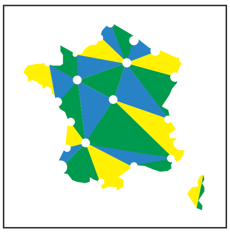
RWANDA

FINANCIAL STATEMENTS AT 31 DECEMBER 2017



BANK OF AFRICA
Groupe BMCE BANK

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Opening date
October 2015

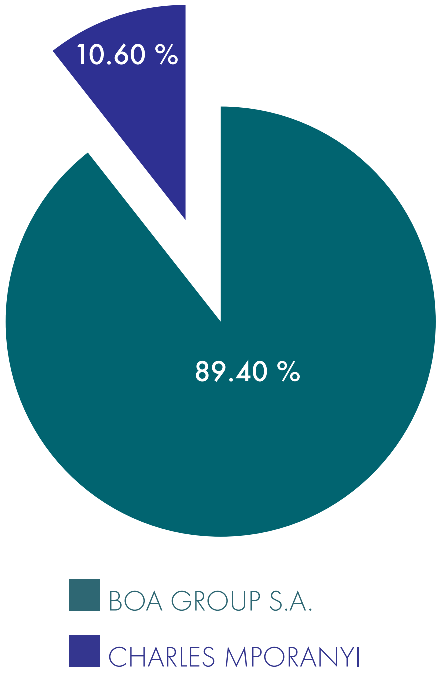
Capital as at 31/12/2017
Rwanda Francs (RWF) 6,581 million

Board of Directors as at 31/12/2017
Louis RUGERINYANYE, Chairman
Amine BOUABID
Vincent de BROUWER
Charles MPORANYI
Emmanuel NTAGANDA
Abderrazzak ZEBDANI

Auditors
PRINCEWATERHOUSECOOPERS
RWANDA LIMITED

Registered office
BANK OF AFRICA
KN2 Nyarugenge - Chic Complex
P.O. Box: 265, Kigali - RWANDA
Tel: (250) 788 136 205
Swift: AFRWRWRW

Principal shareholders as at 31/12/2017



info@boarwanda.com
www.boarwanda.com

Key figures 2017 (in RWF million)

Activity	2016	2017	Variation
Deposits	9,438	18,106	92 %
Loans	8,243	12,744	55 %
Number of branches	12	14	17 %
Structure			
Total assets	16,646	26,364	58 %
Shareholders' equity	6,774	4,471	-34 %
Number of employees	131	158	22 %
Income			
Net operating income	1,603	2,041	21 %
Operating expenses (includind depreciation and amortization)	2,031	4,153	96 %
Gross operating profit	-428	-2,122	413 %
Cost of risk in value (*)	-155	-215	39 %
Net Income	-561	-2,302	310 %
Operating ratio	126.7 %	203.5 %	
Cost of risk	-2.2 %	-2.1 %	
Return on Assets (ROA)	-3.5 %	-10.7 %	
Return on Equity (ROE)	-8.0 %	-41.0 %	
Capital adequacy ratio			
Tier 1	6,541	3,904	
Tier 2			
Risk Weighted Asset (RWA)	11,236	15,302	
Tier 1 + Tier 2 / RWA	58.2 %	25.5 %	

(*) Including general provision

+ 58 %
Total assets

Deposits
9,438 RWF million
2016
18,106 RWF million
2017

Loans
+ 55 %

Net operating income
+ 21 %

Financial analysis

For BANK OF AFRICA – RWANDA (BOA-RWANDA) 2017 was marked by an **investment process** begun in 2017 and a **decrease in net income** of 510%, due to overly high fixed costs. The network did nevertheless expand, with the opening of two new branches.

Its structure has been strengthened, with the **total balance sheet up 58%** thanks to **an increase in customer loans and fixed assets** of 55% and 48% respectively. **Deposits grew** 118%.

Headcount increased, leading to an **increase in operating expenses** of 104%. Depreciation and amortisation expenses were up by 185% year-on-year, mainly as a result of **increased investments**.

Loans were up 55% compared to the previous year, resulting in a provisioning rate of 39%. The cost of risk was **down slightly**, by 0.1% (from -2.2% to -2.1%).

BANK OF AFRICA – RWANDA's objective is still **to give stability to the network**, while continuing to **attract deposits and loans, control operating expenses** and increase net operating income to **improve profitability.**

Registered office

The address of the registered office is:

BANK OF AFRICA - RWANDA Limited
KN 2 Nyarugenge, Chic Complex
Nyarugenge, Legacy House
P.O. Box 265
Kigali
Rwanda

Bankers

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

Bank of Kigali Limited
P.O. Box 175
Kigali, Rwanda

Cogebanque Limited
P.O. Box 5230
Kigali, Rwanda

I&M Bank (Rwanda) Limited
P.O. Box 354
Kigali, Rwanda

Auditor

PricewaterhouseCoopers Rwanda Limited
5th Floor, Blue Star House,
Blvd de l'Umuganda, Kacyiru
P;O Box 1495
Kigali, Rwanda
Tel.: +250 (252) 588203/4/5/6
Website: www.pwc.com/rw

Directors' Report

For the year ended 31 December 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of Bank of Africa Rwanda Limited. (the "Bank").

Principal activities

The principal activity of BANK OF AFRICA RWANDA limited is provision of banking services. The bank has a total of 14 branches and 1 outlet in Rwanda.

Results and dividend

The net loss for the year of Frw 2,302 million (2016: Frw 561 million) has been taken to retained earnings. The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: nil).

Directors

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

Directors	Position
Louis Rugerinyange	**Chairman**
Emmanuel Ntaganda	Director
Charles Mporanyi	Director
Amine Bouabid	Director
Vincent De Brouwer	Director
Abderrazzak Zebdani	Director

Auditors

The bank's auditor, PricewaterhouseCoopers Rwanda Limited were appointed in the year in accordance with the Law No 27/2017 of 31 May 2017 governing companies and Regulation No. 04/2009 on accreditation and other requirements for external auditors of Banks, Insurers and Insurance Brokers, and have expressed their willingness to continue in office.

By order of the board

Mrs. Louis Rugerinyange
Director

26^{th} April 2018

Statement of Directors' Responsibilities

For the year ended 31 December 2017

Law No 27/2017 of 31 May 2017 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 Law No 27/2017 of 31 May 2017 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.

Mrs. Louis Rugerinyange	**Mrs. Charles Mporanyi**
Director	Director

26th April 2018

Report of the independent auditor

For the year ended 31 December 2017

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bank of Africa Rwanda Limited (the "Bank" or "Company") as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Law No 27/2017 of 31 May 2017 governing companies.

What we have audited

The financial statements of the Bank set out on pages 7 to 52 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of 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 comprising significant accounting policies and other explanatory information.

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.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, the Directors' Report and Statement of Directors' Responsibility but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of Law No 27/2017 of 31 May 2017 governing companies, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the company 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 Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 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 Company 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.

Report on other legal and regulatory requirements

Law No 27/2017 of 31 May 2017 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 Company;

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 Company, so far as appears from our examination of those books; and

IV. We have communicated to the Company'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, Kigali.

Moses Nyabanda

Director

March 2018

Financial Statements

Statement of comprehensive income

	NOTES	2017 FRW' 000	2016 FRW' 000
INTEREST INCOME	5	2,415,599	1,795,822
INTEREST EXPENSE	6	(614,708)	(320,143)
NET INTEREST INCOME		1,800,891	1,475,679
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16(B)	(214,572)	(154,561)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		1,586,319	1,321,118
FEE AND COMMISSION INCOME	7	136,481	133,138
NET FOREIGN EXCHANGE GAINS/(LOSSES)	8	85,462	(6,222)
OTHER OPERATING INCOME	9	42,427	104,779
OPERATING EXPENSES	10	(4,153,118)	(2,103,925)
LOSS BEFORE INCOME TAX		(2,302,429)	(550,437)
INCOME TAX EXPENSE	12		(10,951)
LOSS FOR THE YEAR		(2,302,429)	(561,388)
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,302,429)	(561,388)

THE NOTES ON PAGES 15 TO 49 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Statement of Financial Position

	NOTES	2017 FRW' 000	2016 FRW' 000
ASSETS			
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	13	4,736,266	1,813,359
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	14	2,924,884	4,182,149
DEPOSITS DUE FROM GROUP COMPANIES	28	489,006	360,428
GOVERNMENT SECURITIES	15(A)	2,526,043	-
LOANS AND ADVANCES TO CUSTOMERS	16	12,743,525	8,242,509
OTHER ASSETS	17	492,683	271,569
CURRENT INCOME TAX	12	96,653	188,298
PROPERTY AND EQUIPMENT	18	1,780,548	1,354,889
INTANGIBLE ASSETS	20	564,819	233,095
TOTAL ASSETS		26,354,427	16,646,296
LIABILITIES			
CUSTOMER DEPOSITS	21	18,106,442	9,438,343
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	21	2,156,575	-
DEPOSITS DUE TO GROUP COMPANIES	28	300,888	-
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	15(B)	10,134	-
OTHER BORROWINGS	22	300,000	25,729
OTHER LIABILITIES	23	1,009,147	408,554
TOTAL LIABILITIES		21,873,051	9,872,626
EQUITY			
SHARE CAPITAL	25	6,580,870	6,580,870
SHARE PREMIUM	25	871,740	871,740
RETAINED EARNINGS/(ACCUMULATED LOSSES)		(2,981,369)	(678,940)
TOTAL EQUITY		4,471,241	6,773,670
TOTAL EQUITY AND LIABILITIES		26,354,427	16,646,296

THE NOTES ON PAGES 15 TO 49 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Statement of Changes in Equity

	SHARE CAPITAL FRW' 000	SHARE PREMIUM FRW' 000	RETAINED EARNINGS FRW' 000	TOTAL FRW' 000
YEAR ENDED 31 DECEMBER 2016				
AT 1 JANUARY 2016	6,580,870	871,740	(117,552)	7,335,058
COMPREHENSIVE INCOME :				
LOSS FOR THE YEAR	-	-	(561,388)	(561,388)
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE LOSS	-	-	(561,388)	(561,388)
AT END OF YEAR	6,580,870	871,740	(678,940)	6,773,670
YEAR ENDED 31 DECEMBER 2017				
AT 1 JANUARY 2017	6,580,870	871,740	(678,940)	6,773,670
COMPREHENSIVE INCOME :				
LOSS FOR THE YEAR	-	-	(2,302,429)	(2,302,429)
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE LOSS	-	-	(2,302,429)	(2,302,429)
AT END OF YEAR	6,580,870	871,740	(2,981,369)	4,471,241

THE NOTES ON PAGES 15 TO 49 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Statement of cash flows

	NOTE	2017 FRW' 000	2016 FRW' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
LOSS BEFORE INCOME TAX		(2,302,429)	(550,437)
ADJUSTMENTS FOR:			
DEPRECIATION ON PROPERTY AND EQUIPMENT	18	287,690	85,698
AMORTIZATION OF INTANGIBLE ASSETS	20	67,657	39,112
STAFF LEAVE PROVISION		9,740	64,271
FINANCE COSTS		47,632	11,484
LOSS/(GAIN) ON DISPOSAL OF ASSETS		109,350	(1,077)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		(1,780,360)	(350,949)
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
INCREASE IN LOANS AND ADVANCES		(4,501,016)	(2,606,107)
INCREASE IN CASH RESERVE REQUIREMENT		(537,466)	(101,382)
INCREASE IN OTHER ASSETS		(221,114)	(48,875)
INCREASE IN CUSTOMER DEPOSITS		8,668,099	1,853,498
INCREASE IN DEPOSITS DUE TO OTHER BANKS		300,888	-
INCREASE IN AMOUNTS DUE TO GROUP COMPANIES		258,535	-
INCREASE IN OTHER LIABILITIES		600,593	116,116
(INCREASE)/DECREASE IN DUE FROM OTHER BANKING INSTITUTIONS		(272,192)	1,514,446
INCREASE IN DERIVATIVES		10,134	-
CASH GENERATED FROM OPERATIONS		4,424,141	376,747
INCOME TAX PAID		(41,433)	(161,065)
NET CASH FROM OPERATING ACTIVITIES		4,382,708	215,682
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	18	(822,698)	(1,396,739)
PURCHASE OF INTANGIBLE ASSETS	20	(12,920)	(259,433)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		42,000	1,726
NET CASH UTILISED IN INVESTING ACTIVITIES		(793,618)	(1,654,446)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES:			
PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS		274,271	(144,928)
INTEREST PAID		(47,632)	(11,484)
NET CASH GENERATED/(UTILISED) FROM FINANCING ACTIVITIES		226,639	(156,412)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,815,729	(1,595,176)
CASH AND CASH EQUIVALENTS AT START OF YEAR		4,815,729	6,443,151
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	8,663,704	4,847,975

Notes to the Financial Statements

1. Corporate information

BANK OF AFRICA - RWANDA Limited is a bank licensed to provide retail banking services to corporate, small and medium size enterprises and retail customers in various parts of Rwanda.

The Bank is a limited liability company incorporated and domiciled in Rwanda

2. Summary of significant accounting policies

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

2.1. Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Rwandan Francs, rounded to the nearest million (Frw'000).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the company for the financial year beginning 1 January 2017:

IAS 7 'Cash Flow Statements': Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a net debt reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out above.

(ii) Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and measurement is effective for periods beginning on or after 1 January 2018. IFRS 9.The directors expected impairment requirements, will lead to significant changes in the accounting for financial instruments. The Bank does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7. The Bank's current assessment on the impact of this standard is as follows:

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37). In addition, IAS 39 requires the impairment of available for sale debt to be based on the fair value loss rather than estimated future cashflows as for amortised cost assets. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope for the Bank being a stand-alone reporting entity accounts.

The measurement of expected loss will involve increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

It is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts will be higher.

The implementation programme for the new standard is underway including advanced validation of the various models and assumptions. At this point it is not practical to disclose the precise financial impact estimates. Based on the advanced testing carried out so far, directors are of the view that total impairment will increase between 10% and 15% . A full impact will be disclosed in the Bank's 2018 annual report.

Key concepts and management judgements

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements will continue to be refined as part of the validation process and include:

a) Determining a significant increase in credit risk since initial recognition

IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition or which are credit impaired.

The Bank expects to estimate when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Quantitative assessments will be based on past due information as disclosed in d) below.

Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. This is subject to a minimum of 12 months' full performance including timely receipt of all payments over that period, for exposures that have been restructured or granted forbearance or concessions.

b) Forward-looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, a range of forward-looking economic scenarios will be applied.

c) Definition of default and credit impaired assets

The definition of default for the purpose of determining expected credit losses is expected to be aligned to the rebuttable assumptions in the Standard. The performing accounts will be those within the 0-29 days and impairment will be computed over a 12 month horizon, underperforming assets in stage 2 will be those assets past due between 30 to 89 days and non-performing assets in stage 3 will be those assets which are past due for more than 90days. Impairment for stage 2 and 3 will be computed over the remaining expected life of the asset.

d) Expected life

Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolver financial instruments that include both a drawn and an undrawn component where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period, such as credit cards and overdrafts. The expected life for these revolver facilities is expected to be behavioural life.

e) Modelling techniques

Expected credit losses (ECL) are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD).

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1. The business model within which financial assets are managed, and;
2. Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement.

The accounting for financial liabilities is largely unchanged as all liabilities will be measured at amortised cost.

Based on the ongoing assessment of business models across various portfolios, and a review of contractual cash flow features for material financial assets. There are some classification changes expected but they are unlikely to be significant the Bank.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exist between the hedged item and the hedging instrument.

Based on analysis performed, the Bank does not expect an impact as it does not currently apply or envisage to apply hedge accounting during 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard is not expected to have a significant impact on the Bank.

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. The quantitative impact will be assessed during 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Rwandan francs ("Frw") which is the Bank's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency 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 Statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

2.3. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the Statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4. Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

2.5. Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and advances; held-to-maturity financial assets and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition. Currently the bank does not have financial assets at fair value through profit or loss.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit and loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

(iv) Available-for-sale financial assets

Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any other categories.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of comprehensive income in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Statement of comprehensive income as ''gains and losses from investment securities''.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

2.6. Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the Statement of comprehensive income.

2.7. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.8. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.9. Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i). significant financial difficulty of the issuer or obligor;

(ii). a breach of contract, such as a default or delinquency in interest or principal payments;

(iii). the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(iv). it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; (e) the disappearance of an active market for that financial asset because of financial difficulties; or

(v). observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(vi). adverse changes in the payment status of borrowers in the portfolio; and

(vii). national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 months and 6 months.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of comprehensive income. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges whilst impairment charges relating to investment securities are classified in 'Net gains/ (losses) on investment securities'. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of comprehensive income.

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS as set out above, the Bank is required by the National Bank of Rwanda to estimate losses on loans and advances as follows:

1. Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the National Bank of Rwanda, as follows:

    a) Substandard loans with arrears period from 90 to 179 days – 20%

    b) Doubtful loans and advances with arrears period from180 to 364 days – 50%; and

    c) Loss with arrears period exceeding 365 days – 100% provision

2. General provision of 1% of credit facilities with arrears period from 0-30 days (including off-balance sheet items) and 3% of credit facilities with arrears period from 30-89 days .

In the event that provisions computed in accordance with National Bank of Rwanda exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of comprehensive income.

Impairment losses recognised in the Statement of comprehensive income on equity instruments are not reversed through the Statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Statement of comprehensive income.

2.10. Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

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

REFURBISHMENT	10 YEARS
COMPUTERS	4 YEARS
MOTOR VEHICLES, FIXTURES, FITTINGS AND EQUIPMENT	4 YEARS

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Bank assesses at each balance sheet date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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 are determined by comparing proceeds with the carrying amount. These are included in "other income" in the Statement of comprehensive income.

2.11. Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

2.12. Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Income tax payable on taxable profits is recognized as an expense for the year in which the profits arise.

Income tax recoverable on tax allowable losses is recognized as a current tax asset only to the extent that it is regarded as recoverable and offset against taxable profits arising in the current or future reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2.13. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

2.14. Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for all its permanent confirmed employees. The Bank and all its employees also contribute to the Rwanda Social Security Board, which is a defined contribution scheme.

The Bank's contributions to the defined contribution schemes are charged to the Statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

2.15. Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

2.16. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowings using the effective interest method.

2.17. Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent remeasurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

2.18. Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2.19. Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the Bank as lessee

To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) With the Bank as lessor

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the Statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Bank has not leased out any assets as lessor.

2.20. Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

2.21. Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

3.1. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. As at 31 December 2017, an IAS 39 provision was computed for unidentified and identified impairment. Impairment loss was measured on the basis of the present value of estimated future cash flows discounted at the original effective interest rate. Future expected cash flows were determined based on the value of the collateral held for which the bank's interest was registered.

For all loans not identified as individually impaired and for those identified as being impaired but classified as insignificant, an impairment provision was computed using the existing bank's historical loss experience to arrive at the credit loss ratio. A loss ratio of 0.84% was obtained using bank data over a period of 3 years.

3.2. Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. Treasury department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

4.1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team in the Risk department, which reports regularly to the Board of Directors.

(i) Credit risk measurement

Loans and advances (including commitments and guarantees);

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown below:

Bank's internal ratings scale

BANK'S RATING	DESCRIPTION OF THE GRADE
1	STANDARD AND CURRENT
2	WATCH
3	SUBSTANDARD
4	DOUBTFUL
5	LOSS

(ii) Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over communal and/or business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2017	2016
	FRW' 000	FRW' 000
PLACEMENTS WITH OTHER BANKS (NOTE 14)	3,019,946	4,182,149
AMOUNTS DUE FROM GROUP COMPANIES (NOTE 28)	393,944	360,428
LOANS AND ADVANCES TO CUSTOMERS (NOTE 16))	12,743,525	8,242,509
GOVERNMENT SECURITIES (NOTE 15(A))	2,526,043	-
OTHER ASSETS (NOTE 17)	492,683	271,569
TOTAL	19,176,141	13,056,655
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
ACCEPTANCES AND LETTERS OF CREDIT	1,586,559	393,594
TOTAL EXPOSURE	20,762,700	13,450,249

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 61% of the total maximum exposure is derived from loans and advances to banks and customers. 29% represents investments in debt securities.

Loans and advances to customers, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 78% of the loans and advances portfolio are neither past due nor impaired
- 92% of the loans and advances portfolio is not impaired
- 74% of the loans and advances portfolio are backed by collateral

Loans and advances

	2017 FRW' 000	2016 FRW' 000
NEITHER PAST DUE NOR IMPAIRED	10,280,105	7,502,086
PAST DUE BUT NOT IMPAIRED	1,809,829	196,160
IMPAIRED	1,034,604	764,757
GROSS	13,124,538	8,463,003
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 16)	(381,013)	(220,494)
NET AMOUNT	12,743,526	8,242,509

Loans and advances 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 by reference to the internal rating system adopted by the Bank:

	2017 FRW' 000	2016 FRW' 000
STANDARD AND WATCH	10,280,105	7,502,086

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances greater than 90 days are not considered impaired if there is sufficient collateral to cover the facility. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2017 FRW' 000	2016 FRW' 000
PAST DUE BUT NOT IMPAIRED	1,809,829	169,160

Individually impaired

Of the total gross amount of impaired loans and advances, the following amounts have been individually assessed:

	2017 FRW' 000	2016 FRW' 000
INDIVIDUALLY ASSESSED IMPAIRED LOANS	1,034,604	764,757
FAIR VALUE OF COLLATERAL HELD	2,768,221	1,603,677

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans.

Repossessed collateral

During 2017, the Bank did not re-possess any collateral held as security. The bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property not sold by year end is classified in the balance sheet within "other assets".

4.2. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The National Bank of Rwanda requires that the Bank maintains a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

	1-3 MONTHS FRW' 000	3-12 MONTHS FRW' 000	1-5 YEARS FRW' 000	OVER 5 YEARS FRW' 000	TOTAL FRW' 000
AT 31 DECEMBER 2017					
LIABILITIES					
CUSTOMER DEPOSITS	7,898,748	10,173,149	34,545	-	20,521,552
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	2,156,575	-	-	2,156,575
AMOUNTS DUE TO GROUP COMPANIES	300,888	-	-	-	258,535
OTHER BORROWED FUNDS	300,000	-	-	-	300,000
OTHER LIABILITIES	1,009,147	-	-	-	1,705,633
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	9,507,783	12,329,724	34,545	-	21,873,052
ASSETS					
CASH AND BANK BALANCES WITH NATIONAL BANK OF RWANDA	4,736,266	-	-	-	4,736,266
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	1,847,138	1,077,746	-	-	2,924,884
AMOUNTS DUE FROM GROUP COMPANIES	489,006	-	-	-	393,944
LOANS AND ADVANCES TO CUSTOMERS	700,672	1,569,417	8,101,532	2,371,904	12,743,525
GOVERNMENT SECURITIES	-	2,526,043	-	-	2,526,043
OTHER ASSETS	492,683	-	-	-	492,683
TOTAL ASSETS (EXPECTED MATURITY DATES)	8,265,765	5,173,206	8,101,532	2,371,904	23,912,407
NET LIQUIDITY GAP	(1,243,018)	(7,156,518)	8,066,987	2,371,904	2,039,355
AT 31 DECEMBER 2016					
NET LIQUIDITY GAP	3,874,519	1,779,644	6,378,133	823,536	5,106,802

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	2017 USD FRW' 000	2016 TOTAL FRW' 000
ASSETS		
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	593,244	848,873
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	997,139	-
AMOUNTS DUE FROM GROUP COMPANIES	393,944	110,628
TOTAL ASSETS	1,984,327	959,501
LIABILITIES		
CUSTOMER DEPOSITS	2,669,435	362,087
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	-
AMOUNTS DUE TO GROUP COMPANIES	258,535	-
OTHER FINANCIAL LIABILITIES	711,126	-
TOTAL LIABILITIES	3,639,096	362,087
NET ON-BALANCE SHEET POSITION	(1,654,769)	597,414

At 31 December 2017, if the functional currency had strengthened/weakened by 5.4% against the foreign currencies with all other variables held constant, the pre-tax loss for the year would have been Frw 58 million (2016: Frw 57 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. The bank is managing interest rate risk by gap analysis.

Gap analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA and RSL. A positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2017, if the interest rates on interest bearing assets and liabilities had been 200 basis points higher/lower with all other variables held constant, the pre-tax loss for the year would have been Frw 96 million (2016: Frw 100 million) higher/lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	1-3 MONTHS FRW' 000	3-12 MONTHS FRW' 000	OVER 1 YEAR FRW' 000	NON-INTEREST BEARING	TOTAL
AT 31 DECEMBER 2017					
ASSETS					
CASH AND BANK BALANCES WIT NATIONAL BANK OF RWANDA	-	-	-	4,736,266	4,736,266
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	1,847,137	1,077,746	-	-	4,736,266
AMOUNTS DUE FROM GROUP COMPANIES	489,006	-	-	-	489,006
LOANS AND ADVANCES TO CUSTOMERS	700,672	1,569,417	10,473,436	-	12,743,525
GOVERNMENT SECURITIES	2,526,043	-	-	-	
OTHER ASSETS	-	-	-	492,683	492,683
TOTAL ASSETS	5,562,859	2,647,163	10,473,436	5,228,949	23,912,407
LIABILITIES					
CUSTOMER DEPOSITS	-	9,949,159	-	8,157,283	18,104,442
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	2,156,575	-	-	2,156,575
AMOUNTS DUE TO GROUP COMPANIES	300,888	-	-	-	300,888
OTHER BORROWED FUNDS	300,000	-	-	-	300,000
OTHER LIABILITIES	-	-	-	1,009,147	1,009,147
TOTAL LIABILITIES	600,888	12,105,734	-	9,862,916	21,873,052
INTEREST RATE SENSITIVITY GAP	4,961,970	(9,458,570)	10,473,436		
AT 31 DECEMBER 2016					
INTEREST RATE SENSITIVITY GAP	3,114,997	2,226,058	3,062,407		

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

4.4. Fair values of financial assets and liabilities

The fair value of held-to-maturity investment securities, loans and advances and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the balance sheet date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable on unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy required the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	LEVEL 1 FRW' 000	LEVEL 2 FRW' 000	LEVEL 3 FRW' 000	TOTAL FRW' 000
ASSETS AND LIABILITIES MEASURED AT FAIR VALUE				
AT 31 DECEMBER 2017	-	10	-	10

(e) Financial instruments by category

	LOANS AND RECEIVABLES FRW' 000	HELD TO MATURITY FRW' 000	TOTAL FRW' 000
AT 31 DECEMBER 2017			
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	4,736,266	-	4,736,266
PLACEMENTS WITH OTHER BANKS	2,921,884	-	2,924,884
AMOUNTS DUE FROM GROUP COMPANIES	489,006	-	489,006
LOANS AND ADVANCES TO CUSTOMERS	12,743,525	-	12,743,525
INVESTMENT SECURITIES: - HELD TO MATURITY	-	2,526,043	2,526,043
OTHER ASSETS	492,683	-	492,683
TOTAL LIABILITIES	21,386,364	2,526,043	23,912,407
AT 31 DECEMBER 2016			
ASSETS AS PER BALANCE SHEET			
CASH AND BALANCES WITH CENTRAL BANK	1,813,359	-	1,813,359
PLACEMENTS WITH OTHER BANKS	4,182,149	-	4,182,149
AMOUNTS DUE FROM GROUP COMPANIES	360,428	-	360,428
LOANS AND ADVANCES TO CUSTOMERS	8,242,509	-	8,242,509
OTHER ASSETS	271,569	-	271,569
TOTAL	14,870,014	-	14,870,014
AT 31 DECEMBER 2016			
LIABILITIES AS PER BALANCE SHEET – AT AMORTISED COST			
CUSTOMER DEPOSITS		18,106,442	9,438,343
DEPOSITS FROM OTHER BANKS		2,156,575	-
AMOUNTS DUE TO GROUP COMPANIES		300,888	-
OTHER LIABILITIES		1,009,147	408,554
OTHER BORROWED FUNDS		310,134	25,729
TOTAL		21,883,186	9,872,626

4.6. Capital management

The Bank monitors the adequacy of its capital using ratios established by National Bank of Rwanda. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt, equity securities. Assets are weighted according the amount of capital deemed necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied, for example cash and money market instruments have zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount. Certain asset categories have intermediate weightings.

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 Central Bank;
- 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.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a monthly basis.

The Central Bank requires each bank to:

a) hold the minimum level of regulatory capital of Frw 5 billion;

b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%; and

c) maintain total capital of not less than 15% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is comprised of Tier 1 capital (core capital): share capital, share premium, prior year's retained profits, net-after tax profits current year – to – date (50% only) less deductions Goodwill and other intangible assets, current year losses, prohibited loans to insiders, Deficiencies in provisions for losses and other deductions as determined by Central Bank.

Tier 2 capital (Supplementary capital) is comprised of 25% of revaluation reserves on fixed assets, subordinated debt, permanent debt instruments and any other capital as may be determined by the Central Bank.

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2017 and 2016 determined in accordance with National Bank of Rwanda regulatory returns.

4.7. Capital management

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

	2017 FRW' 000	2016 FRW' 000
TIER 1 CAPITAL		
ORDINARY SHARE CAPITAL	6,580,870	6,580,870
SHARE PREMIUM	871,740	871,740
RESERVES:		
PRIOR YEARS' RETAINED EARNINGS	(678,940)	(117,552)
LESS:		
INTANGIBLE ASSETS	(564,819)	(233,095)
CURRENT YEAR LOSSES	(2,302,429)	(561,388)
PROHIBITED LOANS TO INSIDERS	(2,134)	-
TIER 1 CAPITAL	3,904,288	6,540,575
TIER 2 CAPITAL		
REVALUATION RESERVE	-	-
TOTAL CAPITAL	3,904,288	6,540,575
RISK-WEIGHTED ASSETS	15,301,818	11,236,123
TOTAL MINIMUM REGULATORY CAPITAL EXPRESSED AS A % OF TOTAL RISK-WEIGHTED ASSETS	15%	15%
TOTAL CAPITAL EXPRESSED AS A % OF RISK-WEIGHTED ASSETS	25.5%	58.2%

5. Interest income

	2017 FRW' 000	2016 FRW' 000
LOANS AND ADVANCES	1,904,993	1,136,435
CREDIT RELATED FEES AND COMMISSION INCOME	231,198	121,031
GOVERNMENT SECURITIES	16,389	-
SHORT TERM PLACEMENTS	263,019	538,356
TOTAL	2,415,599	1,795,822

6. Interest expense

	2017 FRW' 000	2016 FRW' 000
CUSTOMER DEPOSITS AND DEPOSITS BY OTHER BANKING INSTITUTIONS	567,076	308,659
BORROWED FUNDS	47,632	11,484
TOTAL	614,708	320,143

7. Net fee and commission income

	2017 FRW' 000	2016 FRW' 000
TRANSACTIONAL FEES AND COMMISSION INCOME	143,706	137,563
BANK CHARGES	(7,225)	(3,750)
TOTAL	136,481	133,813

8. Foreign exchange income

NET FOREIGN EXCHANGE INCOME/(LOSSES)	85,462	(6,222)

9. Other operating income

GAIN ON DISPOSAL OF ASSETS	29,831	1,077
WRITE BACK OF PROVISION FOR DEPOSITS	-	54,325
OTHER INCOME	12,596	49,377
TOTAL	42,427	104,779

10. Operating expenses

	2017 FRW' 000	2016 FRW' 000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	287,689	85,698
AMORTISATION OF INTANGIBLE ASSETS (NOTE 20)	67,657	39,112
EMPLOYEE BENEFITS EXPENSE (NOTE 11)	1,292,607	823,299
OFFICE RENT	542,947	364,617
CONSULTANCY FEES	114,731	257,886
COMMUNICATION FEES	29,782	94,697
OFFICE SUPPLIES EXPENSES	84,230	65,813
BOARD ALLOWANCES	98,549	49,329
PERDIEMS	32,175	42,680
PROFESSIONAL FEES	17,183	16,930
LEGAL FEES	21,190	9,730
ADVERTISING EXPENSES	41,889	64,201
TRAVEL EXPENSES	27,905	32,975
RATES AND TAXES	36,840	3,209
INSURANCE FEES	5,659	11,698
DEPOSIT GUARANTEE FUND (DGF)	6,353	-
DONATIONS	7,763	150
BOA GROUP CHARGES	762,628	-
BOA GROUP SUPPORT FEES	255,194	-
BOA GROUP IT FEES	202,326	-
OTHER OPERATING EXPENSES	146,397	141,901
TOTAL	4,158,118	2,103,925

11. Employee benefits expense

	2017 FRW' 000	2016 FRW' 000
SALARIES AND WAGES	1,067,539	638,972
RSSB CONTRIBUTIONS	55,473	32,648
MEDICAL EXPENSES	93,036	56,575
TRAINING	22,027	17,660
CONTRIBUTION TO STAFF LIFE INSURANCE	30,003	13,172
OTHER STAFF COSTS	24,529	64,272
TOTAL	1,292,607	823,299

12. Income tax expense

	2017 FRW' 000	2016 FRW' 000
CURRENT INCOME TAX CHARGE	-	-
DEFERRED INCOME TAX	-	10,951
TOTAL	-	10,951
LOSS BEFORE INCOME TAX	(2,302,429)	(550,437)
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2016; 30%)	(690,729)	(165,131)
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	-	-
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	54,911	66,115
UNDER/(OVER) PROVISION OF DEFERRED INCOME TAX IN PRIOR YEARS	(841)	
DEFERRED INCOME TAX ASSET NOT RECOGNISED	636,659	109,967
INCOME TAX CHARGE	-	10,951
TAX RECOVERABLE WAS AS FOLLOWS:		
AT START OF YEAR	(188,298)	(27,233)
CREDIT NOTE REFUND	133,078	-
CURRENT INCOME TAX CHARGE	-	10,951
WHT PAYMENTS DURING THE YEAR	(41,333)	(161,065)
AT END OF YEAR	(96,653)	(188,298)

13. Cash and balances with National Bank of Rwanda

	2017 FRW' 000	2016 FRW' 000
CASH ON HAND	1,712,976	1,106,407
BALANCES WITH NATIONAL BANK OF RWANDA	3,023,290	706,952
	4,736,266	1,813,359

14. Deposits and balances due from other banking institutions

	2017 FRW' 000	2016 FRW' 000
ACCOUNTS WITH OTHER BANKS	1,847,137	1,077,533
MONEY MARKET PLACEMENT	1,077,747	3,104,616
TOTAL	2,924,884	4,182,149

15. Government securities and derivatives

15.1. Held to maturity investments - at amortised cost

	2017 FRW' 000	2016 FRW' 000
TREASURY BILLS		
FACE VALUE MATURING WITHIN 90 DAYS	2,538,500	-
UNEARNED INTEREST	(12,457)	-
TOTAL	2,526,043	-

15.2. Derivatives

The Bank uses the following derivative instruments for non-hedging purposes which comprise solely of currency swaps.

Currency swaps held are commitments to exchange one set of cash flows for another and result in an economic exchange of currencies. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for lending activities.

The derivative instruments held become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The derivatives held by the Bank are classified as financial assets at fair value through the profit or loss. The fair values of derivative financial instruments held are set out below:

	2017 FRW' 000	2016 FRW' 000
CURRENCY SWAPS ASSETS	514,265	-
CURRENCY SWAPS LIABILITIES	(524,399)	-
NET (LIABILITY	(10,134)	-

16. Loans and advances to customers

16.1. Analysis of loan advances to customers by category

	2017 FRW' 000	2016 FRW' 000
TERM LOANS	11,577,229	7,620,627
OVERDRAFTS	1,547,309	842,376
GROSS LOANS AND ADVANCES	13,124,538	8,463,003
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(304,374)	(175,736)
- COLLECTIVELY ASSESSED	(76,639)	(44,758)
TOTAL	12,743,525	8,242,509

Movements in provisions for impairment of loans and advances are as follows:

	COLLECTIVELY ASSESSED FRW' 000	INDIVIDUALLY ASSESSED FRW' 000	TOTAL FRW' 000
YEAR ENDED 31 DECEMBER 2017			
AT 1 JANUARY	44,758	175,736	220,494
PROVISION FOR LOAN IMPAIRMENT	31,881	648,158	680,039
AMOUNTS RECOVERED DURING THE YEAR	-	(456,226)	(456,226)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	-	(63,294)	(63,294)
AT 31 DECEMBER 2017	76,639	304,374	381,013
YEAR ENDED 31 DECEMBER 2016			
AT 1 JANUARY	33,722	31,370	65,092
PROVISION FOR LOAN IMPAIRMENT	11,036	284,141	295,177
AMOUNTS RECOVERED DURING THE YEAR	-	(139,774)	(139,775)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	-	-	-
AT 31 DECEMBER 2016	44,758	175,736	220,494

16.2. Impairment losses charged to profit or loss

	2017 FRW' 000	2016 FRW' 000
PROVISION FOR LOAN IMPAIRMENT (NOTE 16 (A)	680,039	295,177
AMOUNTS RECOVERED DURING THE YEAR	(456,226)	(139,775)
RECOVERIES ON AMOUNTS WRITTEN OFF	(9,241)	(842)
TOTAL	214,572	154,561

17. Other assets

	2017 FRW' 000	2016 FRW' 000
RENT PREPAYMENTS	179,043	219,082
ADVANCES TO EMPLOYEES	194	894
STOCK	15,923	2,380
CLEARING ITEMS	231,909	14,883
OTHER RECEIVABLES	65,615	34,330
TOTAL	492,684	271,569

Other receivables are non-interest bearing and are generally on short term period of 30 to 90 days.

18. Property and equipment

a) Year ended 31 December 2017

	LAND AND BUILDINGS FRW'000'	COMPUTERS FRW'000'	MOTOR VEHICLES FRW'000'	REFURBISHMENT FRW'000'	OFFICE EQUIPMENT FRW'000'	OTHER EQUIPMENT FRW'000'	TOTAL FRW'000'
COST							
AT 1 JANUARY 2017	13,300	432,919	207,769	-	1,113,462	60,909	1,828,359
ADDITIONS	-	246,681	-	539,582	33,460	2,975	822,698
DISPOSAL	(13,300)	(87,142)	(41,350)	-	(46,794)	(11,012)	(199,597)
TRANSFERS	-	-	-	898,140	(898,140)	-	-
TOTAL	-	592,458	166,419	1,437,722	201,988	52,873	2,451,460
DEPRECIATION							
AT 1 JANUARY 2017	3,214	133,988	90,798	-	195,102	50,368	473,470
CHARGE FOR THE YEAR	554	112,878	31,292	119,889	19,276	3,801	287,689
DEPRECIATION ON DISPOSALS	(3,768)	-	(41,350)	-	(34,534)	(10,595)	(90,247)
TOTAL	-	246,866	80,740	119,889	179,844	43,573	670,912
NET CARRYING AMOUNT	-	345,592	85,679	1,317,833	22,144	9,300	1,780,548

b) Year ended 31 December 2016

	LAND AND BUILDINGS FRW'000'	COMPUTERS FRW'000'	MOTOR VEHICLES FRW'000'	REFURBISHMENT FRW'000'	OFFICE EQUIPMENT FRW'000'	OTHER EQUIPMENT FRW'000'	TOTAL FRW'000'
COST							
AT 1 JANUARY 2016	13,300	112,585	82,600	-	218,822	53,513	480,820
ADDITIONS	-	322,104	125,169	-	939,662	9,804	1,396,739
DISPOSAL	-	(1,770)	-	-	(45,022)	(2,408)	(49,200)
TOTAL	13,300	432,919	207,769	-	1,113,462	60,909	1,828,359
DEPRECIATION							
AT 1 JANUARY 2016	1,884	112,335	79,449	-	195,152	47,503	436,323
CHARGE FOR THE YEAR	1,330	23,423	11,349	-	44,357	5,239	85,698
DEPRECIATION ON DISPOSALS	-	(1,770)	-	-	(44,407)	(2,374)	(48,551)
TOTAL	3,214	133,988	90,798	-	195,102	50,368	473,470
NET CARRYING AMOUNT	10,086	298,931	116,971	-	918,360	10,541	1,354,889

19. Income tax expense

	2017 FRW' 000	2016 FRW' 000
WITHIN ONE YEAR	441,225	358,793
OVER ONE YEAR UP TO TEN YEARS	4,412,250	1,435,172
AT 31 DECEMBER	4,858,475	1,793,963

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease after that date. Lease payments are increased accordingly to reflect market lease rentals. There are no restrictions placed upon the lessee by entering into these leases.

20. Intangible assets

	2017 FRW' 000	2016 FRW' 000
NET BOOK AMOUNT AT 1 JANUARY	233,095	12,774
ADDITIONS	12,920	259,433
WORK IN PROGRESS	386,461	-
DISPOSAL	-	(72,184)
AMORTISATION	(67,657)	(39,112)
AMORTISATION ON DISPOSAL	-	72,184
NET BOOK AMOUNT AT 31 DECEMBER	564,819	233,095

The intangible assets relate to computer software acquired to support the Bank's operations. This software is not an integral part of the related computer hardware and has therefore been presented as an intangible asset in accordance with IAS 38, Intangible assets.

21. Customer deposits and balances due to other banking institutions

(a) Current and demand deposits

	2017 FRW' 000	2016 FRW' 000
CURRENT AND DEMAND DEPOSITS	8,157,283	5,082,448
SAVINGS ACCOUNTS	1,449,507	1,836,997
FIXED DEPOSIT ACCOUNTS	8,499,652	2,518,898
TOTAL	18,106,442	9,438,343

The intangible assets relate to computer software acquired to support the Bank's operations. This software is not an integral part of the related computer hardware and has therefore been presented as an intangible asset in accordance with IAS 38, Intangible assets

(b) Breakdown between current and non-current:

	2017 FRW' 000	2016 FRW' 000
CURRENT (TO BE SETTLED WITHIN 12 MONTHS AFTER THE REPORTING PERIOD)	20,521,552	9,438,343
NON-CURRENT PORTION (TO BE SETTLED WITHIN A PERIOD GREATER THAN 12 MONTHS AFTER REPORTING PERIOD)		
NET BOOK AMOUNT AT 31 DECEMBER	20,521,552	9,438,343

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

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

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

c) Savings accounts - This is a deposit account designed for the average income earner that enables one to save some money and earn interest.

22. Other borrowings

	2017 FRW' 000	2016 FRW' 000
SHORT TERM BORROWING	300,000	-
DEVELOPMENT BANK OF RWANDA	-	25,729
TOTAL	300,000	25,729

Short term borrowing relates to call money obtained from I&M Bank Rwanda Limited. This has a maturity of less than 90 days from reporting date.

23. Other Other liabilities

	2017 FRW' 000	2016 FRW' 000
BILLS PAYABLE	167,125	275,178
AMOUNTS DUE TO BOA GROUP	301,788	-
DEFERRED FEES AND COMMISSION INCOME	55,917	82,435
SOCIAL SECURITY AND TAXES	117,332	50,941
OTHER PAYABLES	366,985	-
TOTAL	1,009,147	408,554

24. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%) movement on the deferred income tax account is as follows:

	2017 FRW' 000	2016 FRW' 000
AT 1 JANUARY	-	(10,951)
CHARGE TO INCOME STATEMENT	-	10,951
DEFERRED INCOME TAX ASSET	-	-

	AT START OF YEAR FRW' 000	(CREDIT)/CHARGE TO SOCI FRW' 000	AT END OF YEAR FRW' 000
AS AT 31 DECEMBER 2017			
DEFERRED INCOME TAX LIABILITIES			
PROPERTY AND EQUIPMENT	(262,889)	(71,902)	(334,791)
DEFERRED INCOME TAX ASSETS			
OTHER PROVISIONS	19,281	(2,581)	21,862
TAX LOSSES	353,575	736,874	1,087,868
TOTAL	372,856	736,874	1,109,730
NET DEFERRED TAX INCOME ASSET	109,967	664,972	774,939
DEFERRED INCOME TAX NOT RECOGNISED	(109,967)	(664,972)	(774,939)
AT YEAR END	-	-	-

	AT START OF YEAR FRW' 000	(CREDIT)/CHARGE TO SOCI FRW' 000	AT END OF YEAR FRW' 000
AS AT 31 DECEMBER 2016			
DEFERRED INCOME TAX LIABILITIES			
PROPERTY AND EQUIPMENT	(10,951)	10,951	(262,889)
DEFERRED INCOME TAX ASSETS			
OTHER PROVISIONS	-	-	19,281
TAX LOSSES	-	-	353,575
	-	-	372,856
NET DEFERRED TAX INCOME ASSET/(LIABILITY)	(10,951)	10,951	109,967
DEFERRED INCOME TAX NOT RECOGNISED	-	-	(109,967)
AT YEAR END	(10,951)	(10,951)	-

25. Share capital

	NUMBER OF SHARES ISSUED AND FULLY PAID FRW' 000	ORDINARY SHARES FRW' 000	SHARE PREMIUM FRW' 000
AT 1 JANUARY , 31 DECEMBER 2017	658,087	6,580,870	871,740
AT 1 JANUARY , 31 DECEMBER 2017	658,087	6,580,870	871,740

The total authorised number of ordinary shares is 658,087 (2016: 658,087) with a par value of Frw 10,000 per share.

All issued shares are fully paid.

The share premium arose from the issuance of shares at a premium on acquisition of the bank by BOA Group S.A. in 2015.

26. Bank shareholding

The Bank shareholders are as follows:

SHAREHOLDING	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA GROUP. SA	90%	SENEGAL
CHARLES MPORANYI	10%	RWANDA
TOTAL	100%	

27. Analysis of cash and cash equivalents

	2017 FRW' 000	2016 FRW' 000
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	4,736,266	1,813,359
LESS: CASH RESERVE REQUIREMENT	(1,029,811)	(492,345)
GOVERNMENT SECURITIES - MATURING WITHIN 90 DAYS	2,526,043	-
PLACEMENTS WITH OTHER BANKS	1,942,200	3,166,533
AMOUNTS DUE FROM GROUP COMPANIES	489,006	360,428
TOTAL	8,663,704	4,847,975

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

28. Related party disclosures

The Bank is 90% owned by BOA Group S.A. The ultimate parent is BMCE Bank of Africa incorporated in Morocco. The balances and transactions with related parties are shown below:

	2017 FRW' 000	2016 FRW' 000
AMOUNTS DUE FROM GROUP COMPANIES		
LOANS AND ADVANCES TO EMPLOYEES		
BANK OF AFRICA – UGANDA	201,328	4,828
BANK OF AFRICA – DRC	95,062	-
BANK OF AFRICA – FRANCE	192,616	355,600
TOTAL	489,006	360,428
AMOUNTS DUE TO GROUP COMPANIES		
BANK OF AFRICA – GROUP S.A (SUPPORT SERVICES)	301,788	-
TOTAL	301,788	-
LOANS AND ADVANCES TO EMPLOYEES		
OUTSTANDING BALANCE	14,573	12,000
INTEREST	671	-
TOTAL	15,244	12,000

All the transactions with the related parties are priced on arm's length basis and have been entered into in the normal course of business.

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year-end.

	2017 FRW' 000	2016 FRW' 000
KEY MANAGEMENT COMPENSATION		
SALARIES AND WAGES	512,451	237,703
OTHER BENEFITS	106,966	-
CONTRIBUTION FOR STAFF INSURANCE	21,527	5,055
CONTRIBUTION TO RWANDA SOCIAL SECURITY BOARD	26,774	12,094
TOTAL	667,718	254,852
DIRECTORS' REMUNERATION		
FEES FOR SERVICES AS DIRECTORS	43,806	49,329
DEPOSITS RECEIVED FROM RELATED PARTIES		
BOA GROUP COMPANIES	300,888	-
CHARLES MPORANYI	508,395	1,925
TOTAL	809,283	1,925
EXPENSES		
BOA GROUP TECHNICAL ASSISTANCE	193,310	-
BOA GROUP SUPPORT FEES	238,566	-
BOA GROUP IT FEES	71,425	-
TOTAL	503,301	-

29. Off-balance sheet financial instruments, contingent liabilities and commitments

The Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for purchase and sale of foreign currencies, the nominal amounts of which are not reflected in the balance sheet.

Letters of credit are commitments by the Bank to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2017 which arise from normal day to day banking operations. In the opinion of the directors, after taking professional legal advice, the estimated potential liability to the Bank from these proceedings is nil (2016: Nil).

Appendix for the year ended 31 December 2017

ITEM	FRW'000
1. OFF BALANCE SHEET ITEMS	1,586,559
2. NON-PERFORMING LOAN INDICATORS	
NON-PERFORMING LOANS	1,034,604
NPL RATIO	7.9%
3. CAPITAL STRENGTH	
CORE CAPITAL (TIER1)	3,904,288
SUPPLEMENTARY CAPITAL (TIER 2)	-
TOTAL CAPITAL	-
TOTAL RISK WEIGHTED ASSETS	15,301,818
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS RATIO	25.5%
TIER 1 RATIO	25.5%
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS RATIO	25.5%
TIER 2 RATIO	-
4. LIQUIDITY	
LIQUIDITY RATIO	51.1%
5. INSIDER LENDING	
LOANS TO DIRECTORS, SHAREHOLDERS AND SUBSIDIARIES	15,244
LOANS TO EMPLOYEES	672,820
6. MANAGEMENT AND BOARD COMPOSITION	
NUMBER OF BOARD MEMBERS	6
NUMBER OF EXECUTIVE DIRECTORS	-
NUMBER OF NON-EXECUTIVE DIRECTORS	6
NUMBER OF FEMALE DIRECTORS	-
NUMBER OF MALE DIRECTORS	6
NUMBER OF EXECUTIVE COMMITTEE	5
NUMBER OF FEMALES IN THE EXECUTIVE COMMITTEE	3
NUMBER OF MALES IN THE EXECUTIVE COMMITTEE	2