URWEGO BANK LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2017

URWEGO BANK LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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URWEGO BANK LIMITED
BANK INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

PRINCIPAL PLACE OF BUSINESS

Urwego Bank Limited
KN 5 Rd, Rukiri-Remera-Gasabo
Umuyenzi Plaza Kisementi
P.O. Box 748
Kigali
Rwanda

BANKERS

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

AUDITORS

Ernst & Young Rwanda Limited
M-Peace Plaza
KN 4 AV., 72 ST
P. O. Box 3638
Kigali
Rwanda

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of the Bank.

1. ACTIVITIES AND BRANCH NETWORK

The bank offers microfinance banking services to organized groups, small and medium size enterprises and retail customers. The bank had 15 branches in 2017 comprising of 5 that are located in Kigali City and 10 located outside Kigali City.

2. RESULTS AND DIVIDEND

The net loss for the year ended of Frw 1,423 million (2016: loss of Frw 1,831 million) has been accumulated to losses. The directors do not recommend payment of a dividend for the year (2016: Nil).

3. SHAREHOLDERS

The shareholders of the bank as at 31 December 2017 were:

Shareholder	2017			2016		
	no of shares	share value Rwf'000	%	no of shares	share value Rwf'000	%
World Relief US	344	34,400	0.4%	344	34,400	0.7%
Hope Advancement Inc	81,023	8,102,377	99.6%	50,547	5,054,700	99.3%
	81,367	8,136,777	100%	50,891	5,089,100	100%

4. DIRECTORS

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

Mr. Carl Daniel Lundblad	-	Independent Chairperson (Appointed 20 September 2017
Mr. Roger Morgan	-	Non-Executive Director, shareholder representative
Mr. Micah Crist	-	Non-Executive Director, shareholder representative
Mr. Stanley Tsikirayi	-	Non-Executive Director
Mr. Moses Ndahiro	-	Non-Executive, shareholder representative
Mr. John Nkubana	-	Independent
Ms. Shelagh D. Kahonda	-	Independent
Miss. Liliane Uwintwari	-	Independent
Mr. Jesse David Casler	-	Non-Executive Director, shareholder representative (appointed 28 April 2017)
Ms. Christine Baingana	-	Executive Director

5. AUDITOR

Ernst & Young Rwanda Limited have expressed their willingness to continue in office.

By order of the board

Henri

Company Secretary

02/04/2018

The Law No. 27/2017 of 31/05/2017 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 year 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. 27/2017 of 31/05/2017. 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.

....
Director

....
Director

02/04/......2018
Date

Urwego Bank limited is committed to the best principles of Corporate Governance in running the operations of a company. The bank strives to ensure the compliance of all the rules, regulations and laws of the country in the conduct of its business. The bank is administered in pursuit of earning credibility in the market and increasing value for the stakeholders. The decision making and powers are exercised with integrity, responsibility, accountability and transparency.

Board of Directors

The directors who served during the year ended 31 December 2017 are listed on page 2.

Though the overall responsibility of monitoring and controlling the operational and financial performance of Urwego Bank limited vests with the Board of directors, the day to day management of the company has been delegated to the Chief Executive Officer.

Board Meetings and Attendance

In 2017, there were 4 (four) meetings held by the Board of directors and the attendance is set out below:

Names	Role	Number of meetings attended
Mr. Carl Daniel Lundblad	Chairperson	1
Mr. Roger Morgan	Member	4
Mr. Micah Crist	Member	3
Ms. Christine Baingana	Member	4
Mr. Stanley Tsikirayi	Member	4
Mr. Moses Ndahiro	Member	2
Mr. John Nkubana	Member	1
Ms. Shelagh D. Kahonda	Member	4
Miss. Liliane Uwintwari	Member	2
Mr. Jesse David Casler	Member	2

The Board of Directors meets at least quarterly and is chaired by an Independent Director.

Board Committees

The Board has instituted various committees to assist it in fulfilling its role of monitoring key activities of Urwego Bank limited. The Board reviews the reports and minutes of the committees and is accountable for their decisions and functions.

Board Audit Committee

The Board Audit Committee comprises the Chairperson and two non-executive directors. Its key objective is to assist the Board in providing an independent review of the effectiveness of the financial reporting process. It helps in maintaining a sound and robust internal control system of the bank. It reviews and approves annual audit plan prepared by Internal Auditor and oversees its execution. It recommends appointment, reappointment and removal of external auditors and assesses their independence. It ensures the effectiveness and quality of External audit services. It ensures that External Auditor receives due assistance from management and staff to enhance the quality of audit report.

In 2017, the Board Audit Committee members and attendance of meetings is set out below:

Names	Role	Number of meetings attended
Ms. Shelagh D. Kahonda	Chairperson	4
Mr. John Nkubana	Member	1
Mr. Moses Ndahiro	Member	2

Board Audit Committee (continued)

Mr. Roger Morgan and Mr. Stanley Tsikirayi acted as proxies when Mr. John Nkubana and Mr. Moses Ndahiro were absent. The Audit Committee meets at least quarterly and is chaired by an independent director. During the year, a total of 4 (four) Audit Committee meetings were held.

Board Assets and Liability Committee

The Board Assets and Liability Committee comprises of the chairperson and two non-executive directors. Its key objective is to devise strategy for the proper mix of assets and liabilities of the bank as per the Bank's policy. It identifies issues in the statement of financial position that may lead to underperformance and recommends corrective actions. It ensures that the statement of financial position is in a favourable position to achieve sustainability of the bank and any funding needs identified can be addressed timely. It gives directions on mitigating risks related to movement in interests rates, foreign exchange exposure and capital adequacy.

The board assets and liability committee meets at least quarterly and is chaired by an independent director.

In 2017, the Board assets and liability committee members held 4 (four) meetings and attendance of the meetings is set out below:

Names	Role	Number of meetings attended
Mr. John Nkubana	Chairperson	1
Ms. Christine Baingana	Member	4
Mr. Micah Crist	Member	3

Mr. Stanley Tsikirayi and Mr. Moses Ndahiro acted as proxies for Mr. John Nkubana.

Board Risk Management Committee

The Board Risk Management Committee comprises the chairperson and two non-executive directors. Its key objective is to oversee the risk management strategy and risk management Policy of the bank. It monitors overall exposure to risk and ensures that it remains within the limits set by the board. It sets out the nature, role, responsibility and authority of risk management department of the bank and outlines the scope of risk management work.

It meets quarterly to monitor developments relating to the practice of corporate accountability, providing independent and objective oversight and reviewing the information presented by management on corporate accountability and associated risks.

In 2017, the Board Risk Management Committee members held 4 (four) meetings and attendance of the meetings is set out below:

Names	Role	Number of meetings attended
Ms. Shelagh D. Kahonda	Chairperson	4
Mr. Stanley Tsikirayi	Member	4
Ms. Christine Baingana	Member	4

Board Credit Policy Committee

The Board Credit Policy Committee comprises the chairperson and two non-executive directors. Its key objective is to review and oversee the bank overall lending policy. It identifies credit risks to minimize risks of bad and doubtful loans. It assists the board in exercising its roles to review the quality of loan portfolio; adequate provisioning for bad and doubtful debts in accordance with board approved provisioning policy and the Central Bank guidelines. It approves loans above a certain threshold based on lending policy approved by the board.

The board credit policy committee meets at least quarterly and is chaired by an independent director.

In 2017, the Board credit policy Committee members held 4 (four) meetings and attendance of the meetings is set out below:

Names	Role	Number of meetings attended
Miss. Liliane Uwintwari	Chairperson	2
Mr. Moses Ndahiro	Member	2
Mr. Stanley Tsikirayi	Member	4

Mr. Micah Crist and Mr. Roger Morgan acted as proxies during the absence of Miss. Liliane Uwintwari and Mr. Moses Ndahiro.

Board Human Resource (HR) and Spiritual Integration (SI) committee

The board HR & SI committee is comprised of the chairperson and two members. Its key objective is to ensure that the bank has right human resources, in the right positions with the right resources to drive the bank's activities with higher motivation. Moreover, the board HR & SI committee ensures the bank pursuance of its mission to have Christ at the center of its financial services to better serve its customers.

The board HR & SI committee meets at least quarterly and is chaired by a non-executive director.

In 2017, the board HR & SI committee members held 4 (four) meetings and attendance of the meetings is set out below:

Names	Role	Number of meetings attended
Mr. Micah Crist	Chairperson	3
Ms. Christine Baingana	Member	4
Mr. Moses Ndahiro	Member	2

Mr. Roger Morgan acted as proxy when Mr. Moses Ndahiro was absent.

Board Executive Committee

The board executive committee is comprised of the chairperson and two members. Its key objective is to assist Chief Executive Officer in managing the banking activities in a way that maximizes values of shareholders and other diverse stakeholders. The board executive committee reviews and approves the banking strategic planning, and ensures that tactical and operational activities are conducted in line with the pre-set strategic goals. The board executive committee reviews the strategies on timely basis and take corrective actions to ensure that strategies are in line with changing market conditions and perceived risks.

The board executive committee meets at least quarterly and is chaired by the Chairman of the board of Directors.

Board Executive Committee (continued)

In 2017, the board executive committee members held 4 (four) meetings and attendance of the meetings is set out below:

Names	Role	Number of meetings attended
Mr. Roger Morgan	Chairperson	4
Ms. Christine Baingana	Member	4
Mr. Stanley Tsikirayi	Member	4

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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF URWEGO BANK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Urwego Bank Limited, which comprise the statement of financial position as at 31 December 2017, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 70.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Urwego Bank Limited as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Law No. 27/2017 of 31/05/2017 relating to Companies as amended and Laws and Regulations Governing Banks in Rwanda.

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 are independent of the Company in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and we have fulfilled our other responsibilities in accordance with the (IESBA Code) and other independence requirements applicable to performing the audit of Urwego Bank Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, as required by Law No. 27/2017 of 31/05/2017 relating to Companies as amended and Other Disclosures as required by Regulation No 03/2016 of 24/06/2016 on Publication by Banks of Financial Statements and Other Disclosures. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 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.

CERTIFIED TRUE COPY OF ORIGINAL
Date: 06/04/2018
ERNST & YOUNG Rwanda Ltd

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REPORT OF THE INDEPENDENT AUDITORS (Continued)
TO THE MEMBERS OF
URWEGO BANK LIMITED

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by Law No. 27/2017 of 31/05/2017 and Laws and Regulations governing Banks in Rwanda and for such internal control as management determines 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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors. Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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REPORT OF THE INDEPENDENT AUDITORS (Continued)
TO THE MEMBERS OF
URWEGO BANK LIMITED

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Law No. 27/2017, which was promulgated on 31 May 2017, requires that in carrying out our audit, we consider and report to you on the following matters.

We confirm that: -

i) We have no relationship, interests and debts in the Bank;

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

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

iv) We have communicated to you through the management letter, internal control weaknesses identified in the course of our audit including our recommendations with regard to those matters.

Allan Gichuhi
For Ernst & Young Rwanda Limited
06 APRIL 2018

URWEGO BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Frw'000	2016 Frw'000
Interest and similar income	3	3,408,014	3,284,045
Interest and similar expense	4	(645,698)	(530,375)
Net interest income		2,762,316	2,753,670
Fee and commission income	5(a)	1,055,684	1,384,342
Fee and commission expense	5(b)	(54,707)	(61,707)
Net fees and commission income		1,000,977	1,322,635
Net foreign exchange income		218,487	147,641
Premium income	5(c)	15,313	31,585
Other operating income	6	864,749	1,084,841
Total operating income		4,861,842	5,340,372
Impairment losses on financial assets	7	(1,308,655)	(1,065,829)
Operating income after impairment losses		3,553,187	4,274,543
Personnel expenses	8	(2,445,320)	(2,810,523)
Depreciation on property and equipment	9	(299,178)	(297,409)
Amortisation of intangible assets	10	(98,981)	(97,855)
Gross claims and policyholders benefits' payable		-	(5,600)
Other operating expenses	11	(2,669,444)	(2,615,729)
Total operating expenses		(5,512,923)	(5,827,116)
Loss before tax		(1,959,736)	(1,552,573)
Income tax credit/ (charge)	12	527,404	(278,433)
Loss for the year		(1,432,332)	(1,831,006)
Other comprehensive income		-	-
Total comprehensive loss		(1,432,332)	(1,831,006)

URWEGO BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 Frw'000	2016 Frw'000
ASSETS			
Cash in hand	13(a)	543,844	861,740
Due from the National Bank of Rwanda	13(b)	331,077	885,454
Due from other banking institutions	13(c)	4,732,345	1,963,886
Loans and advances to customers	14	10,566,418	13,514,592
Financial investments - held to maturity	15	2,457,058	2,392,840
Other assets	16	920,311	822,786
Current income tax assets	12	213,780	182,791
Non-current asset held for sale	17	47,269	28,318
Property and equipment	9	972,443	1,557,517
Intangible assets	10	152,533	203,763
Deferred tax assets	12	404,414	-
TOTAL ASSETS		21,341,492	22,413,687
LIABILITIES			
Deposits from customers	18	15,453,114	16,077,096
Other payables	19	1,786,747	1,734,323
Borrowed funds	20	872,453	1,344,493
Deferred tax liabilities	12	-	122,991
TOTAL LIABILITIES		18,112,314	19,278,903
EQUITY			
Share capital	21(a)	8,136,777	5,089,100
Share (discount)/ premium	21(b)	(1,394,581)	126,370
Accumulated losses		(3,513,018)	(2,080,686)
Total equity		3,229,178	3,134,784
TOTAL LIABILITIES AND EQUITY		21,341,492	22,413,687

The financial statements were approved by the Board of Directors on 02/04/2018 and signed on its behalf by:

Chief Executive Officer

Chairperson of the Audit committee

URWEGO BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Accumulated losses	Share premium/ (Discount)	Other Reserves	Total equity
	Frw'000	Frw'000	Frw'000	Frw'000	Frw'000
As at 01 January 2016	4,504,300	(249,680)	126,341	11,423	4,392,384
Loss for the year	-	(1,831,006)	-	-	(1,831,006)
Transfer of convertible loan	-	-	-	(11,423)	(11,423)
Issue of shares	584,800	-	29	-	584,829
At 31 December 2016	5,089,100	(2,080,686)	126,370	-	3,134,784
As at 01 January 2017	5,089,100	(2,080,686)	126,370	-	3,134,784
Loss for the year	-	(1,432,332)	-	-	(1,432,332)
Issue of shares	3,047,677	-	(1,520,951)	-	1,526,726
At 31 December 2017	8,136,777	(3,513,018)	(1,394,581)	-	3,229,178

URWEGO BANK LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Frw'000	2016 Frw'000
Cash flows from operating activities :			
Loss before tax		(1,959,736)	(1,552,573)
Adjustments for:			
Amortisation of intangible assets	10	98,981	97,855
Depreciation on property and equipment	9	299,178	297,409
Grant income from amortization of deferred revenue		(700,328)	(983,450)
Income from amortisation of loan processing fees		(320,404)	-
(Gains) / loss on disposal of property and equipment		195,631	45,175
Provision for impairment on assets held for sale		32,100	-
Finance costs	4	126,049	142,508
Exchange gain difference		(218,487)	39,754
Operating profit before changes in operating assets and liabilities		(2,447,016)	(1,913,322)
Changes in working operating assets and liabilities			
Decrease/(increase) in loans and advances	14	2,948,174	1,151,240
Decrease/(increase) in other assets		(97,527)	43,131
(Decrease) / increase in deposits from customers		(623,982)	3,056,165
Decrease in Deposits from banks and other financial Institutions		-	(450,000)
(Increase)/ decrease in Financial investments - held to maturity		(463,384)	(1,717,948)
Increase/(decrease) in other payables (excluding deferred items)		216,899	(160,479)
Loan processing fees collected		425,179	-
Grants received		569,272	1,581,934
Increase in cash reserve balances with National Bank		(52,892)	(107,722)
Cash generated from operations		474,723	1,482,999
Taxes paid		(30,988)	(23,110)
Net cash flows from operating activities		443,735	1,459,889
Cash flows from investing activities			
Purchase of property and equipment	9	(67,583)	(336,767)
Purchase of intangible assets	10	(49,406)	(20,763)
Non-current assets held for sale		-	3,131
Proceeds from sale of property and equipment		141,641	48,264
Net cash flows from / (used in) investing activities		24,652	(306,135)
Cash flows from financing activities:			
Proceeds from long & short term borrowings	20	848,450	1,099,381
Repayment of long & short term borrowings		(1,425,658)	(1,419,289)
Interest paid		(104,299)	(138,969)
Proceeds of issuance of share capital	21 (b)	1,526,726	584,829
Net cash flows from financing activities		845,219	125,952
Net increase in cash and cash equivalents		1,313,606	1,279,706
Net foreign exchange difference		236,305	(39,754)
Cash and cash equivalents at 01 January		3,251,847	2,011,895
Cash and cash equivalents	13(d)	4,801,758	3,251,847

1. CORPORATE INFORMATION

Urwego Bank Limited (the bank) is a financial institution licensed to provide microfinance banking services to organized groups, small and medium size enterprises and retail customers. The Bank is a limited liability company incorporated and domiciled in Rwanda. The immediate and ultimate parent of the Bank is Hope International, a limited liability company registered and domiciled in United States of America.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Rwandan Francs (Frw) which is the bank's functional and presentation currency and all values are rounded to the nearest thousand (Frw'000) except where otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Law No. 27/2017of 31 May 2017 relating to companies and Laws and Regulations relating to Banks.

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations.

New Standards issued that were effective at the reporting date
The following standards and improvement were effective as at the reporting date but did not have an impact on the bank.

- IAS 7 Disclosure Initiative - Amendments to IAS 7 (effective on or after 1 January 2017)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective on or after 1 January 2017)

AIP IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12 (effective on or after 1 January 2017)

IAS 7 Disclosure Initiative - Amendments to IAS 7

The standard was effective for annual periods beginning on or after 1 January 2017.

Key requirements

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt.

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Transition

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

Impact
The amendments are intended to provide information to help investors better understand changes in an entity's debt. There was an impact on borrowings and the relevant disclosures are included in the statement of cash flows and in note 20.

2.2 Changes in accounting policies and disclosures (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

Effective for annual periods beginning on or after 1 January 2017.

Key requirements

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Transition

Entities are required to apply the amendments retrospectively.

However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

Impact
The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. These amendments had no impact on the Bank.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments (effective on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective on or after 1 January 2018)
- IFRS 16 Leases (effective on or after 1 January 2019)
- IFRS 17 Insurance Contracts (effective on or after 1 January 2021)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective on or after 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective on or after 1 January 2019)
- IFRS 2 Classification and Measurement of Share based Payment Transactions - Amendments to IFRS 2 (effective on or after 1 January 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (effective on or after 1 January 2018)
- Transfers of Investment Property - Amendments to IAS 40 (effective on or after 1 January 2018)
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date was deferred by the IASB, therefore not yet determined)
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective on or after 1 January 2019)
- Long-term interests in associates and joint ventures - Amendments to IAS 28 (effective on or after 1 January 2019)

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policies and disclosures (continued)

Below is a list of Improvements to International Financial Reporting Standards and their effective dates and management does not expect any significant impact on these pronouncements:

- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short- term exemptions for first-time adopters (effective on or after 1 January 2018)
- AIP IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice (effective on or after 1 January 2018)
- IFRS 3 Business Combinations (effective on or after 1 January 2019)
- IFRS 11 Joint Arrangements (effective on or after 1 January 2019)
- IAS 12 Income Taxes (effective on or after 1 January 2019)
- IAS 23 Borrowing Costs (effective on or after 1 January 2019)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Bank performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9. Overall, the Bank expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. Bank will implement changes in classification of certain financial instruments.

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Loans as well as other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9. The bank does not have any financial assets measured at fair value.

(b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Bank expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Bank expects a significant impact on its equity due to unsecured nature of some of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The estimate as at 31 December 2017 under the new IFRS 9 is disclosed in Note 7 to the financial statements.

(c) Hedge accounting

The Bank does not have any hedge relationships.

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date. The Bank is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. The bank does not expect any significant impact arising from the application of the standard as the revenue of the Bank primarily comprises interest from loans and advances.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. In December 2015, the IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Bank.

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

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments are effective for annual periods beginning on or after 1 January 2018. These amendments are not expected to have any impact on the Bank.

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-statement of financial position model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key statement of financial position metrics such as leverage and finance ratios, debt covenants and statement of comprehensive income metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the statement of cash flows for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

The Bank is in the process assessing the potential effect of IFRS 16. These amendments are not expected to have any significant impact on the Bank.

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021.

Background

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.

Scope

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts
- The main features of the new accounting model for insurance contracts are, as follows:
- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

- Modified retrospective approach - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- Fair value approach - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 Fair Value Measurement and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date)
- Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts (continued)

Impact
IFRS 17, together with IFRS 9, will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected. These amendments are not expected to have any significant impact on the Bank.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Effective for annual periods beginning on or after 1 January 2019.

Key requirements
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Transition
The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

Impact
The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

Modification or exchange of a financial liability that does not result in derecognition
In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss. The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

2 ACCOUNTING POLICIES (continued

2.2 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (continued)

Impact
The IASB stated specifically that this clarification relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 Financial Instruments: Recognition and Measurement. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively. These amendments are not expected to have any significant impact on the Bank.

Amendments to IAS 40- Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendments are effective for annual periods beginning on or after 1 January 2018. These amendments are not expected to have any impact on the Bank.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation
Or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. The standard is effective for annual periods beginning on or after 1 January 2018. These amendments are not expected to have any significant impact on the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

Scope

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Key requirements

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Effective date and transition

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Impact

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. These amendments are not expected to have any significant impact on the Bank.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

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

The overlay approach

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments do not have any impact as the bank does not have insurance contracts.

Annual improvements to 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

Previously held Interests in a joint operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. These amendments are not expected to have any significant impact on the Bank.

IFRS 11 Joint Arrangements

Previously held Interests in a joint operation

- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

These amendments are not expected to have any significant impact on the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

Annual improvements to 2015-2017 cycle (issued in December 2017) (continued)

IAS 12 Income Taxes
Income tax consequences of payments on financial instruments classified as equity

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments are not expected to have any significant impact on the Bank.

IAS 23 Borrowing Costs

Borrowing costs eligible for capitalisation:

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

These amendments are not expected to have any significant impact on the Bank.

IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and were effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The amendments are not applicable to the bank.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations.

2 ACCOUNTING POLICIES (continued

2.3 Summary of Significant Accounting Policies

Significant accounting judgments, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgment and used estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates used are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The Bank does not have financial assets that are held at fair value.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of other competitor Banks). Refer to Note 14.

In addition to the measurement of impairment losses on loans and advances in accordance with International Financial Reporting Standards as set out above, the Bank is also required by the National Bank of Rwanda (NBR) Instruction No. 12/2017 of 23/11/2017 to estimate losses on loans and advances. Where provisions determined using IFRS are lower than provisions determined using this regulation, the difference shall be treated as an appropriation from retained earnings and accumulated in a non-distributable reserve. Where provisions determined under IFRS are higher than those determined using this regulation, they will be considered to be adequate for the purpose of the regulation. A specific provision for those loans and advances considered to be non-performing based on criteria and classification of such loans and advances is established by the National Bank of Rwanda.

2 ACCOUNTING POLICIES (continued

2.3 Summary of Significant Accounting Policies

The Bank is required to make provisions for impairment in accordance with the National Bank of Rwanda Instruction No. 12/2017 of 23/11/2017 as follows:

Class	Minimum provisions required
Normal (between 0-30 days)	1%
Watch list (between 31- 90 days)	3%
Substandard (between 91-180 days)	20%
Doubtful (between 181-360 days)	50%
Loss (over 360 days)	100%

The bank has its rates which culminate in higher provisioning than the aforementioned BNR recommended rates. The bank applied the following provision in the period ended 31st December 2017.

Asset Category	Specific Provision				General provision
	Secured Individual	Unsecured Individual	Agriculture	Group	
Category 1a - Current	0%	0%	0%	0%	1%
Category 1b - 1-29	0%	0%	0%	0%	1%
Category 2a - 30-59	0%	5%	5%	5%	1%
Category 2b - 60-89	0%	10%	10%	10%	1%
Category 3a - 90-119	20%	25%	25%	25%	1%
Category 3b - 120-149	20%	50%	50%	50%	1%
Category 3c - 150-179	20%	50%	50%	50%	1%
Category 4a - 180-209	50%	100%	100%	100%	1%
Category 4b - 210-239	50%	100%	100%	100%	1%
Category 4c - 240-269	50%	100%	100%	100%	1%
Category 4d - 270-299	50%	100%	100%	100%	1%
Category 4e - 300-329	50%	100%	100%	100%	1%
Category 4f - 330-359	100%	100%	100%	100%	1%
Category 5a - 360+	100%	100%	100%	100%	1%

In addition to the arrears period, banks must follow subjective criteria in arriving at the classification attributable to the assets.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. The movements in the deferred tax account are disclosed in note 12.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest (EIR) method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in profit or loss. The estimation arises from the determination of the appropriate discount rate and this is significant because most of the income of the Bank is in the form of interest. Refer to note 24 (d).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement. Refer to note 23.

(a) Financial instruments - initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, all the bank's financial assets are classified as loans and receivables and held to maturity investments

Loans and receivables

This category is the most relevant to the Bank. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the Effective Interest rate (EIR). The EIR amortisation is included in interest income in profit or loss. The losses arising from impairment are recognised in profit or loss and presented as a line item in the statement of comprehensive income. The loans and receivables include cash balances with the National Bank and due from other banking institutions, loans and advances to customers and other assets.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest method ('EIR'), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in profit or loss. The losses arising from impairment of such investments are recognised in profit or loss line 'Impairment loss on financial assets'.

The Held-to-maturity financial investments are comprised of treasury bills and treasury bonds. If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(b) Financial instruments - initial recognition and subsequent measurement (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - The Bank has transferred substantially all the risks and rewards of the asset, or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Bank's financial liabilities include customer deposits, other payables, loans and borrowings and financial guarantee contracts.

Financial liabilities

Subsequent measurement

(i) Deposits from customers and other payables

After initial measurement, term deposits and savings deposits, and other payables are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included as interest and similar expense in profit or loss.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(ii) Borrowings

After initial recognition, borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

(c) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24 (g).

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(d) Determination of fair value

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers are experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as placements and balances with other banking institutions, loans and advances to customers as well as treasury bills), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. Interest income on impaired financial assets accrued in accordance with IAS 39 is included in the disclosure under note 3 to the financial statements.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

g) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment loss on financial assets'.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. See Note 7 for an analysis of impairment allowance on loans and advances.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

The difference between the old carrying amount and the new carrying amount arising from impairment losses initially recognised is reversed. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(h) Leasing

The determination of whether an arrangement is, 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 and the arrangement conveys a right to use the asset.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(h) Leasing (continued)

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

(j) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost and financial assets classified as available for sale, interest income or expense is recognised in profit or loss using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other income'.

When the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

  Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Other operating income

Other operating income comprises results arising from trading activities, including interest income or expense, as well as gains on sale of property and equipment.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(l) Insurance contracts

The bank provides credit protection cover to its loan customers.

(i) Premium income

Urwego Bank Limited collects premium income from group loans on behalf of local insurance company called SORAS. As per the agreement entered into, 25% of the collections are retained by the bank whereas the 75% are remitted to SORAS. Premium income for the period is disclosed under Note 5 (c).

(m) Operating expenses

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

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts with National Bank of Rwanda, and amounts due from banks and government securities (treasury bills) with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding restricted balances with National Bank of Rwanda.

(o) Property and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(o) Property and equipment (continued)

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

Buildings	20 years
Furniture, fittings and equipment	7-10 years
Motor vehicles	5 years
Computer equipment	3-20 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in profit or loss in the year the asset is derecognised.

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Work in progress is stated at cost and not depreciated. Depreciation on items included in work in progress commences when the assets are ready for their intended use. When the assets in the Work in progress are ready for intended use, they are transferred to the appropriate category in Property and Equipment.

(p) Intangible Assets

The Bank's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in amortisation. Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives of 3 years.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(q) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Such impairment is recognised in profit or loss. 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. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(r) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other payables') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee in terms of IAS 37.

Any increase in the liability relating to financial guarantees is recorded in profit or loss. The premium received is recognised in profit or loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

(s) Retirement benefit costs

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

(t) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(u) Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(u) Taxes

(ii) Deferred tax

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are declared and approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting period.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Accounting Policies (continued)

(w) Foreign currency translation

The financial statements are presented in Rwandan Francs (Frw) which is the functional currency of the entity.

Transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Rwandan Francs at rates ruling at that date. The resulting differences from conversion and translations are dealt with in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(x) Grants and donations

A grant is recognised as deferred revenue when grant funds are received and the bank has the full intent to comply with the conditions attached to the grant. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(y) Repossessed Properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of their carrying amounts and fair value less costs to sell and reported within 'Non-Current Assets held for sale' as the practice of the bank has been to dispose of them within a period of 12 months.

(z) Non-Current Assets held for sale

The bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment are not depreciated once classified as held for sale.

3. Interests and similar income

	2017	2016
	Frw'000	Frw'000
Loans and advances	3,063,867	3,132,186
Government Securities	344,147	151,859
	3,408,014	3,284,045

4. Interest and similar expense

Interests on debt	126,049	142,508
Interests on savings accounts	302,142	225,904
Interests on term deposits	217,507	161,963
	645,698	530,375

5. Fees, commission and premium income

a) Fees and Commission income

Credit related fees and commissions	686,594	878,898
Account maintenance fees	278,017	327,067
Local and international bank transfers	44,760	44,024
Other fees and commissions	46,313	134,353
	1,055,684	1,384,342

Other commissions relates to SMS alert fees, Pivot access, ATM card fees and other revenue on banking transactions.

b) Fees and commission expense

	2017	2016
	Frw'000	Frw'000
Bank charges	9,024	10,166
Commissions on mobile banking	45,683	51,541
	54,707	61,707

c) Premium income

Premium income	15,313	31,585

Urwego Bank Limited collects insurance premium from Group loans on behalf of a local insurance company called SORAS. As per the agreement entered into, 25% of the collection is retained by the bank as commission and 75% is remitted to SORAS.

6. Other operating income

	2017 Frw'000	2016 Frw'000
Grant income	700,328	983,450
Miscellaneous income	164,421	101,391
	864,749	1,084,841

7. Impairment losses on financial assets

Balance as at January	1,043,720	188,835
Specific provisions for the year	1,280,010	1,113,017
General provisions for the year	81,229	14,329
Loans written off	(2,081,453)	(272,461)
	323,506	1,043,720
Charge for the year :		
Specific provisions	1,280,010	1,113,017
General provisions	81,229	14,329
Recoveries on amounts written off	(85,021)	(64,184)
Loss on bad debts	32,437	2,667
	1,308,655	1,065,829

Loan loss reserves (LLR) were computed in accordance with IAS 39 model. The bank has been preparing to apply IFRS 9 effective 1 January 2018. In this regard, the bank computed a LLR in accordance with IFRS 9 model for the period ended 31 December 2017. IFRS model yielded in a loan loss reserve of Frw 405.933 million, representing an increase of Frw 82.427 million compared to actual LLR computed using IAS 39 model. This increase will be reflected in the statement of changes in equity of 2018 financial statements.

8. Personnel expenses

	2017 Frw'000	2016 Frw'000
Salaries and wages	2,131,233	2,484,018
Medical insurance costs	137,251	118,279
Employer contribution to RSSB	110,678	116,601
Other personnel expenses	66,158	91,625
	2,445,320	2,810,523

9. Property and equipment

a) Year ended 31 December 2017

	Land and Buildings Frw '000	Leasehold improvements Frw '000	Computer Equipment Frw '000	Motor vehicles Frw '000	Furniture and Fittings Frw '000	Work In Progress Frw '000	Total Frw '000
COST:							
AT 1 JANUARY 2017	225,080	906,346	1,369,367	300,528	210,246	16,207	3,027,774
Additions	-	35,011	23,725	3,353	5,494	-	67,583
Transfer from WIP	-	-	-	-	-	(16,207)	(16,207)
Adjustment to cost*	-	-	(8,748)	-	(2,159)	-	(10,907)
Transfer to non-current assets held for sale	-	-	(57,420)	-	-	-	(57,420)
Disposal	(225,080)	(140,634)	(73,250)	(76,205)	(7,858)	-	(523,027)
AT 31 December 2017	-	800,723	1,253,674	227,676	205,723	-	2,487,796
ACCUMULATED DEPRECIATION:							
At 1 January 2017	14,874	391,576	832,807	82,438	148,562	-	1,470,257
Charge for the year	5,520	91,904	159,387	26,214	16,153	-	299,178
Disposal	(20,394)	(64,451)	(94,303)	(50,052)	(7,606)	-	(243,175)
Transfer to non-current assets held for sale	-	-	(6,639)	-	-	-	(6,639)
Reclassification	-	(87,805)	-	87,805	-	-	-
Adjustment to accumulated depreciation*	-	-	(8,478)	-	(2,159)	-	(10,907)
AT 31 December 2017	-	331,224	882,774	146,405	154,950	-	1,515,353
NET CARRYING AMOUNT AT 31 December 2017	-	469,499	370,900	81,271	50,773	-	972,443

* There were adjustments to costs and accumulated depreciation for computer equipment and furniture and fittings to reflect the correct values.

9. Property and equipment

b) Year ended 31 December 2016

	Land and Buildings Frw '000	Leasehold improvements Frw '000	Computer Equipment Frw '000	Motor vehicles Frw '000	Furniture and Fittings Frw '000	Work In Progress Frw '000	Total Frw '000
COST:							
At 1 January 2016	225,080	1,012,495	1,292,709	272,350	205,776	2,091	3,010,501
Additions	-	94,467	115,008	105,926	7,250	14,116	336,767
Disposal	-	(200,616)	(38,350)	(77,748)	(2,780)	-	(319,494)
At 31 December 2016	225,080	906,346	1,369,367	300,528	210,246	16,207	3,027,774
ACCUMULATED DEPRECIATION:							
At 1 January 2016	8,836	342,918	718,573	191,895	136,681	-	1,398,903
Charge for the year	6,038	97,242	152,543	26,925	14,661	-	297,409
Disposal	-	(48,584)	(38,309)	(136,382)	(2,780)	-	(226,055)
At 31 December 2016	14,874	391,576	832,807	82,438	148,562	-	1,470,257
NET CARRYING AMOUNT							
At 31 December 2016	210,206	514,770	536,560	218,090	61,684	16,207	1,557,517

Work in progress is composed of leasehold improvements which relate mainly to furniture and fittings for new branches. These are capitalised when the improvements are complete on the leased property.

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Ernst & Young Rwanda Ltd

10. Intangible assets

	2017	2016
	Frw'000	Frw'000
COST		
As at 01 January	975,177	985,190
Additions	49,406	20,763
Disposals	(2,068)	(30,776)
At 31 December	1,022,515	975,177
AMORTISATION		
As at 01 January	(771,414)	(673,559)
Charge for the year	(98,981)	(97,855)
Disposals	413	-
At 31 December	(869,982)	(771,414)
Net Carrying Amount		
At 31 December	152,533	203,763

The bank's intangible assets relates to computer software and other intangible assets

11. Other operating expenses

	2017	2016
	Frw'000	Frw'000
Rent and utilities	652,908	757,681
Purchase of IT related services	188,449	198,935
Maintenance fees of IT related services paid to related parties	342,668	233,422
Communications	225,017	261,346
Transport and accommodations	165,315	195,037
Other duties, rates and taxes	12,186	144,011
Stationery and office supplies	81,215	90,043
Other consultancy fees	42,087	26,654
Marketing	67,501	75,791
Management fees paid to former parent company	39,944	206,835
Auditors' remuneration	46,026	39,197
Fuel	32,866	36,680
Insurance	23,511	57,396
Vehicle repair, parking and maintenance	12,156	18,357
Legal fees	27,515	9,098
Penalties	178,506	-
Board sitting allowances	6,464	-
Other expenses	525,110	265,246
	2,669,444	2,615,729

In 2017, penalties account mainly comprises provision for pending legal cases amounting to Frw 177 million relating to dispute with staff that were laid off as part of the restructuring process. In 2016, the penalties' balance was Frw 207,000 and due to its insignificance it was included in the category of other expenses.

12. Taxes

The following tables show current and deferred tax recorded on the statement of financial position and changes recorded in the income tax expense or in Other Comprehensive Income (OCI):

(i) Statement of financial position

	2017 Frw '000	2016 Frw '000
(a) Tax Recoverable		
Balance brought forward	(182,791)	(159,681)
Payment during the year	(30,989)	(23,110)
	(213,780)	(182,791)

(b) Deferred tax

Deferred tax relates to the following:	01 January Frw'000	Charge to profit or loss Frw'000	31 December Frw'000
31 December 2017			
Accelerated depreciation on property and equipment	(199,578)	128,425	(71,153)
Tax losses carried forward	-	416,892	416,892
Other deductible temporary differences	76,587	(17,913)	58,675
Net deferred income tax (liability)/ asset	(122,991)	527,404	404,414
31 December 2016			
Accelerated depreciation on property and equipment	(254,915)	55,337	(199,578)
Tax losses carried forward	305,214	(305,214)	-
Other deductible temporary differences	105,143	(28,556)	76,587
Net deferred income tax asset/ (liability)	155,442	(278,433)	(122,991)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax asset arising from the losses may be deducted from the tax profit in the next five (5) years of income, earlier losses being deducted before later losses. Tax losses of Frw 1,758,013,000 have been recognised for deferred tax computation as management are of the opinion that the Bank is geared towards profitability in the future years hence the tax losses will be utilised.

12 Taxes (Continued)

(ii) Statement of Profit or loss

(c) Income tax charge	2017 Frw'000	2016 Frw'000
Current tax at 30% on the taxable profit	-	-
Deferred tax (charge)/credit	527,404	(278,433)
	527,404	(278,433)

A reconciliation between income tax expense to tax based on accounting loss:

	2017 Frw '000	2016 Frw '000
Loss before income tax	(1,959,736)	(1,552,573)
Tax Calculated at the Statutory income tax rate of 30% (2016: 30%)	(587,921)	(465,772)
Tax effect of:		
Expenses not deductible for tax purposes	144,543	6,385
(Under)/overprovision of deferred tax in prior year	(84,026)	737,820
Income tax charge/(credit)	(527,404)	278,433

13. Cash and bank balances

a) Cash in hand

Cash in foreign currencies	163,191	211,245
Cash in local currency	380,653	650,495
	543,844	861,740

b) Due from the National Bank of Rwanda

Balances in foreign currencies	21,628	5,503
Balances in local currency	309,449	879,951
	331,077	885,454

c) Due from other banking institutions

Balances in foreign currencies	2,138,121	1,194,244
Balances in local currency	2,594,224	769,642
	4,732,345	1,963,886

13 Cash and bank balances

d) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following;

	2017 Frw'000	2016 Frw'000
Cash in hand	543,844	861,740
Due from the National Bank	331,077	885,454
Cash reserve balances with the National Bank	(822,838)	(875,730)
Due from other banking institutions	4,732,345	1,963,886
Short-term investments	17,330	416,497
Cash and cash equivalents	4,801,758	3,251,847

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts with National Bank of Rwanda, and amounts due from banks and Government securities (treasury bills) with an original maturity of three months or less, net of restricted balances with National Bank of Rwanda. Banks are required to maintain a prescribed minimum cash balances with the National Bank of Rwanda that is not available to finance day to day activities. The amount is determined as 5% of the average outstanding customer deposits over a cash reserve cycle period of one month. None of the amounts above have been pledged as collateral.

14. Loans and advances to customers

	2017 Frw'000	2016 Frw'000
Community group loans	4,348,263	4,888,383
Individual loans	4,481,216	5,774,821
Staff loans	283,638	510,914
Salary loans	1,388,561	1,408,995
Agriculture loans	201,917	1,787,745
Interests receivable	186,329	187,454
	10,889,924	14,558,312
Individual impairment	(232,760)	(926,687)
Collective impairment	(90,746)	(117,033)
Total (Note 7)	(323,506)	(1,043,720)
Net Loans and advances	10,566,418	13,514,592
Split between current and non-current:		
Current (to be settled within 12 months)	7,541,585	9,566,925
Non-current portion (to be settled after 12 months)	3,024,833	3,947,667
	10,566,418	13,514,592

15. Financial Investments - Loans and Receivables

	2017 Frw'000	2016 Frw'000
Government debt securities	2,287,900	2,230,400
Bond issued by International Finance Corporation	120,000	120,000
Grant short term investment	17,331	-
Accrued interest receivable	31,827	42,440
	2,457,058	2,392,840
Current	1,706,658	1,642,440
Non-current	750,400	750,400
	2,457,058	2,392,840

16. Other assets

Items in the course of collection	58,138	64,841
Prepayments	437,714	357,918
Other assets	176,329	228,283
Other receivables	228,834	171,456
Due from related parties (note 22d)	19,296	288
	920,311	822,786

Other receivables, items in the course of collection, and other commissions receivable are non-interest bearing and are generally on short term period of 30 to 90 days. Items in the course of collection relate to inward transfers from money transfer agencies. Other assets primarily comprise amounts held in suspense accounts. Other receivables comprise mainly VAT receivable, grants receivable and employee advances.

17. Non-current assets held for sale

	2017 Frw '000	2016 Frw '000
Property purchased in auction	42,769	28,318

Non-current assets held for sale are comprised of property purchased in auction, two ATMs machines and a land located in Musanze. All these properties are carried at the net carrying amount of Frw 47,269,000 (2016: Frw 28,318,000), which is the lower of the fair value less costs to sell and their carrying amount. During the year, there was a provision for impairment recognised against the assets-held for sale amounting to Frw 32.1 million which arose from the fact that the assets had not been sold for a period of over 12 months. The increase in the non-current assets held for sale during the year are due to some ATM machines that were initially part of property plant and equipment that were reclassified to assets held for sale.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds generally at auctions to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

18. Deposits from customers

	2017 Frw '000	2016 Frw '000
Current and demand deposits	7,713,290	8,328,813
Saving deposits	4,952,036	4,189,121
Term deposits	2,738,013	3,464,668
Interest payable	49,775	94,494
	15,453,114	16,077,096

None of the deposits held were pledged as collateral. The break down between current and non-current deposits is shown below:

	2017	2016
Current	15,453,114	16,077,096
Non-current	-	-
Total	15,453,114	16,077,096

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

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

b) Current and demand deposits - These are non-interest bearing accounts that are due on demand. They are operated by both individuals and institutions. They are subject to transaction activity fees and/or monthly maintenance charges.

c) Savings accounts - This is a deposit account designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is accrued monthly and transferred to the account at maturity.

19. Other payables

	2017 Frw '000	2016 Frw '000
Deferred grant income	1,032,730	1,163,786
Deferred processing fees	104,839	138,258
Accruals	462,591	211,564
VAT and Withholding taxes	55,516	66,052
Amounts due to related parties (note 22 (d))	39,673	4,651
Amounts due to money transfer agencies	1,870	8,527
Other payables	89,528	141,485
	1,786,747	1,734,323
Split between current and non-current:		
Current	1,786,747	1,734,323
Non - current	-	-
	1,786,747	1,734,323

A grant is recognised as deferred revenue when grant funds are received and the bank has the full intent to comply with the conditions attached to the grant. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

20. Borrowed funds

	2017 Frw '000	2016 Frw '000
OIKO Credit	-	947,368
Kiva loans	872,453	378,182
Accrued interests on loans	-	18,943
	872,453	1,344,493
Current	872,453	571,615
Non-current	-	772,878
	872,453	1,344,493

The movement in the borrowed funds is shown below:

	2017	2016
Opening balance as at 1 January	1,344,893	1,525,432
Proceeds	848,450	1,099,381
Repayment	(1,425,658)	(1,419,289)
Interest	104,768	(138,969)
Closing balance-31 December	872,453	1,344,493

20. Borrowed funds (continued)

The table below summarises the terms of the loan, repayment period and the effective interest rates.

Source of loan	Maturity date	Interest rate
31 December 2017		
Kiva Loans	Rolling facility	None

In 2017, the bank repaid the whole outstanding amount of loans owed to OIKO credit

31 December 2016		
Kiva Loans	Rolling facility	None
OIKO Credit	28 April 2021	9.93%

There were no defaults during the period on principal, interest or on other terms of the borrowed funds.

21. Share capital and reserves

a) Share capital

	2017	2016
	Frw '000	Frw '000
Balance as at 01 January	5,089,100	4,504,300
Increase in share capital	3,047,677	584,800
Authorised, issued and paid for share capital: 81,367 shares (2016: 50,891) of Frw 100,000 each	8,136,777	5,089,100

b) Share premium

As at 31 December 2017, share discount amounted to Frw 1,394,581,000 while as at 31 December 2016, it was a share premium of Frw 126,370,000. During the year, a total of 30,476 shares with a nominal value of Frw 3,047,676,557 were issued at a discount of Frw 1,520,950,910. The actual amount received was Frw 1,526,725,647.

22. Related parties and related party transactions

a) Purchase of services

	2017 Frw '000	2016 Frw '000
Management fees paid to the parent company	-	206,835
Purchase of IT related services from parent company	-	233,422
	-	440,257

In 2016, Urwego Bank Limited paid 3% of its operating income to the former parent company, Opportunity International. IT related services include payments for support received from the former parent, in relation to software licenses and other related services provided to the Bank. However, in 2016, there was a change of ownership of the Bank from Opportunity International to Hope International. As at 31 December 2016, there were however management fees amounting to Frw 39.944 million that remained unsettled as well as fees for IT services amounting to Frw 343 million that remained outstanding. These amounts were paid to Opportunity International in 2017. However, these transactions have not been classified under related parties since Opportunity International no longer had any interests in the bank during the 2017 financial year.

b) Key management personnel compensation

	2017 Frw '000	2016 Frw '000
Salaries and wages	335,616	362,701
Post-employment benefits	16,781	18,135
Contributions to maternity leave	1,007	-
	353,404	380,836

In addition to their salaries, the Bank also contributes to both a post-employment defined contribution plan and maternity leave to Rwanda Social Security Board, on their behalf.

c) Loans and advances to related parties

	2017 Frw '000	2016 Frw '000
Loans and advances to employees	283,638	510,914

Loans to employees were issued at 10%-18% interest rate. The interest earned amounted to Frw 41,326,548 (2016: 57,997,227). Total collateral as at 31 December 2017 was Frw 428,653,619. No provisions for losses were raised on the staff loans as management concluded the risk of default is low due to the fact the amount due is deducted from the salary through the payroll.

22. Related parties and related party transactions (continued)

d) Outstanding balances arising from sale or purchase of services:

	2017 Frw '000	2016 Frw '000
Current receivables from related parties (note 16)	19,296	288
Current payables to related parties (note 19)	39,673	4,651

In 2018, the bank will receive $1,200 on a monthly basis for subleasing part of the 3rd floor space of its head office to HOPE DSU. In addition, the latter will contribute $200 on a monthly basis for water and electricity as well as $100 for security.

e) Sitting allowances and other payments to board members

Sitting allowances are paid to independent board members. In 2017, sitting allowances payable amounted to Frw 6.464 million (2016: Nil).

23. Off statement of financial position contingencies and commitments

In the ordinary course of business, the Bank conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties, where legally enforceable.

Letters of credit commit the 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 ex.

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. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

At the end of the financial year there were no off statement of financial position contingencies and commitments for guarantees

Contingent liabilities, Capital Commitments and leasing arrangements

a. Legal claims

The bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. There were no legal claims during the reporting period.

b. Capital commitments

There were no capital commitments contracted for at the reporting date but not recognised in the financial statements.

23. Off statement of financial position contingencies and commitments (continued)

c. Leasing arrangements

The bank has entered into leasing arrangements for premises (the branches they hold). These leases have an average life of between one and five years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments as at 31 December 2017 are as follows:

	2017	2016
	Frw '000	Frw '000
Within one year	366,595	369,958
After one year but no more than five years	1,329,568	1,372,644
More than five years	-	-
	1,696,163	1,742,602

There were no loan commitments as at 31 December 2017 and 31 December 2017.

24. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(b) 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.

24. Financial risk management

(b) Credit risk (continued)

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.

- 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.

24. Financial risk management (continued)

(b) Credit risk (continued)

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

	31 December 2017 Frw'000	31 December 2016 Frw'000
Balances with National Bank of Rwanda (note 13 b)	331,077	885,454
Due from other banking institutions (note 13 c)	4,732,345	1,963,886
Net Loans and advances to customers (note 14)	10,566,418	13,514,592
Financial Investments - held to maturity (note 15)	2,457,058	2,392,840
Due from related parties (note 16)	19,296	288
Other assets - Items in the course of collection (note 16)	58,138	64,841
Total	18,164,332	18,821,901

(ii) Loans and advances to customers

Loans and advances are summarised as follows:

	31 December 2017 Frw'000	31 December 2016 Frw'000
Amortised cost	10,889,924	14,558,312
Individually impaired:-		
Gross amount	784,322	2,152,645
Allowance for impairment	(232,760)	(926,686)
Carrying amount	551,562	1,225,959
Collectively impaired:-		
Gross amount	10,105,602	12,405,667
Allowance for impairment	(90,746)	(117,033)
Carrying amount	10,014,856	12,288,634
Total carrying amount	10,566,418	13,514,592
Neither past due nor impaired	7,819,657	9,326,253
Past due but not impaired	2,285,945	3,079,414
Impaired loans advances	784,322	2,152,645
Total Gross loans advances	10,889,924	14,558,312

As at year end, the total fair value of the collateral held was Frw 24,002,099 (2016: Frw 33,439,723).

24. Financial risk management (continued)

(b) Credit risk (continued)

Credit quality

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances:

	Neither past due nor impaired		Past due but not impaired	Impaired loans advances	Total
	High grade Frw'000	Standard Grade Frw'000	Frw'000	Frw'000	Frw'000
31 December 2017					
Due from the National Bank	331,077	-	-	-	331,077
Deposits in other banking institutions	4,732,345	-	-	-	4,732,345
Financial investments-held to maturity	2,457,058	-	-	-	2,457,058
Loans and advances	7,819,363	1,677,831	608,408	784,322	10,889,924
Due from related parties (note 16)	19,296	-	-	-	19,296
Other assets	-	58,138	-	-	58,138
	15,359,139	1,735,969	608,408	784,322	18,487,838
31 December 2016					
Due from the National Bank	885,454	-	-	-	885,454
Deposits in other Banks	1,963,886	-	-	-	1,963,886
Financial investments-held to maturity	2,392,840	-	-	-	2,392,840
Loans and advances	9,321,930	2,205,898	877,840	2,152,645	14,558,312
Other assets	-	64,841	-	-	64,841
	14,564,110	2,270,739	877,840	2,152,645	19,865,333

Collective impairment has been made for loans and advances that the bank has determined that no objective evidence of impairment exists for them to be individually assessed.

Exposure to credit risk

For the year ended 31 December 2017, the bank has not recorded any impairment of the amount due from banking institutions abroad neither the amount due from related parties. The assessment is undertaken each financial year through examining the financial position of the counterparty and market in which operates. To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank. During the 2017 financial year, the bank did not have any irrevocable commitments and contingent liabilities.

Impaired loans

Impaired loans 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 agreements. These loans are graded 3 (substandard), 4 (doubtful) and 5 (loss) in the Bank's internal credit risk grading system.

24. Financial risk management (continued)

(b) Credit risk (Continued)

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan balance when credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, write-off decisions generally are based on a product specific past due status.

Collateral on Loans and Advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and is updated on a periodic basis.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Loans and advances

	2017 Frw '000	2016 Frw '000
Concentration by sector:		
Construction	2,539,806	1,879,443
Wholesale and retail	6,002,952	4,373,662
Agriculture	201,917	1,787,745
Transport, warehousing and communication	352,239	580,589
Other Industries	1,793,010	5,936,873
	10,889,924	14,558,312

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

24. Financial risk management (continued)

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

	2017 Frw'000	2016 Frw'000
Fair value of collateral held against maximum credit exposure	24,002,099	33,439,723

Other financial assets (excluding loans and advances)

As at 31 December 2017	Financial services Frw'000	Government Frw'000	Total Frw'000
Balances with National Bank of Rwanda (note 13 b)	-	331,077	331,077
Due from other banking institutions (note 13 c)	4,732,345	-	4,732,345
Financial Investments - held to maturity (note 15)	-	2,457,058	2,457,058
Other assets-items in the course of collection (note 16)	58,138	-	58,138
Total	4,790,483	2,788,135	7,578,618
As at 31 December 2016			
Balances with National Bank of Rwanda (note 13 b)	-	885,454	885,454
Due from other banking institutions (note 13 c)	1,963,886	-	1,963,886
Financial Investments - held to maturity (note 15)	-	2,392,840	2,392,840
Other assets-items in the course of collection (note 16)	64,841	-	64,841
Total	2,028,727	3,278,294	5,307,021

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of 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. Further, in the event of additional funding requirements, the Bank gets support from Hope International (the parent company). In some instances, the bank utilises credit lines in the form of borrowings.

24. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Details of the reported Bank ratios of net liquid assets to deposits at the reporting date and during the reporting period were as follows:

	2017	2016
Average	48%	31%
Maximum	54%	39%
Minimum	39%	22%
Minimum statutory requirement	20%	20%

24. Financial risk management (continued)

(c) Liquidity risks (Continued)

The table below shows details of the contractual maturities of undiscounted cash flows of Bank net liquid assets and liabilities at the reporting date.

31 December 2017 Assets	0-3 Months Frw '000	3-12 Months Frw '000	1-5 Years Frw '000	Over 5 years Frw '000	Total Frw '000
Cash in hand	543,844	-	-	-	543,844
Due from the National Bank of Rwanda	331,077	-	-	-	331,077
Due from other banking institutions	4,732,345	-	-	-	4,732,345
Loans and advances to customers	5,506,830	3,497,928	4,894,511	-	13,899,269
Financial investments - held to maturity	1,261,224	724,652	620,914	-	2,606,789
Other assets	696,377	-	-	-	696,377
Total Financial Assets	13,071,696	4,222,580	5,515,425	-	22,809,702
Liabilities					
Deposits from customers	14,379,409	1,164,468	-	-	15,543,877
Other payables	786,118	-	-	-	786,118
Borrowed funds	872,453	-	-	-	872,453
Total Financial Liabilities	16,037,980	1,164,468	-	-	17,202,448
Net undiscounted financial assets/ (liabilities) as at 31 December 2017	(2,966,283)	3,164,469	5,515,425	-	5,607,254

24. Financial risk management (continued)

(c) Liquidity risks (Continued)

31 December-2016 Assets	0-3 Months Frw '000	3-12 Months Frw '000	1-5 Years Frw '000	Over 5 years Frw '000	Total Frw '000
Cash in hand	861,740	-	-	-	861,740
Due from the National Bank of Rwanda	885,454	-	-	-	885,454
Due from other banking institutions	1,963,886	-	-	-	1,963,886
Loans and advances to customers	6,007,237	4,578,688	5,956,957	403,781	16,946,663
Financial investments - held to maturity	488,639	1,287,521	1,028,014		2,804,174
Other assets	464,868	-	-	-	464,868
Total Financial Assets	10,671,824	5,866,209	6,984,971	403,781	23,926,785
Liabilities					
Deposits from customers	14,869,845	1,315,884	-	-	16,185,729
Other payables	570,537	-	-	-	570,537
Borrowed funds	472,013	216,809	803,349	-	1,492,171
Total Financial Liabilities	15,912,395	1,532,693	803,349	-	18,248,437
Net undiscounted financial assets/ (liabilities) as at -31 December 2016	(5,240,571)	4,333,516	6,181,622	403,781	5,678,348

24. Financial risk management (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include cash in hand, due from National Bank of Rwanda, due from other banking institutions, loans and advances to customers, financial investments held to maturity and other receivables. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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.

Exposure to market risks - trading portfolio

Currently, the Bank does not hold a significant trading portfolio and is therefore not largely exposed to market risks associated with such portfolios.

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. 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.

24. Financial risk management (continued)

(d) Market risk (Continued)
Exposure to market risks - trading portfolio (continued)

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. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Treasury and Finance Department monitor compliance with these limits.

31 December 2017

	1-3 Months Frw '000	3-12 Months Frw '000	1-5 Years Frw '000	Over 5 years Frw '000	Non-Interest bearing Frw '000	Total Frw '000
Assets						
Cash in hand	-	-	-	-	543,844	543,844
Due from the National Bank of Rwanda	-	-	-	-	331,077	331,077
Due from other banking institutions	4,088,289	-	-	-	644,056	4,732,345
Loans and advances to customers	4,920,228	2,863,633	3,106,063	-	-	10,889,924
Financial investments - held to maturity	706,658	1,000,000	750,400	-	-	2,457,058
Other assets	-	-	-	-	696,377	696,377
Total Assets	9,715,175	3,863,633	3,856,463	-	2,215,354	19,650,625
Liabilities						
Deposits from customers	7,602,300	1,116,135	-	-	6,734,680	15,453,114
Other payables	-	-	-	-	786,118	786,118
Borrowed funds	-	-	-	-	872,453	872,453
Total Liabilities	7,602,300	1,116,135	-	-	8,393,251	17,111,685
Interest rate sensitivity gap	2,112,875	2,747,498	3,856,463	-	(6,177,897)	2,538,940

24. Financial risk management (continued)

(d) Market risk (Continued)

2016

Assets	0-3 Months Frw '000	3-12 Months Frw '000	1-5 Years Frw '000	Over 5 years Frw '000	Non-Interest bearing Frw '000	Total Frw '000
Cash in hand	-	-	-	-	861,740	861,740
Due from the National Bank of Rwanda	-	-	-	-	885,454	885,454
Due from other banking institutions	-	-	-	-	1,963,886	1,963,886
Loans and advances to customers	6,062,603	3,504,322	3,741,057	206,610	-	13,514,592
Financial investments - held to maturity	1,142,440	500,000	750,400	-	-	2,392,840
Other assets	-	-	-	-	464,868	464,868
Total Assets	7,205,043	4,004,322	4,491,457	206,610	4,175,948	20,083,380
Liabilities						
Deposits from customers	5,516,634	1,265,559	-	-	9,294,902	16,077,095
Other payables	-	-	-	-	570,537	570,537
Borrowed funds	71,574	157,895	736,842	-	378,182	1,344,493
Total Liabilities	5,588,208	1,423,454	736,842	-	10,243,621	17,992,125
Interest rate sensitivity gap	1,616,835	2,580,868	3,754,615	206,610	-6,067,673	2,091,255

24. Financial risk management (continued)

(d) Market risk (Continued)

Total market risk exposure

As shown in the table below, there is no traded risk associated with the financial assets and liabilities as none are held for trading and none were designated at fair value through profit or loss.

31 December 2017

	Carrying amount 2017 Frw '000	Traded risk 2017 Frw '000	Non-traded risk 2017 Frw '000	Carrying amount 2016 Frw '000	Traded risk 2016 Frw '000	Non-traded risk 2016 Frw '000	Primary risk sensitivity
Assets							
Cash in hand	543,844	-	543,844	861,740	-	861,740	Interest rate
Due from the National Bank of Rwanda	331,077	-	331,077	885,454	-	885,454	Interest rate
Due from other banking institutions	4,732,345	-	4,732,345	1,963,886	-	1,963,886	Interest rate
Loans and advances to customers	10,889,924	-	10,889,924	13,514,592	-	13,514,592	Interest rate
Financial investments - held to maturity	2,457,058	-	2,457,058	2,392,840	-	2,392,840	Interest rate
Other assets	696,377	-	696,377	464,868	-	464,868	Interest rate
Total Assets	19,650,624	-	19,650,624	20,083,380	-	20,083,380	
Liabilities							
Deposits from customers	15,453,114	-	15,453,114	16,077,095	-	16,077,095	Interest rate
Other payables	786,118	-	786,118	570,537	-	570,537	Interest rate
Borrowed funds	872,453	-	872,453	1,344,493	-	1,344,493	Interest rate
Total Liabilities	17,111,685	-	17,111,685	17,992,125	-	17,992,125	

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24. Financial risk management (continued)

(d) Market risk (Continued)

Sensitivity analysis:

	Frw'000
31 December 2017 (+/-) 2%	174,337
31 December 2016 (+/-) 2%	163,379

Sensitivity to pre-tax profit or loss is the effect of the assumed change in interest rates on interest bearing assets and liabilities. The same impact is deemed to apply on equity as well.

Foreign currency exposure

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions and revaluations are monitored on daily basis to ensure that positions are maintained within the established limits. The amounts below summarise the foreign currency exposure position as at 31 December 2017.

As at 31 December 2017	USD Frw '000	EUR Frw '000	GBP Frw '000	Total Frw '000
Assets				
Cash in hand	160,496	2,695	-	163,191
Due from the National Bank	21,628	-	-	21,628
Due from other banking institutions	1,867,414	50,734	218,380	2,136,528
Other assets	105,350	-	-	105,350
Total Assets	2,154,888	53,429	218,380	2,426,697
Liabilities				
Deposits from customers	1,121,439	643	-	1,122,083
Borrowed funds	872,453	-	-	872,453
Other liabilities	63,753	-	-	63,753
Total Liabilities	2,057,645	643	-	2,058,289
Net financial position	97,243	52,786	218,380	368,408

Sensitivity analysis

The following table demonstrates the sensitivity, to a change of 2% in the USD, GBP and EUR, with all other variables held constant, of the Bank's profit before tax due to changes in fair value of monetary assets and liabilities. The Bank's exposure to foreign currency changes for all other currencies is not material.

31 December 2017	Effect on profit before tax Frw '000
Changes in EUR +/- 2%	+/- 1,056
Changes in USD +/- 2%	+/-1,945
Changes in GBP +/- 2%	+/-4,368

24. Financial risk management (continued)

(d) Market risk (Continued)

31 December 2017	Effect on equity Frw '000
Changes in EUR +/- 2%	+/- 1,056
Changes in USD +/- 2%	+/-1,945
Changes in GBP +/- 2%	+/-4,368

As at 31 December 2016	USD Frw '000	EUR Frw '000	GBP Frw '000	Total Frw '000
Assets				
Cash in hand	210,488	757	-	211,245
Due from the National Bank	5,503	-	-	5,503
Due from other banking institutions	1,037,826	8,022	148,396	1,194,244
Total Assets	1,253,817	8,779	148,396	1,410,992
Liabilities				
Deposits from customers	965,086	554	-	965,640
Borrowed funds	378,182	-	-	378,182
Total Liabilities	1,343,268	554	-	1,343,822
Net financial position	(89,451)	8,225	148,396	67,170

31-Dec-16	Effect on profit before tax Frw '000
Changes in EUR +/- 6.2%	+/-165
Changes in USD +/- 9.6%	+/-1,789
Changes in GBP +/- 8.6%	+/-2,968

31-Dec-16	Effect on equity Frw '000
Changes in EUR +/- 6.2%	+/-165
Changes in USD +/- 9.6%	+/-1,789
Changes in GBP +/- 8.6%	+/-2,968

24. Financial risk management (continued)

(e) Operational and business risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

(f) Capital management

Regulatory capital

The National Bank of Rwanda sets and monitors capital requirements for the banking industry as a whole.

In implementing current capital requirements, the National Bank of Rwanda requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.
The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; there are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

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 recognised and the Bank recognises 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.

The Bank has complied with all externally imposed capital requirements throughout the year.

24. Financial risk management (continued)

(f) Capital management (continued)

The Bank's regulatory capital position at 31 December was as follows:

Tier 1 capital	31 December 2017 Frw '000	31 December 2016 Frw '000
Ordinary share capital	8,136,777	5,089,100
Share premium	(1,394,581)	126,370
Retained earnings	(3,513,018)	(2,080,686)
Less intangible assets	(152,533)	(203,763)
Total	3,076,645	2,931,021
Tier 1 capital	3,076,645	2,931,021
Risk-weighted assets	12,661,668	15,084,138
Capital ratios		
Total regulatory capital expressed as a % of total risk-weighted assets	15%	15%
Total tier 1 capital expressed as a % of risk-weighted assets	24%	19%

f) 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 in the principal (or most advantageous) market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using a valuation technique.

Valuation methods and assumptions
The fair value of cash in hand, amounts due from National Bank, other assets, Due to banks and other financial institutions, and Other payables approximate their carrying amounts largely due to the short-term maturities of these instruments. Financial assets such as Loans and advances, Due from other banking institutions Financial Assets held to Maturity, Other assets, and financial liabilities like Due to customer and Borrowed funds are stated at amortised cost and these values approximate their fair values.

25. Retirement benefit obligations

The Bank operates a defined contribution pension scheme for the staff. The Bank contributes to a statutory defined contribution pension scheme to the Rwanda Social Security Board. The contributions are charged to profit or loss in the year in which they relate.

	31 December 2017 Frw'000	31 December 2016 Frw'000
Contribution to Rwanda Social Security Board	104,805	116,601

26. Events after Reporting period

The directors are not aware of any events after the reporting date that require adjustments to, or disclosure in, to the financial statements as at the date of this report.

URWEGO BANK LIMITED
APPENDIX 1: OTHER DISCLOSURES
AS AT 31 DECEMBER 2017

Item	
	Figures in Frw'000
1. Off balance sheet items-contingent asset	1,000,000
2. Non-performing loan indicators	
(a) Non-performing loans	784,322
(b) NPL Ratio	7%
3. Capital Strength	
a. Core Capital (Tier1)	3,076,645
b. Supplementary Capital (Tier 2)	
c. Total Capital	3,076,645
d. Total risk weighted assets	12,661,668
e. Core capital/Total risk weighted assets ratio	24%
f. Tier 1 ratio	24%
g. Total capital/total risk weighted assets ratio	24%
h. Tier 2 Ratio	
4. Liquidity	
a. Liquidity ratio	49%
5. Insider lending	
a. Loans to directors, shareholders and subsidiaries	
b. Loans to employees	283,638
6. Management and board composition	
a. Number of Board members	10
b. Number of executive directors	1
c. Number of Non-executive directors	9
d. Number of female directors	3
e. Number of male directors	7
f. Number of executive committee	3
g. Number of females in the Executive committee	1
h. Number of males in the Executive committee	2