RWANDA

FINANCIAL STATEMENTS 2018

BANK OF AFRICA
Groupe BMCE BANK

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Opening date
October 2015

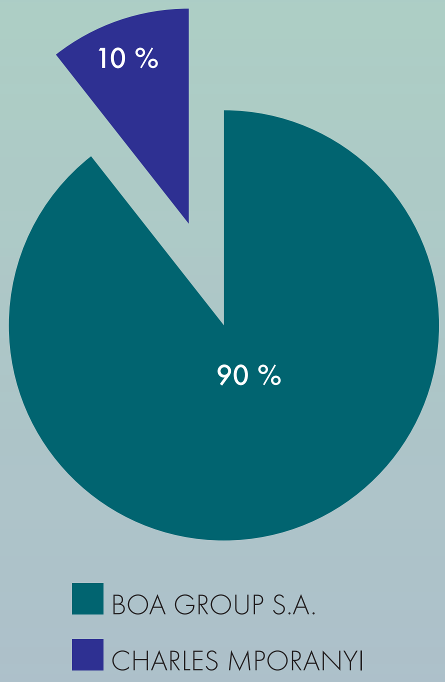
Capital as at 31/12/2018
Rwanda Francs (RWF) 12,580 billion

Board of Directors as at 31/12/2018
Louis RUGERINYANGE, Chairman
Amine BOUABID
Vincent De BROUWER
Charles MPORANYI
Emmanuel NTAGANDA
Abderrazzak ZEBDANI

Auditors
PriceWaterHouseCoopers
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 31/12/2018



info@boarwanda.com
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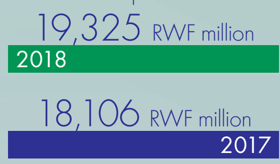
RWANDA

Key figures 2018 (in RWF million)

Activity	2017	2018	Variation
Deposits	20,564	22,623	10 %
Loans	12,744	15,477	21 %
Number of branches	14	14	0 %
Structure			
Total Assets	26,354	35,607	35 %
Shareholders' equity	4,471	9,277	107 %
Number of employees	160	169	6 %
Income			
Net operating income	2,065	2,942	42 %
Operating expenses (includind depreciation and amortization)	4,153	3,799	-9 %
Gross operating profit	-2,088	-858	59 %
Cost of risk in value	215	231	8 %
Net income	-2,302	-1,088	-53 %
Operating ratio	201.1 %	129.2 %	
Cost of risk	2.1 %	1.6 %	
Return on Assets (ROA)	-10.7 %	-3.5 %	
Return on Equity (ROE)	-41.0 %	-15.8 %	
Capital Adequacy Ratio			
Tier 1	3,904	8,801	
Tier 2		206	
Risk Weighted Asset (RWA)	15,302	21,924	
Tier 1 + Tier 2 / RWA	25.5 %	41.1 %	

+ 35 %
Total assets

Deposits



Loans
+ 21 %

Net operating income
+ 42 %

Financial analysis

In 2018, BANK OF AFRICA - RWANDA (BOA-RWANDA) pursued its growth with an increase in total assets by 35 %. The bank slowed down the process of investing in fixed assets by focusing more on interest bearing assets.

Although loan to customer went up by 21% from 2017, the cost of risk decreased by 20%; it went down from 2.0% in 2017 to 1.6% in 2018. The loan increase was made possible by customer deposit which grew by 7% from 2017.

In the same exercise, there was a capital injection of 6 billion Rwandan Francs by shareholders, this allowed the bank to get enough liquidity to invest in financial instruments which increased by 78%.

The 2018 loss went down by 53% compared to 2017. On one hand, there were performances made in terms of revenue where commission and forex income increased by 28% and 258% respectively; on the other hand, there was a strict control of operating expenses which show a reduction of 9%.

BANK OF AFRICA – RWANDA maintains its ambition to increase loan to clients, develop new products as well as a strong control of its operating expenses with the aim to meet a breakeven by end of 2019

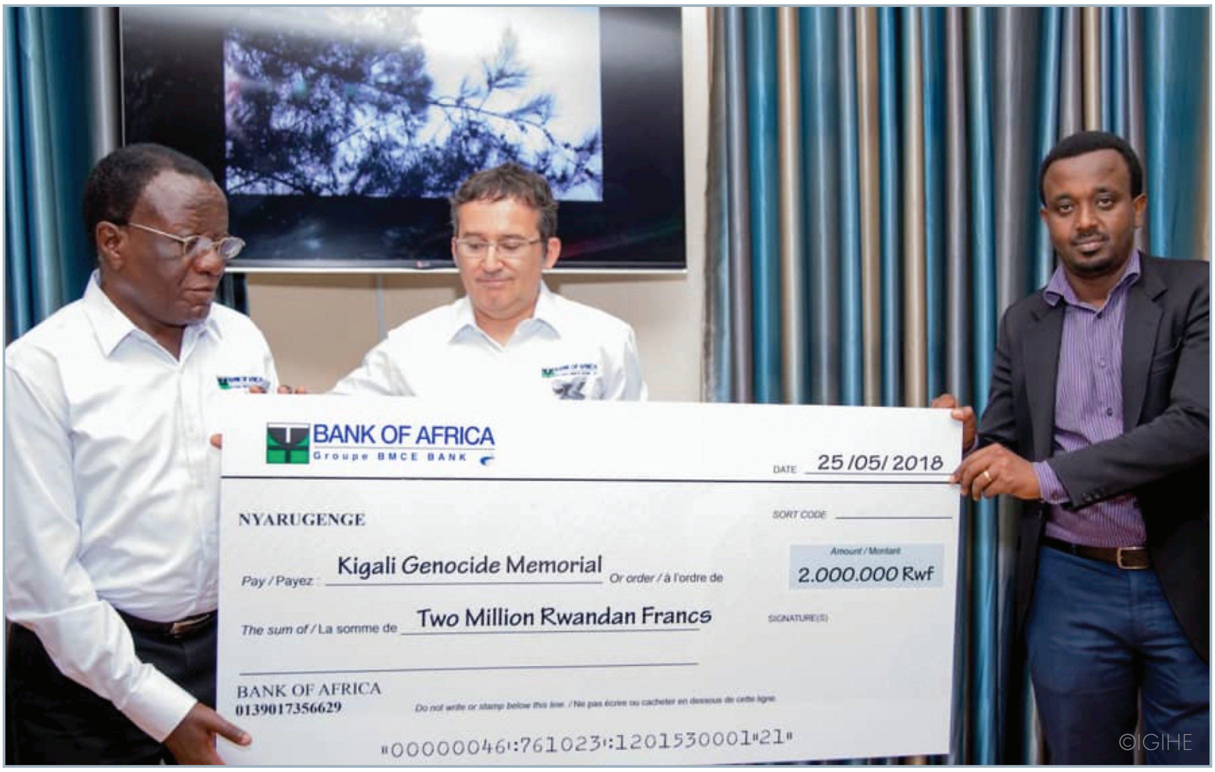
Significant performances (in RWF billion)

Loans	Operating income
15.5 **+21.4 %**	2.9 **+42.5 %**
2018	2018
2017 12.7	2017 2.1

Stock information (in RWF)

	2016	2017	2018	AAGR*
Net earnings per share	-0.9	-3.5	-0.9	0.7 %
Equity per share	10.3	6.8	7.4	-15.5 %

(*) Average annual growth rate



Contribution to the Kigali Genocide Memorial

Highlights

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

• Participation in a digital seminar organized by the Group.

June
• Launch of new products and services: 3 Type of Visa Cards, Push and Pull and Internet banking to both retail and corporate.

• Putted in to disposition of 8 ATMs in BOA-RWANDA different branches.

August
• New additional features to the service of mobile banking and internet banking : E-Tax payment.

September
• Participation in the 2018 BANK OF AFRICA Director's Meetings, in Tangier, Morocco.

October
• BOA-RWANDA and Nyarugenge district organized a public community work (Umuganda) to support the CSR programme of BOA Group Foundation – BMCE through the construction of Nyarurenzi Primary School.

December
• Developing/implementation communication channels between client and Bank through Suggestion Boxes, Email and dedicated phone line.

Umuganda project : reforestation campaign in Kigali

Kwibuka, BOA participation

Staff recreation night

Corporate information

Registered office

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

Auditor

PricewaterhouseCoopers Rwanda Limited
5th Floor, Blue Star House,
Blvd de l'Umuganda, Kacyiru
PO 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
P.O. Box 354
Kigali, Rwanda

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, 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 1,088 million (2017: Frw 2,302 million) has been adjusted to accumulated losses. The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: nil).

Directors

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

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

Louis RUGERINYANGE

Director

29/03/2019

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 were approved for issue by the Board of Directors on and signed on its behalf by:

Louis RUGERINYANGE
Director

Emmanuel NTAGANDA
Director

29/03/2019

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 2018, 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 7 to 59 comprise:

- the statement of financial position as at 31 December 2018;
- 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, the Directors' Report and Statement of Directors' 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.

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

Report on other legal and regulatory requirements

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

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

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

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

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

For PricewaterhouseCoopers Rwanda Limited, Kigali.

Moses Nyabanda
Director

29/03/2019

Statement of comprehensive income

	NOTES	2018 FRW'000	2017 FRW'000
INTEREST INCOME	6	3,487,520	2,415,599
INTEREST EXPENSE	7	(1,041,023)	(614,708)
NET INTEREST INCOME		2,446,497	1,800,891
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	17(B)	(230,701)	(214,572)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		2,215,796	1,586,319
NET FEE AND COMMISSION INCOME	8	147,797	136,481
NET FOREIGN EXCHANGE GAINS/(LOSSES)	9	305,912	85,462
OTHER OPERATING INCOME	10	41,570	42,427
OPERATING EXPENSES	11	(3,799,341)	(4,153,118)
LOSS BEFORE INCOME TAX		(1,088,266)	(2,302,429)
INCOME TAX EXPENSE	13		
LOSS FOR THE YEAR		(1,088,266)	(2,302,429)
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,088,266)	(2,302,429)

The notes on pages 17 to 64 are an integral part of these financial statements

Statement of comprehensive income

	NOTES	2018 FRW'000	2017 FRW'000
ASSETS			
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	14	3,474,152	4,736,266
DEPOSITS AND BALANCES DUE FROM OTHER BANKING INSTITUTIONS	15	8,038,515	2,924,884
DEPOSITS DUE FROM GROUP COMPANIES	29	1,319,497	489,006
GOVERNMENT SECURITIES	16(A)	4,497,068	2,526,043
LOANS AND ADVANCES TO CUSTOMERS	17	15,477,238	12,743,525
OTHER ASSETS	18	566,509	492,683
CURRENT INCOME TAX		84,327	96,653
PROPERTY AND EQUIPMENT	19	1,684,319	1,780,548
INTANGIBLE ASSETS	21	465,396	564,819
TOTAL ASSETS		35,607,021	26,354,427
LIABILITIES			
CUSTOMER DEPOSITS	22(A)	19,325,185	18,106,442
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS	22(A)	3,293,868	2,156,575
DEPOSITS DUE TO GROUP COMPANIES	22(C)	4,079	300,888
OTHER LIABILITIES	24	696,910	1,009,147
OTHER BORROWINGS	23	3,000,000	300,000
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	16(B)	10,047	10,134
TOTAL LIABILITIES		26,330,089	21,883,186
EQUITY			
SHARE CAPITAL	26	12,580,870	6,580,870
SHARE PREMIUM	26	871,740	871,740
ACCUMULATED LOSSES		(4,175,678)	(2,981,369)
TOTAL EQUITY		9,276,932	4,471,241
TOTAL EQUITY AND LIABILITIES		**35,607,021**	**26,354,427**

The notes on pages 17 to 64 are an integral part of these financial statements

Statement of changes in equity

	SHARE CAPITAL FRW'000	SHARE PREMIUM FRW'000	ACCUMULATED LOSSES FRW'000	TOTAL FRW'000
YEAR ENDED 31 DECEMBER 2017				
AT 1 JANUARY 2017	6,580,870	871,740	(678,940)	6,773,670
COMPREHENSIVE INCOME :				
LOSS FOR THE YEAR			(2,302,429)	(2,302,429)
OTHER COMPREHENSIVE INCOME				
TOTAL COMPREHENSIVE LOSS			(2,302,429)	(2,302,429)
AT END OF YEAR	6,580,870	871,740	(2,981,369)	4,471,241
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
COMPREHENSIVE INCOME:				
LOSS FOR THE YEAR			(1,088,266)	(1,088,266)
OTHER COMPREHENSIVE INCOME				
TOTAL COMPREHENSIVE LOSS			(1,088,266)	(1,088,266)
TRANSACTIONS WITH OWNERS				
ISSUE OF SHARES	6,000,000			6,000,000
AT END OF YEAR	12,580,870	871,740	(4,175,678)	9,276,932

The notes on pages 17 to 64 are an integral part of these financial statements

Statement of cash flows

	NOTES	2018 FRW'000	2017 FRW'000
CASH FLOW FROM OPERATING ACTIVITIES			
LOSS BEFORE INCOME TAX		(1,088,266)	(2,302,429)
ADJUSTMENTS FOR:			
DEPRECIATION ON PROPERTY AND EQUIPMENT	19	347,108	287,690
AMORTIZATION OF INTANGIBLE ASSETS	21	72,766	67,657
STAFF LEAVE PROVISION		22,146	9,740
FINANCE COSTS		95,652	47,632
LOSS/(GAIN) ON DISPOSAL OF ASSETS			109,350
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		(550,594)	(1,780,360)
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- INCREASE IN LOANS AND ADVANCES		(2,733,713)	(4,501,016)
- GOVERNMENT SECURITIES AND OTHER BONDS		(1,971,025)	
- INCREASE IN CASH RESERVE REQUIREMENT		(178,518)	(537,466)
- INCREASE IN OTHER ASSETS		(73,826)	(221,114)
- INCREASE IN CUSTOMER DEPOSITS		1,218,743	8,668,099
- INCREASE IN DEPOSITS DUE TO OTHER BANKS		1,111,088	2,156,575
- (DECREASE)/INCREASE IN AMOUNTS DUE TO GROUP COMPANIES		(296,809)	300,888
- (DECREASE)/INCREASE IN OTHER LIABILITIES		(312,238)	600,593
- INCREASE IN DUE FROM OTHER BANKING INSTITUTIONS			(272,192)
- (DECREASE)/INCREASE IN DERIVATIVES		(87)	10,134
CASH (UTILIZED IN)/GENERATED FROM OPERATIONS		(3,786,979)	4,424,141
INCOME TAXES PAID	13	(9,916)	(41,433)
NET CASH FROM OPERATING ACTIVITIES		**(3,796,895)**	**4,382,708**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	19	(250,879)	(822,698)
PURCHASE OF INTANGIBLE ASSETS	21	(45,286)	(12,920)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT			42,000
NET CASH UTILISED IN INVESTING ACTIVITIES		**(296,165)**	**(793,618)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		6,000,000	
PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS			274,271
INTEREST PAID		(95,652)	(47,632)
NET CASH GENERATED / (UTILISED) FROM FINANCING ACTIVITIES		5,904,348	226,639
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,811,289	3,815,729
CASH AND CASH EQUIVALENTS AT START OF YEAR		8,663,704	4,847,975
CASH AND CASH EQUIVALENTS AT END OF YEAR	**28**	**10,474,993**	**8,663,704**

The notes on pages 17 to 64 are an integral part of these financial statements

Notes

1. General information

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

The Bank is a Plc 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 5.

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

(i) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the company for the financial year beginning 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Annual Improvements 2014-2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The bank also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2015-2017 Cycle.

The Bank had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9. This is disclosed in note 3. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(ii) Standards and interpretations issued but not yet effective

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

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

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(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.

Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

• Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

• Fair value through profit or loss: Assets that do not meet the criteria for amortised cost of FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of hedging relationship is recognised in profit or loss and presented in the profit or loss statement in 'Net Trading Income' in the period which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net Investment Income'. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the `SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(ii) 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 Group 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 5.1.2 provides more detail of how the expected credit loss allowance is measured.

(iii) 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).

(iv) 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.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

• The amount of the loss allowance; and

• The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(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) 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.

(q) 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.

(r) Accounting for leases

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

(i) With the Bank as lessee

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

(ii) With the Bank as lessor

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

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

(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. Changes in accounting policies

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2 (f) above.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
FINANCIAL ASSETS	MEASUREMENT CATEGORY	CARRYING AMOUNT	MEASUREMENT CATEGORY	CARRYING AMOUNT
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	AMORTISED COST (LOANS AND RECEIVABLES)	4,736,266	AMORTISED COST	4,736,266
DUE FROM BANKS	AMORTISED COST (LOANS AND RECEIVABLES)	2,924,884	AMORTISED COST	2,924,884
DEPOSITS DUE FROM GROUP COMPANIES	AMORTISED COST (LOANS AND RECEIVABLES)	489,006	AMORTISED COST	489,006
OTHER ASSETS	AMORTISED COST (LOANS AND RECEIVABLES)	313,640	AMORTISED COST	313,640
LOANS AND ADVANCES TO CUSTOMERS	AMORTISED COST (LOANS AND RECEIVABLES)	12,743,525	AMORTISED COST	12,730,440
GOVERNMENT SECURITIES	AMORTISED COST (HELD TO MATURITY)	2,526,043	AMORTISED COST	2,433,085

There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	CARRYING AMOUNT 31 DECEMBER 2017 FRW'000	RECLASSIFICATIONS FRW'000	REMEASUREMENTS FRW'000	IFRS 9 CARRYING AMOUNT AT 1 JANUARY 2018 FRW'000
AMORTISED COST				
CASH AND BALANCES WITH CENTRAL BANKS				
OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	4,736,266			4,736,266
DUE FROM BANKS				
OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	2,924,884			2,924,884
DUE FROM GROUP COMPANIES				
OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	489,006			489,006
OTHER ASSETS				
OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	313,640			313,640
LOANS AND ADVANCES TO CUSTOMERS				
OPENING BALANCE UNDER IAS 39	12,743,525			
REMEASUREMENT: ECL ALLOWANCE			(13,085)	
CLOSING BALANCE UNDER IFRS 9				12,730,440
GOVERNMENT SECURITIES AMORTISED COST				
OPENING BALANCE UNDER IAS 39	2,526,043			
SUBTRACTION: TO AMORTISED COST (IFRS 9)			(92,958)	
CLOSING BALANCE UNDER IFRS 9				2,433,085
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST	23,733,364	-	(106,043)	23,627,321

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

(i) Those previously classified as available for sale and now classified as measured at FVOCI; and

(ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

There are no financial assets and liabilities that have been reclassified from the fair value through profit or loss category to the to the amortised cost category as part of the transition to IFRS 9.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

MEASUREMENT CATEGORY	LOAN LOSS ALLOWANCE UNDER IAS 39/PROVISION UNDER IAS 37 FRW'000	RECLASSIFICATIONS FRW'000	REMEASUREMENTS FRW'000	LOAN LOSS ALLOWANCE UNDER IFRS 9 FRW'000
LOANS AND RECEIVABLES (IAS 39)/FINANCIAL ASSETS AT AMORTISED COST (IFRS 9				
CASH AND BALANCES WITH CENTRAL BANKS				
LOANS AND ADVANCES TO BANKS				
LOANS AND ADVANCES TO CUSTOMERS	381,013		394,099	13,085
TOTAL	**381,013**		**394,099**	**13,085**
GOVERNMENT SECURITIES			92,958	92,958
LOAN COMMITMENTS AND FINANCIAL GUARANTEE CONTRACTS				
LOANS AND ADVANCES TO CUSTOMERS				
PROVISIONS (LOAN COMMITMENTS)				
PROVISIONS (FINANCIAL GUARANTEES)				
TOTAL	-	-	-	-

Further information on the measurement of the impairment allowance under IFRS 9 can be found in 5.1.2.

4. 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 5.1.2, 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 5.1.2.

5. Financial risk management

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

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

5.1 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.

5.1.1 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 5.1.2 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.

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.

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.

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.

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.

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.

5.1.2 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 Group.

- 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 5.1.2.1 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 3.1.2.2 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 5.1.2.3 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 5.1.2.4 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 judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

5.1.2.1 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 5.1.2.4 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 not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

5.1.2.2 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.

5.1.2.3 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 5.1.2.4 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.

5.1.2.3 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 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.

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 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.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 30 June 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2019	2020	2021	2022	2023
DOMESTIC GDP					
BASE	6.5%	6.5%	6.5%	6.5%	6.5%
UPSIDE	7.1%	7.1%	7.1%	7.1%	7.1%
DOWNSIDE	6.0%	6.0%	6.0%	6.0%	6.0

The weightings assigned to each economic scenario at 31 December 2018 were as follows:

	BASE	UPSIDE	DOWNSIDE
PORTFOLIO	80%	10%	10%

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

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions (for example, the impact on ECL of increasing the estimated recovery period by 6 months in each of the base, upside and downside scenarios):

Time to realisation: The directors have assumed a time to realisation of 12 months for all properties. If the time to realisation is increased to two years, the estimated credit loss would increase by FRw 94,404 million.

Collateral haircuts: The directors have assumed collateral haircuts of 50% for commercial and 30% for residential properties. If the haircuts are increased by 500 basis points, the expected credit loss would increase by Frw 62,978 million.

5.1.3 Credit risk exposure

5.1.3.1 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

	2018				2017
	ECL STAGING				
	STAGE 1 12 MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	FRW'000
NORMAL	13,732,149			13,732,149	11,421,434
WATCH		1,069,909		1,069,909	461,310
DEFAULT			1,105,256	1,105,256	1,146,809
GROSS CARRYING AMOUNT	13,732,149	1,069,909	1,105,256	15,907,314	13,029,553
LOSS ALLOWANCE	(284,312)	(13,165)	(132,619)	(430,076)	(381,013)
CARRYING AMOUNT	**13,448,012**	**1,056,744**	**972,637**	**15,477,238**	**11,101,232**

5.1.3.2 Maximum exposure to credit risk - Financial instruments subject to impairment

GOVERNMENT SECURITIES

	2018				2017
	ECL STAGING				
	STAGE 1 12 MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	FRW'000
NORMAL	4,420,000			4,420,000	2,538,500
GROSS CARRYING AMOUNT	4,420,000			4,420,000	2,538,500
LOSS ALLOWANCE	(43,449)			(43,449)	
CARRYING AMOUNT	**4,376,551**	**-**	**-**	**4,376,551**	**2,538,500**

GUARANTEES AND COMMITMENTS

	2018				2017
	ECL STAGING				
	STAGE 1 12 MONTH ECL FRW'000	STAGE 2 LIFETIME ECL FRW'000	STAGE 3 LIFETIME ECL FRW'000	TOTAL FRW'000	FRW'000
NORMAL	4,713,809			4,713,809	1,586,559
WATCH					
GROSS CARRYING AMOUNT	4,713,809			4,713,809	1,586,559
LOSS ALLOWANCE					
CARRYING AMOUNT	**4,713,809**	**-**	**-**	**4,713,809**	**1,586,559**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 5.1.2 'Expected credit loss measurement'

5.1.3.3 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. As at 31 December 2018, the maximum exposure was Frw 10,047 million.

5.1.3.4 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	1,370,344	112,552	126,971	(56,250)	1,553,617	4,731,789
TREASURY LOAN	5,009,182	365,767	527,308	(178,790)	5,723,467	11,338,233
AGRICULTURE LOANS	297,020	16,783	18,824	(3,590)	329,037	815,486
EQUIPMENT LOAN	1,898,447	233,214	143,146	(53,337)	2,221,470	4,151,798
CONSUMER LOAN	846,211	33,953	36,976	(109,678)	907,462	2,589,961
MORTGAGE LOAN	4,310,856	305,102	152,031	(28,431)	4,739,558	11,998,753
EDUCATION LOAN	89	2,538			2,627	9,380
TOTAL	13,732,149	1,069,909	1,084,831	(430,076)	15,477,238	35,635,400

5.1.4 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 5.1.5).

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

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				EXPOSURE			
	STAGE 1 12 MONTH ECL FRW'000	STAGE 2 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	STAGE 3 LIFETIME ECL CREDIT IMPAIRED FRW'000	TOTAL FRW'000	STAGE 1 12 MONTH ECL FRW'000	STAGE 2 LIFETIME ECL NOT CREDIT IMPAIRED FRW'000	STAGE 3 LIFETIME ECL CREDIT IMPAIRED FRW'000	TOTAL FRW'000
LOSS ALLOWANCE/GROSS CARRYING AMOUNT AS AT 1 JANUARY 2018	102,715	63,407	227,976	394,098	11,421,434	461,310	1,146,809	13,029,553
MOVEMENTS								
TRANSFER FROM STAGE 1	(10,494)	6,655	3,839		(908,811)	694,913	213,898	
TRANSFER FROM STAGE 2	1,249	(2,159)	910		108,689	(283,000)	174,311	
TRANSFER FROM STAGE 3					50,470	29,695	(80,165)	
NEW FINANCIAL ASSETS ORIGINATED OR PURCHASED	220,237	9,608	10,839	240,684	7,377,469	367,330	127,193	7,871,992
FINANCIAL ASSETS DERECOGNISED	(29,395)	(64,346)	(110,965)	(204,706)	(4,317,102)	(200,339)	(476,790)	(4,994,231)
AT 31 DECEMBER 2018	**284,312**	**13,165**	**132,599**	**430,076**	**13,732,149**	**1,069,909**	**1,105,256**	**15,907,314**

5.1.5 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 year ended 31 December 2018 was 218,398 million. 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.

5.1.6 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.

5.1.7 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 2018		31 DECEMBER 2017	
	FRW'000	%	FRW'000	%
OVERDRAFT	1,589,442	10%	1,547,309	12%
TREASURY LOAN	5,902,257	37%	5,097,374	39%
AGRICULTURE LOANS	332,627	2%	21,528	0%
EQUIPMENT LOAN	2,274,807	14%	2,008,822	15%
CONSUMER LOAN	1,017,140	6%	1,307,146	10%
MORTGAGE LOAN	4,767,989	30%	3,047,373	23%
EDUCATION LOAN	2,627	0%		
TOTAL	15,886,889		13,029,554	

5.2 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 2018	1-3 MONTHS FRW '000	3-12 MONTHS FRW '000	1-5 YEARS FRW '000	OVER YEARS FRW '000	TOTAL FRW '000
LIABILITIES					
CUSTOMER DEPOSITS	10,362,449	8,915,737	47,000		19,325,185
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		3,293,868			3,293,868
AMOUNTS DUE TO GROUP COMPANIES	4,079				4,079
OTHER BORROWED FUNDS	3,000,000				3,000,000
OTHER LIABILITIES	696,909				696,909
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	14,063,436	12,209,605	47,000	-	26,320,041
ASSETS					
CASH AND BANK BALANCES WITH NATIONAL BANK OF RWANDA	3,474,152				3,474,152
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	6,754,245	1,284,270			8,038,515
AMOUNTS DUE FROM GROUP COMPANIES	1,319,497				1,319,497
LOANS AND ADVANCES TO CUSTOMERS	2,274,227	1,881,225	9,290,507	2,031,278	15,477,238
GOVERNMENT SECURITIES	247,550	4,249,518			4,497,068
OTHER ASSETS	566,509				566,509
TOTAL ASSETS (EXPECTED MATURITY DATES)	14,636,180	7,415,013	9,290,507	2,031,278	33,372,979
NET LIQUIDITY GAP	572,744	(4,794,591)	9,243,507	2,031,278	7,052,938
AT 31 DECEMBER 2017					
NET LIQUIDITY GAP	(1,243,018)	(7,156,518)	8,066,987	2,371,904	2,039,355

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee.

5.3 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 at 31 December 2017 and 2016. Included in the table are the Bank's financial instruments, categorised by foreign currency.

	2018 USD FRW' 000	2017 USD FRW' 000
ASSETS		
CASH AND BALANCES WITH NATIONAL BANK OF RWANDA	781,650	593,244
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	42,863	997,139
AMOUNTS DUE FROM GROUP COMPANIES	1,319,497	393,944
TOTAL ASSETS	2,144,010	1,984,327
LIABILITIES		
CUSTOMER DEPOSITS	4,884,422	2,669,435
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
AMOUNTS DUE TO GROUP COMPANIES	44,282	258,535
OTHER FINANCIAL LIABILITIES		711,126
TOTAL LIABILITIES	4,928,704	3,639,096
NET ON-BALANCE SHEET POSITION	(2,784,694)	(1,654,769)

At 31 December 2018, 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 137 million (2017: Frw 58 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 2018, 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 84 million (2017: Frw 96 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 DECEMBER 2018	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				3,474,152	3,474,152
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS	6,754,245	1,284,270			8,038,515
AMOUNTS DUE FROM GROUP COMPANIES	1,319,497				1,319,497
LOANS AND ADVANCES TO CUSTOMERS	2,274,227	1,881,225	11,321,785		15,477,238
GOVERNMENT SECURITIES	247,550	4,249,518			4,497,068
OTHER ASSETS				566,509	566,509
TOTAL ASSETS	10,595,519	7,415,013	11,321,785	4,040,661	33,372,979
LIABILITIES					
CUSTOMER DEPOSITS		8,915,737	47,000	10,362,449	19,325,185
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		3,293,868			3,293,868
AMOUNTS DUE TO GROUP COMPANIES	4,079				4,079
OTHER BORROWED FUNDS	3,000,000				3,000,000
OTHER LIABILITIES				696,909	696,909
TOTAL LIABILITIES	3,004,079	12,209,605	47,000	11,059,357	26,320,041
INTEREST RATE SENSITIVITY GAP					
AT 31 DECEMBER 2017					
INTEREST RATE SENSITIVITY GAP	7,591,440	(4,794,591)	11,274,785	(7,018,696)	7,052,938

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.

5.4 Fair values of financial assets and liabilities

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

Fair value hierarchy

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

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

	LEVEL 1 FRW'000	LEVEL 2 FRW'000	LEVEL 3 FRW'000	TOTAL FRW'000
ASSETS AND LIABILITIES MEASURED AT FAIR VALUE				
AT 31 DECEMBER 2018				
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		(10,047)		(10,047)
AT 31 DECEMBER 2017	-	(10,047)	-	(10,047)

5.5 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 balance sheet, are:

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

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

The Central Bank requires each bank to:

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2018 and 2017 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.

	2018 FRW' 000	2017 FRW' 000
TIER 1 CAPITAL		
ORDINARY SHARE CAPITAL	12,580,870	6,580,870
SHARE PREMIUM	871,740	871,740
RESERVES:		
PRIOR YEARS' RETAINED EARNINGS	(3,087,412)	(678,940)
LESS		
INTANGIBLE ASSETS	(475,750)	(564,819)
CURRENT YEAR LOSSES	(1,088,266)	(2,302,429)
TIER 1 CAPITAL	8,801,182	3,904,288
TIER 2 CAPITAL		
REGULATORY RESERVE	205,792	
TOTAL CAPITAL	9,006,974	3,904,288
RISK-WEIGHTED ASSETS	21,924,484	15,301,818
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	41.08%	25.5%

6. Interest income

	2018 FRW' 000	2017 FRW' 000
LOANS AND ADVANCES	2,395,047	1,904,993
CREDIT RELATED FEES AND COMMISSION INCOME	360,840	231,198
GOVERNMENT SECURITIES	233,919	16,389
SHORT TERM PLACEMENTS	497,713	263,019
TOTAL	3,487,520	2,415,599

7. Interest expense

	2018 FRW' 000	2017 FRW' 000
CUSTOMER DEPOSITS AND DEPOSITS BY OTHER BANKING INSTITUTIONS	945,371	567,076
BORROWED FUNDS	21,019	47,632
INTEREST ON FOREX SWAP	74,633	
TOTAL	1,041,023	614,708

8. Net fee and commission income

	2018 FRW' 000	2017 FRW' 000
TRANSACTIONAL FEES AND COMMISSION INCOME	365,051	143,706
BANK CHARGES	(217,254)	(7,225)
TOTAL	147,797	136,481

9. Foreign exchange income

	2018 FRW' 000	2017 FRW' 000
NET FOREIGN EXCHANGE INCOME/(LOSSES)	305,912	85,462

10. Other operating income

	2018 FRW' 000	2017 FRW' 000
GAIN ON DISPOSAL OF ASSETS		29,831
WRITE BACK OF PROVISION FOR DEPOSITS		
OTHER INCOME	41,570	12,596
TOTAL	41,570	42,427

11. Operating expenses

	2018 FRW' 000	2017 FRW' 000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	347,109	287,689
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	72,766	67,657
EMPLOYEE BENEFITS EXPENSE (NOTE 12)	1,736,354	1,292,607
OFFICE RENT	549,281	542,947
CONSULTANCY FEES	145,142	114,731
COMMUNICATION FEES	30,231	29,782
OFFICE SUPPLIES EXPENSES	48,819	84,230
BOARD ALLOWANCES	131,752	98,549
PERDIEMS	49,758	32,175
PROFESSIONAL FEES	18,426	17,183
LEGAL FEES	38,094	21,190
ADVERTISING EXPENSES	37,673	41,889
TRAVEL EXPENSES	17,225	27,905
RATES AND TAXES	8,860	36,840
INSURANCE FEES	5,995	5,659
CONTRIBUTION TO DEPOSIT GUARANTEE FUND (DGF)	13,748	6,353
DONATIONS	2,042	7,763
BOA GROUP CHARGES		762,628
BOA GROUP SUPPORT FEES	64,675	255,194
BOA GROUP IT FEES	191,656	71,425
IT SERVICE CHARGES	160,058	202,326
OTHER OPERATING EXPENSES	129,677	146,396
TOTAL	3,799,341	4,153,118

12. Employee benefits expense

	2018 FRW' 000	2017 FRW' 000
SALARIES AND WAGES	1,324,138	1,067,539
RSSB CONTRIBUTIONS	59,990	55,473
MEDICAL EXPENSES	122,402	93,036
TRAINING	14,318	22,027
CONTRIBUTION TO STAFF LIFE INSURANCE	30,151	30,003
OTHER STAFF COSTS	185,354	24,529
TOTAL	1,736,354	1,292,607

13. Income tax expense

	2018 FRW' 000	2017 FRW' 000
CURRENT INCOME TAX CHARGE		
DEFERRED INCOME TAX		10,951
TOTAL		10,951

LOSS BEFORE INCOME TAX	(1,088,266)	(2,302,429)
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2017; 30%)	(326,480)	(690,729)
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX		
TAX EFFECT OF NON-DEDUCTIBLE ITEMS	199,976	54,911
UNDER/(OVER) PROVISION OF DEFERRED INCOME TAX IN PRIOR YEARS		(841)
DEFERRED INCOME TAX ASSET NOT RECOGNISED	126,504	636,659
INCOME TAX CHARGE		10,951

14. Cash and balances with National Bank of Rwanda

	2018 FRW' 000	2017 FRW' 000
CASH ON HAND	1,852,675	1,106,407
BALANCES WITH NATIONAL BANK OF RWANDA	1,621,477	706,952
TOTAL	3,474,152	1,813,359

15. Deposits and balances due from other banking institutions

	2018 FRW' 000	2017 FRW' 000
ACCOUNTS WITH OTHER BANKS	4,378,418	1,847,137
MONEY MARKET PLACEMENT	3,660,097	1,077,747
TOTAL	8,038,515	2,924,884

16. Government securities and derivatives

(a) Financial assets at amortised cost

	2018 FRW' 000	2017 FRW' 000
FACE VALUE		
TREASURY BILLS MATURING WITHIN 90 DAYS		2,538,500
INTEREST RECEIVABLE/(UNEARNED INTEREST)	120,517	(12,457)
TREASURY BONDS	4,420,000	
PROVISION ON TREASURY BONDS	(43,449)	
TOTAL	4,497,068	2,526,043

(b) Derivatives

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

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

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

	2018 FRW' 000	2017 FRW' 000
CURRENCY SWAPS ASSETS	1,294,430	514,265
CURRENCY SWAPS LIABILITIES	(1,304,477)	(524,399)
TOTAL	(10,047)	(10,134)

17. Loans and advances to customers

(a) Analysis of loan advances to customers by category

	2018 FRW' 000	2017 FRW' 000
TERM LOANS	14,297,273	11,577,229
OVERDRAFTS	1,609,867	1,547,309
GROSS LOANS AND ADVANCES	15,907,140	13,124,538
LOSS ALLOWANCE/ CREDIT IMPAIRMENT PROVISION – TERM LOANS	(373,826)	(318,739)
LOSS ALLOWANCE/ CREDIT IMPAIRMENT PROVISION – OVERDRAFTS	(56,250)	(62,274)
TOTAL EXPECTED CREDIT LOSSES/CREDIT IMPAIRMENT PROVISION	(430,076)	(381,013)
NET LOANS AND ADVANCES TO CUSTOMERS	15,477,238	12,743,525

Movement in the loss allowance balance - loans and advances is as follows:

	2018 FRW' 000	2017 FRW' 000
AT 1 JANUARY	381,013	220,494
CHANGES ON INITIAL APPLICATION OF IFRS 9	13,085	-
INCREASE IN LOSS ALLOWANCE IN THE PERIOD	965,983	680,039
AMOUNTS RECOVERED DURING THE YEAR	(711,607)	(456,226)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(218,398)	(63,294)
TOTAL	430,076	381,013

(b) Impairment charges on loan and advances during the year

	2018 FRW' 000	2017 FRW' 000
PROVISION FOR LOAN IMPAIRMENT	965,982	680,039
AMOUNTS RECOVERED DURING THE YEAR	(711,608)	(456,226)
RECOVERIES ON AMOUNTS WRITTEN OFF	(23,674)	(9,241)
TOTAL	230,701	214,572

18. Other assets

	2018 FRW' 000	2017 FRW' 000
RENT PREPAYMENTS	247,051	179,043
ADVANCES TO EMPLOYEES		193
STOCK	15,283	15,923
CLEARING ITEMS	230,260	231,909
OTHER RECEIVABLES	73,916	65,615
TOTAL	566,510	492,683

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

	LAND AND BUILDINGS FRW'000	COMPUTERS FRW'000	MOTOR VEHICLES FRW'000	REFURBISHMENT FRW'000	OFFICE EQUIPMENT FRW'000	OTHER EQUIPMENT FRW'000	TOTAL FRW'000
YEAR ENDED 31 DECEMBER 2018							
COST							
AT 01 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
		777,876	166,419	1,455,013	205,781	97,250	2,702,339
DEPRECIATION							
AT 01 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)
		(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
YEAR ENDED 31 DECEMBER 2017							
COST							
AT 01 JANUARY 2017	13,300	432,919	207,769		1,113,462	60,909	1,828,359
ADDITIONS		246,681		539,582	33,460	2,975	822,698
DISPOSAL	(13,300)	(87,142)	(41,350)		(46,794)	(11,012)	(199,597)
TRANSFERS				898,140	(898,140)		
	-	592,458	166,419	1,437,722	201,988	52,873	2,451,460
DEPRECIATION							
AT 01 JANUARY 2017	(3,214)	(133,988)	(90,798)		(195,102)	(50,368)	(473,470)
CHARGE FOR THE YEAR	(554)	(112,878)	(31,292)	(119,889)	(19,276)	(3,801)	(287,689)
DEPRECIATION ON DISPOSALS	3,768		41,350		34,534	10,595	90,247
		(246,866)	(80,740)	(119,889)	(179,844)	(43,573)	(670,912)
NET CARRYING AMOUNT	-	345,592	85,679	1,317,833	22,144	9,300	1,780,548

20. Operating lease prepayments

	2018 FRW' 000	2017 FRW' 000
WITHIN ONE YEAR	450,598	441,225
OVER ONE YEAR UP TO TEN YEARS	1,351,794	1,323,675
TOTAL	1,802,392	1,764,900

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

21. Intangible assets

	2018 FRW' 000	2017 FRW' 000
NET BOOK AMOUNT AT 1 JANUARY	564,819	233,095
ADDITIONS	45,286	12,920
WORK IN PROGRESS	26,208	386,461
DISPOSAL	(98,151)	
AMORTISATION	(72,766)	(67,657)
TOTAL	465,396	564,819

22. Customer deposits and balances due to other banking institutions

	2018 FRW' 000	2017 FRW' 000
(A) CURRENT AND DEMAND DEPOSITS	10,362,449	8,157,283
SAVINGS ACCOUNTS	1,748,601	1,449,507
FIXED DEPOSIT ACCOUNTS	7,214,136	8,499,652
TOTAL	19,325,185	18,106,442
DEPOSITS AND BALANCES DUE TO OTHER BANKING INSTITUTIONS:		
(B) BDF	1,015,616	1,000,000
BDEGL	2,278,252	1,156,575
TOTAL	3,293,868	2,156,575
DEPOSITS DUE TO GROUP COMPANIES:		
(C) BOA GROUP COMPANIES	4,079	300,888
(D) CURRENT (TO BE SETTLED WITHIN 12 MONTHS AFTER THE REPORTING PERIOD	22,623,132	20,521,552
NON-CURRENT PORTION (TO BE SETTLED WITHIN A PERIOD GREATER THAN 12 MONTHS AFTER REPORTING PERIOD)		

TOTAL	22,623,132	20,521,552

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.

23. Other borrowings

	2018 FRW' 000	2017 FRW' 000
SHORT TERM BORROWING	3,000,000	300,000
TOTAL	3,000,000	300,000

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

24. Other liabilities

	2018 FRW' 000	2017 FRW' 000
BILLS PAYABLE	78,847	167,125
AMOUNTS DUE TO BOA GROUP (NOTE 28)	-	301,788
DEFERRED FEES AND COMMISSION INCOME	15,592	55,917
SOCIAL SECURITY AND TAXES	81,526	117,332
OTHER PAYABLES	520,944	366,985
TOTAL	696,909	1,009,147

25. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%) movement on the deferred income tax account is as follows:

	2018 FRW' 000	2017 FRW' 000
AT 1 JANUARY		(10,951)
CHARGE TO PROFIT OR LOSS		10,951

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:

AS AT 31 DECEMBER 2018	AT START OF YEAR FRW'000	(CREDIT)/ CHARGE TO SOCI FRW'000	AT END OF YEAR FRW'000
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
	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	-	-	-

AS AT 31 DECEMBER 2017	AT START OF YEAR FRW'000	(CREDIT)/ CHARGE TO SOCI FRW'000	AT END OF YEAR FRW'000
DEFERRED INCOME TAX LIABILITIES			
PROPERTY AND EQUIPMENT	(262,889)	(71,902)	(334,791)
DEFERRED INCOME TAX ASSETS			
OTHER PROVISIONS	19,281	2,581	21,862
TAX LOSSES	353,575	734,293	1,087,868
	372,856	736,874	1,109,730
NET DEFERRED TAX INCOME ASSET/(LIABILITY)	109,967	664,972	774,939
DEFERRED INCOME TAX NOT RECOGNISED	(109,967)	(664,972)	(774,939)
AT YEAR END	-	-	-

Deferred income tax asset for the year 2018 of Frw 1,032million (2017: Frw774million) 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. Share capital

	NUMBER OF SHARES ISSUED & FULLY PAID (THOUSANDS) FRW'000	ORDINARY SHARES FRW'000	SHARE PREMIUM FRW'000
AT 1 JANUARY , 31 DECEMBER 2017	658,087	6,580,870	871,740
AT 1 JANUARY , 31 DECEMBER 2018	1,258,087	12,580,870	871,740

The total authorized number of ordinary shares is 1,258,087 (Dec 2017: 658,087) with a par value of Frw 10,000 per share. All issued shares are fully paid off.

As part of recapitalization of the bank the parent entity, BOA group S.A, injected Frw 5,700,000,000 to acquire 570,000 shares and Charles Mporanyi injected Frw 300,000,000 to acquire 30,000 shares within the first half of 2018.

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

27. Bank shareholding

The Bank shareholders are as follows:

SHAREHOLDING	HOLDING	COUNTRY OF INCORPORATION
BOA GROUP. S.A	90%	MALI
CHARLES MPORANYI	10%	RWANDA
	100.00%	

28. Analysis of cash and cash equivalents

	2018 FRW' 000	2017 FRW' 000
CASH IN HAND	1,852,675	1,712,976
DUE FROM THE NATIONAL BANK	1,621,477	3,023,290
CASH RESERVE BALANCES WITH THE NATIONAL BANK	(1,208,329)	(1,029,811)
DEPOSITS WITH OTHER BANKS	5,697,915	2,431,206
CALL MONEY WITH BMCE SPAIN	2,375,827	
T BONDS COUPONS MATURING WITHIN 3 MONTHS	135,427	
FINANCIAL ASSETS – TREASURY BILLS (MATURING WITHIN THREE MONTHS)		2,526,043
TOTAL	10,474,992	8,663,704

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.

29. Related party disclosures

The Bank is 90% owned by BOA 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 and BOA-FRANCE.

Transactions on the related party accounts are interest free. The following were the total transactions with related parties in the year.

	2018 FRW' 000	2017 FRW' 000
AMOUNTS DUE FROM GROUP COMPANIES		
BANK OF AFRICA – UGANDA	414,679	201,328
BANK OF AFRICA – RDC	159,117	95,062
BOA-FRANCE	557,885	192,616
BMCE SPAIN	-	187,815
	1,319,497	676,821
AMOUNTS DUE TO GROUP COMPANIES		
BOA GROUP S.A (SUPPORT SERVICES)	-	301,788
LOANS AND ADVANCES TO DIRECTORS		
OUTSTANDING BALANCE		14,573
INTEREST		671
	-	15,244

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.

KEY MANAGEMENT COMPENSATION	2018 FRW' 000	2017 FRW' 000
SALARIES AND WAGES	326,549	512,451
OTHER BENEFITS	136,704	106,966
CONTRIBUTION FOR STAFF INSURANCE	8,164	21,527
CONTRIBUTION TO RWANDA SOCIAL SECURITY BOARD	19,548	26,774
TOTAL	490,965	667,718
DIRECTORS' REMUNERATION		
FEES FOR SERVICES AS DIRECTORS	35,274	25,792

DEPOSITS RECEIVED FROM RELATED PARTIES	2018 FRW' 000	2017 FRW' 000
BOA GROUP COMPANIES	44,282	300,888
CHARLES MPORANYI	21,345	508,395
TOTAL	65,627	809,283
INTEREST EXPENSE PAID TO CHARLES MPORANYI	50,000	6,805

TRANSACTIONS WITH BOA GROUP	2018 FRW' 000	2017 FRW' 000
BOA GROUP TECHNICAL ASSISTANCE	-	193,310
BOA GROUP SUPPORT FEES	64,674	255,194
BOA GROUP IT FEES (LICENSE FOR THE CORE BANKING SOFTWARE)	191,656	71,425
TOTAL	256,330	519,929

30. 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 :

	2018 FRW' 000	2017 FRW' 000
ACCEPTANCES AND LETTERS OF CREDIT	4,713,809	1,586,559

Non-trade contingent liabilities

There were outstanding legal proceedings against the Bank as at 31 December 2018, 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 (2017: Nil).

Appendix for the year ended 31 December 2018

ITEM	FRW'000
1. OFF BALANCE SHEET ITEMS	4,713,809
2. NON-PERFORMING LOAN INDICATORS	
NON-PERFORMING LOANS	1,099,339
NPL RATIO	6.9%
3. CAPITAL STRENGTH	
CORE CAPITAL (TIER1)	8,801,182
SUPPLEMENTARY CAPITAL (TIER 2)	205,792
TOTAL CAPITAL	9,006,974
TOTAL RISK WEIGHTED ASSETS	21,924,484
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS RATIO	40.2%
TIER 1 RATIO	40.2%
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS RATIO	41.1%
TIER 2 RATIO	-
4. LIQUIDITY	
LIQUIDITY RATIO	307.6%
5. INSIDER LENDING	
LOANS TO DIRECTORS, SHAREHOLDERS AND SUBSIDIARIES	-
LOANS TO EMPLOYEES	919,281
6. MANAGEMENT AND BOARD COMPOSITION	
NUMBER OF BOARD MEMBERS	6
NUMBER OF EXECUTIVE DIRECTORS	-
NUMBER OF NON-EXECUTIVE DIRECTORS	6
NUMBER OF FEMALE DIRECTORS	-
NUMBER OF MALE DIRECTORS	6
NUMBER OF EXECUTIVE COMMITTEE	5
NUMBER OF FEMALES IN THE EXECUTIVE COMMITTEE	2
NUMBER OF MALES IN THE EXECUTIVE COMMITTEE	3