors / shareholders	**37,864**	**84,361**
Interest Income from loans to directors/shareholders	1,953	4,155
The Directors emoluments	**129,293**	**83,491**
(b) Transactions with related companies		
Loans to related companies	**637,455**	**709,004**
Due to group companies	**-**	**3,108,543**

Due from group companies	**1,342,900**	**5,580,368**
(c) Transactions with employees		
Staff loans	**3,539,371**	**2,868,292**
(d) Shared service cost	**246,588**	**147,811**

37. Capital Commitments

	2018 Frw'000	2017 Frw'000
Mainly software and head office development costs	**17,305,956**	**19,299,044**

38. Future Rental Commitments Under Operating Leases

The Bank leases bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. Future minimum lease payments under these operating leases are as follows:

Less than one year	237,352	703,669
One to five years	944,699	332,502
Over five years	760,224	24,250
	1,942,274	1,060,421

39. Employee Share Option Plan

The board of directors approved an Employee share ownership plan of 5,000,000 shares of Frw 10 each effective 31st March 2017. The Bank's local directors and eligible employees are entitled to participate under this scheme. As per the agreement, the share ownership plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, and to promote the success of the Company's business. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The vesting period is 3 years from the date of the grant after which, as long as the continuous service status does not terminate, the Shares underlying this Option shall vest and become exercisable.

Whenever possible, the determination of Fair Market Value is based upon the per share closing price for the shares as reported in the Rwanda Stock Exchange for the applicable date.

The exercise price of the option is determined by the board.

The effect of the options was immaterial for the Year ended 31st December 2018.

40. Segmental Reporting

The Bank has three main segments:

Corporate & Institutional Banking: the segment services medium sized to large corporates and non-borrowing institutions in various sectors.

40. Segmental Reporting (continued)

The Bank has three main segments: (continued)

Business Banking (BB): in charge of mainly SMEs that are relatively smaller customers with a key man playing a predominant role. Most of sole proprietor companies and family businesses will fall into this segment; and

Retail Banking: manages banking requirements of individuals and salary earning customers e.g. current accounts, savings, credit and debit cards, consumer loans and home loans (Construction and Mortgages)

Majority of the Bank revenues are derived from interest income and the executive committee relies primarily on net interest revenue to assess the performance of the segments, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year. There were no intersegment transfers.

Management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the executive committee. Segment assets and liabilities comprise operating assets and liabilities, but exclude items such as taxation, property and equipment and other assets not directly related to the segments.

Non-current asset additions are included in notes 23 and 24.

The Bank does not suffer concentration risk and there is no single customer who contributes more than 15% of the revenue.

All the segments are within Rwanda.

Statement of financial position

2018:	**Corporate and institutional banking Frw'000**	**Business banking Frw'000**	**Retail Banking Frw'000**	**Total Frw'000**
ASSETS				
Loans and advances to customers	87,804,286	32,182,770	49,036,996	169,024,052
LIABILITIES				
Customer deposits	173,095,505	18,209,563	34,130,196	225,435,264
2017:				
ASSETS				
loans and advances to customers	79,301,427	23,827,644	43,384,302	146,513,373
LIABILITIES				
Customer deposits	161,281,242	15,454,853	32,394,613	209,130,708

40. Segmental Reporting (continued)

Statement of comprehensive income

2018	Corporate and institutional banking Frw'000	Business banking Frw'000	Retail Banking Frw'000	Total Frw'000
Interest and similar income	16,083,467	5,895,048	8,982,306	30,960,821
Interest and similar expense	(8,242,274)	(867,082)	(1,625,175)	(10,734,531)
Net fees and commissions	1,255,052	460,011	700,922	2,415,985
Net foreign exchange income	1,674,065	613,592	934,933	3,222,590
Operating income	**10,770,310**	**6,101,569**	**8,992,986**	**25,864,865**
Other income	479,276	175,668	267,667	922,611
Impairment of financial assets	(541,022)	(198,300)	(302,150)	(1,041,472)
Employee benefit	(4,185,365)	(1,534,054)	(2,337,445)	(8,056,864)
Depreciation and amortization	(727,089)	(266,498)	(406,065)	(1,399,652)
Other operating expenses	(2,842,618)	(1,041,900)	(1,587,548)	(5,472,066)
Total operating expenses	**(7,755,072)**	**(2,842,452)**	**(4,331,058)**	**(14,928,582)**
Profit before tax	**2,953,492**	**3,236,485**	**4,627,445**	**10,817,422**
2017:				
Interest and similar income	12,277,154	4,394,371	7,811,475	24,483,000
Interest and similar expense	(6,064,207)	(99,537)	(754,684)	(6,918,428)
Net fees and commissions	1,246,434	564,599	849,197	2,660,230
Net foreign exchange income	1,737,582	1,268,465	119,782	3,125,829
Operating income	**9,196,963**	**6,127,898**	**8,025,770**	**23,350,631**
Net gain on financial assets at FVTPL	(171,159)	(16,401)	(34,379)	(221,939)
Other income	391,718	37,536	78,679	507,933
Impairment of financial assets	(256,763)	(224,357)	(117,625)	(598,745)
Employee benefit	(3,757,415)	(1,164,327)	(2,210,469)	(7,132,211)
Depreciation of property & equipment	(510,582)	(158,217)	(285,748)	(954,547)
Amortization of intangible assets	(46,634)	(14,450)	(26,098)	(87,182)
Other operating expenses	(2,682,823)	(831,338)	(1,501,448)	(5,015,609)
Total operating expenses	**(6,997,454)**	**(2,168,332)**	**(4,023,763)**	**(13,189,549)**
Profit before tax	**2,163,305**	**3,756,344**	**3,928,682**	**9,848,331**

41. IFRS 9 Transition on the date of initial application

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 31 December 2017.

	31st December 2017			1st January 2018		
In thousands of Frw	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Frw`000	Re-classification Frw`000	Re-measurement* Frw`000	New carrying amount under IFRS 9 Frw`000
Financial assets						
Cash and balances with National Bank of Rwanda			25,697,111			25,697,111
Loans and advances to banks	Loans and receivables (amortised cost)	Amortised cost	25,223,803			25,223,803
Loans and advances to customers			146,513,373		(134,199)	146,379,174
Financial assets at fair value through profit or loss (FVTPL)	FVTPL	FVTPL	68,510			68,510
	Held for trading - FVTPL	FVTPL	17,920,975	(17,571,976)	(348,999)	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	Available for sale -FVOCI	FVOCI	826	5,283,492	-	5,284,318
Other financial assets at amortised cost	Held to maturity (amortised cost)	Amortised cost	19,812,580	12,288,484	-	32,101,064
Due from group companies	Loans and receivables (amortised cost)	FVOCI	5,580,368	-	-	5,580,368
Total financial assets			**240,817,546**	**-**	**(483,198)**	**240,334,348**

On adoption of IFRS 9, the board approved for Financial assets at FVOCI amounting to Frw 5,283,492,000 to be reclassified from FVTPL to FVOCI with no re-measurement. Related fair value gains amounting to Frw 145,909,000 were subsequently appropriated from retained earnings to the fair value reserve.

Also included in the financial assets at amortised costs are financial assets amounting to Frw 12,288,488,000 that were previously carried at fair value through profit or loss but reclassified on adoption of IFRS 9. The estimated fair value of these assets as at 31st December 2018 would have been Frw 12,285,255,000 had they not been reclassified.

41. IFRS 9 Transition on the date of initial application (continued)

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

In thousands of Frw	31st December 2017 Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Frw`000	1st January 2018 Re-classification Frw`000	Re-measurement* Frw`000	New carrying amount under IFRS 9 Frw`000
Financial assets						
Deposits from banks	Amortised cost	Amortised cost	28,600,057	-	-	28,600,057
Items in the course of collection			1,978,173	-	-	1,978,173
Deposits from customers			177,422,107	-	-	177,422,107
Due to group companies			3,108,543	-	-	3,108,543
Other liabilities			4,923,385	-	-	4,923,385
Long term debt			6,617,003	-	-	6,617,003
Total financial liabilities			**222,649,268**			**222,649,268**

The application of the Bank's policies in line with IFRS 9 did not result in any reclassification or measurements of the financial liabilities.

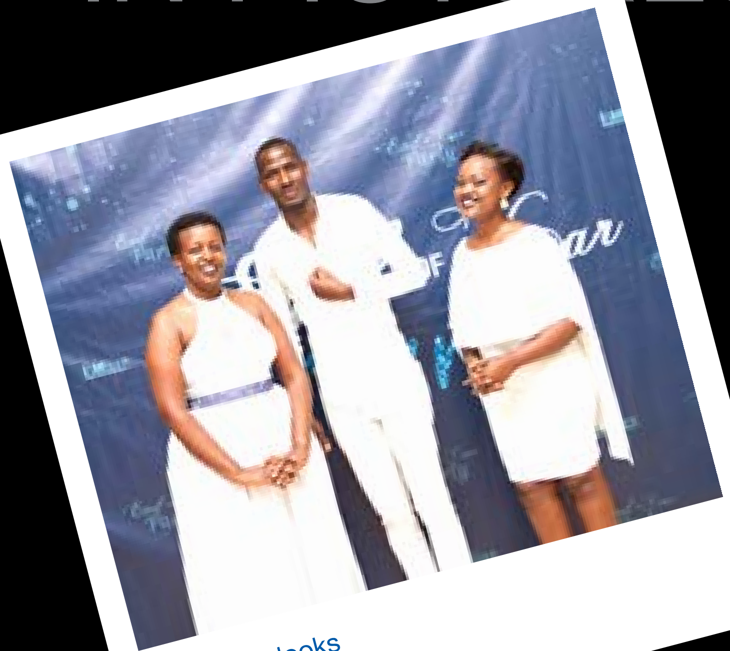
(b) Day one IFRS 9 transition adjustment on impairment loss allowance

	12 month ECL (Stage 1) Frw'000	Lifetime ECL not credit impaired (Stage 2) Frw'000	Total Frw'000
Day one adjustment			
Loans and advances to Customers at amortised cost	24,651	12,944	37,595
Loan commitments and financial guarantee contracts	93,040	3,564	96,604
	117,691	**16,508**	**134,199**

Other Disclosures

ITEMS	Figures in Frw'000
1. Off Balance sheet items	**34,873,212**
2. Non performing Loans	
(a) Non performing Loans	5,278,387
(b) Non performing Loans Ratio	2.53%
3. Capital Strength	
a. Core Capital (Tier 1)	28,894,613
b. Supplementary Capital (Tier 2)	9,438,933
c. Total Capital	38,333,546
d. Total Risk weighted assets	222,343,194
e. Core Capital/Total risk weighted assets ratio	13.00%
f. Tier 1 ratio	13.00%
g.Total Capital/Total risk weighted assets ratio	17.24%
h. Tier 2 Ratio	17.24%
4. Liquidity	
a. Liquidity Coverage Ratio	226.0%
5. Insider Lending	
a. Loans to Directors, shareholders and subsidiaries	37,864
b. Loans to Employees	3,189,781
6. Management and Board Composition	
a. Number of Board members	10
b. Number of executive directors	2
c. Number of Non- executive directors	8
d. Number of female directors	2
e. Number of male directors	8
f. Number of Executive committee	11
g. Number of female in the Executive committee	4
h. Number of male in the Executive committee	7

2018
IN PICTURES



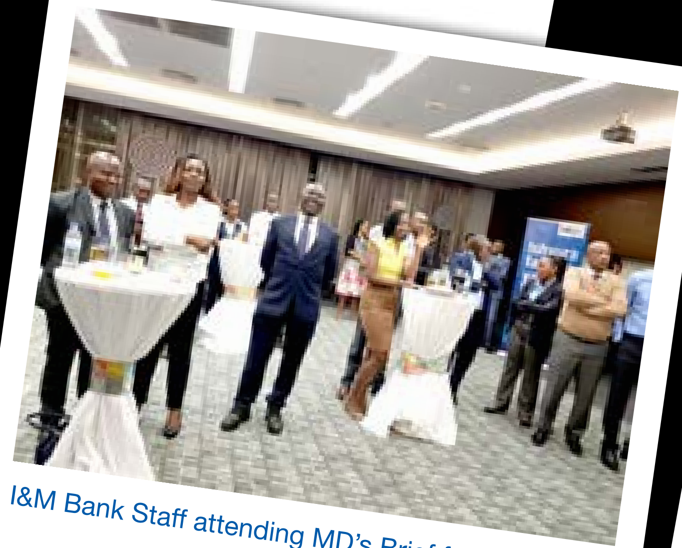
Staff Party looks

I&M Ladies at the Staff Party

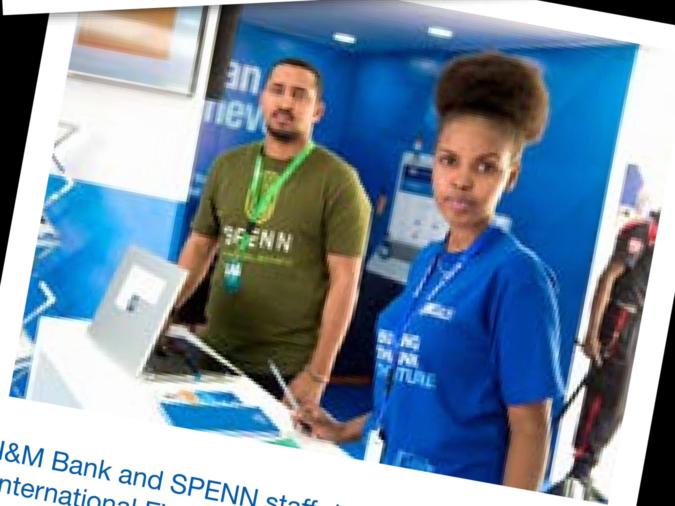
She looks protected!

I&M Bank Rwanda Traditional Troop after putting on a wonderful show.

I&M Bank Staff During Muganda Activity in Rubavu and handover of 2000 Mutuelle de sante to Busigari Sector residents.

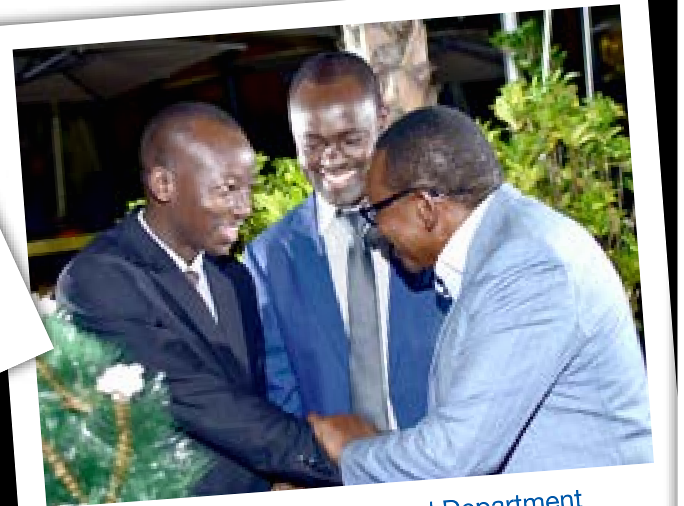


I&M Bank Staff attending MD's Brief for the Q3



I&M Bank and SPENN staff during the PSF international EXPO 2018

MD Visit to Rubavu Branch: Norbert Mwanangu, Head of Retail Banking presenting I&M Products and service to customers in Rubavu



Nicolas Uwimana, Head of Legal Department during a get together with Bank's lawyers

MD visit to HUYE Branch: Customers asking Questions about I&M Products and Services

I&M Bank Kids dancing at their party.

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