FINANCIAL STATEMENTS 2019

RWANDA

BANK OF AFRICA

BMCE GROUP

Contets

Opening date

October 2015

Capital as at 31/12/2019

Rwanda Francs (RWF) 12,580 billion

Board of Directors as at 31/12/2019

Emmanuel NTAGANDA, Chairman

Amine BOUABID

Henri LALOUX

Gilles MPORANYI

Louis RUGERINYANGE

BOA Group represented by Abderrazzak ZEBDANI

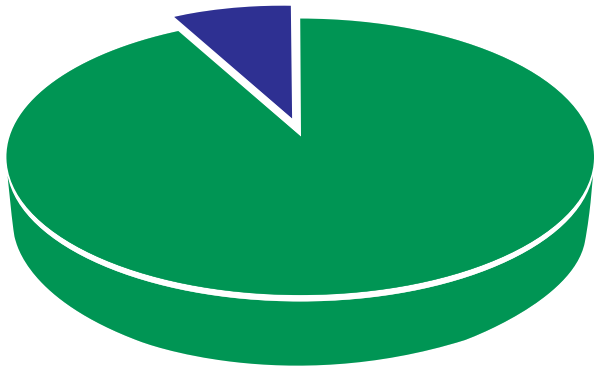
Auditors

PriceWaterhouse Coopers 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 31/12/2019



BOA GROUP S.A.	92.05%
Charles MPORANYI	7.95%

info@boarwanda.com
www.boarwanda.com

Key figures 2019

(in RWF million)

Activity	2018	2019	Variation
Deposits	22,619	32,016	41.5%
Loans	15,477	19,238	24.3%
Number of branches	14	14	
Structure			
Total Assets	35,607	54,957	54.3%
Shareholders' equity	9,277	8,100	-12.7%
Number of employees	169	175	3.6%
Income			
Operating income	2,942	4,076	38.6%
Operating expenses (including depreciation and amortization)	3,799	-3,993	5.1%
Net Operating Profit	-858	83	109.7%
Cost of risk in value (*)	-231	-1 032	347.3%
Profit after tax	-1,088	-949	-12,8%
Operating ratio (%)	129.1%	-98.0%	
Cost of risk (%)	-1.6%	-5.9%	
Return on Assets (ROA %)	-3.5%	-2.1%	
Return on Equity (ROE %)	-15.8%	-10.9%	
Capital Adequacy Ratio			
Tier 1	8,801	7,392	
Tier 2	206	358	
Risk Weighted Asset (RWA)	21,924	28,660	
Tier 1 + Tier 2 / RWA (%)	41.1%	27.0%	

(*) Including general provision

54.3%
Total assets

Deposits

2018
22,619 RWF million

2019
32,016 RWF million

Loans
+ 24.3%

Net operating income
+ 109.7%

Financial analysis

In 2019, BANK OF AFRICA - RWANDA (BOA-RWANDA) registered a significant growth in its assets which show an increase of 54%. The year was characterized by intensive investments in interest bearing assets to the detriment of non-productive assets.

Loans to clients went up by 24% from 2018 whereas investment in financials instruments grew by 163%. All this was made possible by clients' deposits which increased up to 42%.

With the aim to benefit from placements with other commercial banks, BOA-RWANDA recoursed to short term borrowings at a lower interest rate compared to gain realized.

2019 financials show good performances in terms of revenue where net interest income as well as net fee and commission income went up by 37% and 62% respectively.

However, the profitability was hampered by the cost of risk which suddenly increased consecutive to loan granted to corporate customers.

BANK OF AFRICA - RWANDA keeps its objective of increasing the market share with regards to loan lending and deposit collection.

Significant performances (in RWF billion)

Loans

19.2 **+24.3%**

2019
2018 15.5

Operating Income

4.0 **+38.5%**

2019
2018 2.9

Stock information (in RWF)

	2017	2018	2019	AAGR*
Net earnings per share	-3.5	-0.9	-0.8	-5.7%
Equity per share	6.8	7.4	6.4	-14.5%
Dividend per share				

(*) Average annual growth rate

Team building

Highlights

January

- Regular participation in both Local and International Money and Forex Markets.
- Launching of Visa Classic Blue, Proxima and Elite cards.

May

- In commemoration of the 1994 Genocide against the Tutsis, BOA-RWANDA pay tribute to the victims of the Genocide against Tutsis and made a donation of Frw 1,000,000.

July

- Partnership with BDEGL (Banque de Développement des Etats des Grands Lacs) to see the opportunity of co-financing projects in 5 Districts of Western Province. 23 projects have been visited and 3 projects among them totaling Frw 115 million approved and disbursed.
- Signing the agreement to finance renewable energy and affordable houses with BRD (Banque Rwandaise de Developpement).
- Introduction of Soft Token which helps customers to use internet banking in a more flexible and user friendly manner.

September

- Participation in the 2019 BANK OF AFRICA Director's Meetings, in Madrid, Spain.

October

- The Bank started a new correspondent banking relationship with Citibank US to serve our customers better in terms of international payments.

November

- Signing an Agreement with BDF (Business Development Funds), regarding a grant dedicated to farmers in horticulture. The main goal is to raise smallholder farmer's incomes through granting loans and grant.
- Implementation of Kprinter plateform aiming to archive and ease the retrieval of Swift payments.

Assistant Branch manager and cashier trading

24th Commemoration of the 1994 Genocide against the tutsi

End year party

Corporate Social Responsibility

Respect our clients' interests and promote ethical behavior

• BOA-RWANDA provides quality service to its customers. Feedback questionnaires are available in all branches as well as the Head Office where customer provide feedback on our products and services.

• Customer claims are handled on a daily basis by the Customer Care Officer who ensures that all claims are resolved timely and effectively.

Promote Sustainable Finance and Social Entrepreneurship

• BOA-RWANDA has signed an Memorandum of Understanding with Development Bank of Rwanda to finance renewable energy at low cost. This will be implemented by looking the clients in the renewable energy and we have started approaching the sector as it is one of the priorities of the Goverment.

Be a responsible employer listening to employees and accompanying their development

• BOA-RWANDA has a Human Resource Policy which promote equal opportunity for employment and career advancement and eliminate all kind of discrimination, gender included.

• The Bank Provides appropriate training, development and other opportunities for employees to improve their skills and realize their full potentials.

Be diligent in the exercise of governance and risk management

• Risk map is put in place and includes risk identification and management system.

• Audited financials are published in a newspaper on quarterly basis.

Act in the interest of the community and support dialogue with our stakeholders

• We have visited different micro finance companies interesting its to bank with us and some have opened accounts with us and are giving deposits and requesting facilities such as overdraft and term deposits.

• Supporting and participate in the 24th Commemoration of the 1994 Genocide against the Tutsi.

Team building

Board of Directors

Registered office

The address of the registered office is:
BANK OF AFRICA - RWANDA
KN 2 Nyarugenge, Chic Complex
P.O. Box 265
Kigali - Rwanda

Auditor

PricewaterhouseCoopers Rwanda Limited
5th Floor, Blue Star House,
35 KG 7 Ave, Kacyiru
P.O Box 1495
Kigali, Rwanda
Tel.: +250 (252) 588203/4/5/6
Website: www.pwc.com/rw

Bankers

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

Bank of Kigali Plc
P.O. Box 175
Kigali - Rwanda

Cogebanque Plc
P.O. Box 5230
Kigali - Rwanda

I&M Bank (Rwanda) Plc
KN 3 AV/9
P.O. Box 354
Kigali - Rwanda

Bank of Africa (France)
6, Rue Cambacérès
75008 Paris - France

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of BANK OF AFRICA - RWANDA. (the "Bank" or "Company").

Principal activities

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

Results and dividend

Loss for the year of Frw 949 million (2018: Frw 1,088 million) has been adjusted to accumulated losses. The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: nil).

Directors

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

Emmanuel Ntaganda	CHAIRPERSON
Louis Rugerinyange	DIRECTOR
Gilles Mporanyi	DIRECTOR
Amine Bouabid	DIRECTOR
Abderrazzak Zebdani	DIRECTOR
Henri Laloux	DIRECTOR
Vincent De Brouwer	DIRECTOR
Charles Mporanyi	DIRECTOR

Auditor

The Bank's auditor, PricewaterhouseCoopers Rwanda Limited, continues in office in accordance with Law No.17/2018 of 13/04/2018 governing companies.

By order of the Board

Director

31/08/2020

Statement of Directors' Responsibilities

Law No.17/2018 of 13/04/2018 governing companies requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that 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 estimates, in conformity with International Financial Reporting Standards and the requirements of the Law No.17/2018 of 13/04/2018 governing companies. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its deficit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Approval of the financial statements

The accompanying financial statements on pages 9 to 58 were approved for issue by the Board of Directors on 31 March 2020 and signed on its behalf by:

Independent auditors' report

Report on the audit of the Financial Statements

Our opinion

In our opinion, BANK OF AFRICA - RWANDA (the "Bank" or "Company") financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Law No.17/2018 of 13/04/2018 governing companies.

What we have audited

BANK OF AFRICA - RWANDA financial statements set out on pages 9 to 58 comprise:

- the statement of financial position as at 31 December 2019;
- 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 Bank in accordance with IESBA International Code of Ethics for Professional Accountants (including International Independence Standards). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

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

The Key Audit Matter

Expected credit losses on loans and advances at amortised cost

Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL.

The policies for estimating ECL are explained in note 4 of the financial statements.

The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include:

- the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD);
- the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used.
- the relevance of forward-looking information used in the model;

Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.

How key audit matter was addressed in the audit

Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included:

- Evaluating the appropriateness of the Bank's IFRS 9 impairment methodology against the requirements of IFRS9;
- We tested how the Bank extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Bank's IT system and the respective customer files;
- We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis;
- For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports;
- We tested, on a sample basis, the reasonableness of EAD for both on and off-balance sheet exposures;
- For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information;
- We assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, the Directors' Report and Statement of Directors' Responsibilities and Supplementary Information 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 of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Law No.17/2018 of 13/04/2018 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 Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

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

i. There are no circumstances that may create threat to our independence as auditor of the Bank;

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

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

iv. We have communicated to the Bank's Board of Directors, through separate management letters, internal control matters identified in the course of our audit including our recommendations in relation to those matters.

v. We have no relationships, no interests and debt in the Bank; and

vi. In our opinion according to the best of the information and explanations given to us as shown by the accounting and other documents of the Bank, the financial statements comply with Article 123 of Law No, 17/2018 of 13/04/2018 Governing Companies.

For PricewaterhouseCoopers Rwanda Limited, Kigali.

Moses Nyabanda
Director

31/03/2020

Statement of comprehensive income

	NOTES	2019 FRW'000	2018 FRW'000
INTEREST INCOME	5	5,254,708	3,487,520
INTEREST EXPENSE	6	(1,818,865)	(1,041,023)
NET INTEREST INCOME		3,435,843	2,446,497
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	19	(1,032,031)	(230,700)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		2,403,812	2,215,797
NET FEE AND COMMISSION INCOME	7 (A,B)	260,241	147,797
NET TRADING INCOME	8	242,435	305,912
OTHER OPERATING INCOME	9	137,499	41,570
TOTAL OPERATING INCOME		3,043,987	2,711,076
EMPLOYEE BENEFITS	11	(1,753,450)	(1,736,355)
DEPRECIATION-RIGHT OF USE ASSETS	30 (A)	(288,272)	-
DEPRECIATION AND AMORTISATION	10	(558,365)	(419,875)
OTHER OPERATING EXPENSES	12	(1,171,348)	(1,643,112)
OPERATING LOSS		(727,448)	(1,088,266)
FINANCE COSTS	30 (B)	(221,316)	-
LOSS FOR THE YEAR		(948,764)	(1,088,266)
INCOME TAX EXPENSE	13	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(948,764)	(1,088,266)

The notes on pages 19 to 62 are an integral part of these financial statements.

Statement of financial position

	NOTES	2019 FRW'000	2018 FRW'000
ASSETS			
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	14	5,963,150	3,474,152
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	15	12,045,784	8,038,515
DEPOSITS AND BALANCES DUE FROM FINANCIAL INSTITUTION ABROAD	16	35,380	
DEPOSITS DUE FROM GROUP COMPANIES	27	1,526,834	1,319,497
GOVERNMENT SECURITIES	17	11,819,882	4,497,068
LOANS AND ADVANCES TO CUSTOMERS	18	19,237,876	15,477,238
OTHER ASSETS	20	278,582	566,509
CURRENT INCOME TAX		265,972	84,327
PROPERTY AND EQUIPMENT	21	1,453,568	1,684,319
RIGHT OF USE ASSETS	30(A)	1,621,900	-
INTANGIBLE ASSETS	22	708,080	465,396
TOTAL ASSETS		54,957,008	35,607,021
LIABILITIES			
CUSTOMER DEPOSITS	23(A)	29,068,147	19,280,903
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	23(B)	2,901,233	3,293,868
DEPOSITS DUE TO GROUP COMPANIES	23(C)	54,403	48,361
LEASE LIABILITIES	30(B)	1,750,504	-
OTHER LIABILITIES	26	490,299	696,910
OTHER BORROWINGS	24	12,592,708	3,000,000
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	10,047
TOTAL LIABILITIES		46,857,294	26,330,089
EQUITY			
SHARE CAPITAL	28	12,580,870	12,580,870
SHARE PREMIUM	28	871,740	871,740
ACCUMULATED LOSSES		(5,352,896)	(4,175,678)
TOTAL EQUITY		8,099,714	9,276,932
TOTAL EQUITY AND LIABILITIES		54,957,008	35,607,021

The notes on pages 19 to 62 are an integral part of these financial statements.

Statement of changes in equity

	NOTES	SHARE CAPITAL FRW'000	SHARE PREMIUM FRW'000	ACCUMULATED LOSSES FRW'000	TOTAL FRW'000
YEAR ENDED 31 DECEMBER 2018					
AT 1 JANUARY 2018		6,580,870	871,740	(2,981,369)	4,471,241
CHANGES ON INITIAL APPLICATION OF IFRS 9		-	-	(106,043)	(106,043)
RESTATED BALANCE AT 1 JANUARY		6,580,870	871,740	(3,087,412)	4,365,198
TOTAL COMPREHENSIVE INCOME					
LOSS FOR THE YEAR		-	-	(1,088,265)	(1,088,265)
OTHER COMPREHENSIVE INCOME					
TRANSACTIONS WITH OWNERS					
ISSUE OF SHARES		6,000,000	-	-	6,000,000
AT 31 DECEMBER 2018	**28**	**12,580,870**	**871,740**	**(4,175,677)**	**9,276,933**
AT 1 JANUARY 2019		12,580,870	871,740	(4,175,677)	9,276,933
IFRS16 TRANSITION ADJUSTMENTS	30(C)			(228,455)	(228,455)
RESTATED BALANCE AT 1 JANUARY		12,580,870	871,740	(4,404,132)	9,048,478
TOTAL COMPREHENSIVE INCOME:					
LOSS FOR THE YEAR		-	-	(948,764)	(948,764)
OTHER COMPREHENSIVE INCOME		-	-	-	-
AT END OF YEAR		12,580,870	871,740	(5,352,896)	8,099,714

The notes on pages 19 to 62 are an integral part of these financial statements

Statement of cash flows

	NOTES	2019 FRW'000	2018 FRW'000
CASH FLOWS FROM OPERATING ACTIVITIES			
LOSS BEFORE INCOME TAX		(948,764)	(1,088,266)
ADJUSTMENTS FOR:			
DEPRECIATION ON PROPERTY AND EQUIPMENT	21	395,487	347,108
AMORTIZATION OF INTANGIBLE ASSETS	22	162,878	72,766
STAFF LEAVE PROVISION		17,036	22,146
FINANCE COSTS		530,487	95,652
GAIN ON DISPOSAL OF ASSETS		(3,176)	-
DEPRECIATION AND INTEREST EXPENSE ON LEASED ASSETS		509,587	-
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		663,535	(550,594)
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- INCREASE IN LOANS AND ADVANCES		(3,760,638)	(2,733,713)
- GOVERNMENT SECURITIES AND OTHER BONDS		(6,694,763)	(1,971,025)
- INCREASE IN CASH RESERVE REQUIREMENT		(1,074,412)	(178,518)
- INCREASE IN OTHER ASSETS		287,927	(73,826)
- INCREASE IN CUSTOMER DEPOSITS		9,787,243	1,218,743
- INCREASE IN DEPOSITS DUE TO OTHER BANKS		(392,636)	1,111,088
- (DECREASE)/INCREASE IN AMOUNTS DUE TO GROUP COMPANIES		6,042	(296,809)
- (DECREASE)/INCREASE IN OTHER LIABILITIES		(206,611)	(312,238)
- (DECREASE)/INCREASE IN DERIVATIVES		-	(87)
CASH UTILIZED IN OPERATIONS		(1,384,313)	(3,786,979)
INCOME TAXES PAID		-	(9,916)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(1,384,313)	(3,796,895)
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	21	(148,237)	(250,879)
PURCHASE OF INTANGIBLE ASSETS	22	(359,245)	(45,286)
PROCEEDS FROM SALE OF FIXED ASSETS		3,176	
NET CASH UTILISED IN INVESTING ACTIVITIES		(504,306)	(296,165)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		-	6,000,000
BORROWED FUNDS	24	9,592,708	
INTEREST PAID	25	(530,487)	(95,652)
NET CASH GENERATED / (UTILISED) FROM FINANCING ACTIVITIES		9,062,221	5,904,348
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		7,173,602	1,811,289
CASH AND CASH EQUIVALENTS AT START OF YEAR		10,474,992	8,663,704
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	17,648,594	10,474,993

The notes on pages 19 to 62 are an integral part of these financial statements.

Notes

1. GENERAL INFORMATION

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

The Bank is a public 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.

(a) 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.

The financial statements of the Bank are approved and authorised for issue by the Board of Directors after obtaining the necessary regulatory approval. The Board of Directors reserves the right to amend or withdraw the financial statements.

Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 16 Leases on the bank's financial statements.

The bank has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January was 12%.

For leases previously classified as finance leases the bank recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Right of use assets (ROUA) as at 1 January 2019 was Frw 1,754,128,731. Lease liabilities as at 1 January 2019 were Frw 1,982,583,588. Impact to the retained earnings was Frw 228,454,857.

Leases

The Company leases a number of branch and office premises. Rental contracts are typically made for fixed periods between 2 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(b) 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.

(c) 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.

(d) 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.

(e) Operating expenses

Operating expenses include office expenses, travel expenses, professional charges, audit fees, postage and communication, training expenses and other operating expenses. General operating expenses incurred in the current period are recognized in profit or loss. Any payment in excess of the expenses incurred during the period is recorded in the statement of financial position under prepayments. Expenses incurred but not paid for in the current period are accrued in the current year.

(f) Financial instruments

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

For purchased or originated credit-impaired (`POCI') financial assets — assets that are credit-impaired at initial recognition — the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 4.1.2 provides more detail of how the expected credit loss allowance is measured.

Modification of loans

The bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Gains or losses on derivatives are recognised in profit or loss.;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(g) 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.

(h) 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.

(i) 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.

(j) 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, FIXTURES, FITTINGS AND EQUIPMENT	10 YEARS
COMPUTERS	4 YEARS
MOTOR VEHICLES	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.

(k) 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).

(l) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current 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

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be recognized. Such deferred income tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to recognize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(m) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the National Bank of Rwanda and highly liquid assets, subject to insignificant risk of changes in their fair value.

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

(n) 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.

(o) 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.

(p) Leases

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had

previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the

lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

(q) 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.

(r) 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.

(s) Acceptances and letters of credit

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

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.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.1.2, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 4.1.2.

(b) Judgements made in determining lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of head office and branch network, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

As at 31 December 2019, management has assumed that all leases will expire at the end of the lease contract. The lease term is reassessed if an option is actually exercised (or not exercised) or the bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease term for head office by 5 years to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of Frw 110million.

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 and evaluates 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

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors.

4.1.1 Credit risk measurement

Loans and advances (including commitments and guarantees).

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, 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 measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 4.1.2 for more details.

Credit risk grading

The Bank uses the National Bank of Rwanda (BNR) credit risk gradings to reflect its assessment of the probability of default of individual counterparties. The facilities are rated as either performing, watch, substandard, doubtful or loss, based on the number of days overdue. The classification criteria are as follows:

◦ Performing

These are credit facilities which are up to date in payments. Where there are no fixed payments, these are facilities that are operating within their approval limits, and are unexpired. For IFRS 9, this is under stage 1

◦ Watch

These are credit facilities where principal or interest is due and unpaid for 30 days to 89 days, or for facilities with no fixed payments, the approval limit has been exceeded by 30 days to 89 days, or the credit line has expired for more than 30 days to 89 days. For IFRS 9, this is under stage 2

◦ Substandard

These are loan balances due for 90 days but less than 180 days. They are also those credit facilities that display well-defined credit weaknesses that jeopardize the liquidation of the debt such as inadequate cash flow to service the debt, undercapitalized or insufficient working capital, absence of adequate financial information or security documentation and irregular payment of principal or interest. For IFRS 9, this is under stage 3.

◦ Doubtful

These are loan balances that are more than 180 days but less than 365 days overdue. They are also those credit facilities which, in addition to the weaknesses existing in substandard credits, have deteriorated to the extent that full repayment is unlikely or that realizable security values will be insufficient to cover the Bank's exposure. For IFRS 9, this is under stage 3.

◦ Loss

These are loans that are more than 365 days overdue. These are also those credit facilities that are considered uncollectable or which may have some recovery value but it is not considered practicable nor desirable to defer write off. They are also accounts classified as "Doubtful" with little or no improvement over the period it has been classified as such. For IFRS 9, this is under stage 3.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. Once a facility is classified as substandard, the probability of default reaches 100%.

◦ Treasury

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

4.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.1.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 4.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 4.1.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

STAGE 1	STAGE 2	STAGE 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

4.1.2.1 Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria:

For Corporate and Retail portfolios, if the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 12 months
- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information (refer to note 4.1.2.4 for further information) and is performed on a monthly basis at a portfolio level for all financial instruments held by the Bank. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop :

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Bank has used the low credit risk exemption for some financial instruments, specifically treasury bonds, in the year ended 31 December 2019.

4.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty

It is becoming probable that the borrower will enter bankruptcy.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

4.1.2.3 Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per «Definition of default and credit-impaired» above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a «credit conversion factor» which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 4.1.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and how collateral values change etc. — are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

4.1.2.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables like the GDP, Inflation rate and Interest Rates impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the «base economic scenario»). The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

(i) Collateral haircuts, and

(ii) Period to recovery of collateral

Time to realisation: The directors have assumed a time to realisation of 24 months for all properties.

Time to realisation: The directors have assumed a time to realisation of 2 years both for commercial properties and residential properties. If time to realisation increased to 3 years, overall ECL would increase in the range of FRw 150 million.

Collateral haircuts: The directors have assumed collateral haircuts of 50% for commercial and 70% for residential properties. If haircuts were further reduced by 10% the overall ECL would increase in the range of FRw 136 million and if they were increased by 10% the overall ECL would decrease in the range of FRw 68 million.

4.1.3 Credit risk exposure

4.1.3.1 Maximum exposure to credit risk — Financial instruments subject to impairment

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

	LOANS AND ADVANCES				
	DÉC 2019				DÉC 2018
	STAGE 1 12-MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	TOTAL FRW'000
NORMAL	17,017,920	-	-	17,017,920	13,732,149
WATCH		2,144,554		2,144,554	1,069,909
DEFAULT			948,007	948,007	1,105,256
GROSS CARRYING AMOUNT	17,017,920	2,144,554	948,007	20,110,480	15,907,314
LOSS ALLOWANCE	(198,329)	(524,467)	(149,807)	(872,603)	(430,076)
CARRYING AMOUNT	16,819,591	1,620,087	768,839	19,237,877	15,477,238

	GOVERNMENT SECURITIES				
	DÉC 2019				DÉC 2018
	STAGE 1 12-MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	TOTAL FRW'000
NORMAL	11,480,619	-	-	11,480,619	4,540,517
GROSS CARRYING AMOUNT	11,480,619	-	-	11,480,619	4,540,517
LOSS ALLOWANCE	(52,442)	-	-	(52,442)	(43,449)
CARRYING AMOUNT	11,428,178	-	-	11,428,177	4,497,068

	GUARANTEES AND COMMITMENTS				
	DÉC 2019				DÉC 2018
	STAGE 1 12-MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	TOTAL FRW'000
NORMAL	3,087,595	-	-	3,087,595	4,713,809
WATCH	-	-	-	-	-
GROSS CARRYING AMOUNT	3,087,595	-	-	3,087,595	4,713,809
LOSS ALLOWANCE	-	-	-	-	-
CARRYING AMOUNT	3,087,595			3,087,595	4,713,809

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 4.1.2 'Expected credit loss measurement'.

4.1.3.2 Maximum exposure to credit risk — Financial instruments not subject to impairment

The maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL) are the Bank's derivative instruments

4.1.3.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Commitments and letters of undertaking from the Government of Rwanda.

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. Derivatives are not collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	STAGE 1 FRW'000	STAGE 2 FRW'000	STAGE 3 FRW'000	IMPAIRMENT ALLOWANCE FRW'000	CARRYING AMOUNT FRW'000	FAIR VALUE OF COLLATERAL FRW'000
OVERDRAFT	1,149,762	51,554	119,562	(49,275)	1,271,603	3,364,346
TREASURY LOAN	5,748,955	646,904	402,944	(99,190)	6,699,612	18,798,913
AGRICULTURE LOANS	1,029,378		289	(237)	1,029,430	1,675,213
EQUIPMENT LOAN	1,612,952	725,181	40,686	(534,868)	1,843,951	4,773,284
CONSUMER LOAN	731,279	27,862	64,473	(79,873)	743,740	1,288,894
MORTGAGE LOAN	6,745,594	693,053	320,053	(109,160)	7,649,540	16,236,304
TOTAL	17,017,920	2,144,554	948,007	(872,603)	19,237,876	46,136,954

4.1.4 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent «step up» (or «step down») between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 4.1.5).

The following table explains the changes in the loss allowance and gross carrying amount between the beginning and the end of the annual period:

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	PROVISIONS STAGE 1 12-MONTH ECL FRW'000	STAGE 2 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	STAGE 3 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	TOTAL FRW'000
LOSS ALLOWANCE/GROSS CARRYING AMOUNT AS AT 1 JANUARY 2019	284,312	13,165	132,599	430,076
MOVEMENTS				
TRANSFER FROM STAGE 1	(531,512)	509,783	21,730	
TRANSFER FROM STAGE 2	1,428	(6,439)	5,011	
TRANSFER FROM STAGE 3	2		(2)	
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	535,172	13,926	32,473	581,571
FINANCIAL ASSETS DERECOGNISED	(87,581)	(5,202)	(46,260)	(139,043)
AT 31 DECEMBER 2019	201,821	525,233	145,551	872,604

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	EXPOSURE STAGE 1 12-MONTH ECL FRW'000	STAGE 2 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	STAGE 3 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	TOTAL FRW'000
LOSS ALLOWANCE/GROSS CARRYING AMOUNT AS AT 1 JANUARY 2019	13,732,149	1,069,909	1,105,256	15,907,314
MOVEMENTS				
TRANSFER FROM STAGE 1	(1,516,087)	1,130,539	385,548	
TRANSFER FROM STAGE 2	74,171	(522,197)	448,026	
TRANSFER FROM STAGE 3	29,634	1,047	(30,680)	
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	10,190,877	653,247	246,794	11,090,918
FINANCIAL ASSETS DERECOGNISED	(5,850,809)	(274,524)	(762,419)	(6,887,752)
AT 31 DECEMBER 2019	16,659,935	2,058,021	1,392,525	20,110,480

4.1.5 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the period ended 31 December 2019 was 623,543million. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.1.6 Modification of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

4.1.7 Concentration of credit risk

The Bank's financial instruments do not represent a concentration of credit risk because the Bank deals with a variety of customers and its loans and advances are structured and spread among a number of customers. The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 DECEMBER 2019		31 DECEMBER 2018	
	FRW'000	%AGE	FRW'000	%AGE
OVERDRAFT	1,320,878	7%	1,589,442	10%
TREASURY LOAN	6,798,803	34%	5,922,682	37%
AGRICULTURE LOANS	1,029,667	5%	332,627	2%
EQUIPMENT LOAN	2,378,819	12%	2,274,807	14%
CONSUMER LOAN	823,613	4%	1,017,140	6%
MORTGAGE LOAN	7,758,700	39%	4,767,989	30%
EDUCATION LOAN			2,627	
TOTAL	20,110,480		15,907,314	

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.

AT 31 DECEMBER 2019	1-3 MONTHS FRW '000	3-12 MONTHS FRW '000	1-5 YEARS FRW '000	OVER 5 YEARS FRW '000	TOTAL FRW '000
LIABILITIES					
CUSTOMER DEPOSITS	14,430,087	15,308,647	-	-	29,738,734
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	5,029,935	-	-	5,029,935
AMOUNTS DUE TO GROUP COMPANIES	7,934	-	-	-	7,934
OTHER BORROWED FUNDS	12,597,151	-	-	-	12,597,151
OTHER LIABILITIES	490,298	-	-	-	490,298
TOTAL ON BALANCE SHEET (CONTRACTUAL MATURITY DATES)	27,525,470	20,338,582	-	-	47,864,052
ASSETS					
CASH AND BANK BALANCES WITH NATIONAL BANK OF RWANDA	5,963,150	-	-	-	5,963,150
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	12,115,084	-	-	-	12,115,084
AMOUNTS DUE FROM GROUP COMPANIES	1,526,888	-	-	-	1,526,888
LOANS AND ADVANCES TO CUSTOMERS	3,391,963	1,865,925	9,558,041	4,421,947	19,237,876
GOVERNMENT SECURITIES	-	-	1,151,100	10,668,782	11,819,882
OTHER ASSETS	278,581	-	-	-	278,581
TOTAL ASSETS (EXPECTED MATURITY DATES)	23,275,666	1,865,925	10,709,141	15,090,729	50,941,461
NET LIQUIDITY GAP	**(4,249,804)**	**(18,472,657)**	**10,709,141**	**15,090,729**	**3,077,409**
AT 31 DECEMBER 2018 NET LIQUIDITY GAP	**572,744**	**(4,794,591)**	**9,243,507**	**2,031,278**	**7,052,938**

4.3 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. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	2019 USD FRW '000	2018 USD FRW '000
ASSETS		
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	819,286	781,650
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	24,268	42,863
AMOUNTS DUE FROM GROUP COMPANIES	865,537	1,319,497
TOTAL ASSETS	1,709,091	2,144,010
LIABILITIES		
CUSTOMER DEPOSITS	6,002,461	4,884,422
AMOUNTS DUE TO GROUP COMPANIES	46,469	44,282
TOTAL LIABILITIES	6,048,930	4,928,704
NET ON-BALANCE SHEET POSITION	**(4,339,839)**	**(2,784,694)**

The bank is managing the gap by purchasing USD from clients

At 31 December 2019, if the functional currency had strengthened/weakened by 4% against the foreign currencies with all other variables held constant, the pre-tax loss for the year would have been Frw 153 million (2018: Frw 137 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities. The percentage change used in the sensitivity represents the depreciation of the FRW to the respective currencies.

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 2019, 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 83 million (2018: Frw 84 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.

AT 31 DEC 2019	1-3 MONTHS FRW '000	3-12 MONTHS FRW '000	OVER 1 YEAR FRW '000	NON-INTEREST BEARING FRW '000	TOTAL FRW '000
ASSETS					
CASH AND BANK BALANCES WITH NATIONAL BANK OF RWANDA	-	-	-	5,963,150	5,963,150
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	12,045,784	-	-	-	12,045,784
AMOUNTS DUE FROM GROUP COMPANIES	1,562,216	-	-	-	1,562,216
LOANS AND ADVANCES TO CUSTOMERS	3,391,963	1,865,925	13,979,988	-	19,237,876
GOVERNMENT SECURITIES	-	-	11,819,882	-	11,819,882
OTHER ASSETS	-	-	-	278,581	278,581
TOTAL ASSETS	16,999,963	1,865,925	25,799,870	6,241,731	50,907,489
LIABILITIES					
CUSTOMER DEPOSITS	-	14,684,529	-	14,430,087	29,114,616
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	2,901,232	-	-	2,901,232
AMOUNTS DUE TO GROUP COMPANIES	7,934	-	-	-	7,934
OTHER BORROWED FUNDS	12,592,708	-	-	-	12,592,708
OTHER LIABILITIES	-	-	-	498,232	498,232
TOTAL LIABILITIES	12,600,642	17,585,761	-	14,928,319	45,114,722
INTEREST RATE SENSITIVITY GAP	**4,399,321**	**(15,719,836)**	**25,799,871**		

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.

The following table provides the fair value measurement hierarchy of the bank's assets and liabilities carried at amortised cost as at 31 December 2019:

		FAIR VALUE MEASUREMENT USING		
	CARRYING AMOUNT FRW'000	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) FRW'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) FRW'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) FRW'000
ASSETS				
BALANCES WITH THE NATIONAL BANK OF RWANDA	5,963,150	5,963,150	-	-
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	12,045,784	12,045,784	-	-
DEPOSITS AND BALANCES DUE FROM FINANCIAL INSTITUTION ABROAD	35,380	35,380	-	-
DEPOSITS DUE FROM GROUP COMPANIES	1,526,834	1,526,834	-	-
GOVERNMENT SECURITIES	11,819,882	-	11,819,882	-
LOANS AND ADVANCES TO CUSTOMERS	19,237,876	-	19,237,876	-
OTHER ASSETS	278,582	-	278,582	-
TOTAL	50,907,488	19,571,148	31,336,340	

		FAIR VALUE MEASUREMENT USING		
	CARRYING AMOUNT FRW'000	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) FRW'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) FRW'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) FRW'000
LIABILITIES				
CUSTOMER DEPOSITS	29,068,147	29,068,147	-	-
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	2,901,233	2,901,233	-	-
DEPOSITS DUE TO GROUP COMPANIES	54,403	54,403	-	-
OTHER LIABILITIES	490,299	-	490,299	-
OTHER BORROWINGS	12,592,708	-	12,592,708	-
TOTAL	45,106,790	32,023,783	13,083,007	

The following table provides the fair value measurement hierarchy of the bank's assets and liabilities carried at amortised cost as at 31 December 2018:

		FAIR VALUE MEASUREMENT USING		
	CARRYING AMOUNT FRW'000	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) FRW'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) FRW'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) FRW'000
ASSETS				
BALANCES WITH THE NATIONAL BANK OF RWANDA	3,474,152	3,474,152	-	-
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	8,038,515	8,038,515	-	-
DEPOSITS AND BALANCES DUE FROM FINANCIAL INSTITUTION ABROAD	-	-	-	-
DEPOSITS DUE FROM GROUP COMPANIES	1,319,497	1,319,497	-	-
GOVERNMENT SECURITIES	4,497,068	-	4,497,068	-
LOANS AND ADVANCES TO CUSTOMERS	15,477,238	-	15,477,238	-
OTHER ASSETS	566,509	-	566,509	-
TOTAL	50,907,488	19,571,148	31,336,340	

		FAIR VALUE MEASUREMENT USING		
	CARRYING AMOUNT FRW'000	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) FRW'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) FRW'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) FRW'000
LIABILITIES				
CUSTOMER DEPOSITS	19,280,903	19,280,903	-	-
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	3,293,868	3,293,868	-	-
DEPOSITS DUE TO GROUP COMPANIES	48,361	48,361	-	-
OTHER LIABILITIES	696,910	-	696,910	-
OTHER BORROWINGS	3,000,000	-	3,000,000	-
TOTAL	26,320,042	22,623,132	3,696,910	

4.5 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 bbalance 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) to 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 2019 and 2018 determined in accordance with National Bank of Rwanda regulatory returns:

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.

	2019 FRW '000	2018 FRW '000
TIER 1 CAPITAL		
ORDINARY SHARE CAPITAL	12,580,870	12,580,870
SHARE PREMIUM	871,740	871,740
RESERVES:		
PRIOR YEARS' RETAINED EARNINGS	(4,404,133)	(3,087,412)
LESS		
INTANGIBLE ASSETS	(708,080)	(475,750)
CURRENT YEAR LOSSES	(948,763)	(1,088,266)
TIER 1 CAPITAL	7,391,634	8,801,182
TIER 2 CAPITAL		
REGULATORY RESERVE	358,248	205,792
TOTAL CAPITAL	7,749,882	9,006,974
RISK-WEIGHTED ASSETS	28,659,778	21,924,484
CAPITAL RATIOS		
TOTAL MINIMUM REGULATORY CAPITAL EXPRESSED AS A % OF TOTAL RISK-WEIGHTED ASSETS	15%	15%
TOTAL CAPITAL EXPRESSED AS A % OF RISK-WEIGHTED ASSETS	27.04%	41.08%

5. INTEREST INCOME

	2019 FRW '000	2018 FRW '000
LOANS AND ADVANCES	2,858,121	2,395,047
CREDIT RELATED FEES AND COMMISSION INCOME	544,883	360,840
GOVERNMENT SECURITIES	1,059,020	233,919
PLACEMENTS WITH BANKS	792,684	497,713
TOTAL	5,254,708	3,487,519

6. INTEREST EXPENSE

	2019 FRW '000	2018 FRW '000
CUSTOMER DEPOSITS	1,288,378	945,371
INTEREST ON BORROWINGS	464,655	21,019
INTEREST ON FOREX SWAP	65,831	74,633
TOTAL	1,818,864	1,041,023

7. FEES AND COMMISSIONS

a) Commission income

	2019 FRW '000	2018 FRW '000
ACCOUNT MAINTENANCE FEES AND COMMISSIONS	141,725	123,075
TRANSFER FEES	24,617	32,899
COMMISSION ON GUARANTEES	74,592	146,739
OTHER BANKING INCOME	141,359	62,338
TOTAL	382,293	365,051

b) Commission charges

	2019 FRW '000	2018 FRW '000
MOBILE BANKING	16,231	32,999
ATM FEES	74,452	74,452
TRANSFER CHARGES	15,505	28,554
BANK CHARGES	12,210	8,174
OTHER BANKING CHARGES	3,654	73,074
TOTAL	122,052	217,253
NET FEE AND COMMISSION INCOME	**260,241**	**147,798**

8. FOREIGN EXCHANGE INCOME

	2019 FRW '000	2018 FRW '000
INCOME FROM TRADING	196,267	306,747
GAINS/(LOSSES) ON FOREIGN EXCHANGE DIFFERENCES	46,167	20,857
REUTERS CHARGES		(21,693)
NET FOREIGN EXCHANGE INCOME	242,434	305,911

9. OTHER OPERATING INCOME

	2019 FRW '000	2018 FRW '000
GAIN ON DISPOSAL OF ASSETS	3,176	
OTHER INCOME	134,323	41,570
TOTAL	137,499	41,570

10. OPERATING EXPENSES

	2019 FRW '000	2018 FRW '000
DEPRECIATION OF PROPERTY AND EQUIPMENT	395,487	347,109
AMORTISATION OF INTANGIBLE ASSETS	162,878	72,766
TOTAL	558,365	419,875

11. EMPLOYEE BENEFITS EXPENSE

	2019 FRW '000	2018 FRW '000
SALARIES AND WAGES	1,304,326	1,324,138
RSSB CONTRIBUTIONS	66,383	59,990
MEDICAL EXPENSES	135,141	122,402
TRAINING	32,503	14,318
CONTRIBUTION TO STAFF LIFE INSURANCE	31,341	30,151
OTHER STAFF COSTS	183,756	185,354
TOTAL	1,753,450	1,736,353

12. OPERATING EXPENSES

	2019 FRW '000	2018 FRW '000
OFFICE RENT		549,281
SECURITY COSTS	115,929	106,899
COMMUNICATION FEES	29,695	30,231
OFFICE SUPPLIES EXPENSES	47,271	48,919
BOARD MEETINGS FEES	126,264	131,752
TRAVELLING COSTS	28,072	49,758
MEMBERSHIP CONTRIBUTION	27,273	18,426
LOAN RECOVERY COSTS	40,761	38,094
MARKETING EXPENSES	78,521	37,673
TRANSPORTATION FEES	10,641	17,225
RATES AND TAXES	12,231	8,860
VEHICLE INSURANCE	7,825	5,995
CONTRIBUTION TO DEPOSIT GUARANTEE FUND (DGF)	15,379	13,748
DONATIONS	2,600	2,042
CONSULTANCY COST	29,177	64,675
CORE BANKING SOFTWARE LICENSE	136,392	191,656
AUDIT FEES	38,958	38,243
IT COST	243,996	160,058
GENERAL EXPENSES	65,340	50,973
OTHER OPERATING EXPENSES	115,021	78,705
TOTAL	1,171,346	1,643,113

13. INCOME TAX EXPENSE

	2019 FRW '000	2018 FRW '000
CURRENT INCOME TAX CHARGE		
DEFERRED INCOME TAX		
LOSS BEFORE INCOME TAX	(948,764)	(1,088,266)
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2018; 30%)	(284,629)	(326,480)
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX		
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	87,911	199,976
UNDER/(OVER) PROVISION OF DEFERRED INCOME TAX IN PRIOR YEARS		
DEFERRED INCOME TAX ASSET NOT RECOGNISED	196,718	126,504
INCOME TAX CHARGE		

14. CASH AND BALANCES WITH NATIONAL BANK OF RWANDA

	2019 FRW '000	2018 FRW '000
CASH ON HAND	1,789,306	1,852,675
BALANCE WITH NATIONAL BANK OF RWANDA	4,173,844	1,621,477
TOTAL	5,963,150	3,474,152

a) Cash in hand

	2019 FRW '000	2018 FRW '000
CASH IN FOREIGN CURRENCIES	901,796	715,721
CASH IN LOCAL CURRENCIES	887,510	1,136,953
TOTAL	1,789,306	1,852,674

b) Due from the National Bank

	2019 FRW '000	2018 FRW '000
BALANCES IN FOREIGN CURRENCIES	63,987	166,338
BALANCES IN LOCAL CURRENCIES	4,109,857	1,455,139
TOTAL	4,173,844	1,621,477

15. DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS

	2019 FRW '000	2018 FRW '000
CURRENT ACCOUNTS WITH OTHER BANKS	9,736,534	4,378,418
CALL MONEY WITH ACCRUED RECEIVABLE INTEREST	2,309,250	2,375,827
MONEY MARKET PLACEMENTS		1,284,270
TOTAL	12,045,784	8,038,515

16. DEPOSITS AND BALANCES DUE FROM FINANCIAL INSTITUTION ABROAD

	2019 FRW '000	2018 FRW '000
ECOBANK-PARIS	35,380	-

17. GOVERNMENT SECURITIES AND DERIVATIVES

a) Government securities

	2019 FRW '000	2018 FRW '000
UNEARNED INTEREST	391,705	120,517
T-BONDS	11,480,619	4,420,000
EXPECTED CREDIT LOSS-TREASURY BONDS	(52,442)	(43,449)
TOTAL	11,819,882	4,497,068

b) Commission charges

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:

	2019 FRW '000	2018 FRW '000
CURRENCY SWAPS ASSETS	-	1,294,430
CURRENCY SWAPS LIABILITIES	-	(1,304,477)
TOTAL	-	(10,047)

18. LOANS AND ADVANCES TO CUSTOMERS

	2019 FRW '000	2018 FRW '000
OVERDRAFTS	1,291,518	1,610,041
GROSS LOANS AND ADVANCES	20,110,480	15,907,314
LESS: PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES	(872,604)	(430,076)
NET LOANS AND ADVANCES	19,237,876	15,477,238
MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF LOANS AND ADVANCES ARE AS FOLLOWS:		
AT 1 JANUARY	430,075	381,013
CHANGES ON INITIAL APPLICATION OF IFRS 9		13,085
ADDITIONAL PROVISION FOR THE YEAR	1,841,247	965,982
RECOVERIES ON PROVISIONS	(775,175)	(711,608)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(623,543)	(218,398)
AT YEAR END	872,604	430,074

19. IMPAIRMENT CHARGES ON LOANS AND ADVANCES DURING THE YEAR

	2019 FRW '000	2018 FRW '000
PROVISION FOR LOAN IMPAIRMENT	1,841,247	965,982
AMOUNTS RECOVERED DURING THE YEAR	(775,175)	(711,608)
RECOVERIES ON AMOUNTS WRITTEN OFF	(34,041)	(23,674)
TOTAL	1,032,031	230,700

20. OTHER ASSETS

	2019 FRW '000	2018 FRW '000
PREPAYMENTS	18,845	247,051
STOCK	24,931	15,282
CLEARING ACCOUNTS	72,256	230,260
OTHER RECEIVABLES	162,550	73,916
TOTAL	278,582	566,509

The carrying amounts of the other assets approximate their fair values due to their short-term nature.

21. PROPERTY AND EQUIPMENT

	COMPUTERS FRW'000	MOTOR VEHICLES FRW'000	REFURBISHMENT FRW'000	OFFICE EQUIPMENT FRW'000	OTHER EQUIPMENT FRW'000	TOTAL FRW'000
YEAR ENDED 31 DECEMBER 2019						
COST						
AT 1 JANUARY 2019	777,876	166,419	1,455,013	205,781	97,250	2,702,339
ADDITIONS	111,810		27,416	12,480	13,031	148,237
DISPOSALS		(16,500)				(16,500
TOTAL	889,686	149,919	1,482,429	218,261	110,281	2,850,576
DEPRECIATION						
AT 1 JANUARY 2019	(389,443)	(112,033)	(294,477)	(168,411)	(53,657)	(1,018,021)
CHARGE FOR THE YEAR	(180,414)	(31,292)	(146,983)	(20,339)	(16,458)	(395,487)
DISPOSALS		16,500				16,500
TOTAL	(569,857)	(126,825)	(441,460)	(188,750)	(70,155)	(1,397,008)
NET CARRYING AMOUNT	319,829	23,094	1,040,969	29,511	40,166	1,453,568
YEAR ENDED 31 DECEMBER 2018						
COST						
AT 1 JANUARY 2018	592,458	166,419	1,437,722	201,988	52,873	2,451,460
ADDITIONS	185,418		17,291	3,793	44,377	250,879
TOTAL	777,876	166,419	1,455,013	205,781	97,250	2,702,339
DEPRECIATION						
AT 1 JANUARY 2018	(246,866)	(80,740)	(119,889)	(179,844)	(43,573)	(670,912)
CHARGE FOR THE YEAR	(142,577)	(31,292)	(144,257)	(18,898)	(10,084)	(347,108)
TOTAL	(389,443)	(112,032)	(264,146)	(198,742)	(53,657)	(1,018,020)
NET CARRYING AMOUNT	388,433	54,387	1,190,867	7,039	43,593	1,684,319

22. INTANGIBLE ASSETS

	2019 FRW '000	2018 FRW '000
NET BOOK AMOUNT AT 1 JANUARY	465,395	564,819
ADDITIONS	359,245	45,286
WORK IN PROGRESS	46,318	26,208
TRANSFERS/ADJUSTMENTS		(98,151)
AMORTISATION	(162,878)	(72,766)
TOTAL	708,080	465,396

23. CUSTOMER DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS

	2019 FRW '000	2018 FRW '000
(A) CURRENT AND DEMAND DEPOSITS	14,213,604	10,318,166
SAVINGS ACCOUNTS	2,071,196	1,748,601
FIXED DEPOSIT ACCOUNTS	12,783,347	7,214,136
TOTAL	29,068,147	19,280,903

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.

DEPOSITS AND BALANCES DUE TO OTHER FINANCIAL INSTITUTIONS	2019 FRW '000	2018 FRW '000
(B) BUSINESS DEVELOPMENT FUNDS (BDF)		1,015,616
BANQUE DE DEVELOPMENT DES ETATS DE GRAND LAC (BDEGL)	2,731,219	2,278,252
ATLANTIC MICROFINANCE FOR AFRICA (AMIFA) RWANDA PLC	170,014	
TOTAL	2,901,233	3,293,868

DEPOSITS DUE TO GROUP COMPANIES	2019 FRW '000	2018 FRW '000
(C) BANK OF AFRICA GROUP COMPANIES	54,403	48,361

24. OTHER BORROWINGS

	2019 FRW '000	2018 FRW '000
SHORT TERM BORROWING	12,592,708	3,000,000
TOTAL	12,592,708	3,000,000

Short term borrowing relates to call money obtained from different banks with a maturity of 7-14 days from reporting date. The weighted average effective interest rate on short term borrowing as at 31 December 2019 was 5.6% (2018: 5.6%).

25. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%) movement on the deferred income tax account is as follows:

	2019 FRW '000	2018 FRW '000
AT 1 JANUARY	-	-
CHARGE TO PROFIT OR LOSS	-	-
DEFERRED INCOME TAX ASSET	-	-

Deferred income tax assets and deferred income tax credit in the statement of comprehensive income (SOCI), are attributable to the following items:

	AT START OF YEAR FRW '000	(CREDIT)/ CHARGE TO SOCI FRW '000	AT END OF YEAR FRW'000
AS AT 31 DECEMBER 2019			
DEFERRED INCOME TAX LIABILITIES			
PROPERTY AND EQUIPMENT	(168,098)	68,540	(99,558)
DEFERRED INCOME TAX ASSETS			
OTHER PROVISIONS	82,521	284,782	367,303
TAX LOSSES	1,118,417	(156,604)	961,813
TOTAL	1,200,938	(156,604)	1,329,116
NET DEFERRED TAX INCOME ASSET	1,032,840	196,718	1,229,558
DEFERRED INCOME TAX NOT RECOGNISED	(1,032,840)	(196,718)	(1,229,558)
AT YEAR END	**-**	**-**	**-**
AS AT 31 DECEMBER 2018			
DEFERRED INCOME TAX LIABILITIES			
PROPERTY AND EQUIPMENT	(334,791)	166,693	(168,098)
DEFERRED INCOME TAX ASSETS			
OTHER PROVISIONS	21,862	60,659	82,521
TAX LOSSES	1,087,868	30,549	1,118,417
TOTAL	1,109,730	91,208	1,200,938
NET DEFERRED TAX INCOME ASSET	774,939	257,901	1,032,840
DEFERRED INCOME TAX NOT RECOGNISED	(774,939)	(257,901)	(1,032,840)
AT YEAR END	**-**	**-**	**-**

Deferred income tax asset for the year 2019 of Frw 1,229million (2018: Frw1,032 million) arising from accumulated tax losses and other temporary differences has not been recognised in the financial statements. For prudence purposes, the Bank has decided not to recognise the amount of deferred tax arising from tax losses and other temporary differences accruing to date given that such losses expire after 5 years.

26. OTHER LIABILITIES

	2019 FRW '000	2018 FRW '000
TRANSITORY ACCOUNTS	57,538	78,847
DEFERRED FEES AND COMMISSION INCOME	3,474	15,592
SOCIAL SECURITY AND TAXES	67,106	81,526
AMOUNT DUE TO EMPLOYEES	6,793	6,918
STAFF LEAVE RISK PROVISION	73,437	74,480
OTHER RISK PROVISION	6,474	6,474
OTHER PAYABLES	275,477	433,072
TOTAL	490,299	696,910

The carrying amounts of the other liabilities approximate their fair values due to their short-term nature.

27. RELATED PARTY DISCLOSURES

The Bank is 92% owned by BANK OF AFRICA Group S.A which was incorporated in Mali since 1982. The ultimate parent is BMCE BANK OF AFRICA incorporated in Morocco. The balances and transactions with related parties are shown below:

The bank maintains current accounts with BOA-UGANDA, BOA-RDC, BMCE Spain, BOA-KENYA and BOA-FRANCE. Transactions on the related party accounts are interest free. The following were the total transactions with related parties in the year.

	2019 FRW '000	2018 FRW '000
AMOUNTS DUE FROM GROUP COMPANIES		
BANK OF AFRICA - UGANDA	438,259	414,679
BANK OF AFRICA - RDC	3,690	159,117
BMCE SPAIN	286,447	187,815
BANK OF AFRICA - KENYA	19,221	
BOA-FRANCE	779,217	557,885
	1,526,834	1,319,496
LOANS TO DIRECTORS AND KEY SENIOR MANAGEMENT		
OUTSTANDING BALANCE	184,162	152,935

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.

	2019 FRW '000	2018 FRW '000
KEY MANAGEMENT COMPENSATION		
SALARIES AND WAGES	317,409	326,549
OTHER BENEFITS	141,040	136,704
CONTRIBUTION FOR STAFF INSURANCE	7,935	8,164
CONTRIBUTION TO RWANDA SOCIAL SECURITY BOARD	16,823	19,548
	483,207	490,965
DIRECTORS' REMUNERATION		
FEES FOR SERVICES AS DIRECTORS	43,744	35,274
TRANSACTIONS WITH BOA GROUP		
BOA GROUP SUPPORT FEES	29,177	64,674
BOA GROUP IT FEES (LICENSE FOR THE CORE BANKING SOFTWARE)	136,392	191,656
	165,569	256,330

28. SHARE CAPITAL

	NUMBER OF SHARES ISSUED & FULLY PAID (THOUSANDS)	ORDINARY SHARES FRW '000	SHARE PREMIUM FRW'000
AT 1 JANUARY, 31 DECEMBER 2018	1,258,087	12,580,870	871,740
AT 1 JANUARY, 31 DECEMBER 2019	1,258,087	12,580,870	871,740

The total authorised number of ordinary shares is 1,258,087 (Dec 2018: 1,258,087) with a par value of Frw 10,000 per share. All issued shares are fully paid off.

The share premium arose from the issuance of shares at a premium on acquisition of the bank by BANK OF AFRICA Group SA in 2015.

Bank Shareholding

The bank shareholders are as follows:

	HOLDING	COUNTRY OF INCORPORATION
BANK OF AFRICA GROUP SA	92%	SENEGAL
CHARLES MPORANYI	8%	RWANDA
	100%	

29. CASH AND CASH EQUIVALENTS

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

	2019 FRW '000	2018 FRW '000
CASH IN HAND	1,789,306	1,852,675
DUE FROM THE NATIONAL BANK	4,173,844	1,621,477
CASH RESERVE BALANCES WITH THE NATIONAL BANK	(2,282,741)	(1,208,329)
DEPOSITS WITH OTHER BANKS	11,298,750	5,697,915
CALL MONEY WITH BANKS	2,309,250	2,375,827
T BONDS COUPONS MATURING WITHIN 3 MONTHS	360,185	135,427
CASH AND CASH EQUIVALENTS	17,648,594	10,474,992

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.

30 (a) Right-of-use assets

	2019 FRW '000	2018 FRW '000
LEASE ASSETS	2,398,472	-
DEPRECIATION ON ADOPTION	(644,343)	-
DEPRECIATION OF LEASE ASSETS FOR THE YEAR	(288,270)	-
	1,465,859	-
PREPAID RENT	156,041	-
	1,621,900	-

30 (b) Lease liabilities

	2019 FRW '000	2018 FRW '000
LEASE LIABILITIES	2,398,472	-
ACCUMULATED FINANCE COST	608,737	-
PRINCIPAL PAYMENT FROM INCEPTION	(1,024,626)	-
RENT PAID AS AT DEC 2019	(453,395)	-
INTEREST EXPENSE FOR THE YEAR	221,316	-
	1,750,504	-

30 (c) IFRS16 transition

	2019 FRW '000	2018 FRW '000
LIABILITY AS AT 1 JAN 2019	1,982,584	-
RIGHT OF USE ASSET AS AT 1 JAN 2019 (NBV)	1,754,129	-
	228,455	-

31. 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.

The following are the commitments outstanding at year end:

	2019 FRW '000	2018 FRW '000
ACCEPTANCES AND LETTERS OF CREDIT	3,087,595	4,713,809
NON-TRADE CONTINGENT LIABILITIES		

There were outstanding legal proceedings against the Bank as at 31 December 2019, 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 (2018: Nil).

32. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2019, there has been a global pandemic due to the spread of Covid-19 that has seen the Government of Rwanda in the month of March 2020 take strict containment measures including closing of international commercial flights and restriction of non-essential local movements. The banking industry has however been classified as an essential service and continues to operate during this period albeit with reduced level of activity for both loan origination and deposit mobilization. The directors are currently analyzing the broader macro-economic impact the pandemic could have on the Bank including adverse consequences such as request from customers to reschedule their debt repayments and potential increase in level of delinquencies. Our impairment model will be calibrated going forward to capture changes in probabilities of defaults and forward looking information in the estimation of expected credit losses. Directors are conscious that the full impact of the pandemic is still unclear at this point and will continue to monitor the events and take actions to limit the effect to the Bank. This is a non-adjusting event.

APPENDIX FOR THE YEAR ENDED 31 DECEMBER 2019

ITEM	AMOUNT/ RATIO/NUMBER
I. CAPITAL STRENGTH	
1. Core capital (Tier 1)	7,391,634
2. Supplementary capital (Tier 2)	358,248
3. Total capital	7,749,882
4. Total risk weighted assets	28,659,778
5. Core capital/ Total risk weighted assets ratio (Tier 1 ratio)	25.8%
6. Tier 2 ratio	1.3%
7. Total capital/total risk weighted assets ratio	27.0%
8. Leverage ratio	13.1%
II. CREDIT RISK	
1. Total gross credit risk exposures: after accounting offsets and without taking into account credit risk mitigation	35,035,880
2. Average gross credit exposures, broken down by major types of credit exposure:	
a) loans, commitments and other non-derivative off-balance sheet exposures	23,198,075
b) debt securities	11,819,882
c) OTC derivatives	17,923
3. Regional or geographic distribution/ types of credit exposure	
Geographic distribution	Total exposure (Frw' 000')
Kigali City	30,404,548
Muhanga	675,712
Huye	702,097
Rusizi	830,507
Rubavu	1,006,270
Musanze	1,069,300
Kayonza	347,446
	35,035,880
4. Sector distribution of exposures, broken down by major types of credit exposure and aggregated in the following areas:	
Sector distribution	Total exposure (Frw' 000')
a) Government	11,819,882
b) Financial	84,529
c) Manufacturing	-
d) Infrastructure and construction	343,793
e) Services and commerce	12,590,298
f) Others	10,197,378
Total	35,035,880
5. Off- balance sheet items	3,087,595
6. Non-performing loans indicators	
a) Non-performing loans (NPL)	923,720
b) NPL ratio	4.6%
7. Related parties	
a) Loans to directors, shareholders and subsidiaries	184,162
b) Loan to employees	1,028,578

III. LIQUIDITY RISK		
a) Liquidity Coverage Ratio (LCR)		103%
b) Net Stable Funding Ratio (NSFR)		391%
IV. OPERATIONAL RISK		
Number and types of frauds and their corresponding amount :		
Type	Number	Amount (Frw '000')
Thefts	3	6,059
V. MARKET RISK		
1. Interest rate risk		
2. Equity position risk		-
3. Foreign exchange risk		113,220
VI. COUNTRY RISK		
1. Credit exposures abroad		84,529
2. Other assets held abroad		1,562,216
3. Liabilities to abroad		7,934
VII. MANAGEMENT AND BOARD COMPOSITION		
1. Number of Board members		6
2. Number of independent directors		3
3. Number of non-independent directors		3
4. Number of female directors		-
5. Number of male directors		6
6. Number of Senior Managers		15
7. Number of female senior managers		6
8. Number of male senior managers		9