2019 ANNUAL REPORT

AND FINANCIAL STATEMENTS, FOR THE YEAR ENDED 31ST DECEMBER 2019

I&M Bank PLC

RWANDA

Flexible, Friendly and Efficient.

Relationships are central to I&M's business and key to its future.

Customers join and stay with us because of these qualities. We therefore strive to continue to embody these traits.

We are on your side.

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Our Business

Chairman's Statement

We are Flexible, Friendly and Efficient

"Customer expectations on service levels provided by the bank continue to grow and we are committed to making banking easier and more accessible."

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 31 December 2019 and also share with you the key advances, changes and projects undertaken by your Bank in the course of the past year.

RWANDA ECONOMIC PERFORMANCE

Rwanda remains in second position on the African continent in the 2020 World Bank's Ease of Doing Business' Index. The country's growth continues to exceed expectations, with annual GDP averaging 8.5 percent, on the back of a booming construction sector, robust activity in the service industry and a healthy agricultural output.

Generally, the Rwandan economy recorded improvements in fiscal stability as well as inflation and exchange rate stability.

Despite notable global events taking shape in 2020, the country's economy was expected to remain robust with GDP projected to grow by 8.0 percent. This aggressive prediction is based on the historic record of sound macroeconomic management and fiscal discipline. However, it has to be stated that these projections were made in early January and I expect they will have to be revised downwards as the implications of the Coronavirus are taken into account.

BANKING INDUSTRY

In line with the country's continuing sound economic performance, total assets of the Banking sector grew by 12.5 percent from FRW 3.091Billion as at December 2018 to FRW 3.476Billion in 2019, somewhat lower than the 15.1 percent increase recorded in December 2018.

Lending remains the major component of the sector's total assets standing at 57.4 percent as at end December 2019. Net outstanding loans increased by 12.2 percent - driven by growth in gross outstanding loans and a reduction in provisions for non-performing loans (NPL), consistent with a favorable operating environment. The NPL ratio, the main indicator of asset quality, decreased from 6.4 percent in December 2018 to 4.9 percent in 2019. This improvement was achieved by some recoveries but in addition some of the older non performing debt was written off in accordance with BNR regulations.

The sector is rapidly embracing digital banking avenues through agency, internet and mobile banking and the effects are reflected through improved efficiencies and growth in profitability.

OUR FINANCIAL SCORECARD
We have continued to strengthen our balance sheet with total asset and deposit portfolios growing by 8 percent and 5 percent respectively.

Our profit after tax was impacted, as expected, by the depreciation costs on the investment in Finacle – our core banking system – and an exceptional one-off expense relating to a voluntary severance scheme when 29 staff opted to retire following the conversion.

With regard to our financial performance positive indicators, include improvements in Tier 1 and Tier II capital adequacy ratios to 14.32 percent and 18.24 percent respectively, demonstrating a financially sound position and ability to grow our business.

Our asset quality remains the best in the sector with a non performing ratio of 2.56 percent (December 2018 - 2.53 percent) significantly below the National Bank of Rwanda's target of maximum 5 percent.

STRATEGIC PROGRESS
As a result of our continued innovation in Retail Banking, our customer base continues to expand and we added 2500 new clients in the last quarter of 2019.

The digital age is changing how clients want to interact with their bank and strategically, we believe that technological advancements will continue to shape the future of the industry. We are on track with the implementation of our Digital strategy and the new Core Banking System has enabled us to enhance the customer experience. This is reflected positively in our customer satisfaction surveys.

Our business solutions cater for a broad range of customers. Most notable in the period under review are advancements the Bank made towards supporting small businesses. Through strategic partnerships, we have revamped our MSME (Micro, Small and Medium Enterprises) offerings to deliver meaningful solutions to our customers and deliver maximum value.

Our Corporate Banking unit remains the preferred partner for corporates by offering a range of corporate products and services. Improved technology enables effective implementation at any time and place and offering of customized corporate solutions as per clients' requirements.

Customer expectations on service levels provided by the bank continue to grow and we are committed to making banking easier and more accessible.

BOARD DEVELOPMENT AND CORPORATE GOVERNANCE
There were a number of changes to the Board in the course of 2019.
We welcomed two new Independent Directors in 2019. Mr. Nikhil Hira and Ms. Alice Nkulikiyinka were approved by our Shareholders at our last AGM in May 2019.

In the course of the year, Andreas Grenacher, representing DEG/ Proparco resigned with effect from 28 October 2019 as the Institutional shareholding was in the final stages of transfer to AfricInvest. The deal has since received the necessary regulatory approvals and the Board would like to welcome them as our new shareholders.

Richard Mugisha retired from the Board with effect from 04 December 2019 on completion of his term as an Independent Director.

We also take this opportunity to thank Andreas and Richard for their valued contributions to the Bank as we welcome our new directors who bring with them extensive experience and knowledge in their respective fields.

BOARD DEVELOPMENT AND CORPORATE GOVERNANCE (Continued)
The Bank's new Headquarters is set to be unveiled in 2020 and will be a unique profile on Kigali's skyline. This significant investment demonstrates the banks confidence and commitment to support Kigali to become a key financial centre appreciated by all.

It is expected that the new building is likely to come into operation before the end of 2020 global pandemic issues permitting

DIVIDENDS AND BONUS SHARE ISSUE
The Bank has a new capital allocation framework to help shape our strategic priorities. Improving our competitiveness is our main priority and the Bank has the potential for a marked improvement in performance with resulting, medium term benefits, for all stakeholders.

Dividends represent an allocation of capital and the Board is mindful of the value that many shareholders attach to dividends.

It is in this regard that the Board has recommended a dividend payment of FRW 3 per share, which would result in a full-year dividend of FRW 1.515Billion.

The Board also recognizes the need to increase the Bank's capital in line with the National Bank of Rwanda regulations on minimum capital requirements and in this regard we propose issuing existing shareholders one additional Frw10 bonus share for each one already held through capitalization of reserves. The proposal will be put to the AGM for shareholders' approval.

ON A CONCLUDING NOTE
The purpose of this report is to update shareholders on the main achievements of the bank in 2019. However, it would be remiss of me not to mention events that have taken place in 2020. The Coronavirus pandemic has had a significant effect on many of our clients, particularly those in the travel, entertainment, leisure, and tourism sectors. It will have an impact on all of us for the foreseeable future and my assurance to you and all of our customers is that we will continue to support you through what is likely to be a very challenging time. As the longest established bank in Rwanda we have a proud record of supporting stakeholders in times of adversity and this will continue in 2020. In this regard I would like to acknowledge the swift and decisive action initiated by the Central Bank to support the banking industry. This will enable us to respond to requests from our customers and to provide timely assistance as necessary. We remain very thankful to the Government, and our regulators for the guidance provided to us especially during these very challenging times.

On behalf of the Board, I would like to convey my sincere thanks to our customers for their continued loyalty and to our shareholders for their continuing trust in our ability to grow our business.

My gratitude also goes to my fellow directors, the Management team and to our employees across all areas of the Bank for their hard work, professionalism and commitment. I acknowledge the support of our partners: suppliers, contractors, vendors, and providers of professional services for which we remain very grateful.

Looking to the future there is no doubt that there will be headwinds in 2020 but we are well positioned to deal with these and committed to working with all stakeholders so that we all emerge stronger from these difficulties.

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

CEO HIGHLIGHTS

CEO's Statement

We are Flexible, Friendly and Efficient

"Being a leader in sustainability is part of our strategy. We are convinced that we can grow profitably while contributing to society by making smarter, more resource-efficient decisions and staying innovative and by practicing sustainable lending practices. "

Dear Valued Shareholders,

I am delighted to report and present your Bank's scorecard for the 2019 financial year.

2019 MACRO-ECONOMIC REVIEW

18 years ago, Rwanda set bold aspirations to achieve the Vision 2020 goals, a then-labelled ambitious path. Good governance, universal health care, gender equality and quality education were some of the set targets. From a GDP of USD 1.735 Billion in 2000 to USD 9.831 Billion in 2019, our country is acknowledged on the world stage for its efficiency and focused stance on delivering on its promise.

The same growth has been noted in the Banking sector. Currently, the industry boasts 16 banks, accounting for 66% of the total assets of the financial sector as of end 2019. Since 2010, the total assets grew by 300% from FRW 870Billion (December 2010) to FRW 3.476Billion in December 2019. Bank's deposits increased by 288% from FRW 565Billion (December 2010) to FRW 2.190Billion. This was achieved on the back of an accommodative monetary policy maintained by the National Bank of Rwanda, given that both inflationary and exchange pressures remained subdued.

OUR BANK

Underpinned by our diversification strategy, operating income increased by 6% to reach FRW 27.4 Billion. This was supported by a growth of 8% in net interest income, which benefited from the growth in our credit portfolio and rates trading. With the focus on the promotion of Digital Banking, Net fees and commissions registered a decrease of 7% in 2019 (the resultant reduction in operational costs are continuously being recognised across our network).

On the back of initiatives to strengthen our human capital and uplift our technological readiness though the investment made in the core operating system, operating expenses increased by 23%. Yet in view of our robust performance on the revenue front, our cost-to-income stood at 67%. With the Bank's impairment charges decreasing by 56%.

The Bank maintained robust foundations for the achievement of sound and sustainable business growth. We posted an improvement in our total capital adequacy ratio, alongside maintaining healthy funding and liquidity positions.

On the business front, we continued our journey to broaden our target markets through increased marketing campaigns and dedicated relationship management. We noted a growth of 5% in our overall deposits despite the strategic decision to reduce high cost funds. We

OUR BANK (Continued)
recorded robust customer acquisition which is reflected in a growth of fifteen percent in our customer base. These new accounts will yield results in 2020 as the Bank continues to provide lifestyle solutions to increase product penetration.

Last year the Bank focused on a number of initiatives which were driven to reposition ourselves in two main segments; SME and retail. On the SME front we partnered with IFC for this revamp and review of our offerings, value proposition and end-to-end product offering. We have since launched this initiative with an aim to both expand our presence in the medium segment but also tapping into new market segments, critical to the economy, namely micro and small enterprises.

For our Retail Customers, we have enhanced our product set with some new industry first products. We are proud that our mortgages are still the best in class and our personal loans products maintain our leading position. Following the Retail revamp in December our applications increased by more than 100% and we expect a continuous trend.

Being a leader in sustainability is part of our strategy. We are convinced that we can grow profitably while contributing to society by making smarter, more resource-efficient decisions and staying innovative and by practicing sustainable lending practices.

OUR PEOPLE, OUR CARE
We strongly believe that our employees are our most valuable resource and that our success depends upon establishing and maintaining a capable team able to perform the best of their abilities. With due emphasis laid on talent management, our brand, and strategic talent acquisition, we continued to enable our employees to deliver the highest standards.

Therefore, their opinions and feedback are highly valued. We carry out an annual survey which once again has maintained a top-decile engagement score. This demonstrates the absolute commitment of our entire team.

In April 2019, the Bank offered a Voluntary Severance Scheme to its long-serving employees as a benefit package for their committed service; I would like to extend my sincere thanks to all for their valuable service and their contribution to the success of the Bank.

I&M – VALUES, ETHICS AND COMMUNITY
Our strong belief in shaping a world where people and communities thrive underpins our approach to Corporate Social Responsibility. The Bank reiterated its commitments to supporting the community we operate in through a number of CSR activities with a special focus on Education, Capacity Building, and Rehabilitation, Health, and Environmental sustainability.

We participated in the commemoration of the 1994 Genocide against the Tutsi commemoration activities and in partnership with AEGIS TRUST joined Jali sector community to remember genocide victims of the 1994 genocide against the Tutsi buried at the Jali sector memorial and 23 I&M Bank (Former BCR) staff who lost their lives during the 1994 genocide against the Tutsi.

We donated cows to vulnerable families in Nyarugenge in support of the Government's one-cow-per-family programme also known as “Gira Inka” and for the fifth year in a row, the Bank joined the Rwanda Childhood Cancer Relief (RCCR) in their annual walk proving our commitment in raising awareness about childhood cancers.

The Bank supported 1000 vulnerable individuals with medical insurance cover for the 2019-2020 period. We are committed to promoting sustainable economic and social development that improves the lives of people across our communities and transforms their lives for the better.

AWARDS & RECOGNITION
The solid credentials of the Bank have been acknowledged and rewarded in several ways. In 2019, the Bank was recipient of

- Best Bank in Rwanda award by Global Finance.
- Investor of the Year awarded by RDB Business Excellence Awards.
- Best taxpayer of the year by Rwanda Revenue Authority

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

CONCLUSION AND OUTLOOK
Whereas we have made advancements in transforming our organization, we are conscious that we cannot rest on our laurels in view of the increasingly dynamic and demanding context prevailing locally and abroad.

Through continued development of innovative products and services in combination with cost productivity and stability in operations, we will continue to focus on shareholder value creation and improving our profitability. Our strong balance sheet and cash flow support our strategy to drive profitably growth.

I would like to thank our customers, shareholders, employees and stakeholders for their important contributions throughout the year.

The Bank continues to move forward and upwards in 2020. There is still much to be done and while external conditions are likely to be more challenging in the near-term, we remain excited by the opportunities that lie ahead and we will continue to launch new innovative products and services, with the goal to provide best-in-class consumer experiences.

Thank you for your loyalty and continued support.

ROBIN BAIRSTOW
CEO

Board of Directors

Bill Irwin Chairman
Independent director

Robin C. Bairstow
Managing director

Faustin Byishimo
Executive director

Dr Estelle Jonkergouw
Independent director

Alice Nkulikiyinka
Independent director

Nikhil Hira
Independent director

Soundararajan Madabhushi
Independent director

Richard Mugisha
Independent director

Crystal Rugege
Independent director

Paul Simon Morris
Independent director

Arun S. Mathur
Non-executive director

Andreas Grenacher
Non-executive director

Senior Management

Robin C. Bairstow
Managing Director

Faustin Byishimo
Executive Director and Div. Head of Business Development

Paul Sagnia
Chief Operating Officer

Dederi Wimana
Chief Internal Auditor

Diana Kwarisiima
Head of Human Resources

Anita Umulisa
Chief Finance Officer

Lise Mugisha
Chief Risk Officer

Benjamin Mutimura
Head of Corporate and institutional Banking

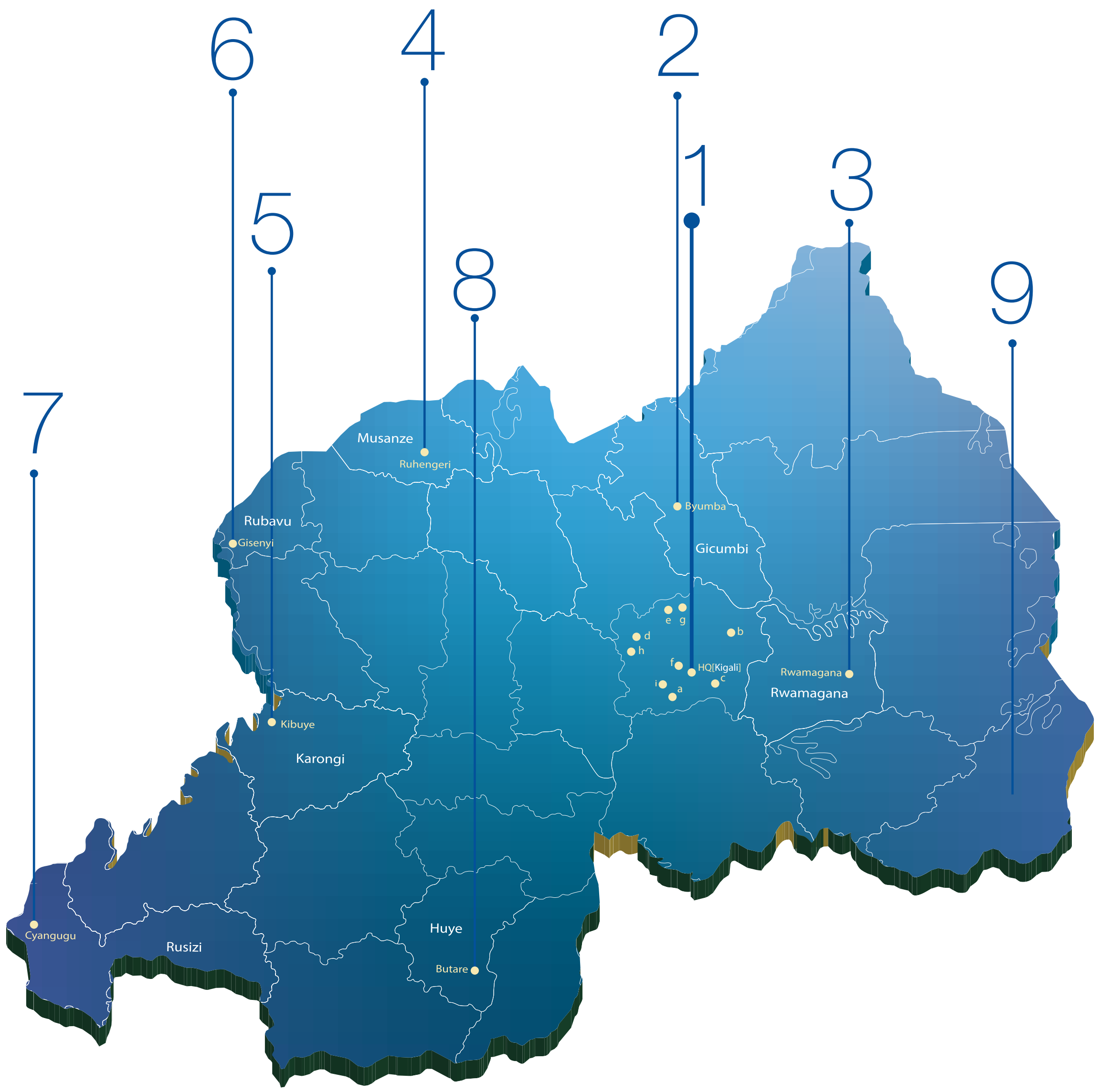
Cynthia Rwamamara
Head of Internal Control and Compliance

John Gatashya
Head of Projects

Nicolas Uwimana
Head of Legal

Alfred Baguma
Head of Credit

OUR COVERAGE



OUR LOCATIONS

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

OUR LOCATIONS (Continued)

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

REMERA
Gasabo District
Tel: +250 788 162 161

NYAMIRAMBO
Nyarugenge District
Tel: +250 788 162 188

NYABUGOGO
Nyarugenge District
Tel: +250 788 162 162

CHIC COMPLEX
Nyarugenge District
Tel: +250 788 162 198

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

KIGALI HEIGHTS
Gasabo District
Tel: +250 788 162 160

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

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

RUSIZI
Rusizi District
Tel: +250 788 162 164

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

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

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

GICUMBI
Gicumbi District
Tel: +250 788 162 165

RWAMAGANA
Rwamagana District
Tel: +250 788 162 174

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

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

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

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

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

Section

2

Our Governance

NEWS & CSR

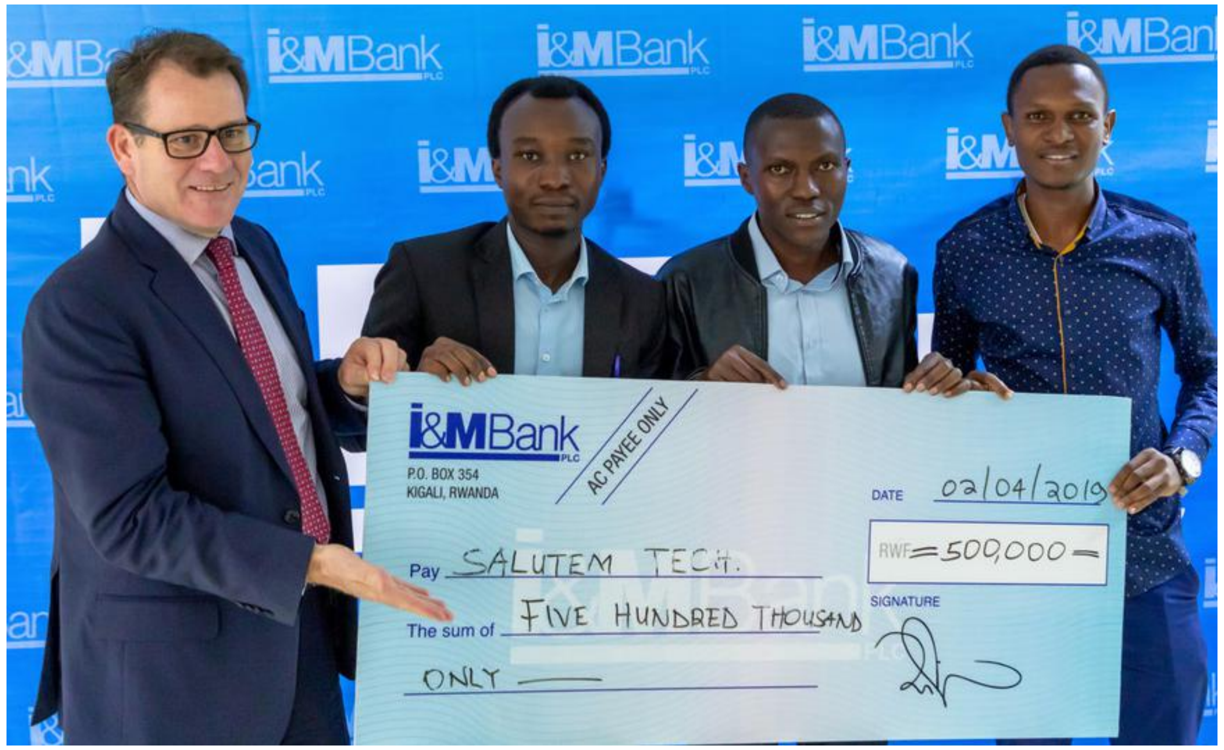
Mastercard Prepaird Multicurrency Card Launch and Campaign

On 29th August 2019, I&M Bank Rwanda in partnership with Mastercard, officially announced the rollout of the first prepaid Multicurrency card in Rwanda. The card allows customers to load up to 15 different currencies at reduced exchange costs and provides customers access to their funds through numerous worldwide transactional channels. This was followed with a 4 month campaign to ensure usage and increase in the number of customers.

FIRST PREPAID MULTICURRENCY CARD IN RWANDA WITH UP TO 15 DIFFERENT CURRENCIES

Social Media Engagement Campaign

The Bank conducted a Social Media Engagement Campaign where different challenges were organized. The major campaign was named #IMPushToStart where users with the most creative and innovative ideas walked away with FRW 2,000,000, FRW 1,000,000 and FRW 500,000. The Bank also gave out other prizes like Bluetooth speakers, FRW100,000 to a super saver and brunch vouchers for the most loveable women's day message. Our followership and post engagement on the social media platforms increased at 36.2% and 288% rate respectively. We didn't limit it to celebrating external users only because our I&M Bank Super Influencers also won prizes.



Mobile ATM Trailer at the Rwanda International Trade Fair

The Bank minimally participated at the Rwanda International Trade Fair by placing the first mobile ATM trailer in Rwanda. The trailer was branded and placed at the entrance of the Expo grounds to ensure it offers convenient services to all our customers and non-customers.

Customer Appreciation Event

During the year, Board and Management celebrated a few clients of the Bank to express gratitude, build engagements and reiterate the Bank's commitment to serving them better.

Awards and Recognitions

In 2019, I&M Bank Rwanda was recognized for the work and contribution to gender equality following a partnership that started in 2018.

The certificate of recognition came after thorough assessment by the Gender Monitoring Office in partnership with UNDP; and agreement on the actions going forward.

To strengthen the partnership, the Management has appointed a diversity and inclusion champion to work with the above organizations in pushing good practices and ensuring continuous improvement going forward.

NEWS & CSR

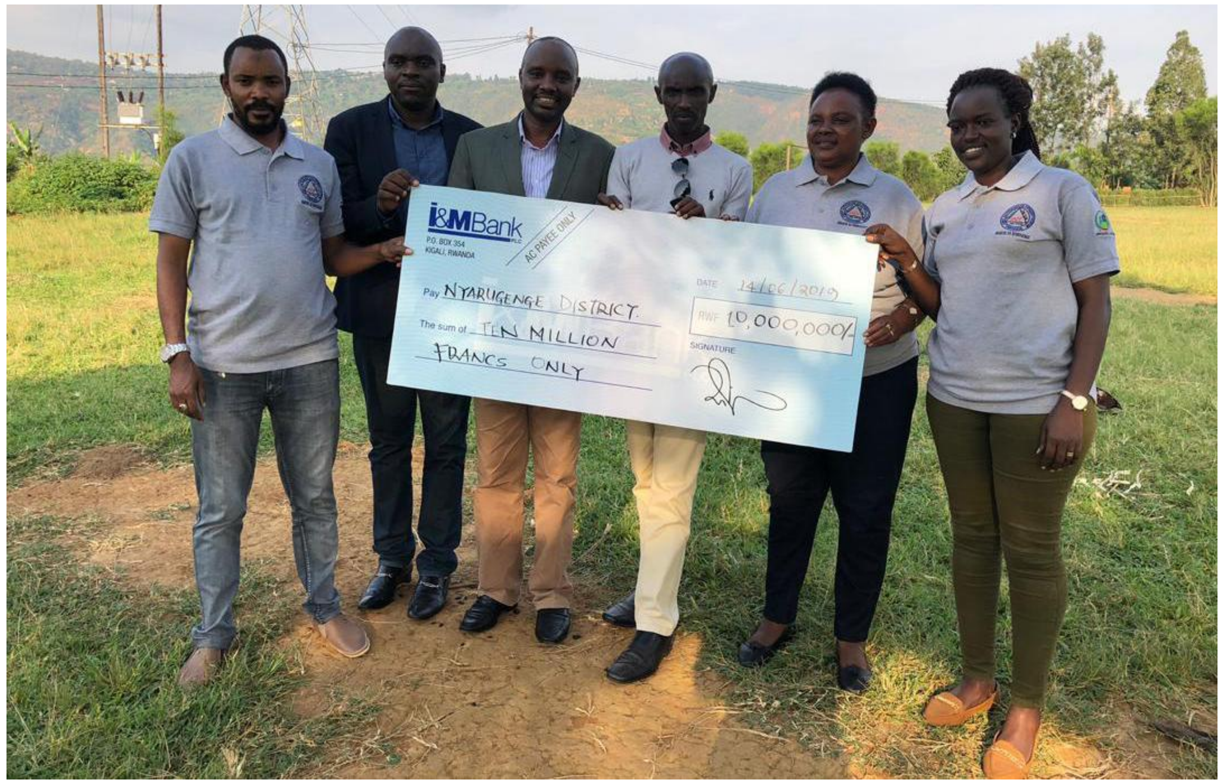
Kwibuka 25

The Bank in partnership with AEGIS TRUST joined Jali sector community to remember genocide victims of the 1994 genocide against the Tutsi buried at the Jali sector memorial and 23 I&M Bank (Former BCR) staff who lost their lives during the 1994 genocide against the Tutsi. This was also an opportunity to reiterate our commitment to such activities.

Gira Inka

In June 2019, I&M Bank Rwanda donated 17 cows to vulnerable families in Nyarugenge in support of the Government's one-cow-per-family programme also known as "Gira Inka".

The Bank delivered these heifers and also their submitted 1 year life insurance documents to the district officials.



Medical Insurance for Vulnerable People

In line with the CSR themes of health, Education and Environment, the Bank supported 1000 vulnerable individuals with medical insurance cover for the 2019-2020 period. Umuganda activities in Gicumbi district were also done in November 2019. Bank staff and management were visited by the beneficiaries of the insurance sponsorship and participated in the community building activities within their neighborhoods.

Rwanda Children's Cancer Relief Awareness Walk

For the 5th year in a row, the Bank joined the Rwanda Childhood Cancer Relief in their annual walk to create more awareness about childhood cancers in Rwanda. This was another opportunity to prove that I&M Bank Rwanda takes into account its social impact in the way it operates as a business and that we will continue to provide support to the community we operate in.

SPENN Save and Win Prizes Handover

©2019 IGIHE

On June 21st 2019, the Bank together with the local Blockbonds team awarded lucky winners of the SPENN Save and Win campaign. One lucky winner walked away with a brand new motorcycle and cash prizes to 4 more lucky winners worth FRW 200,000.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bill Irwin	Chairman – Independent director
Robin C. Bairstow	Managing director
Faustin Byishimo	Executive director
Arun S. Mathur	Non-executive director
Soundararajan Madabhushi	Independent director
Crystal Rugege	Independent director
Paul Simon Morris	Independent director
Nikhil Hira	Independent director appointed 11th April 2019
Alice Nkulikiyinka	Independent director appointed 17th April 2019
Andreas Grenacher	Non-executive director resigned 28th October 2019
Richard Mugisha	Independent director resigned 4th December 2019
Dr Estelle Jonkergouw	Independent director resigned 19th February 2020

COMPANY SECRETARY
Iddy Rugamba
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Rwanda

AUDITOR
PricewaterhouseCoopers Rwanda Limited
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Kigali, Rwanda

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

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

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

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

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

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

Bank One Limited
16 Sir William Newton Street
Port Louis
Mauritius

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER 2019

The directors have pleasure in submitting their Annual report together with the audited financial statements for the year ended 31st December 2019, which disclose the state of affairs of the I&M Bank (Rwanda) Plc (the "Bank" / "Company").

1. Principal Activities
The Bank is engaged in the business of banking and provision of related services: Banking is a business activity of accepting and securing money owned by individuals and enterprises and provides liquidity needs for businesses and families to invest for the future. The Bank also charges a certain amount of rate of interest on the amount sanctioned.

2. Results / Business review
Profit before income tax fr the year was Frw 8.99 billion (2018: profit of Frw 10.82 billion). Net interest income increased from Frw 20.2 billion in 2018 to Frw 21.9 billion in 2019 in correlation to the increase in the loans which increased from Frw 169 billion to Frw 172 billion in 2019.

The Bank's results for the year were as follows:

	2019 Frw'000	2018 Frw'000
Profit before income tax	8,990,374	10,817,422
Income tax expense	(2,848,432)	(3,354,850)
Net profit for the year after tax	**6,141,942**	**7,462,572**

The results of the Bank for the year are set out from page 58.

3. Dividends
The directors have recommended payment of dividend with respect of the year ended 31 December 2019 of Frw 1,515,000,000 (2018: Frw 2,985,000,000) which represents Frw 3 per share (2018: Frw 5.91 per share)

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

5. Auditors
PricewaterhouseCoopers Rwanda Limited's term will come to an end at the next annual general meeting in line with regulatory requirements in Rwanda. KPMG Rwanda Limited have been proposed as the successor auditor and a resolution for the appointment will be tabled at the next AGM.

6. Relevant audit information
The Directors in office at the date of this report confirm that:
(i) There is no relevant audit information of which the Bank's auditor is unaware; and
(ii) Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

7. Approval of financial statements
The financial statements were approved and authorised for issue by the Board of Directors and signed on their behalf on 21st April 2020

BY ORDER OF THE BOARD
Secretary
Date: 21st April ***2020.***

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST DECEMBER 2019

Law No 17/2018 of 13/04/2018 governing companies requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial Period and of its operating results for that year. It also requires the directors to ensure the Bank keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates in conformity with International Financial Reporting Standards and the requirements of Law No. 17/2018 of 13/04/2018 governing companies. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements
The year-end financial statements on pages 58 to 133 were approved and authorized for issue by the

Board of Directors and signed on its behalf on 21st April 2020 by:-

Director

Director

STATEMENT ON CORPORATE GOVERNANCE

This report describes how the Bank remains not only compliant with Corporate Governance regulations issued by the National Bank of Rwanda, the Capital Market Authority and Rwanda Stock Exchange regulations but also remains committed in adopting best practices and creating a culture of good practices which is in line with our Group wide commitment to ensure that the highest standards of Corporate Governance are implemented and upheld in all its entities. This in turn ensures that the Group maintains and promotes high standards of integrity, transparency and accountability across all levels, and in particular that at each level, each entity is well and honestly run, generating long term shareholders value.

At our Bank, we have embraced the changes and believe that Governance is more than just complying with laws and regulations; it is also creating a culture of good practices. The Bank has already a well-defined and structured Corporate Governance framework to support the Board achieving our mission of being: Partners of growth for all our stakeholders which will be achieved through: "Meeting our Customers' expectations; Motivating & developing every Employee and Enhancing Shareholder value". Our Shareholders, Board of Directors and Senior Management believe that Corporate Governance is a necessary condition for sustainable performance and will therefore undertake every effort to create awareness and ensure compliance with corporate governance policies and practices within our organization.

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

OUR SHAREHOLDERS PROFILE

As of 31st December 2019, 79.23% were owned by BCR Investment Company (BCRICL) a diversified investment company established in Mauritius.

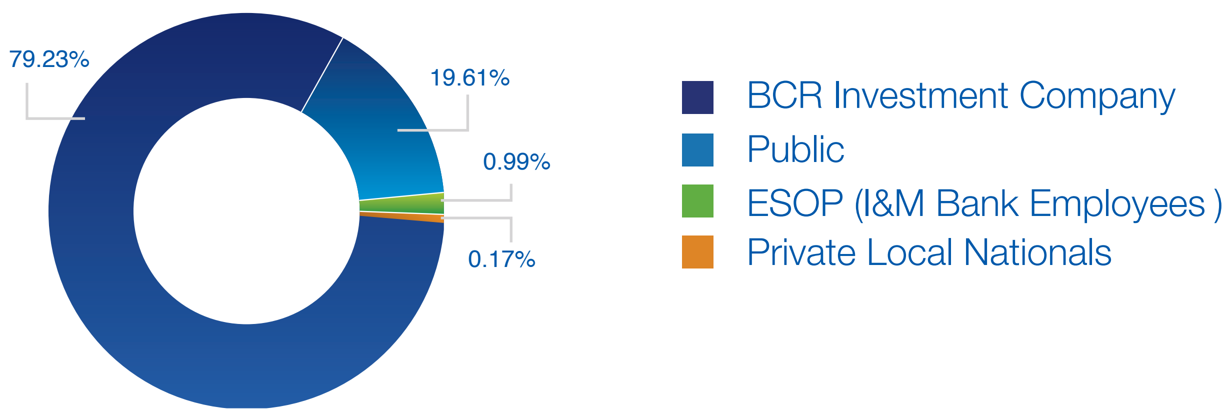
The Bank has as indirect shareholders through BCRICL: I&M Holdings Limited with 54.46%, DEG has 12.38% and PROPARCO 12.38%;

19.62% shares are owned by the public and 0.99% is held by I&M Bank employees ESOP.

The top 10 shareholders jointly hold 83.9% of the total floated shares.
The shareholding structure composition has evolved, with the floated shares held by foreign & local institutions as well as few retail investors.

I&M Bank (Rwanda) Plc' top 10 shareholding composition as of 31st December 2019:

NO.	INVESTOR NAME	Total No. of shares	% of holding
1	BCR-Investment Company Ltd	400,122,300	79.23%
2	The KIBO FUND II LLC	36,444,400	7.22%
3	Nile Holding Company for Development and Investment	12,372,400	2.45%
4	AGDF Corporate Trust Ltd	10,655,200	2.11%
5	Rwanda Social Security Board	9,813,600	1.94%
6	ESOP (I&M Bank Employees)	5,000,000	0.99%
7	Dyer And Blair Investment Bank Ltd	4,347,000	0.86%
8	Rwanda Mountain Tea Ltd	3,685,800	0.73%
9	GA Insurance LTD	2,290,000	0.45%
10	Teklehaimenot Teame Ghebremedhin	1,600,000	0.32%



However, it is worth noting that after a recent successful acquisition of Deutsche Investitions-und Entwicklungsgesellschaft (DEG) and Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) shares by AfricInvest Evergreen Investments, a special purpose vehicle formed by AfricInvest, the shareholding composition has changed by 54.46% shares remained by I&M Holdings Limited through BCR Investment Company (BCRICL) and 24.76% are now directly owned by AfricInvest Financial Inclusion Vehicle (FIVE) through AfricInvest Evergreen Investments, a special purpose vehicle formed by AfricInvest.

OUR LEGAL STATUS

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

The Bank is governed by its Articles of Association which was prepared in accordance to Company and Banking Acts.I&M Bank (Rwanda) ordinary shares are listed on the Rwanda Stock Exchange.

SHARE INFORMATION

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

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

CREDIT RATINGS

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

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

OUR BOARD

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

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

OUR BOARD (CONTINUED)

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

The Board has the power to appoint a director to fill a vacancy. Appointed directors must stand for election by the shareholders at the next Annual General Assembly following their appointments. In this regards, Mr. Simon Morris, Mrs. Alice Nkulikiyinka and Mr. Nikhil Hira have been elected by shareholders at the Annual General Assembly in May 2019.

The Bank welcomed two new Independent Directors to the Board; Mr. Nikhil Hira and Ms. Alice Nkulikiyinka who were approved by our Shareholders in May 2019 during the Annual General Meeting of Shareholders. In the course of the year, Richard Mugisha retired from the Board with effect from December 2019 and Andreas Grenacher resigned with effect from October 2019.

As at December 2019, the Board was constituted by eleven Directors: two Executive Directors, one Nominee Non-Executive Director and eight Independent Non-Executive Directors including the Board Chairman.

Board of Directors were detailed as follows:

No	Name	Nationality	Qualifications	Position held on the Board	Committee Assignment
1	***William (Bill) Carlisle IRWIN***	British	Banker	Independent Board Chair	BOARD Chairman & BNC
2	***Alice NKULIKIYINKA***	Rwandan	Economist	Independent NED	BRC, BITCO &BAPRECO
3	***Arun S. MATHUR***	Indian	Banker	Nominee NED	BITCO & BALCO Chair, BAC, BRC, BCC, BAPRECO & BNC.
4	***Soundararajan MADABHUSHI***	Indian	Banker	Independent NED	BCC Chair, BAC, BRC & BALCO
5	***Nikhil HIRA***	Kenyan	Tax and Financial Advisor	Independent NED	BAC Chair, BRC & BALCO
6	***Crystal RUGEGE***	Rwandan	IT Professional	Independent NED	BRC & BITCO
7	***Dr. Estelle JONKERGOUW***	Dutch	Risk Management Professional	Independent NED	BRC Chair, BAC & BITCO
8	***Simon MORRIS***	British	Banker	Independent NED	BRC, BITCO, BALCO & BAPRECO
9	***Richard MUGISHA***	Rwandan	Lawyer	Independent NED	BAPRECO Chair, BCC, BNC Chair
10	***Andreas Grenacher***	German	Investment Banker	Nominee NED	-
11	***Robin BAIRSTOW***	South African	Banker	Managing Director	BALCO, BRC, BCC, BITCO & BAPRECO
12	***Faustin BYISHIMO***	Rwandan	Banker	Executive Director	BALCO&BRC

OUR BOARD (CONTINUED)

At the last Annual General Meeting on 20th May 2019, Mr. Simon Morris, Mr. Nikhil Hira and Mrs. Alice Nkulikiyinka, who joined the Board during the year as Independent NED, offered themselves for election;

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

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

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

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

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

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

BOARD MEETINGS

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

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

The Board Charter defines, under the attendance section, the attendance requirements. The attendance and participation of members in committee meetings is considered in the assessment of continuing fitness and suitability of each director as member of Board-level committees and the Board of directors. Papers relevant to the agenda of each Board and Board committee are sent to the Board and committee members as appropriate ten (10) days in advance of the meeting as per the Memorandum and articles' requirements.

BOARD MEETINGS (CONTINUED)

During the year ended 31st December 2019, the Board held four (4) board meetings. A number of directors visited the bank for ad-hoc meetings and a Strategy Refresher meeting was held in October which focused on strategic initiatives to be undertaken by the Bank

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

	BOARD	AUDIT (1)	RISK (1)	CREDIT	ASSET & LIABILITIES	IT (2)	ADMNI. PROC., REMUN. (1)	NOMINATION
No. of Meetings	4	4	4	5	4	4	4	1
Bill IRWIN	4	-	-	4	-	-	-	1
Richard MUGISHA	4	-	-	4	-	-	4	1
Soundararajan MADABHUSHI	4	4	4	5	4	-	-	-
Arun MATHUR	4	4	4	5	4	4	4	1
Crystal RUGEGE	4	-	4	-	-	4	-	-
Dr. Estelle JONKERGOUW	3	3	3	-	-	3	-	-
Simon MORRIS	3	-	3	-	3	3	3	-
Alice NKULIKIYINKA	3	-	3	-	-	3	3	-
Nikhil HIRA	3	3	3	-	3	-	-	-
Andreas Grenacher	2	2	2	2	2	2	-	-
Robin BAIRSTOW	4	-	4	5	4	4	4	-
Faustin BYISHIMO	4	-	4	-	4	-	-	-

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

ROLE OF OUR BOARD COMMITTEES

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

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

ROLE OF OUR BOARD COMMITTEES (CONTINUED)

The Board approves reviews and updates at least annually or whenever there are significant changes therein, the respective terms of reference of each committee that set out its mandate, scope and working procedures. Last reviews were approved in September and December respectively.

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

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

Role and Responsibility		Membership	Last Update
AUDIT	Assist the Board in fulfilling its responsibilities by reviewing the integrity of financial reporting and related announcements; the effectiveness of the internal control system of the Bank, its performance and the effectiveness of the internal and external audit processes; the findings of the internal and external audit and to recommend appropriate remedial action at least quarterly. For the year ended 31st December 2019, the BAC met four times. The Committee discussed the quarterly results, the interim accounts and the annual accounts. Key audit matters, as included in the auditors' reports and management letter were also a topic of discussion. In addition, the overall internal control environment was reviewed, the internal and external auditor reports were discussed. The BAC also approved the internal audit plan, budget and structure. The Terms of Reference were also amended to reflect the new regulations. A special attention to IFRS 9 implementation, review of the implementation of the new core banking system was noted. The BAC chairman held regular meetings with external auditors.	1. Nikhil Hira (Chairperson-Independent NED) 2. Soundararajan Madabhushi (Independent NED) 3. Estelle Jonkergouw (Independent NED) 4. Arun Mathur (NED)	December 2019

ROLE OF OUR BOARD COMMITTEES (CONTINUED)

Role and Responsibility		Membership	Last Update
RISK	The BRC considers and recommends to the Board the approval of Bank's overall Risk Appetite, tolerance and strategy, review the Bank's risk profile on an on-going basis. The Committee is responsible for ensuring adherence to the Bank's risk management policy and procedures as set out by the board Through the Risk Management Function, the Committee draw up a comprehensive Risk Management Framework/ Program for the Bank in line with the Guidelines issued from time to time by the National Bank of Rwanda (BNR). This year, the Committee met four times. In each meeting, status of the Bank' metrics with regards risk rating on operational, technology, liquidity, credit, compliance, Forex exchange, interest rate, HR, Strategy and reputational were reviewed. Direction of each risk as well as mitigation plan were discussed. Risk Heatmap, Disaster Recovery Drill and BCP test reports were always reviewed and discussed by the committee. Furthermore, compliance status of the Bank was reviewed and discussed at each meeting with a review of the regulatory compliance assessment report which was tabled, recommendation of prudential meetings with the regulator were reviewed systematically, new regulations and laws were advised and compliance status noted. Following the migration to Finacle, the link to the Electronic Data warehouse views to the new Core Banking System was an area of focus. Transactions and PEP Loans were constantly reviewed.	1. Estelle Jonkergouw Chairperson (Independent NED) 2. Soundararajan Madabhushi (Independent NED) 3. Arun Mathur (NED) 4. Crystal Rugege (Independent NED) 5. Alice Nkulikiyinka (Independent NED) 6. Simon Morris (Independent NED) 7. Nikhil Hira (Independent NED) 8. Robin Bairstow – MD 9. Faustin Byishimo – ED	December 2019

ROLE OF OUR BOARD COMMITTEES (CONTINUED)

Role and Responsibility		Membership	Last Update
CREDIT	The BCC assists the Board in fulfilling its primary responsibility to ensure that the quality of the Bank's credit related asset book remains within acceptable parameters consistent with the Bank's risk appetite as well as regulatory requirements and prudential risk management practices. Further, the BCC ensures that the Bank has in place a credit policy which has a balanced approach to risk versus rewards and is effective, efficient, meets best practice, consistent with both BNR risk management guidelines and the Bank's risk management framework. The Committee reviews credit policies and related policies, sanction credit proposals, review of the delegated lending authority, on an ongoing basis review the credit portfolio. The BCC met five time to discuss various topics including credit portfolio, various credit applications, and main grading changes, NPLs per sector, provisions, large exposure and recovery update.	1. Soundararajan Madabhushi – Chairperson (Independent NED) 2. Bill Irwin (Independent Board Chairman) 3. Richard Mugisha – (Independent NED) 4. Arun Mathur – NED 5. Robin Bairstow - MD	December 2019

Role and Responsibility		Membership	Last Update
ASSET & LIABILITIES	BALCO is the ultimately responsible for effective asset/liability management. Its first responsibility is to assist the Board by establishing and reviewing the asset/ liability management Policy and related procedures; it ensures that the Bank's funds are managed in accordance with this policy, reviews the treasury dealing strategy, discuss and review the capital position and ensure that capital level are maintained in accordance with regulatory requirements and internal limit. The Committee also reviews the budget before it is approved by the Board. This committee is not a compulsory committee as per the BNR regulation. During the year under review, the Committee met four times. Members discussed various items including liquidity projection, treasury update, members reviewed the CAMEL pack, various counter party limits.	1. Arun Mathur – (Chairperson – NED) 2. Soundararajan Madabhushi – (Independent NED) 3. Nikhil Hira- (Independent NED) 4. Simon Morris (independent NED) 5. Robin Bairstow – MD 6. Faustin Byishimo - ED	December 2019

ROLE OF OUR BOARD COMMITTEES (CONTINUED)

Role and Responsibility		Membership	Last Update
IT	The BITCO assists the Board in fulfilling its primary responsibilities by reviewing recommendations with respect to IT needs, projects, plans and policies. Review the design and implementation of ICT strategies, ICT Investment Oversight (Value delivery), ICT Risks, Security and Cyber Security; it ensures that the Bank's Disaster Recovery Program is drawn up and/or formulated, aligned to the Business Continuity Plans and regularly tested. The Committee met four times and discussed various items including cyber security actions, in depth discussion on the Core Banking Migration from Delta to Finacle 10, IT strategy, Disaster Recovery plan.	1. Arun Mathur – Chairperson (NED) 2. Crystal Rugege– Independent NED 3. Alice Nkulikiyinka (Independent NED) 4. Estelle Jonkergouw (Independent NED 5. Simon Morris (Independent NED) 6. Robin Bairstow– MD	December 2019

Role and Responsibility		Membership	Last Update
ADMNI. PROC, REMUN.	The BAPRECO assists the Board to retain authority over major decisions concerning the overall administration of the Bank, procurement of goods and services (excluding ICT related) and Human Resources function, including remuneration and disciplinary matters. The Committee reviews and consider matters related to appointment of contractors, suppliers for goods and services, consultants, etc… approves authorized signatories of the Bank and recommends to the Board granting of powers of attorney to Bank officials. The committee met four times; A wide range of other topics were discussed, such as resourcing matters, training and development, employee relations and welfare; implementation Voluntary Severance Scheme (VSS) and Payroll System were areas of focus; remuneration related matters were also reviewed, and ratification of tender committee proposals.	1. Richard Mugisha – Chairperson (Independent NED) 2. Arun Mathur - NED 3. Robin Bairstow – MD	December 2019

ROLE OF OUR BOARD COMMITTEES (CONTINUED)

Role and Responsibility		Membership	Last Update
NOMINATION	The BNC assists the Board in ensuring that a formal, rigorous and transparent process is in place for the appointment of directors to the Board. The purpose of this Committee is to review the Board Performance Evaluation report, succession plan and nominate qualified candidates for recommendation to the AGM for appointment to Board, in a fair and objective manner, subject statutory and shareholder approvals. The Committee met twice in February and May. At both meetings, the Committee advised the Main Board on the Board Performance Evaluation Report for year 2018 and recommended the appointment of two directors Alice Nkulikiyinka and Nikhil Hira.	1. Richard Mugisha– Chairperson (Independent NED) 2. Bill Irwin – (Independent Board Chairman) 3. Arun Mathur– NED	December 2019

OUR REMUNERATION POLICY

The Board, through the Nominations Committee implements and approves the remuneration policy for Board members which is aligned with the long-term interests of the Bank including the overall business and risk strategy. Directors who are also officers of the Bank are not compensated in their capacity of Directors. The level of remuneration reflects the time commitment and responsibilities of the role.

Fixed Annual Fees - Each director is eligible to receive a fixed annual fee as approved by the Board and ratified at the Annual General Assembly for service on the Board. These net annual fees are paid in quarterly installments. The Chairperson receives a higher compensation commensurate with higher responsibilities as Board Chairperson.

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

Directors receive sitting allowance for attending each meeting of the Committee/Board as approved by the Board from time to time.

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

As per article 79 al 2 of the Articles of Association, the Bank have in place a Directors' & Officers' Liabilities Insurance in favor of all nominated directors for an amount of not less than US$ five hundred thousand million (US $500,000) which provides a cover for the Directors and Officers against litigation by Third Parties. As per section 172 of the Company Law 2018 relating to indemnity and insurance for Board, directors are to be indemnified to the extent permitted by law. Directors' appointment letters confirm the extent of the indemnity provided to them.

OUR REMUNERATION POLICY (CONTINUED)

	Q1	Q2	Q3	Q4	Total
Bill Irwin	$9,000	$10,100	$5,900	$4,600	**$29,600**
Soundararajan Madabhushi	$7,500	$9,100	$10,400	$6,200	**$33,200**
Arun S. Mathur	$9,500	$11,100	$15,200	$9,200	**$45,000**
Simon Morris	$7,300	$8,100	$14,600	$7,800	**$37,800**
Richard Mugisha	$6,800	$7,600	$8,400	$4,600	**$27,400**
Crystal Rugege	$5,900	$7,500	$6,700	$5,100	**$25,200**
Estelle Jonkergouw	-	$6,200	$6,200	$6,500	**$18,900**
Nikhil Hira	-	$7,000	$8,000	$6,400	**$21,400**
Alice Nkulikiyinka	-	$7,800	$10,500	$6,700	**$25,000**

INDUCTION AND CONTINUING EDUCATION

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

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

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

OUR BOARD EFFECTIVENESS REVIEW – BOARD EVALUATION APPRAISAL

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

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

OUR BOARD EFFECTIVENESS REVIEW – BOARD EVALUATION APPRAISAL (CONTINUED)

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

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

DISCLOSURE AND TRANSPARENCY

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

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

SHAREHOLDERS RELATIONS

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

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

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

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

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

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

GENERAL MEETINGS

Bank's Annual General Meetings (AGM) are generally held in May to discuss the course of business in the preceding financial year with a focus on: approval of the preceding financial statement, approval of the proposed dividend, appointment of external auditor, election and re-election of directors.

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

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

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

At the Annual General Meeting held on 20th May 2019, PwC Rwanda was appointed as the external audit firm for the Bank for the financial years 2019 through 2020. This appointment includes the responsibility to audit the financial statements of the bank for the financial year 2019, to audit the effectiveness of internal control over financial reporting on 31st December 2019, and to provide an audit opinion on the financial statements of the Bank.

The external auditor may be questioned at the Annual General Meeting in relation to its audit opinion on the financial statements. The external auditor will therefore attend and be entitled to respond to any question from the shareholders. The external auditor attended the meetings of the Audit Committee and in addition to the audit committee meetings, the Board Audit Committee chairman held separate session meetings with the independent external auditors and the Chief Finance Officer (CFO).

STAKEHOLDERS RELATIONS

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

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

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

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

We have in place a formal complaints handling procedure in place whose purpose is to address irregularities of a general, operational and financial nature.

STAKEHOLDERS RELATIONS (CONTINUED)

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

EMBEDDING BANK-WIDE ENTERPRISE RISK MANAGEMENT CULTURE

The Bank's risk culture is driven by the tone and statements from the Board of Directors on zero tolerance for non-compliance with internal policies and regulatory guidelines. This is in addition to Senior Management oversight of the Bank's risks on a day to day basis led by the Managing Director. As part of the initiatives to embed an Enterprise Risk Management Culture across the Bank, annual risk refreshers are done to educate and embed the risk culture in our day to day decision, this in addition to Bank-wide trainings conducted on Enterprise Risk Management, Information and Cyber Security, Anti-Money Laundering and Terrorists Financing. We have made good progress on embedding this risk culture and increased focus on frontline ownership of risk as we entrenched the three lines of defence for the implementation of our Enterprise Risk Management Framework. This risk culture has facilitated more dynamic risk identification and enables us to establish a clear linkage between strategic decision making and risk management, as well as identifying and managing correlations across risk types. In order to promote the Risk Management Culture, there are annual risk mandatory courses on Operational risk, Information and Cyber Security risk to be undertaken by all Staff though an online Learning Management System.

RISK MANAGEMENT APPROACH

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

This is characterized by a strong Board and Senior Management risk oversight across all functions within the Bank. Such an approach supports and facilitates the decision making process which not only ensures that the risk reward trade-off is optimized but also that risks assumed are within the overall Risk Appetite and Risk Tolerance levels as laid down by the Board of Directors in the various policy documents.

RISK MANAGEMENT GOVERNANCE

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

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

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

RISK MANAGEMENT GOVERNANCE (CONTINUED)

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

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

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

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

CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from loans and advances to customers, financial institutions/banks and investment securities.

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

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

MARKET RISK MANAGEMENT

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

The Board of Directors through the Board Asset and Liability Committee and Board Risk Committee has the oversight function for Bank's market risk exposures while the Assets and Liability Management Committee (ALCO) manages the Bank's market risks on a daily basis. The Bank's ALCO is responsible

MARKET RISK MANAGEMENT (CONTINUED)

for managing the Bank's market risk control framework and also setting limits within the context of the Bank's market risk appetite on a daily basis.

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

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

The most significant Market risks the Bank faces are: interest rate risk both on the trading and banking book, foreign exchange, and investment risks.
Interest rate risk is the current or prospective risk to earnings and capital of the Bank arising from adverse movements in interest rates both in the trading and banking book.

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

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

OPERATIONAL RISK MANAGEMENT

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

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

Risk Tolerance: is the amount of uncertainty the Bank is prepared to accept in total or more narrowly in pursuance of the Bank's strategy objective.
The Board has articulated the broad operational risk appetite through a quantitative statement in line with the Bank's overall risk management objectives. The Board approved the operational loss ratio risk tolerance of 0.375% of Profit Before Tax.

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

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

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

OPERATIONAL RISK MANAGEMENT (CONTINUED)

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

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

LIQUIDITY RISK MANAGEMENT

Liquidity Risk is the risk to- the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. The oversight for liquidity risk management resides with the Board of Directors through Board Asset and Liability Committee and the Board Risk Committee. The Bank's liquidity risk management process is primarily the responsibility of the Asset and Liability Management Committee (ALCO). The Treasurer is responsible for daily management of liquidity in liaison with ALCO. The Treasury and Finance functions provide independent oversight of the first line risk management activities relating to liquidity risk while the Market Risk Function is the second line control function that performs independent monitoring and oversight of the market risk management practices of the first line of defence.

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

STRATEGIC RISK MANAGEMENT

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

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

INFORMATION TECHNOLOGY RISK

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

MANAGEMENT OF CYBER RISK

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

The Bank also adopts the following mitigation strategies to manage information security risks:
Network Controls – The Bank has put in place different controls on the network to facilitate access to network resources on need to have basis. Different network segmentations exist on the network to protect specific areas from access to unauthorized personnel. Also, a network access control security solution has been implemented to guard against enterprise network access by rogue systems.

MANAGEMENT OF CYBER RISK (CONTINUED)

Application Security Controls (e.g. Secure Coding controls) – The Bank ensures that new and modified applications are well tested before deployment to production environment. Such tests include functional and security tests. Also, applications running on endpoint systems are reviewed to ensure that unauthorized applications are not freely used within the enterprise environment. In addition to this, security solutions such as Web Application Firewall, Database Activity Monitoring, Anti-malware Solution and Threat Management have been deployed to provide enhanced security for web facing applications in the Bank.

Patch management – A benchmark threshold of permissible patch compliance status was instituted by the Management. The monthly compliance status is obtained for review and making informed decision.

Continuous Monitoring – The IS Operations team carries out continuous monitoring of user activities as well as external events to ensure risk events are detected and addressed before materialization.

COMPLIANCE RISK MANAGEMENT

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

RISK APPETITE

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

AML PROGRAMME

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

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

COMPLIANCE RISK GOVERNANCE

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

REPUTATIONAL RISK MANAGEMENT

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

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

REPUTATIONAL RISK MANAGEMENT (CONTINUED)

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

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

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

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

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

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

BASEL IMPLEMENTATION

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

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

Section

3

Our Financials

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF I&M BANK (RWANDA) PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, I&M Bank (Rwanda) PLC's financial statements give a true and fair view of the financial position of I&M Bank (Rwanda) PLC (the "Bank" / "Company") as at 31 December 2019, and of its financial performance and its 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

The Bank's financial statements on pages 58 to 133 and comprise:
the statement of financial position as at 31 December 2019;
the statement of profit or loss and other comprehensive income for the year then ended;
the statement of changes in equity for the year then ended;
the statement of cash flows for the year then ended; and
the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matter

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

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Directors:F Gatome M Nyabanda B Kimacia P Ngahu

Key audit matter (Continued)

Expected credit losses on loans and advances at amortised cost	How key audit matter was addressed in the audit
Loans and advances to customers comprise a significant portion of the Bank's total assets. The estimation of expected credit losses (ECL) on loans and advances requires management judgment in the assumptions that are applied in the models used to calculate ECL. The policies for estimating ECL are explained in notes 2 (d), 3 (d) and 5 (a) of the financial statements. The key areas where significant judgement has been exercised and therefore, an increased level of audit focus applied, include: • the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the 3 segments (corporate, business and retail); • the judgments made to determine the staging of facilities in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used. • the relevance of forward-looking information used in the models; and • for I&M Bank Rwanda Plc, the top 50 loans and advances are individually assessed by the Board Credit Committee (BCC). Judgement is exercised in the consideration of quantitative and qualitative factors, and the mapping of these loans to external ratings. Due to the significant impact of management judgments applied in calculating the ECL, we designated this as a key audit matter in our audit.	Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included: • We evaluated the Bank's methodology for determining ECL against the requirements of IFRS 9; • We tested how the Bank extracts 'days past due (DPD)' applied in classifying the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD as per the Bank's IT system and the respective customer files; • We evaluated judgments applied in the staging of loans and advances. • We obtained an understanding of the basis used to determine the probabilities of default. We tested the completeness and accuracy of the historical data used in derivation of PDs and LGDs, and re-calculated the same on a sample basis; • For LGD, we tested the assumptions on the timing of the cash flows based on empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports; • We tested, on a sample basis, the reasonableness of EAD for both on and off balance sheet exposures; • For forward-looking assumptions used in the ECL calculations, we corroborated the assumptions using publicly available information; For the I&M Bank (Rwanda) PLC top 50 loans and advances, we discussed with management and reviewed the appropriateness of their assessment and mapping to external ratings; and • We evaluated and assessed whether the disclosures in the financial statements on the key judgements and assumptions were adequate.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF I&M BANK (RWANDA) PLC (Continued)

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

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

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

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

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

Responsibilities of directors for the financial statements
Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Law No. 17/2018 of 13/04/2018 Governing Companies, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF I&M BANK RWANDA) PLC (Continued)

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

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

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

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

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

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

i. 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;
ii. In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;
iii. We have communicated to the Company's Board of Directors, through separate management letters, internal control matters identified in the course of our audit including our recommendations in relation to those matters.
iv. We have no relationships, no interests and debt in the Company; and
v. In our opinion according to the best of the information and explanations given to us as shown by the accounting and other documents of the Company, the financial statements comply with Article 123 of Law No. 17/2018 of 13/04/2018 Governing Companies.

For PricewaterhouseCoopers Rwanda Limited, Kigali,

Moses Nyabanda 21 April 2020
Director

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2019

	Note	2019 Frw'000	2018 Frw'000
Interest income	7	34,808,787	30,960,821
Interest expense	8	(12,942,802)	(10,734,531)
Net interest income		**21,865,985**	**20,226,290**
Fee and commission income	9(i)	3,420,566	3,112,599
Fee and commission expense	9(ii)	(1,179,536)	(696,614)
Net fee and commission income		**2,241,030**	**2,415,985**
Revenue		**24,107,015**	**22,642,275**
Net trading income	10	3,280,146	3,222,590
Other operating income	11	471,438	922,611
Net operating income before change in expected credit losses and other credit impairment charges		**27,858,599**	**26,787,476**
Net impairment charge on loans and advances	19(b)	(463,401)	(1,041,472)
Net operating income		**27,395,198**	**25,746,004**
Employee benefits	12(i)	(10,005,526)	(8,056,864)
Premises and equipment costs	12(ii)	(324,158)	(832,438)
General administrative expenses	12(iii)	(5,280,040)	(4,639,628)
Depreciation and amortisation	12(iv)	(2,795,100)	(1,399,652)
Operating expenses		**(18,404,824)**	**(14,928,582)**
Profit before income tax		**8,990,374**	**10,817,422**
Income tax expense	13(a)	(2,848,432)	(3,354,850)
Net profit for the year after tax		**6,141,942**	**7,462,572**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Fair Value through the Other Comprehensive Income (FVOCI)		89,499	157,599
Deferred tax - FVOCI	24	**(27,057)**	**(47,280)**
Reversal of revaluation reserve		-	(126,680)
Total other comprehensive income for the year		**62,442**	**(16,361)**
Total comprehensive income for the year		**6,204,384**	**7,446,211**
Basic and diluted earnings per share - (Frw)	**14**	**12.16**	**14.78**

The notes set out on pages 63 to 133 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2019

	Note	2019 Frw'000	2018 Frw'000
ASSETS			
Cash and balances with National Bank of Rwanda	16	30,691,946	23,840,151
Loans and advances to banks	18	28,604,211	21,840,408
Loans and advances to customers	19(a)	171,887,690	169,032,838
Financial assets at fair value through profit or loss (FVTPL)	20(a)	429,065	6,617
Financial assets measured at fair value through other comprehensive income (FVOCI)	20(b)	16,444,933	5,832,253
Other financial assets at amortised cost	20(c)	31,665,173	47,703,866
Property and equipment	21	23,620,659	17,076,248
Intangible assets - software	22	5,747,279	4,785,353
Due from group companies	25(a)	4,272,426	1,342,900
Other assets	26	2,470,613	2,704,999
Right of use assets	23	2,065,031	-
TOTAL ASSETS		**317,899,026**	**294,165,633**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits from banks	27	51,567,393	38,097,584
Items in the course of collection	17	1,364,320	1,571,851
Deposits from customers	28	191,804,341	192,840,285
Deferred income tax	24	1,642,339	1,502,217
Other liabilities	29	3,950,700	5,350,912
Current income tax	13(b)	245,479	872,369
Long term debt	30	13,336,947	5,543,644
Subordinated debt	31	9,259,073	8,819,273
Lease liabilities	32	1,941,552	-
		275,112,144	**254,598,135**
SHAREHOLDERS' EQUITY			
Share capital	33(a)	5,050,000	5,050,000
Share premium	33(b)	400,000	400,000
Revaluation reserves	33(c)	2,011,095	2,011,095
Retained earnings		33,437,216	28,763,104
Proposed dividend		1,515,000	2,985,000
Statutory credit risk reserve	33(e)	200,117	145,151
Fair value reserve	33(d)	173,454	213,148
		42,786,882	**39,567,498**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**317,899,026**	**294,165,633**

The notes set out on pages 63 to 133 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2019

2019	Share capital	Share premium	Revaluation reserves	Retained earnings	Proposed dividends	Statutory credit risk reserve	Fair value reserve	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
At 1 January 2019	**5,050,000**	**400,000**	**2,011,095**	28,763,104	2,985,000	145,151	213,148	39,567,498
Total comprehensive income for the year								
Profit for the year	-	-	-	6,141,942	-	-	-	6,141,942
	-	-	-	**6,141,942**	-	-	-	**6,141,942**
Other comprehensive income								
Statutory credit reserve	-	-	-	(54,966)	-	54,966	-	-
Fair value through the other comprehensive income (FVOCI)	-	-	-	-	-	-	89,499	89,499
Deferred tax - FVOCI (Note 24)	-	-	-	-	-	-	(27,057)	(27,057)
Reversal of revaluation reserve	-	-	-	-		-	-	-
Reclassifications within equity	-	-	-	102,136	-	-	(102,136)	-
Total other comprehensive income	-	-	-	**47,170**	-	**54,966**	**(39,694)**	**62,442**
Total comprehensive income	-	-	-	**6,189,112**	-	**54,966**	**(39,694)**	**6,204,384**
Transactions with owners recorded directly in equity					-			
Final dividend - 2018	-	-	-	-	(2,985,000)	-	-	(2,985,000)
Proposed dividend - 2019	-	-	-	(1,515,000)	1,515,000	-	-	-
Total transactions with owners for the year	-	-	-	**(1,515,000)**	**(1,450,000)**	-	-	**(2,985,000)**
Balance as at 31 December 2019	**5,050,000**	**400,000**	**2,011,095**	**33,437,216**	**1,515,000**	**200,117**	**173,454**	**42,786,882**

The notes set out on pages 63 to 133 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2018 (Continued)

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

The notes set out on pages 63 to 133 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2019

	Note	2019 Frw'000	2018 Frw'000
Net cash flows /generated (used in) from operating activities	**34(a)**	**19,155,442**	**(10,692,843)**
Cash flows from investing activities			
Purchase of property and equipment	21	(7,470,152)	(6,134,648)
Purchase of intangible assets	22	(2,389,924)	(3,138,728)
Proceeds from disposal of property and equipment		35,692	206,100
Proceeds from disposal of repossessed assets		-	2,721,333
Net cash used in investing activities		**(9,824,384)**	**(6,345,943)**
Cash flows from financing activities			
Dividend paid		(2,985,000)	(2,605,000)
Principal elements of lease payments		(2,642,333)	-
Proceeds from long term debt		8,864,436	8,819,273
Principal repayment on long term debt		(1,155,547)	(1,342,757)
Net cash inflows/(outflows) from financing activities		**2,081,556**	**4,871,516**
Net increase / (decrease) in cash and cash equivalents	**34(b)**	**11,412,614**	**(12,167,270)**
Cash and cash equivalents at start of the year	**34(b)**	**35,079,037**	**47,246,307**
Cash and cash equivalents at end of the year	**34(b)**	**46,491,651**	**35,079,037**

The notes set out on pages 63 to 133 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019
(Continued)

1. REPORTING ENTITY

I&M Bank (Rwanda) Plc (the "Bank") is a public financial institution licensed to provide corporate and retail banking services to corporate, small and medium size enterprises and retail customers in various parts of Rwanda. The Bank is a public listed company incorporated and domiciled in Rwanda. The ultimate parent of the Bank is I&M Holdings PLC, a limited liability company registered and domiciled in Kenya. The address of its registered office is as follows:

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The Bank's financial statements for the year 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 6.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currencies

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

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

(b) Income recognition

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

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

Gains and losses arising from changes in the fair value of FVOCI financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, when financial asset is derecognised, cumulative gain or loss will not be recycled to profit or loss.

(i) Net interest income

Effective interest rate and amortised cost

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

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

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

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

Amortised cost and gross carrying amount

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Calculation of interest income and expense

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

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

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

Presentation

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

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

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

(ii) Net fee and commission income

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Gains and losses arising from changes in the fair value of fair value through other comprehensive income, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, when the financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in other comprehensive income will not be recycled to profit or loss.

(i) Net interest income

Interest income and expense on fair value through other comprehensive income and financial assets or liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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 used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Company's trading operations are presented in net interest income.

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Other operating income

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

(iv) Rental income – other operating income

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

(c) Income tax expense

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income tax expense (Continued)

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

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

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

(d) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Classification (Continued)

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

how the performance of the portfolio is evaluated and reported to the Company's management;

the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

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

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

contingent events that would change the amount and timing of cash flows;

leverage features;

prepayment and extension terms;

terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business model assessment (Continued)

The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

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

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

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

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit-impaired financial assets

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

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

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

Government securities

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

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

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
loan commitments and financial guarantee contracts: generally, as a provision; (See Note 35)
where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying
amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019
(Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) De-recognition

Financial assets

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

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

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

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

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

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

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

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

(v) Modifications of financial assets and financial liabilities

Financial assets

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

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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

Financial liabilities

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

(vi) Offsetting of financial assets and financial liabilities

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

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

(e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fair value measurement *(Continued)*

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

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

(f) Cash and cash equivalents

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

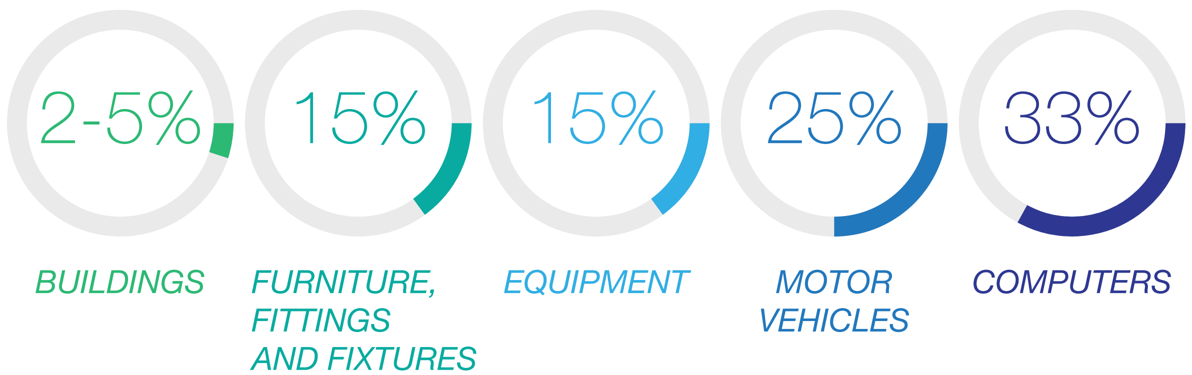
Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(g) Property and equipment

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

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

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



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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets

Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Costs associated with maintaining software are recognised as an expense as incurred. Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives between 3 and 5 years.

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

(i) Leases

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

(j) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(k) Derivative financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits

(i) Defined contribution plan

The Bank contributes to a statutory defined contribution pension scheme, the Rwanda Social Security Board (RSSB). Contributions are determined by local statute and are currently limited to 5.3% of an employee's basic salary. The Bank's RSSB contributions are charged to profit or loss in the period to which they relate.

(ii) Leave accrual

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

(iii) Employee Share Ownership Plan (ESOP)

Share-based compensation benefits are provided to employees via the Employee Stock Plan. Information relating to these schemes is set out in note 39.

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

including any market performance conditions (e.g. the entity's share price)

excluding the impact of any service and non-market performance vesting conditions (e.g. Profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

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

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

(m) Share capital and share issue costs

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

(n) Earnings per share

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

(o) Dividends

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

(p) Contingent liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Provisions

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

(r) Non-current assets held for sale

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

(s) Comparative information

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

(t) New standards, amendments and interpretations

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

The Bank has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 16 Leases	1 Jan 2019
IFRIC 23 Uncertainty over income tax treatments	1 Jan 2019
IFRS 9 Prepayment Features with Negative Compensation	1 Jan 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 Jan 2019
Annual improvements cycle (2015-2017)	1 Jan 2019
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 Jan 2019

IFRS 16 Leases

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4.
Determining whether an Arrangement contains a Lease.

The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019
(Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definition of a lease (Continued)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

As a lessee

As a lessee, the Company leases office premises. The Company previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.
Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:
relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
used hindsight when determining the lease term.

Impact on financial statements

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities

	2019 Frw'000
Right of use assets	2,642,333
Lease liabilities	2,540,802

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8%.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered (or changed) on or after 1 January 2019.

Company acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand- alone price.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
fixed payments, including in-substance fixed payments;
variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
amounts expected to be payable under a residual value guarantee; and
the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:
fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
the arrangement had conveyed a right to use the asset.

As a lessee

The Company did not have any finance leases under IAS 17.
Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Leases as lessee (IFRS 16)

Right-of-use assets

Right-of-use assets relate to leased office premises and leased motor vehicles that are presented within property and equipment.

	2019 Frw'000
Balance at January 2019	2,642,333
Additions	-
Depreciation charge for the year	(577,302)
Balance at 31 December 2019	**2,065,031**

	Cost	Depreciation for the period	NBV as at 31 December 2019
	Frw"000"	Frw"000"	Frw"000"
Property	1,989,732	(420,678)	1,569,054
Cars	652,601	(156,624)	495,977
Total	**2,642,333**	**(577,302)**	**2,065,031**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

Maturity analysis – Contractual undiscounted cash flows

Total comprehensive income	
Less than one year	237,352
Between one and five years	944,699
More than five years	760,224
Total undiscounted lease liabilities at 31 December	**1,942,275**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

Movement in lease liabilities as at 31 December is as follows:

	2019
	Frw'000
Balance as at 1 Jan 2019	2,540,802
Additional during the period	-
Principal settlements during the period	(746,264)
Interest expense during the period	147,014
Balance as at 31 December 2019	**1,941,552**

Amounts recognised in profit or loss

- 2019 - Leases under IFRS 16

Interest on lease liabilities (Note 8)	147,014
Expenses relating to short-term leases	162,611
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
	309,625

- 2018 - Operating leases under IAS 17

Lease expense	669,550
Contingent expense	-
	669,550

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

IFRIC 23 Clarification on accounting for Income tax exposures

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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

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

Annual improvement cycle (2015 – 2017) – various standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

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

The Bank did not early adopt new or amended standards in the year ended 31 December 2019.

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
The amendments clarify that:
on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

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

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

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

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

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019
In these financial statements, the Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 3.

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

IFRS 3 Definition of a Business	1 Jan 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 Jan 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 Jan 2020
IFRS 17 Insurance contracts	1 Jan 2022
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Optional concentration test
The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Substantive process
If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

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

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

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

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

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

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

IAS 1 and IAS 8 Definition of Material
The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 1 and IAS 8 Definition of Material (Continued)

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

IFRS 17 Insurance Contracts

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

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

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

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.
The adoption of these changes will not have a material affect the amounts and disclosures of the Bank's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 1 and IAS 8 Definition of Material (Continued)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

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

4. FINANCIAL RISK MANAGEMENT

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

Financial risk

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

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and treasury bills. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Bank is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitment risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

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

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

Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various Credit committees as stipulated in the Bank's Credit Charter.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit-related commitment risks (Continued)

Reviewing and assessing credit risk. The Bank Credit risk management Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for investment securities).

Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures as follows:-
The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Banks's Credit Risk department.

Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit on the credit quality of local portfolios and appropriate corrective action is taken.
Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement the Bank credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each business unit has a Head of department who reports on all credit-related matters to local management and the Bank Credit risk management Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Central Bank's approval. Regular audits of business units and Bank Credit processes are undertaken by Internal Audit.

(i) Credit Quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Risk classification	12 month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Total 31 December 2019
	Frw'000	Frw'000	Frw'000	Frw'000
Loans and advances to Customers at amortised cost				
Normal	156,540,106	-	-	156,540,106
Watch	-	13,834,759	-	13,834,759
Non-Performing loans	-	-	5,881,051	5,881,051
Gross carrying amount	**156,540,106**	**13,834,759**	**5,881,051**	**176,255,916**
Loss allowance	(658,545)	(541,430)	(3,168,251)	(4,368,226)
Carrying amount	**155,881,561**	**13,293,329**	**2,712,800**	**171,887,690**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Bank has estimated that the ECL for the following financial assets was not significant as of 31 December 2019. These financial assets have been assessed to be in Stage 1 (normal).

	Classification	2019 Frw'000	2018 Frw'000
Cash and balances with central banks	Normal	30,691,946	23,840,151
Loans and advances to banks	Normal	28,604,211	21,840,408
Financial assets at fair value through other comprehensive income (FVOCI)	Normal	16,444,932	5,832,253
Other financial assets at amortised cost		31,665,173	47,703,866
Due from group companies	Normal	4,272,426	1,342,900
		111,678,688	**100,559,578**

The following shows the grading of loans and advances to customers in line with local prudential guidelines;

Loans and advances to customers	2019 Frw'000	2018 Frw'000
Non performing :		
Grade 3: Substandard	2,167,494	818,455
Grade 4: Doubtful	1,620,417	2,428,550
Grade 5: Loss	2,093,140	2,031,382
	5,881,051	**5,278,387**
Specific allowance for impairment	(3,168,251)	(3,455,505)
Carrying amounts	**2,712,800**	**1,822,882**
Performing & underperforming:		
Grade 2: Watch	13,834,759	10,094,751
Grade 1: Normal	156,540,106	158,121,099
	170,374,865	**168,215,850**
Portfolio impairment provision	(1,199,975)	(1,005,894)
Carrying amounts	**169,174,890**	**167,209,956**
Total carrying amounts	**171,887,690**	**169,032,838**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Gross	Net
Non performing:	Frw'000	Frw'000
31 December 2019		
Grade 3: Substandard	2,167,494	1,364,006
Grade 4: Doubtful	1,620,417	1,024,260
Grade 5: Loss	2,093,140	324,534
	5,881,051	**2,712,800**
31 December 2018		
Grade 3: Substandard	818,455	453,543
Grade 4: Doubtful	2,428,550	866,161
Grade 5: Loss	2,031,382	503,178
	5,278,387	**1,822,882**

	Gross	Net
Performing & underperforming:	Frw'000	Frw'000
31 December 2019		
Grade 1: Normal	156,540,106	155,881,561
Grade 2: Watch	13,834,759	13,293,329
	170,374,865	**169,174,890**
31 December 2018		
Grade 1: Normal	158,121,099	157,625,399
Grade 2: Watch	10,094,751	9,584,557
	168,215,850	**167,209,956**

Impaired loans and securities
Impaired loans and securities are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Bank's internal credit risk and grading system.

Stage 1
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the Bank's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with National Bank of Rwanda prudential guidelines.

Stage 2
These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are stage 2 (Watch) in the Bank's internal credit risk and grading system.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Collateral and other security enhancements
The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 or 2018.

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

	2019	2018
	Frw'000	Frw'000
Fair value of collateral held – against impaired loans	**5,475,832**	**3,340,346**

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

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

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

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

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

In addition, the prudential guidelines are supplemented;

by Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures

External data such as credit bureau scoring information on individual borrowers.
Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Customer loans and advances

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

Inputs, assumptions and techniques used for estimating impairment

Generating the term structure of PD

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

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

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

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

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note3(d)(iii).

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Modified financial assets (Continued)

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

Definition of default

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

In assessing whether a borrower is in default, the Bank considers indicators that are:
qualitative – e.g. breaches of covenant;
quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
based on data developed internally and obtained from external sources.

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

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

Incorporation of forward-looking information

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following ranges of key indicators:
Incorporation of forward-looking information

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

		2020		
Macro-Economic variable	Coefficient/ Sensitivity	Base	Upside	Downside
		%	%	%
Weighting		**90.00%**	**5.00%**	**5.00%**
Repo rate	(0.63)	3.65%	5.50%	1.80%
Treasury bills 182 days	(0.53)	7.05%	9.74%	4.36%
Lending rate	0.87	16.98%	17.82%	16.14%
GDP	0.12	6.78%	7.70%	5.85%
Constant	0.06	-	-	-

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

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

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

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Expected credit loss allowance
The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.
(a) Credit risk (continued)
(iii) Amounts arising from ECL - continued

Loss allowance (continued)

	Provisions (ECL allowance)				Exposure (Gross balance)			
2019:	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance at 1 January 2019	**495,700**	**510,194**	**3,455,505**	**4,461,399**	**158,121,099**	**10,094,751**	**5,278,387**	**173,494,237**
Transfer from 12 months ECL (Stage 1)	(28,940)	22,142	6,798	-	(8,963,309)	7,281,519	1,681,790	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	117,225	(207,485)	90,260	-	1,637,270	(3,386,089)	1,748,819	-
Transfer from Lifetime ECL credit impaired (Stage 3)	52,905	53,934	(106,839)	-	157,525	116,878	(274,403)	-
Net remeasurement of loss allowance	(95,240)	77,342	1,152,710	**1,134,812**	968,143	(624,131)	(452,370)	**(108,358)**
New financial assets originated or purchased	129,482	87,090	102,204	**318,776**	13,708,186	544,795	169,500	**14,422,481**
Financial assets derecognised	(12,587)	(1,787)	(1,532,387)	**(1,546,761)**	(9,088,808)	(192,964)	(2,270,672)	**(11,552,444)**
Balance at 31 December 2019	**658,545**	**541,430**	**3,168,251**	**4,368,226**	**156,540,106**	**13,834,759**	**5,881,051**	**176,255,916**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)
(iii) Amounts arising from ECL (continued)
Loss allowance (continued)

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Provisions (ECL allowance)			Exposure		
Loan commitments and financial guarantee contracts	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance at 1 January 2019	**61,749**	**157**	**61,906**	**47,989,983**	**6,394**	**47,996,377**
Transfer from 12 months ECL (Stage 1)	(13)	13	-	(11,727)	11,727	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	5	(5)	-	934	(934)	-
Net remeasurement of loss allowance	(9,926)	960	**(8,966)**	(3,881,420)	11,449	**(3,869,971)**
New financial assets originated or purchased	6,825	817	**7,642**	37,086,257	259,553	**37,345,810**
Financial assets derecognised	(20,432)	(78)	**(20,510)**	(8,960,001)	(4,453)	**(8,964,454)**
Balance at 31 December 2019	**38,208**	**1,864**	**40,072**	**72,224,026**	**283,736**	**72,507,762**

	Provisions (ECL allowance)			Exposure		
Loan commitments and financial guarantee contracts	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Balance at 1 January 2018	-	-	-	**24,575,180**	**104,501**	**24,679,681**
IFRS 9 adjustment	93,040	3,564	**96,604**	22,952,700	97,602	**23,050,302**
Adjusted balance at 1 January 2018	**93,040**	**3,564**	**96,604**	**47,527,880**	**202,103**	**47,729,983**
Transfer from 12 months ECL (Stage 1)	(20)	20	-	(6,865)	6,865	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	216	(216)	-	31,144	(31,144)	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	-	-	-	-	-
Net remeasurement of loss allowance	(13,778)	30	**(13,748)**	5,615,430	(2,828)	**5,612,602**
New financial assets originated or purchased	4,051	47	**4,098**	2,738,234	1,775	**2,740,009**
Financial assets derecognised	(21,760)	(3,288)	**(25,048)**	(7,915,840)	(170,377)	**(8,086,217)**
Balance at 31 December 2018	**61,749**	**157**	**61,906**	**47,989,983**	**6,394**	**47,996,377**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liabilities Committee. The Asset and Liabilities Committee (ALCO) also monitors the liquidity gap and at first instance would source funds from market using interbank borrowings and as a last resort, use repo and reverse repo arrangements with the National Bank of Rwanda. The Bank has also arranged for long term funding as disclosed under Note 31 and Note 32.

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

	2019	2018
At 31 December	39%	35%
Average for the period	37%	43%
Highest for the period	40%	50%
Lowest for the period	35%	35%
Liquidity coverage ratio	229%	226%

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 to the contractual maturity date.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

31 December 2019 LIABILITIES	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Total Frw'000
Deposits from banks	18,951,436	4,276,441	19,010,061	4,276,441	5,053,014	51,567,393
Items in the course of collection	-	1,364,320	-	-	-	1,364,320
Deposits from customers	54,795,149	33,750,765	50,653,621	23,031,487	29,573,319	191,804,341
Due to group companies	-	-	-	-	-	-
Other liabilities	-	3,950,700	-	-	-	3,950,700
Long term debt	-	-	2,287,235	13,462,885	1,138,960	16,889,080
Subordinated debt	-	-	-	8,132,009	3,203,500	11,335,509
Outstanding spot/forward contracts	-	-	18,898,076	-	-	18,898,076
Letters of credit	6,347,460	3,094,604	3,782,160	-	-	13,224,224
Guarantees	-	-	40,385,462	-	-	40,385,462
Capital commitments	-	-	22,046,276	-	-	22,046,276
Leases	-	-	549,690	1,309,079	82,782	1,941,552

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

At 31 December 2019	**80,094,045**	**46,436,833**	**157,612,581**	**50,211,901**	**39,051,575**	**373,406,932**

31 December 2018 LIABILITIES	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Total Frw'000
Deposits from banks	16,152,572	1,878,699	16,298,052	1,957,598	3,163,892	39,450,814
Items in the course of collection	1,571,851	-	-	-	-	1,571,851
Deposits from customers	54,696,188	26,131,531	57,818,883	26,001,990	38,033,395	202,681,987
Due to group companies	-	-	-	-	-	-
Other liabilities	5,350,912	-	-	-	-	5,350,912
Long term debt	-	-	-	5,522,008	-	5,522,008
Subordinated debt	-	-	-	10,690,356	-	10,690,356
Outstanding spot/forward contracts	-	-	12,856,771	-	-	12,856,771
Letters of credit	-	-	6,893,910	-	-	6,893,910
Guarantees	-	-	27,979,302	-	-	27,979,302
Capital commitments	-	-	17,305,956	-	-	17,305,956
Leases	-	-	237,352	944,699	760,224	1,942,275
At 31 December 2018	**77,771,523**	**28,010,230**	**139,390,226**	**45,116,652**	**41,957,511**	**332,246,141**

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Traded market risk: the risk of the Bank being impacted by changes in the level or volatility of positions in the trading book. The bank currently holds financial assets at fair value through profit other comprehensive income amounting to Frw 16 billion (2018: Frw 6.6 billion).

Non-traded market risk: the risk of the Bank's earnings or capital being reduced due to the market risk exposure from banking book positions which may arise net of hedging activities. Market risk on the currency swap is based on the differential of the interest rates between the two currency swaps. This interest rate is fixed at the onset of the contract. The Bank holds a derivative financial instrument valued at notional amount of Frw 18 Billion.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is managed by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolio for risk management purposes.

Overall authority for market risk is vested in the Board. The Finance and Treasury Departments in collaboration with the Risk Management Department are responsible for the development of detailed risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation. Management actively engage with their clients to continually roll forward their deposits.

Exposure to market risks – trading portfolio

The bank holds financial assets at fair value through profit or loss amounting to Frw 16 billion that is exposed to market risk. Management adopted the use of the yield curve as it is a better representation of fair value.

Exposure to interest rate risk – non-trading portfolio

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. All of the interest rate risk is due to fair value. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The Treasury back office and Finance Department is the monitoring body for compliance with these limits.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to interest rate risk

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

31 December 2019	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Non-interest bearing Frw'000	Total Frw'000
ASSETS							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	30,691,946	**30,691,946**
Loans and advances to banks	-	15,143,464	-	-	-	13,460,747	**28,604,211**
Loans and advances to customers	34,599,464	8,981,608	19,792,165	73,543,590	39,339,089	(4,368,226)	**171,887,690**
Financial assets at fair value through profit or loss (FVTPL)	429,065	-	-	-	-	-	**429,065**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	1,950,277	5,621,731	8,872,924	-	**16,444,932**
Other financial assets at amortised cost	798,650	1,930,368	9,939,232	11,631,984	7,364,939	-	**31,665,173**
Due from group companies	-	-	-	-	-	4,272,426	**4,272,426**
Other assets	-	-	-	-	-	2,470,613	**2,470,613**
At 31 December 2019	**35,827,179**	**26,055,440**	**31,681,674**	**90,797,305**	**55,576,952**	**46,527,506**	**286,466,056**
LIABILITIES							
Deposits from banks	19,186,421	19,467,240	3,000,000	2,000,000	-	7,913,732	**51,567,393**
Items in the course of collection	-	-	-	-	-	1,364,320	**1,364,320**
Deposits from customers	10,907,562	35,674,588	15,047,878	815,059	-	129,359,254	**191,804,341**
Due to group companies	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	3,950,700	**3,950,700**
Long term debt	-	-	2,287,235	10,140,512	909,200	-	**13,336,947**
Subordinated debt	-	-	-	6,055,573	3,203,500	-	**9,259,073**
At 31 December 2019	**30,093,983**	**55,141,828**	**20,335,113**	**19,011,144**	**4,112,700**	**142,588,006**	**271,282,774**
Interest rate gap	**5,733,196**	**(29,086,388)**	**11,346,561**	**71,786,161**	**51,464,252**	**(96,060,500)**	**15,183,282**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2018	Within 1 month Frw'000	Due within 1-3 months Frw'000	Due between 3-12 months Frw'000	Due between 1-5 years Frw'000	Due after 5 years Frw'000	Non-interest bearing Frw'000	Total Frw'000
ASSETS							
Cash and balances with National Bank of Rwanda	-	-	-	-	-	23,840,151	**23,840,151**
Loans and advances to banks	-	11,016,174	-	-	-	10,824,234	**21,840,408**
Loans and advances to customers	22,989,613	22,602,849	18,250,739	67,858,519	41,792,516	(4,461,398)	**169,032,838**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	6,617	-	-	**6,617**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	2,493,689	3,223,815	114,749	-	**5,832,253**
Other financial assets at amortised cost	4,785,264	7,293,129	14,608,482	4,618,704	16,398,287	-	**47,703,866**
Due from group companies	-	-	-	-	-	1,342,900	**1,342,900**
Other assets	-	-	-	-	-	2,704,999	**2,704,999**
At 31 December 2018	**27,774,877**	**40,912,152**	**35,352,910**	**75,707,655**	**58,305,552**	**34,250,886**	**272,304,032**
LIABILITIES							
Deposits from banks	16,152,572	1,878,699	16,298,052	1,614,969	2,153,292	-	**38,097,584**
Items in the course of collection	-	-	-	-	-	1,571,851	**1,571,851**
Deposits from customers	29,130,970	5,059,088	15,673,998	5,024,650	-	137,951,579	**192,840,285**
Due to group companies	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	5,350,912	**5,350,912**
Long term debt	-	-	103,927	4,555,517	884,200	-	**5,543,644**
Subordinated debt	-	-	-	8,819,273	-	-	**8,819,273**
At 31 December 2018	**45,283,542**	**6,937,787**	**32,075,977**	**20,014,409**	**3,037,492**	**144,874,342**	**252,223,549**
Interest rate gap	**(17,508,665)**	**33,974,365**	**3,276,933**	**55,693,246**	**55,268,060**	**(110,623,456)**	**20,080,483**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Sensitivity Analysis

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

31 December 2019	Equity net of tax
200 basis points	**Increase/ decrease in basis points ('000)**
Assets	3,396,051
Liabilities	(3,723,549)
Net position	**(327,498)**
31 December 2018	**Equity net of tax**
Assets	3,332,744
Liabilities	(3,434,211)
Net position	**(101,467)**

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Bank is exposed to as at 31 December 2019 and 31 December 2018.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency rate risk

At 31 December 2019	USD Frw'000	GBP Frw'000	Euro Frw'000	Other Frw'000	Total Frw'000
ASSETS					
Cash and balances with National Bank of Rwanda	6,809,992	162,152	1,611,042	21,359	**8,604,545**
Loans and advances to banks	21,348,115	69,727	6,818,496	367,873	**28,604,211**
Loans and advances to customers	31,368,543	-	273	-	**31,368,816**
Due from group companies	3,876,453	55,935	338,068	1,970	**4,272,426**
Other assets	21,762,032	604,987	441	-	**22,367,460**
At 31 December 2019	**85,165,135**	**892,801**	**8,768,320**	**391,202**	**95,217,458**
LIABILITIES					
Deposits from banks	14,073,083	-	242,131	-	**14,315,214**
Deposits from customers	60,628,041	264,438	6,807,863	176,351	**67,876,693**
Other liabilities	4,123,484	605,604	1,763,887	97,869	**6,590,844**
Subordinated debt	9,259,073	-	-	-	**9,259,073**
At 31 December 2019	**88,083,681**	**870,042**	**8,813,881**	**274,220**	**98,041,824**
Net on statement of financial position	**(2,918,546)**	**22,759**	**(45,561)**	**116,982**	**(2,824,366)**
Net notional off balance sheet position	**25,326,038**	**-**	**1,754,425**	**-**	**27,080,463**
Overall net position – 2019	**22,407,492**	**22,759**	**1,708,864**	**116,982**	**24,256,097**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019(Continued)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency rate risk (Continued)

At 31 December 2018	USD Frw'000	GBP Frw'000	Euro Frw'000	Other Frw'000	Total Frw'000
ASSETS					
Cash and balances with National Bank of Rwanda	2,117,412	54,773	809,407	18,468	3,000,060
Items in the course of collection	-	-	-	-	-
Loans and advances to banks	40,761,698	495,921	3,027,104	1,118,384	45,403,107
Loans and advances to customers	27,642,943	55	2,715	-	27,645,713
Due from group companies	729,506	326,697	276,323	10,374	1,342,900
Other assets	136,410	-	2	33	136,445
At 31 December 2018	**71,387,969**	**877,446**	**4,115,551**	**1,147,259**	**77,528,225**
LIABILITIES					
Deposits from banks	1,816,222	-	-	-	1,816,222
Items in the course of collection	98,265	8,591	567	-	107,423
Deposits from customers	63,899,832	736,757	4,120,041	939,225	69,695,855
Other liabilities	43,955	-	-	6,625	50,580
Due to group companies	-	-	-	-	-
Long-term borrowings	82,710	-	-	-	82,710
Subordinated debt	8,791,009	-	-	-	8,791,009
At 31 December 2018	**74,731,993**	**745,348**	**4,120,608**	**945,850**	**80,543,799**
Net on statement of financial position	**(3,344,024)**	**132,098**	**(5,057)**	**201,409**	**(3,015,574)**
Net notional off balance sheet position	**5,336,855**	**(111,540)**	**1,822,184**	**(91,376)**	**6,956,123**
Overall net position – 2018	**1,992,831**	**20,558**	**1,817,127**	**110,033**	**3,940,549**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity Analysis

A reasonable possible strengthening or weakening of the USD, GBP, EUR against the Rwanda Francs (Rwf) would have affected the measurement of financial instruments denominated in foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

At 31 December 2019	Profit or loss Strengthening/ weakening of currency Frw'000	Equity net of tax Strengthening/weakening of currency Frw'000
USD (± 2.5% movement)	560,187	392,131
GBP (± 2.5% movement)	569	398
EUR (± 2.5% movement)	42,722	29,905
At 31 December 2018	**Profit or loss Strengthening/ weakening of currency Frw'000**	**Equity net of tax Strengthening/weakening of currency Frw'000**
USD (± 2.5% movement)	49,821	34,875
GBP (± 2.5% movement)	514	360
EUR (± 2.5% movement)	45,428	31,800

(d) Capital management

Regulatory capital – Rwanda

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the balance sheet, are:

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

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

The Bank's regulatory capital consists only of Tier 1 capital, which includes ordinary share capital, retained earnings, revaluation reserves and statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Company:	2019 Frw'000	2018 Frw'000
Core capital (Tier 1)		
Share capital	5,050,000	5,050,000
Share premium	400,000	400,000
Retained earnings	33,335,080	27,347,278
	38,785,080	**32,797,278**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (Continued)

Less: Other reserves		173,454	882,688
Intangible assets		(4,492,050)	(4,785,353)
Total Core capital		**34,466,484**	**28,894,613**
Supplementary capital (Tier 2)			
Revaluation reserve		2,047,698	647,925
Subordinated debt		7,380,140	8,791,009
		9,427,838	**9,438,934**
Total capital		**43,894,322**	**38,333,547**
Total risk weighted assets		**240,635,377**	**207,287,506**
Capital ratios	**Minimum***		
Core capital /Total risk weighted assets	10.0%	**14.32%**	**13.94%**
Total capital /Total risk weighted assets	15.0%	**18.24%**	**18.49%**
***As defined by the National Bank of Rwanda**			

The minimum level of regulatory capital is FRW 5 billion.

(e) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The Compliance function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

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

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

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

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

5. USE OF ESTIMATES AND JUDGEMENT (CONTINUED)

(b) Lease

The adoption of IFRS 16 has affected primarily the accounting by lessees and resulted in the recognition of almost all leases on balance sheet. The standard removes the 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.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

(a) Income taxes

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

(b) Property and equipment

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

6. FAIR VALUE HEIRARCHY

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

6. FAIR VALUE HEIRARCHY (CONTINUED)

Company	Carrying amounts						Fair value		
31 December 2019	Non financial assets Frw'000	Financial assets at amortised cost Frw'000	Financial assets at FVOCI Frw'000	Financial assets at FVTPL Frw'000	Other financial liabilities Frw'000	Total Frw'000	Level 2 Frw'000	Level 3 Frw'000	Total Frw'000
Financial assets									
Balances with Central Bank of Rwanda	-	-	25,422,534	-	-	**25,422,534**	-	25,422,534	**25,422,534**
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	429,065	-	**429,065**	429,065	-	**429,065**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	16,444,932	-	-	**16,444,932**	-	16,444,932	**16,444,932**
Other financial assets at amortised cost	-	31,665,173	-	-	-	**31,665,173**	31,665,173	-	**31,665,173**
Property and equipment									
Land and building	4,935,602	-	-	-	-	**4,935,602**	4,935,602	-	**4,935,602**
Loans and advances to banks	-	28,604,211	-	-	-	**28,604,211**	-	28,604,211	**28,604,211**
Loans and advances to customers	-	171,887,690	-	-	-	**171,887,690**	-	171,887,690	**171,887,690**
Due from group companies	-	4,272,426	-	-	-	**4,272,426**	-	4,272,426	**4,272,426**
Other assets	-	2,470,613	-	-	-	**2,470,613**	-	2,470,613	**2,470,613**
	4,935,602	**238,900,113**	**41,867,466**	**429,065**	**-**	**286,132,246**	**37,029,840**	**249,102,406**	**286,132,246**
Financial liabilities									
Deposits from banks	-	-	-	-	51,567,393	**51,567,393**	-	51,567,393	**51,567,393**
Deposits from customers	-	-	-	-	191,804,341	**191,804,341**	-	191,804,341	**191,804,341**
Long term borrowings	-	-	-	-	13,336,947	**13,336,947**	-	13,336,947	**13,336,947**
Subordinated debt	-	-	-	-	9,259,073	**9,259,073**	-	9,259,073	**9,259,073**
Other liabilities	-	-	-	-	40,073	**40,073**	-	40,073	**40,073**
	-	-	-	-	266,007,827	**266,007,827**	-	266,007,827	**266,007,827**

6. FAIR VALUE HEIRARCHY (CONTINUED)

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

6. FAIR VALUE HEIRARCHY (CONTINUED)

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2019 and 31 December 2018

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

7. INTEREST INCOME

	2019 Frw '000	2018 Frw'000
Loans and advances to customers	27,919,806	25,030,201
Loans and advances to banks	1,277,497	606,861
Investment securities:-		
- At amortised cost	4,157,290	2,491,622
- At fair value through OCI	1,454,194	2,832,137
	34,808,787	**30,960,821**

8. INTEREST EXPENSE

	2019 Frw '000	2018 Frw'000
Deposits from customers	6,042,461	6,064,074
Deposits from banks	4,726,827	3,578,170
Long term debt	1,154,008	771,557
Subordinated debt	872,492	320,730
Lease liabilities (Note 32)	147,014	-
	12,942,802	**10,734,531**

9. NET FEE AND COMMISSION INCOME

	2019 Frw '000	2018 Frw'000
(i) Fee and commission income		
Commissions	2,557,370	2,404,746
Service fees	863,196	707,853
	3,420,566	**3,112,599**
(ii) Fees and commission expense		
Interbank transaction fees	(171,550)	(112,200)
Other	(1,007,986)	(584,414)
	(1,179,536)	(696,614)
Net fee and commission income	**2,241,030**	**2,415,985**

10. NET TRADING INCOME

	2019 Frw '000	2018 Frw'000
Income from foreign exchange dealings	**3,280,146**	**3,222,590**

11. OTHER OPERATING INCOME

	2019 Frw '000	2018 Frw'000
Profit on sale of property and equipment	24,988	844,675
Other income	446,450	77,936
	471,438	**922,611**

12. OPERATING EXPENSES

	2019 Frw '000	2018 Frw'000
(i) Employee benefits		
Salaries and wages	7,443,453	6,823,845
Statutory contribution	368,528	361,988
Medical expenses	379,658	348,484
Mileage expenses	148,920	135,524
Training expenses	192,740	144,696
Other staff costs*	1,472,227	242,327
	10,005,526	**8,056,864**

*Other staff costs in 2019 relates to the Voluntary Service Scheme that the Bank has provided as a benefit to its long serving employees.

	2019 Frw '000	2018 Frw'000
(ii) Premises and equipment costs		
Rental of premises*	29,598	616,102
Utilities	294,560	216,336
	324,158	**832,438**

* The reduction in Rental cost relates to the first time adoption of IFRS 16 which is now being reported as depreciation of Right of use assets Note 3(v).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

12. OPERATING EXPENSES (CONTINUED)

	2019 Frw '000	2018 Frw'000
(iii) General administrative expenses		
Deposit protection insurance contribution	251,941	133,344
Security expense	461,236	379,041
Travel & accommodation expenses	77,727	125,577
Professional fees	1,094,806	619,090
Directors' emoluments	364,050	285,972
Auditors' remuneration	55,046	55,477
Insurance costs	133,613	146,772
Board expenses	149,165	121,600
Marketing expenses	533,637	528,969
Communication expenses	181,976	185,486
Printing and stationery	94,028	196,475
Repairs and maintenance	673,249	423,426
Computer expenses	626,317	547,364
Donations and membership fees	86,786	105,179
Legal fees	35,048	38,566
Other general expenses	461,415	747,290
	5,280,040	**4,639,628**
(iv) Depreciation and Amortization		
Depreciation on property and equipment (Note 21)	1,037,804	1,000,784
Amortisation of intangible assets (Note 22)	1,179,994	398,868
Depreciation of Right of use asset (Note 23)	577,302	-
	2,795,100	**1,399,652**

The average number of employees employed by the Company are as follows:

	2019	2018
Management	13	13
Others	360	350
	373	**363**

13. INCOME TAX EXPENSE AND TAX PAYABLE

Income tax expense		
Current year's tax at 30%	2,735,367	3,131,320
Under/(over) provision in prior year - current tax	-	(14,283)
Current tax expense	**2,735,367**	**3,117,037**
Deferred tax credit -Prior year (Note 24)	-	
	2,735,367	**3,117,037**
Deferred tax credit -Current year (Note 24)	113,065	237,813
Income tax expense	**2,848,432**	**3,354,850**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

13. INCOME TAX EXPENSE AND TAX PAYABLE (CONTINUED)

	2019 Frw '000	2018 Frw'000
The tax on profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before income tax	**8,990,374**	**10,817,422**
Computed tax using the applicable corporation tax rate at 30%	2,735,367	3,245,227
Over provision in the prior year	-	(14,283)
Effect on non-deductible costs /non-taxable income	113,065	123,906
	2,848,432	**3,354,850**
Tax Payable/(Recoverable)		
At 1 January	872,369	1,098,315
Income tax expense	2,735,367	3,117,037
Tax paid (Note 34(a))	(3,362,257)	(3,342,983)
At 31 December	**245,479**	**872,369**

14. EARNINGS PER SHARE

Net profit after tax attributable to owners of the company (Frw '000')	**6,141,942**	**7,462,572**
Weighted average number of ordinary shares in issue during the year ('000)	**505,000**	**505,000**
Earnings per share (Frw)	**12.16**	**14.78**

15. DIVIDENDS PER SHARE

The calculation of dividend per share is based on:		
Final dividend proposed during the year (Frw'000)	1,515,000	2,985,000
	1,515,000	**2,985,000**
Weighted average number of ordinary shares in issue during the year ('000)	**505,000**	**505,000**
Final dividend per share (Frw.)	**3**	**5.91**

16. CASH AND BALANCES WITH CENTRAL BANK

Cash on hand	5,269,412	3,502,480
Balances with National Bank of Rwanda:		
-Unrestricted balances	11,833,425	8,540,235
-Restricted balances (Cash reserve ratio)	13,589,109	11,797,436
	30,691,946	**23,840,151**

The Bank's Cash Reserve Ratio is non-interest earning based on a requirement to maintain a prescribed minimum cash balances with the National Bank of Rwanda that is not available to finance day to day activities and is excluded from the computation. The amount is determined as a percentage of the average outstanding customer deposits over a cash reserve cycle period of one month. At 31 December 2019, the cash ratio requirement was 5% (2018: 5%).

17. ITEMS IN THE COURSE OF COLLECTION

Liabilities	**1,364,320**	**1,571,851**

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

18. LOANS AND ADVANCES TO BANKS

Due within 90 Days	**28,604,211**	**21,840,408**

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

Mortgage loans	61,187,910	50,885,163
Equipment loans	42,289,996	45,703,125
Consumer loans	41,303,377	40,048,569
Overdrafts	31,474,633	36,857,380
Gross loans and advances	**176,255,916**	**173,494,237**
Less: Impairment losses on loans and advances	(4,368,226)	(4,461,399)
Net loans and advances	**171,887,690**	**169,032,838**

(b) Impairment loss allowance for the year

2019:	Loans and advances to Customers at amortised cost	Loan commitments and financial guarantee contracts	Total
	Frw'000	Frw'000	Frw'000
Net remeasurement of loss allowance	1,134,812	(8,966)	1,125,846
New financial assets originated or purchased	318,776	7,642	326,418
	1,453,588	**(1,324)**	**1,452,264**
Recoveries and impairment no longer required	(1,546,761)	(20,510)	(1,567,271)
Recoveries of loans and advances previously written off	534,740	43,668	578,408
	441,567	**21,834**	**463,401**

The 2019 movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 4(a)(III)

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Impairment loss allowance for the year (Continued)

2018:	Loans and advances to Customers at amortised cost	Loan commitments and financial guarantee contracts	Total
	Frw'000	Frw'000	Frw'000
Net remeasurement of loss allowance	1,919,844	(13,748)	1,906,096
New financial assets originated or purchased	110,471	4,098	114,569
	2,030,315	**(9,650)**	**2,020,665**
Recoveries and impairment no longer required	(690,726)	(25,048)	(715,774)
Recoveries of loans and advances previously written off	(360,023)	96,604	(263,419)
	979,566	**61,906**	**1,041,472**

(c) Impairment losses on loans and advances

	2019	2018
	Frw'000	Frw'000
Interest on impaired loans and advances which has not yet been received in cash	**413,804**	**586,779**

(d) Loans and advances concentration by sector

	2019		2018	
	Frw '000	%	Frw '000	%
Manufacturing	32,552,796	18%	36,106,040	21%
Wholesale and retail trade	36,695,498	21%	36,283,683	21%
Building and construction	48,283,187	27%	19,176,000	11%
Agriculture	9,070,447	5%	3,492,073	2%
Transport and communication	13,554,856	8%	14,693,468	8%
Mining and quarrying	-	0%	206,534	0%
Others	36,099,132	20%	63,536,439	37%
	176,255,916	**100%**	**173,494,237**	**100%**

20. FINANCIAL ASSETS

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

	2019	2018
	Frw'000	Frw'000
Net Derivative assets (Non liquid) (Note 20(d)	**429,065**	**6,617**

20. FINANCIAL ASSETS (CONTINUED)

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

The Bank enters into derivatives with National Bank of Rwanda of notional amount of USD 19,841,667 and received Frw 17,555,865,625 at different fixed exchange rate for risk management purposes. The Bank will receive interest of 2% and will pay interest of 8% to the National Bank of Rwanda to be settled semi-annually. The bank does not use hedge accounting, the derivatives are recognized as fair value through profit or loss.

As at 31 December 2019, the fair value of the derivative financial instrument (swap) was a net asset of Frw 429,064,921.

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

	2019	2018
Government securities	Frw'000	Frw'000
Treasury Bonds	**15,868,948**	**5,832,253**
Corporate Bonds	**575,985**	**-**
	16,444,933	**5,832,253**

(c) Other financial assets at amortised cost

	2019	2018
Government securities	Frw'000	Frw'000
Treasury bills	10,652,979	10,827,888
Treasury Bonds	21,012,194	36,580,429
Commercial paper	-	295,549
	31,665,173	**47,703,866**

20. FINANCIAL ASSETS (CONTINUED)

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

	Financial assets measured at FVOCI	Other financial assets at amortised cost	Financial assets measured at FVTPL	Total
	Frw'000	Frw'000	Frw'000	Frw'000
At 1 January 2019	5,832,253	47,703,866	6,617	53,542,736
Additions	12,375,634	10,652,978	18,416,954	41,445,566
Disposals and maturities	(2,493,689)	(27,342,627)	(17,993,182)	(47,829,498)
Revaluation gain	247,789	-	(1,324)	246,465
Amortisation of discounts and premiums	(67,252)	(4,794)	-	(72,046)
Interest receivable	550,198	655,750	-	1,205,948
At 31 December 2019	**16,444,933**	**31,665,173**	**429,065**	**48,539,171**
At 1 January 2018	826	19,812,580	17,989,485	37,802,891
Day 1 adjustment	(5,283,492)	23,204,467	(17,920,975)	-
Additions	73,630,014	48,385,452	28,565,198	150,580,664
Disposals and maturities	(64,765,005)	(43,830,200)	(28,571,814)	(137,167,019)
Revaluation gain	110,319	-	(55,277)	55,042
Amortisation of discounts and premiums	88,252	(527,492)	-	(439,240)
Interest receivable	2,051,339	659,059	-	2,710,398
At 31 December 2018	**5,832,253**	**47,703,866**	**6,617**	**53,542,736**

21. PROPERTY AND EQUIPMENT

2019	Land and Buildings Frw'000	Furniture, fittings, fixtures and office equipment Frw'000	Computers Frw'000	Motor Vehicles Frw'000	Capital work in progress Frw'000	Total Frw'000
Cost/ Valuation						
At 1 January 2019	6,368,141	2,581,161	1,785,079	830,622	10,635,526	22,200,529
Additions	115,025	140,761	313,584	90,637	6,810,145	7,470,152
Disposals	-	(1,877)	-	(161,090)	-	(162,967)
Reclassification/internal transfers	211,535	211,081	244,403	-	(667,019)	-
Transfers from intangible assets	-	-	-	-	186,280	186,280
Write offs/back	(69,398)	-	(2,016)	-	(2,597)	(74,011)
At 31 December 2019	**6,625,303**	**2,931,126**	**2,341,050**	**760,169**	**16,962,335**	**29,619,983**
Depreciation						
At 1 January 2019	1,277,519	1,751,792	1,447,293	647,677	-	5,124,281
Charge for the year	412,183	217,702	329,794	78,125	-	1,037,804
On disposals	-	(1,674)	-	(161,087)	-	(162,761)
At 31 December 2019	**1,689,702**	**1,967,820**	**1,777,087**	**564,715**	**-**	**5,999,324**
Net book value at 31 December 2019	**4,935,601**	**963,306**	**563,963**	**195,454**	**16,962,335**	**23,620,659**

Capital work in progress is mainly related to new building under construction (FRW 16,148,305,322) and other IT hardware amounting to (FRW 814,028,794).

21. PROPERTY AND EQUIPMENT (Continued)

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

Revaluation of Land and Buildings

Management determined that the land and buildings constitute a separate class of property and equipment, based on the nature, characteristics and risks of the property. The fair value of the land and buildings has been determined on a market value basis in accordance with the RICS Valuation Professional Standards (January 2014) (''Standards'') which comply with the International Valuation Standards. The valuations were performed by Landmark Limited, an accredited independent valuer with a recognized and relevant professional qualification. A net gain from the revaluation of the Land and building of FRW 2,140,401 in 2016 was recognized in other comprehensive income. Fair value measurement disclosures for revalued land and buildings are provided in Note 6. None of property and equipment has been pledged as security over borrowings.

22. INTANGIBLE ASSETS

2019:	Computer Software	Capital work in progress	Total
Cost	Frw'000	Frw'000	Frw'000
At 1 January	6,158,953	662,267	6,821,220
Additions	37,221	2,352,703	2,389,924
Reclassification from capital work in progress	1,921,037	(1,921,037)	-
Transfer to Property and equipment	-	(186,280)	(186,280)
Write offs	-	(61,724)	(61,724)
At 31 December 2019	**8,117,211**	**845,929**	**8,963,140**
Amortisation			
At 1 January	2,035,867	-	2,035,867
Amortisation for the year	1,179,994	-	1,179,994
At 31 December 2019	**3,215,861**	**-**	**3,215,861**
Carrying amount at 31 December 2019	**4,901,350**	**845,929**	**5,747,279**

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

Capital work in progress is mainly related to new core banking software (Frw 274,640,638) and other software projects under development (Frw 571,287,886).

23. RIGHT OF USE ASSET

	Cost	Depreciation for the period	NBV as at 31 December 2019
	Frw'000	Frw'000	Frw'000
Property	1,989,732	(420,678)	1,569,054
Cars	652,601	(156,624)	495,977
Total	**2,642,333**	**(577,302)**	**2,065,031**

The disclosure requirements of right of use assets and lease liabilities are disclosed in note 3(v).

24. DEFERRED TAX LIABILITY

2019:	Balance at 1 January	Day one transition adjustment	Recognised in equity	Recognized in profit or loss	Balance at 31 December
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
Deferred income tax asset					
Other provisions	544,325	-	-	166,762	711,087
	544,325	**-**	**-**	**166,762**	**711,087**
Deferred income tax liability					
Property and equipment	2,103,961	-	-	175,128	2,279,089
Government securities amortised cost	(104,699)	-	-	104,699	-
Fair value through the other comprehensive income (FVOCI)	47,280	-	27,057	-	74,337
	2,046,542	**-**	**27,057**	**279,827**	**2,353,426**
Deferred income tax asset/(liability)	**(1,502,217)**	**-**	**(27,057)**	**(113,065)**	**(1,642,339)**
2018:					
Deferred income tax asset					
Other provisions	306,989	40,260	-	197,076	544,325
	306,989	**40,260**	**-**	**197,076**	**544,325**
Deferred income tax liability					
Property and equipment	1,669,072	-	-	434,889	2,103,961
Government securities amortised cost	-	(104,699)	-	-	(104,699)
Fair value through the other comprehensive income (FVOCI)	-	-	47,280	-	47,280
	1,669,072	**(104,699)**	**47,280**	**434,889**	**2,046,542**
Deferred income tax asset/(liability)	**(1,362,083)**	**144,959**	**(47,280)**	**(237,813)**	**(1,502,217)**

25. BALANCES WITH RELATED PARTIES

(a) Due from related parties

	2019 Frw'000	2018 Frw'000
I&M Bank (Kenya) Limited	4,130,283	1,342,858
I&M Bank (T) Limited	64,152	42
Bank One	77,991	-
	4,272,426	**1,342,900**

(b) Due to related parties

I&M Bank (Kenya) Limited	-	-

26. OTHER ASSETS

Prepayments	439,976	1,009,169
Other receivables	2,030,637	1,695,830
	2,470,613	**2,704,999**

27. DEPOSITS FROM BANKS

Due within 90 Days (Liquid)	46,567,393	30,724,193
Due after 90 days (Non liquid)	5,000,000	7,373,391
	51,567,393	**38,097,584**

28. DEPOSITS FROM CUSTOMERS

Government and Parastatals	31,448,396	6,841,239
Private sector and individuals	160,355,945	185,999,046
	191,804,341	**192,840,285**

29. OTHER LIABILITIES

Accruals*	1,803,088	2,492,456
Provisions for loan commitments**	40,073	61,906
Provisions	174,246	393,021
Other accounts payables***	1,933,293	2,403,529
	3,950,700	**5,350,912**

*Provision for loan commitments, represents impairment allowance for loan commitments and financial guarantee and letter of credit contracts.

*Other account payables relate mainly to: MTN operative account (Frw 364m) and Master Card funds (FRW 682m), and NSSF contributions (FRW 445m).

30. LONG TERM DEBT

	2019 Frw'000	2018 Frw'000
Less than one year	-	103,927
One to five years	13,336,947	4,555,517
Over five years	-	884,200
	13,336,947	**5,543,644**
Loan movement schedule		
At 1 January	5,543,644	6,617,003
Funds received	8,864,436	-
Interest payable	1,143,297	585,754
Payments on principal and interest	(2,215,710)	(1,667,479)
Translation differences	1,280	8,366
At 31 December	**13,336,947**	**5,543,644**
EIB	12,423,581	4,655,412
BRD	913,366	888,232
	13,336,947	**5,543,644**

Long term debt constituted the following:
(a) Loan from European Investment Bank (EIB)
During the period under audit, the Bank received a loan from EIB of USD 10,000,000.

Terms of the new borrowing
Long term loan from EIB of usd 4,657,777 and usd 5,342,223 from European Investment Bank. Repayment amounts are fixed in Rwandan Francs. The loans accrue interests at a fixed rate of 8.87% p.a and 8.51% respectively and will mature on 17 November 2025, 15 May 2025 respectively. It is unsecured loan.

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

31. SUBORDINATED DEBT

	2019 Frw'000	2018 Frw'000
One to five years	**9,259,073**	**8,819,273**

In 2018, the Bank acquired within the year a 5 year subordinated loan with IFC at an interest rate of 9.003% repayable in semi-annual instalments The purpose of the loan is to provide the Bank with a subordinated loan which qualifies as Tier 2 capital therefore enabling the Bank to increase its lending to clients.

31. SUBORDINATED DEBT (CONTINUED)

The Bank has not had any defaults of principal, interest or other breaches in covenants with regard to any liabilities during 2019 or 2018.

Loan movement schedule	**2019**	**2018**
	Frw'000	**Frw'000**
At 1 January	8,819,273	-
Funds received	-	8,597,642
Payments on principal and interest	(861,258)	(292,466)
Interest payable	866,892	320,730
Translation differences	434,166	193,367
At 31 December	**9,259,073**	**8,819,273**

32. LEASE LIABILITIES

Movement in lease liabilities as at 31 December is as follows:

	2019
Balance as at 1 Jan 2019	**Frw'000**
Additional during the period	
	2,540,802
Principal settlements during the period	-
Interest expense during the period	(746,264)
Balance as at 31 December 2019	
	147,014
	1,941,552

The disclosure requirements of right of use assets and lease liabilities are disclosed in note 3(v).

33. SHARE CAPITAL AND RESERVES

(a) Share capital and share premium

	Shares outstanding	**Ordinary shares**	**Share premium**	**Total**
		Frw'000	**Frw'000**	**Frw'000**
At 31 December 2019	**505,000,000**	**5,050,000**	**400,000**	**5,450,000**
At 31 December 2018	**505,000,000**	**5,050,000**	**400,000**	**5,450,000**

The total paid-up number of ordinary shares is 505,000,000 (2018: 505,000,0000), with a par value of Frw 10 per share (2018: Frw 10 per share). All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights.

(b) Share premium

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

(c) Revaluation reserve

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

33. SHARE CAPITAL AND RESERVES (CONTINUED)

(d) Fair value reserve

The reserve is attributable to changes in fair value of investment securities classified under the fair value among other comprehensive income category. This is shown on the statement of comprehensive income and is not recycled to profit or loss when the asset is impaired or disposed.

(e) Statutory credit risk reserve

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

34. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net

	Note	**2019 Frw'000**	**2018 Frw'000**
Cash flows from operating activities			
Profit before income tax		8,990,374	10,817,422
Adjustments for:			
Depreciation on property and equipment	21	1,037,804	1,000,784
Depreciation of right of use assets	23	577,302	-
Amortisation of intangible assets	22	1,179,994	398,868
(Loss)/Gain on disposal of property and equipment	11	(24,988)	(79,419)
Gain on disposal of repossessed assets		-	(844,675)
Impairment loss recognised	19(b)	463,401	1,041,472
Interest income earned	7	(34,808,787)	(30,960,821)
Interest expense incurred	8	12,942,802	10,734,531
		(9,642,098)	**(7,891,838)**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers	19(a)	(2,854,852)	(22,519,465)
Movement in repossessed assets		-	(2,120,000)
Movement in financial assets at amortised cost	20(c)	16,038,693	(29,578,655)
Movement in financial assets measured at (FVOCI)	20(b)	(10,612,679)	12,151,441
Movement in financial assets at fair value through profit or loss (FVTPL)	20(a)	(422,448)	-
Cash and balances with National Bank of Rwanda:	16	(1,791,673)	(1,116,337)
Other assets	26	234,386	2,388,119
		591,427	**(40,794,897)**
Increase/(decrease) in operating liabilities			
Customer deposits	28	(1,035,944)	15,418,178
Balances due to group companies		-	(3,108,543)
Deposits from banks		13,469,809	9,497,527
Other payables	29	541,340	(21,203)
		12,975,205	**21,785,959**

34. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

Cash flows generated from operating activities		**3,924,534**	**(26,900,776)**
Interest received		33,142,307	29,862,231
Interest paid		(14,549,142)	(10,311,315)
Tax paid	13	(3,362,257)	(3,342,983)
Net cash flows generated from operating activities		**19,155,442**	**(10,692,843)**

(b) Analysis of cash and cash equivalents

	Note	2019 Frw'000	2018 Frw'000	Change Frw'000
Cash and balances with National Bank of Rwanda	16	17,102,837	12,042,715	5,060,122
Investment securities	20(c)	10,652,979	10,827,888	(174,909)
Deposits from banks		15,143,464	11,012,520	4,130,944
Due from group companies	25	4,272,324	1,342,900	2,929,424
		47,171,604	**35,226,023**	**11,945,581**
Net Foreign exchange difference on foreign denominated balances		(679,953)	(146,986)	(532,967)
		46,491,651	**35,079,037**	**11,412,614**

35. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank as at 31 December 2019. Directors have made provisions in instances where they believe that there is a chance for the cash outflow against the Bank (Frw 155.4 Million). The rest of the instances directors based on the legal advice are of the view that chances of cash out flow are remote.

(b) Contractual off-balance sheet financial liabilities

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

	2019 Frw'000	2018 Frw'000
Contingencies related to:		
Letters of credit	13,224,224	7,160,304
Guarantees	40,385,462	27,979,302
	53,609,686	**35,139,606**
Commitments related to:		
Outstanding spot/forward contracts	18,898,076	12,856,771
	72,507,762	**47,996,377**

35. OFF BALANCE SHEET CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

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

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

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

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

36. RELATED PARTY TRANSACTIONS

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

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

	2019 Frw'000	2018 Frw'000
Transactions with directors/shareholders		
Loans to directors/shareholders	187,629	37,864
Interest Income from loans to directors/shareholders	14,727	1,953
Directors emoluments	364,050	285,972
The non-executive directors do not receive pension entitlements from the Bank.		
Transactions with related companies	**2019 Frw'000**	**2018 Frw'000**
Loans to related companies	329,643	637,455
Interest income from relates companies	74,487	96,893
Due from group companies	4,272,426	1,342,900
Transactions with key management personnel		
Key Management personnel loans	286,638	344,850
Interest Income	18,050	20,691
Shared service cost	625,616	246,588

37. CAPITAL COMMITMENTS

Mainly software and head office development costs	**22,046,276**	**17,305,956**

The capital commitments are contractual in nature.

38. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

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

Less than one year	-	237,352
One to five years	-	944,699
Over five years	-	760,224
	-	**1,942,275**

Rental expenses incurred with respect to operating leases were FRW 616 million

39. EMPLOYEE SHARE OPTION PLAN

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

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

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

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

The effect of the options was immaterial for the year ended 31 December 2019.

40. SEGEMENTAL REPORTING

The Bank has three main segments:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019 (Continued)

40. SEGEMENTAL REPORTING (Continued)

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

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

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

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

The Bank does not suffer concentration risk and there is no single customer who contributes more than 15% of the revenue. All the segments are within Rwanda and there are no inter-segment transfers and all central costs are allocated to those three segments.
Statement of financial position

2019:	Corporate and institutional banking Frw'000	Business banking Frw'000	Retail Banking Frw'000	Total Frw'000
ASSETS				
Loans and advances to customers	90,692,541	29,924,165	51,270,984	171,887,690
LIABILITIES				
Customer deposits	178,405,492	22,056,514	42,909,728	243,371,734
2018:				
ASSETS				
loans and advances to customers	87,813,072	32,182,770	49,036,996	169,032,838
LIABILITIES				
Customer deposits	178,598,110	18,209,563	34,130,196	230,937,869

40. SEGEMENTAL REPORTING (Continued)

Statement of comprehensive income

2019:	Corporate and institutional banking	Business banking	Retail Banking	Total
	Frw'000	Frw'000	Frw'000	Frw'000
Interest and similar income	17,071,094	6,957,214	10,780,479	34,808,787
Interest and similar expense	(8,412,821)	(1,294,280)	(3,235,701)	(12,942,802)
Net fees and commissions	726,906	398,081	1,116,043	2,241,030
Net foreign exchange income	2,003,213	1,126,905	150,028	3,280,146
Operating income	**11,388,392**	**7,187,920**	**8,810,849**	**27,387,161**
Other income	236,173	93,833	141,432	471,438
Impairment of financial assets	(232,147)	(92,233)	(139,021)	(463,401)
Employee benefit	(4,012,405)	(2,991,453)	(3,001,668)	(10,005,526)
Depreciation of property & equipment	(1,400,243)	(556,324)	(838,533)	(2,795,100)
Other operating expenses	(2,807,499)	(1,115,434)	(1,681,265)	(5,604,198)
Total operating expenses	**(8,220,147)**	**(4,663,211)**	**(5,521,466)**	**(18,404,824)**
Profit before income tax	**3,172,271**	**2,526,309**	**3,291,794**	**8,990,374**

2018:	Corporate and institutional banking	Business banking	Retail Banking	Total
	Frw'000	Frw'000	Frw'000	Frw'000
Interest and similar income	16,083,467	5,895,048	8,982,306	30,960,821
Interest and similar expense	(8,242,274)	(867,083)	(1,625,175)	(10,734,531)
Net fees and commissions	1,255,052	460,012	700,922	2,415,985
Net foreign exchange income	1,674,065	613,592	934,933	3,222,590
Operating income	**10,770,310**	**6,101,569**	**8,992,986**	**25,864,865**
Other income	479,276	175,668	267,666	922,611
Impairment of financial assets	(541,022)	(198,300)	(302,150)	(1,041,472)
Employee benefit	(4,158,365)	(1,534,055)	(2,364,444)	(8,056,864)
Depreciation of property & equipment	(727,089)	(266,499)	(406,065)	(1,399,652)
Other operating expenses	(2,842,618)	(1,041,900)	(1,587,547)	(5,472,066)
Total operating expenses	**(7,728,072)**	**(2,842,454)**	**(4,358,056)**	**(14,928,582)**
Profit before income tax	**2,980,492**	**3,236,484**	**4,600,447**	**10,817,422**

41. EVENTS AFTER REPORTING PERIOD

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

OTHER DISCLOSURES

AUDITED BY EXTERNAL AUDITORS (FIGURES IN FRW '000)

FOR THE PERIOD ENDED 31st DECEMBER 2019		
I. Capital Strength		
a. Core Capital (Tier 1)		34,466,484
b. Supplementary Capital (Tier 2)		9,427,838
c. Total Capital		43,894,322
d. Total Risk weighted assets		240,635,377
e. Core Capital/Total risk weighted assets ratio		14.32%
f. Tier 2 ratio		3.92%
g. Total Capital/Total risk weighted assets ratio		18.24 %
h. Leverage Ratio		10.57%
II. Credit Risk		
1. Total gross credit risk exposures: after accounting offsets and without taking into account credit risk mitigation		248,763,678
2. Average gross credit exposures, broken down by major types of credit exposure:		
a) loans, commitments and other non-derivative off-balance sheet exposures :		248,763,678
b) debt securities:		48,110,106
c) OTC derivatives:		429,065
3. Regional or geographic distribution of exposures, broken down in significant areas by major types of credit exposure:		
Northern		3,818,111
Southern		2,100,609
Eastern		1,439,267
Western		4,719,420
Kigali City		236,686,271
4. Sector distribution of exposures, broken down by major types of credit exposure and aggregated in the following areas:		
a) Government;		546,769
b) financial;		248
c) manufacturing;		38,586,551
d) infrastructure and construction;		20,193,884
e) services and commerce.		62,278,091
f) others		127,158,135
5. Off Balance sheet items		**53,609,438**
6. Non-Performing Loans		
(a) Non performing Loans		5,881,052
(b) NPL Ratio		2.56 %
7. Related Parties		
a. Loans to Directors, shareholders and subsidiaries		187,629
b. Loans to Employees		4,089,681
III. Liquidity		
a. Liquidity Coverage ratio (LCR)		229 %
b. Net Stable Funding ratio (NSFR)		153 %
IV. Operational Risk		
Number and types of frauds and their corresponding amount		
Type	**Number**	**Amount Frw000**
External - Use of forged payment order	2	23,290
Internal - Use of forged payment order	1	2,451
Internal - Theft	1	429

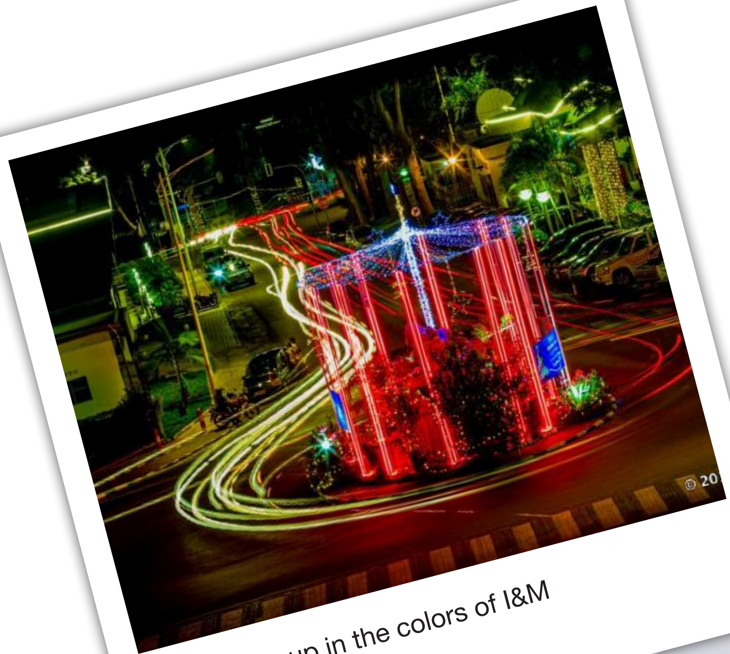
OTHER DISCLOSURES (Continued)

AUDITED BY EXTERNAL AUDITORS (continued) (FIGURES IN FRW '000)

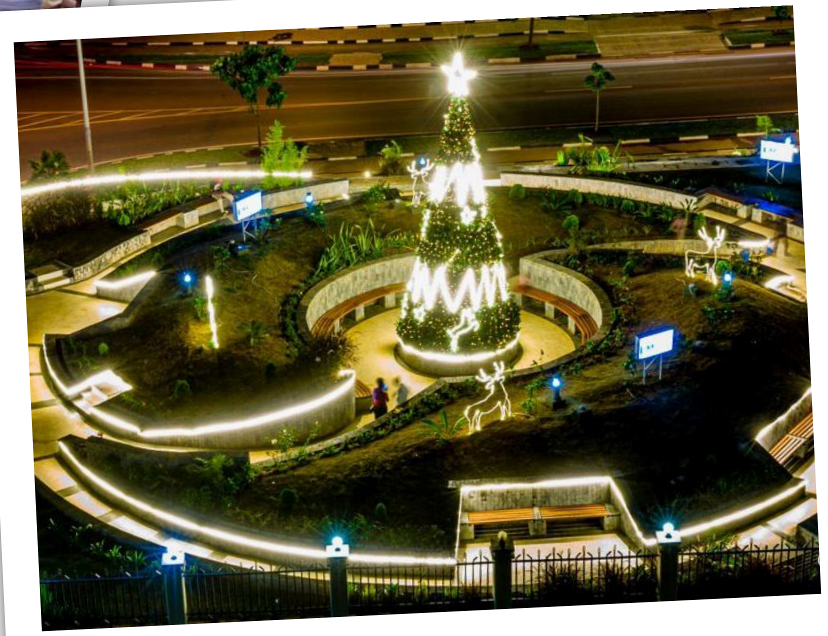
FOR THE PERIOD ENDED 31st DECEMBER 2019 (continued)	
V. Market Risk	
1. Interest rate risk	502,692
2. Equity position risk	-
3. Foreign exchange risk	366,635
VI. COUNTRY RISK	
1. Credit exposures abroad	32,151,937
2. Other assets held abroad	-
3. Liabilities to abroad	27,249,961
VII. Management and Board Composition	1
a. Number of Board members	9
b. Number of independent directors	6
c. Number of non-independent directors	3
d. Number of female directors	2
e. Number of male directors	7
f. Number of Senior Managers	13
g. Number of female senior managers	5
h. Number of male senior managers	8

Ending the year in style

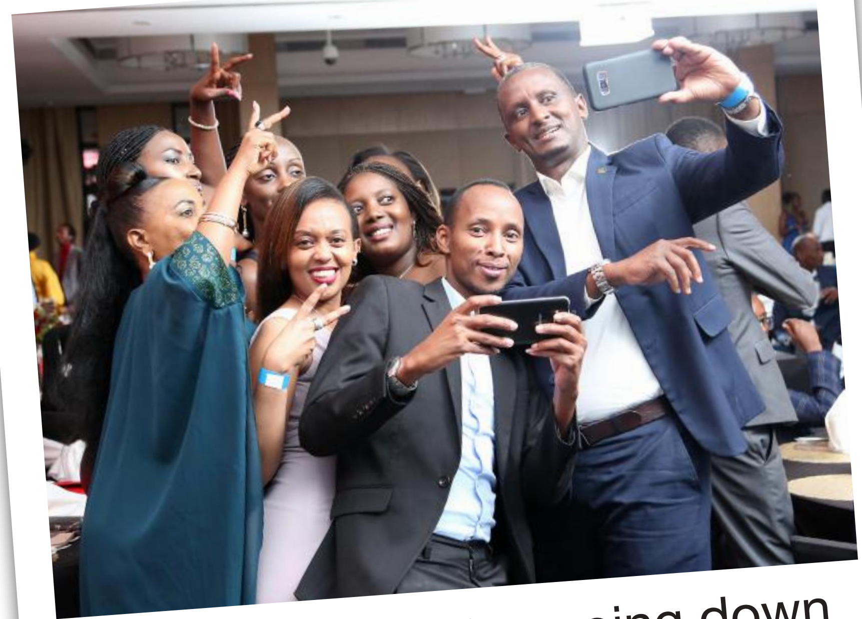
I&M Joins Gicumbi for Umuganda



Kigali lights up in the colors of I&M



Kigali lights up in the colors of I&M



A selfie Competition going down

Waving Flag

Winners of the I&M Push to Start

2019
IN PICTURES

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I&M Bank (Rwanda) PLC Annual Report & Financial Statements as of 31St December 2019
Flexible, Friendly and Efficient.