BANK OF KIGALI LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2014

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The directors that served during the period and to the date of this report are shown below:

**DIRECTORS**

| | |
|---|---|
| Mr. Lado Gurgenidze - | Chairman |
| Mrs. Angelique Kantengwa - | Resigned on 22 February 2014 |
| Mr. Marc Holtzman | |
| Mr. Apollo Nkunda | |
| Mrs. Alphonsine Niyigena | |
| Mr. Caleb Rwamuganza - | Resigned on 28 March 2014 |
| Mr. Julien Kavaruganda | |
| Mrs. Liliane Igihozo | |
| Mr. Reuben Karemera - | Appointed on 14 April 2014 |
| Dr. Daniel Ufitikirezi - | Appointed on 5 May 2014 |

**SECRETARY**
Dr. Shivon Byamukama
Avenue de la Paix
P.O Box 175
Kigali-Rwanda

**AUDITORS**
KPMG Rwanda Limited
Certified Public Accountants
Grand Pension Plaza
Boulevard de la Revolution
PO Box 6755
Kigali-Rwanda

**REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS**

Bank of Kigali Building
Avenue de la Paix
P.O Box 175
Kigali-Rwanda

**ADVOCATES**
Mr. Emmanuel Rukangira
P.O Box 3270
Kigali-Rwanda

Mr. Athanase Rutabingwa
P.O Box 6886
Kigali-Rwanda

The directors have the pleasure of submitting their report together with the audited consolidated financial statements for the year ended 31 December 2014 which disclose the state of affairs of the Bank. The Bank was incorporated on 22nd December 1966 and issued with a Banking license to operate in Rwanda by the National Bank of Rwanda on 11th February 1967. Operations commenced on 27th February 1967.

**1 Principal activities**

The principal activity of Bank of Kigali Limited is provision of retail and corporate banking services.

**2 Results**

The results for the year are set out in the consolidated financial statements on pages 8 to 61.

**3 Dividends**

(a) During the Board of Directors Meeting held on 5th December 2014, the Directors proposed a dividend pay-out of 60% of the Bank's audited IFRS-based net income in respect of the year 2014.

(b) The total proposed dividend for the year is therefore RwF 10,993,914,600 (2013 – RwF 7,415,117,500) for ordinary shareholders.

**4 Reserves**

The reserves of the bank are set out in note 29.

**5 Directors**

The Directors who served during the year and up to the date of this report are set out on page 1.

**6 Auditors**

The auditors, KPMG Rwanda limited, were appointed in 2012 and will be rotating out of office in accordance with regulation n°04/2009 on accreditation and other requirements for external auditors of banks, insurers and insurance brokers.

**7 Approval of the financial statements**

The consolidated financial statements were approved by the Directors on 10 March 2015.

**BY ORDER OF THE BOARD**

..................................

**Dr. Shivon Byamukama**
Company Secretary

Date: 10/3/2015

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The Bank's Directors are responsible for the preparation and fair presentation of the consolidated financial statements, comprising the consolidated statement of financial position at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Law No: 07/2009 of 27/04/2009 relating to Companies as amended and regulations governing Banks in Rwanda and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

The Directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safe guarding the assets of the company.

The Directors accept responsibility for the consolidated financial statements set out on pages 8 to 61, 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 the Law No: 07/2009 of 27/04/2009 relating to Companies as amended and regulations governing Banks in Rwanda. The Directors are of the opinion that the consolidated financial statements give a true and fair view of the state of the financial affairs and the profit and cash flow for the year ended 31 December 2014.

The Directors have made an assessment of the bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern for at least the next twelve months from the date of this statement.

The Auditor is responsible for reporting on whether the annual consolidated financial statements are fairly presented in accordance with the International Financial Reporting Standards and the Law No: 07/2009 of 27/04/2009 relating to Companies as amended and regulations governing Banks in Rwanda.

The consolidated financial statements which appear on pages 8 to 61 were approved by the Board of Directors on ......... March 2015 and signed on its behalf by:

**Director**

**Director**

**Dr. Shivon Byamukama**
Company Secretary

Date: 10/03/2015



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Bank of Kigali Limited is committed to world class corporate governance standards as set from time to time by the National Bank of Rwanda, Capital Market Authority, Rwanda Stock Exchange and by itself in accordance with international best practise. The Board of Directors is responsible for the long term strategic direction for profitable growth of the Bank whilst being accountable to the shareholders for compliance and maintenance of the highest corporate governance standards and business ethics.

**The Board of Directors**

The Board is made up of 8 members, all of whom are non-executive Directors including the Chairman. The Board is provided with full, appropriate and timely information to enable them maintain full and effective control over the strategic, financial, operational and compliance issues of the Bank. The day to day running of the business of the Bank is delegated to the Managing Director but the Board is responsible for establishing and maintaining the Bank's system of internal controls so that the objective of profitable and sustainable growth and shareholders values are realised. The Board also makes recommendations to the shareholders on Board succession planning and annual financial statements.

**Board meetings**

The Board of Directors meet quarterly or as required in order to monitor the implementation of the Bank's planned strategy, review it in conjunction with its financial performance and approves issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning. At the end of each financial year, the Board reviews itself, Board Committees, Senior Management and managing director against targets agreed at the beginning of the year. The Board held four meetings during the year.

**Board Committees**

The Board has created the following principal committees which meet regularly under well-defined and materially delegated terms of reference set by the Board.

a. **Risk Management Committee**

The committee was set up to oversee the Bank's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operational, legal, and environmental and other risks. Business continuity issues are also discussed by this committee.

b. **Audit Committee**

The Audit Committee meets quarterly or as required. In accordance with regulatory requirement, the committee comprise non- executive members of the Board who are independent of the day today management of the company's operations. The committee deals with all matters relating to the financial statements and internal control systems of the Bank including dealing with independent auditors and National Bank of Rwanda inspectors. All the audits conducted by this committee are risk based.

c. **Human Resources Committee**

The committee meets quarterly to review human resource policies and make suitable recommendations to the Board on senior management appointments. This committee oversees the nomination functions and senior management performance reviews.

**Credit Committee**

The committee meets quarterly to review credit risk profile of the Bank and recommend to the Board for approval policies and standards to credit risk governance and management. The frequency of the meeting has ensured that the needs of the Bank's customers are given timely attention. The committee also reviews the Bank's credit risk appetite and sectorial concentration.

**Board/ Board Committee attendance**

The following table gives the record of attendance to the Bank of Kigali Limited and its Committee meetings for the year ended 31 December 2014.

| Structure | Category | Main Board | Audit Committee | Risk committee | Credit Committee | ALCO Committee | HR Committee |
|---|---|---|---|---|---|---|---|
| Lado Gurgenidze | Non-Executive | ✓ | | | | | |
| Dr. Daniel Ufitikirezi | Non-Executive | ✓ | | ✓ | ✓ | ✓ | |
| Reuben Karemera | Non-Executive | ✓ | | ✓ | ✓ | | ✓ |
| Apollo M. Nkunda | Non-Executive | ✓ | ✓ | | | | ✓ |
| Marc Holtzman | Non-Executive | ✓ | | | | | ✓ |
| Lillian Igihozo | Non-Executive | ✓ | ✓ | | | ✓ | ✓ |
| Alphonsine | Non-Executive | ✓ | ✓ | | ✓ | ✓ | |
| Julien Kavaruganda | Non-Executive | ✓ | | ✓ | | ✓ | |

**Management committees;**

The Board has delegated the management of the business to the Managing Director together with his Management Committee. The following management committees are in place to ensure that the Bank carries out its obligation efficiently and effectively.

- Management Committee
- Assets and Liability Committee
- Credit committee
- Debt Recovery Committee
- Human Resource Committee
- Product Development Committee
- Information & Communication Technology Committee
- Procurement Committee
- Branch expansion Committee

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF BANK OF KIGALI LIMITED

**Report on the Financial Statements**

We have audited the consolidated financial statements of Bank of Kigali Limited which comprise the consolidated statements of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 8 to 61.

**Directors' responsibility for the Consolidated Financial Statements**

As stated on page 3, the Bank's Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in the manner required by the Law No: 07/2009 of 27/04/2009 as amended, and the regulations governing banks in Rwanda, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Bank of Kigali as at 31 December 2014, and the Bank's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Law No. 07/2009 of 27/04/2009 relating to Companies, as amended and the regulations governing banks in Rwanda.



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**Report on other legal requirements**

As required by the provisions of Article 247 of Law No. 07/2009 of 27/04/2009 relating to companies in Rwanda as amended, we report to you, based on our audit, that:

(i) 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;

(ii) In our opinion, proper books of account have been kept by the company, so far as appears from our examination;

(iii) The consolidated statement of comprehensive income and consolidated statement of financial position are in agreement with the books of account;

(iv) We have no relationship, interest or debt with Bank of Kigali Limited. As indicated in our report on the financial statements, we comply with ethical requirements. These are the International Federation of Accountants' Code of Ethics for Professional Accountants, which includes comprehensive independence and other requirements.

(v) We have reported internal control matters together with our recommendations to management in a separate management letter.

**Stephen Ineget**
**KPMG Rwanda Limited**
Certified Public Accountants
P. O. Box 6755
Kigali
Rwanda

13 MAR 2015

Date: 13/03/2015



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| | Note | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|---|
| Interest income | 7 | 51,909,827 | 45,210,752 |
| Interest expense | 8 | (12,654,600) | (10,015,908) |
| **Net interest income** | | **39,255,227** | **35,194,844** |
| Net Fees and commission income | 9 | 10,899,154 | 10,801,253 |
| Foreign exchange related income | 10 | 7,724,325 | 7,476,135 |
| Other operating income | 11 | 301,838 | 281,008 |
| **Operating income before impairment losses** | | **58,180,544** | **53,753,240** |
| Net impairment on loans and advances | 12 | (7,542,957) | (8,993,999) |
| **Net operating income** | | **50,637,587** | **44,759,241** |
| Personnel costs | 13(i) | (14,427,737) | (11,707,238) |
| Depreciation and amortisation | 13(ii) | (3,663,534) | (4,639,637) |
| Administration and General expenses | 13(iii) | (9,787,611) | (9,656,130) |
| **Total operating expenses** | | **(27,878,882)** | **(26,003,005)** |
| **Profit before income tax** | | **22,758,705** | **18,756,236** |
| Income tax expense | 14(a) | (4,441,880) | (3,926,001) |
| **Net profit for the year** | | **18,316,825** | **14,830,235** |
| Other comprehensive income net of taxes: | | - | - |
| **Total comprehensive income for the year** | | **18,316,825** | **14,830,235** |
| Basic earnings per share in RwF | 15 | 27.34 | 22.20 |
| Diluted earnings per share in RwF | 15 | 27.22 | 22.13 |
| Dividend per share (RwF) - proposed | 15 | 16.33 | 11.10 |

The notes set out on pages 12 to 61 form an integral part of these financial statements.



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BANK OF KIGALI LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

| ASSETS | Note | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|---|
| Cash in hand | 16 (a) | 12,020,669 | 11,110,210 |
| Balances with the National Bank of Rwanda | 16 (b) | 46,938,373 | 24,855,050 |
| Due from banks | 17 | 102,988,217 | 107,377,523 |
| Held to maturity investments | 18(a) | 58,596,907 | 50,820,690 |
| Loans and advances to customers | 19(a) | 233,439,509 | 199,025,241 |
| Equity Investments | 18(b) | 221,425 | 218,455 |
| Other assets | 20 | 7,665,385 | 7,695,005 |
| Property and equipment | 21 | 20,503,423 | 21,018,894 |
| Intangible assets | 22 | 234,056 | 239,005 |
| **TOTAL ASSETS** | | 482,607,964 | 422,360,073 |
| **LIABILITIES** | | | |
| Due to banks | 23 | 15,214,461 | 17,345,024 |
| Deposits and balances from customers | 24 | 324,601,160 | 280,489,463 |
| Tax Payable | 14(b) | 692,518 | 1,828,573 |
| Deferred tax liability | 25 | 1,431,391 | 1,620,650 |
| Dividends Payable | 26 | 5,469 | 7,416,579 |
| Other liabilities | 27 | 11,185,264 | 8,705,581 |
| Long-term finance | 28 | 39,929,967 | 34,190,519 |
| **TOTAL LIABILITIES** | | 393,060,230 | 351,596,389 |
| **CAPITAL AND RESERVES** | | | |
| Share Capital (page 10) | 29(i) | 6,713,706 | 6,684,500 |
| Share Premium (page 10) | 29(ii) | 18,572,040 | 18,236,171 |
| Revaluation Reserves (page 10) | 29(iii) | 6,537,638 | 6,946,241 |
| Other Reserves (page 10) | 29(iv) | 37,364,514 | 29,949,395 |
| Retained earnings (page 10) | 29(v) | 20,359,836 | 8,947,377 |
| **TOTAL EQUITY** | | 89,547,734 | 70,763,684 |
| **TOTAL LIABILITIES AND EQUITY** | | 482,607,964 | 422,360,073 |

The financial statements were approved by the Board of Directors on ...10.....March 2015 and were signed on its behalf by:

Director: Nkurunziza  Director: 

Date: 10/03/2015  Date: 10/3/2015

The notes set out on pages 12 to 61 form an integral part of these financial statements.

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**BANK OF KIGALI LIMITED**
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

| | Issued capital | Share Premium | Revaluation | Retained Earnings | Statutory Credit risk | Legal Reserves | Special Reserves | Other Reserves | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| **2013** | | | | | | | | | |
| As at 1 January 2013 | 6,673,370 | 18,108,176 | 7,354,844 | 6,893,076 | 19,100 | 3,853,186 | 3,938,420 | 16,267,121 | 63,107,293 |
| Appropriation of profit - 2012 | - | - | - | (5,890,668) | - | 589,067 | 589,067 | 4,712,534 | - |
| Increase in Share Capital | 11,130 | 127,995 | - | - | - | - | - | - | 139,125 |
| Statutory credit risk reserve | - | - | | 19,100 | (19,100) | - | - | - | - |
| Total Comprehensive Income | - | - | - | 14,830,235 | - | - | - | - | 14,830,235 |
| Dividend accrued – 2013 | - | - | - | (7,415,118) | - | - | - | - | (7,415,118) |
| Transfer of Excess depreciation | - | - | (408,603) | 510,752 | - | - | - | - | 102,149 |
| **As at 31 December 2013** | **6,684,500** | **18,236,171** | **6,946,241** | **8,947,377** | **-** | **4,442,253** | **4,527,487** | **20,979,655** | **70,763,684** |
| **2014** | | | | | | | | | |
| As at 1 January 2014 | 6,684,500 | 18,236,171 | 6,946,241 | 8,947,377 | - | 4,442,253 | 4,527,487 | 20,979,655 | 70,763,684 |
| Appropriation of profit - 2013 | - | - | - | (7,415,118) | - | 741,512 | 741,512 | 5,932,095 | - |
| Increase in Share Capital | 29,206 | 335,869 | - | - | - | - | - | - | 365,075 |
| Total Comprehensive Income | - | - | - | 18,316,825 | - | - | - | - | 18,316,825 |
| Transfer of Excess depreciation | - | - | (408,603) | 510,752 | - | - | - | - | 102,149 |
| **As at 31 December 2014** | **6,713,706** | **18,572,040** | **6,537,638** | **20,359,836** | **-** | **5,183,765** | **5,268,999** | **26,911,750** | **89,547,734** |

The notes set out on pages 12 to 61 form an integral part of these financial statements

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**BANK OF KIGALI LIMITED**

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

| | | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | **Note** | **RwF'000** | **RwF'000** |
| Profit before tax | | 22,758,705 | 18,756,236 |
| **Adjusted for:** | | | |
| Depreciation of property and equipment | 13(ii) | 3,469,943 | 4,303,044 |
| Amortization of intangible assets | 13(ii) | 193,591 | 336,593 |
| Gains on disposal of fixed Assets | 11 | (84,496) | (24,753) |
| Loss on revaluation of long-term finance | 28 | 400,937 | 392,446 |
| Dividend income | 11 | (54,254) | - |
| **Cash flows before changes in working capital** | | **26,684,426** | **23,763,566** |
| **Changes in Working capital** | | | |
| Increase in Loans and Advances | 19(a) | (34,414,268) | (13,958,489) |
| Decrease in other assets | 20 | 29,620 | 4,929,704 |
| Increase in clients balances and deposits | 24 | 44,111,697 | 68,624,395 |
| Increase/ (Decrease) in other liabilities | 27 | 2,479,683 | (6,370,132) |
| Income tax paid | 14(b) | (5,665,044) | (2,862,521) |
| **Net cash generated from operating activities** | | **33,226,114** | **74,126,523** |
| **INVESTING ACTIVITIES** | | | |
| Purchase of intangible assets | 22 | (188,642) | (237,478) |
| Purchase of property and equipment | 21 | (3,049,369) | (3,874,221) |
| Proceeds from sale of fixed assets | | 179,393 | 205,000 |
| Increase in held to maturity investments | 18(a) | (7,776,217) | (37,701,365) |
| Purchase of equity Investment shares | 18(b) | (2,970) | - |
| Dividends received | 11 | 54,254 | - |
| **Net cash flows from investing activities** | | **(10,783,551)** | **(41,608,064)** |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid | 26 | (7,411,110) | (5,892,885) |
| Drawdown of long term finance | 28 | 9,261,851 | 29,154,396 |
| Repayment of long-term finance | 28 | (3,923,340) | (1,301,301) |
| Increase in share capital | 29(i) | 29,206 | 11,130 |
| Increase in share premium | 29(ii) | 335,869 | 127,995 |
| **Net cash flows from financing activities** | | **(1,707,524)** | **22,099,335** |
| Net increase/(Decrease) in cash and cash equivalent | | 20,735,039 | 54,617,794 |
| Cash and cash equivalents at 1 January | | 125,997,759 | 71,379,965 |
| **Cash and cash equivalent at 31 December** | **16(c)** | **146,732,798** | **125,997,759** |

The notes set out on pages 12 to 61 form an integral part of these financial statements.



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## 1. CORPORATE INFORMATION

Bank of Kigali Limited is a financial institution licensed under Law No. 08/99 relating to Regulations Governing Banks and Other Financial Institutions, provides corporate and retail banking services.

The Bank is incorporated in Rwanda and is publicly traded on the Rwanda Stock Exchange. The address of its registered office is as follows:

Bank of Kigali Building
Avenue de la Paix
P.O Box 175
Kigali-Rwanda

## 2. BASIS OF PREPARATION

### (a) Basis of accounting

These consolidated financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Bank's board of directors on 16.....March 2015. All values are rounded to the nearest thousand (RwF'000) except when otherwise indicated.

The bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non- current) is presented in note 31.

### (b) Basis of consolidation

#### i) Subsidiaries

Subsidiaries' are investees controlled by the Bank. The Bank 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank wholly controls BK Securities and The Nairobi Representative Office as disclosed in Note 34 of these financial statements. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

#### ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The subsidiaries indicated on note 34 to these financial statements have been consolidated in these financial statements.

### (c) 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 upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements have been prepared on the going concern basis.

**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 5.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these consolidated financial statements have been applied consistently and to all periods presented in these consolidated financial statements.

***(a) Recognition of income and expense***

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 criteria must be met before revenue is recognised:

***(i) Interest***

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

***(ii) Fees and commission***

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate

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

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



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***(a) Recognition of income and expense (continued)***

***(iii) Dividend income***

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

***(iv) Net trading income***

Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

***b) Property and equipment***

Property and equipment are stated at cost or valuation, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.
Property and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

Depreciation is recognised in profit or loss on a straight line basis at annual rates estimated to write off the carrying values of the assets over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:-

| | |
|---|---|
| Buildings | 5% |
| Motor vehicles | 25% |
| Furniture, Fittings& Equipment | 25% |
| Computers& IT equipment | 50% |

Freehold land is not depreciated as it is deemed to have an indefinite life.

Property and equipment are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. 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. Impairment losses are recognised in the statement of comprehensive income.
The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Property and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is de-recognised.

The costs of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the bank and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***c) Provisions***

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability. The expense relating to any provision is presented in the statement of comprehensive income net of any disbursement.

***d) Financial instruments***

***(i)Recognition***

The Bank's consolidated financial position, initially recognises cash, amounts due from/ due to Bank companies, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

***(ii) De-recognition***

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Bank obtaining a new financial asset or assuming a new financial liability, the Bank recognises the new financial asset or financial liability at fair value.

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income, are recognised in profit or loss. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

***(iii) Classification***

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***d) Financial instruments (continued)***
***Classification (continued)***

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

***(b) Loans and receivables***
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

***(c) Held to maturity***
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost.

***(d) Available for sale***
Available for sale financial investments are those non derivative financial assets that are designated as available for sale or are not classified as any other category of financial assets. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available for sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

***(iv) Offsetting of financial assets and liabilities***
Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable 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.

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

***(v) Fair value of financial instruments***
Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction on the measurement date.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***d) Financial instruments (continued)***

***(v) Fair value of financial instruments (continued)***

The bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the bank uses proprietary models, which are usually developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.
When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in profit or loss depending on the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors.

Market participants take into account pricing when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

***(vi) Identification and measurement of impairment of financial assets***

At each reporting date the bank assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a Bank of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the bank.

The bank considers evidence of impairment for loans and advances and investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by Banking together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

***d) Financial instruments (continued)***

***(vii) Identification and measurement of impairment of financial assets (continued)***

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The bank writes off loans and advances and investment securities when they are determined to be uncollectible.

In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income. The bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

***e) Cash and cash equivalents***

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

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

***f) Foreign exchange forward and spot contracts***

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Income tax expense**

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

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

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit.

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

**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.
Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.
Leases where substantially all the risks and rewards of ownership of an asset are transferred to the Lessee are classified as finance leases. Upon recognition, the leased asset is measured at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

***(a) Operating lease***
The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

***(b) Finance lease***
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***i)* 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 liabilities) 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 the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income in allowance for impairment losses The premium received is recognised in the statement of comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

***j)* Fiduciary assets**
The bank provides trust and other fiduciary services such as nominee or agent that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity and income arising from related undertakings to return such assets to customers are not reported in the financial statements, as they are not the assets of the bank.

***k)* 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 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 either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic 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 the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Computer software | 2 years |

There are no intangible assets with indefinite useful lives.

***l)* Dividends on ordinary shares**
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are 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 statement of financial position date are disclosed as an event after the statement of financial position date.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Employee benefits**

***Retirement benefit costs***
The company 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 the employees' gross salary. The company's CSR contributions are charged to the statement of comprehensive income in the period to which they relate.

***Short-term benefits***
Short term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and transport allowance. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**n) Segment reporting**
An operating segment is a component of the bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Bank's segmentation reporting is based on the following operating segments: Retail banking, corporate banking, and central treasury functions

**o) Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

**p) Earnings per share**

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

**q) Related parties**
In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***r)*** **New standards and interpretations not yet adopted**

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

| New standard or amendments | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (2011) | 1 January 2014 |
| Investment Entities- Amendments to IFRS 10, IFRS 12, and IAS 27 (2012) | 1 January 2014 |
| Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets (2013) | 1 January 2014 |
| Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) | 1 January 2014 |
| IFRIC 21 Levies (2013) | 1 January 2014 |

- ***Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning*** on or after 1 January 2014).

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The adoption of the amendments did not have a significant impact on the financial statements of the Bank.

- ***Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities (effective for annual periods beginning on or after 1 January 2014)***

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional. The adoption of the amendments did not have a significant impact on the financial statements of the Bank.

- ***Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)***

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The adoption of the amendments did not have a significant impact on the financial statements of the Bank.

- ***Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)***

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives' ), as a consequence of laws or regulations, if specific conditions are met. The adoption of the amendments did not have a significant impact on the financial statements of the Bank.

- ***IFRIC 21: Levies (effective for annual periods beginning on or after 1 January 2014).***

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. The adoption of the amendments did not have a significant impact on the financial statements of the Bank.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### r) New standards and interpretations not yet adopted (continued

***(b) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2014.***

| New standard or amendments | Effective for annual periods beginning on or after |
|---|---|
| Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) | 1 July 2014 |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | 1 January 2016 |
| Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) | 1 January 2016 |
| Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41) | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation | 1 January 2016 |
| Equity Method in Separate Financial Statements (Amendments to IAS 27) | 1 January 2016 |
| IFRS 14 Regulatory Deferral Accounts | 1 January 2016 |
| Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) | 1 January 2016 |
| Disclosure Initiative (Amendments to IAS 1) | 1 January 2016 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2017 |
| IFRS 9 Financial Instruments (2014) | 1 January 2018 |

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

- **Defined benefit plans – Employee contributions (Amendments to IAS 19)**

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- ✓ set out in the formal terms of the plan;
- ✓ linked to service; and
- ✓ independent of the number of years of service.

When contributions are eligible for the practical expedient, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.
The adoption of these changes will not affect the amounts and disclosures of the Bank's defined benefits obligations.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**

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

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these changes will not affect the amounts and disclosures of the Bank's transactions with associates or joint ventures.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***r)*** **New standards and interpretations not yet adopted (continued)**

***(c) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2014. (continued)***

- **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)**

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.
Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes would not affect the amounts and disclosures of the Bank's interests in joint operations.

- **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.
The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's property, plant and equipment and intangible assets.

- **Equity Method in Separate Financial Statements (Amendments to IAS 27)**

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

- **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.
The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the Bank given that it is not a first time adopter of IFRS.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***r)*** **New standards and interpretations not yet adopted (continued)**

***(ii) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2014. (continued)***

- **Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

- **Disclosure Initiative (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and an early application is permitted. The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

- **IFRS 15 Revenue from Contracts with Customers**

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***r)*** **New standards and interpretations not yet adopted (continued)**

***(iii) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2014. (continued)***

- **IFRS 9: Financial Instruments (2014)**

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The adoption of this standard is expected to have a significant impact the financial statements of the Bank. The significant impact would be based on the "expected credit loss" model which means the bank will have to assess the potential credit risk at the initiation of the loan.

**4. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors of the Bank has established the Credit, Audit, Risk, Human Resources and Asset and Liability committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits.
Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit department. Internal Audit personnel undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

***(a) Credit risk***

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers, placement and

**4. FINANCIAL RISK MANAGEMENT (continued)**

***Credit risk (continued)***

balances with other counterparties and investment securities. It arises from lending and other activities undertaken by the Bank. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

***(i) Management of credit risk***

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate credit department, reporting to the Credit Committee, 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 business unit credit managers. Larger facilities require approval by the Board of Directors;
- Reviewing and assessing credit risk. The credit department 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. 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;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee 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's credit policies and procedures. Each business unit has a credit manager who reports on all credit related matters to local management and the Credit 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 approval; and
- Regular audits of business units and the bank's credit processes are undertaken by Internal Audit Department.

***(ii) Credit risk measurement***

The Bank assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Bank are segmented into five rating classes.

The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

The Bank's internal ratings scale is as follows:

Grade 1: Normal risk (between 0-30 days)
Grade 2: Watch risk (between 31-90 days)
Grade 3: Sub-standard risk (between 91-180 days)
Grade 4: Doubtful risk (between 181-360 days)
Grade 5: Loss (over 360 days)

**4. FINANCIAL RISK MANAGEMENT (continued)**

***(iii) Impairment and provisioning policies***

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment provision recognised in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom two grades.

The Bank's exposure to credit risk is analysed as follows:

| | 2014 | 2013 |
|---|---|---|
| **Individually impaired** | **RwF'000** | **RwF'000** |
| Grade 3: Substandard risk | 5,881,416 | 3,770,485 |
| Grade 4: Doubtful risk | 6,214,378 | 4,440,377 |
| Grade 5: Loss risk | 4,102,557 | 6,481,694 |
| **Gross amount** | 16,198,351 | 14,692,556 |
| **Allowance for impairment** | | |
| Specific provision for impairment | (11,569,935) | (9,967,748) |
| **Net Carrying amount** | 4,628,416 | 4,724,808 |

**Non–performing loans**

Non-performing loans and advances on which interest income has been suspended amount to RwF 16,168 million (2013: 14,693 million) for the Bank, with total impairment allowance of RwF 13,258 million (2013: RwF 12,835 million). Interest on these accounts is fully provided for in loans loss provision as these advances are classified as non-performing at the period end date. Discounted value of securities held in respect to those loans and advances are valued at RwF 9,324 million (2013: RwF 6,129 million) and are considered adequate.

**Past due but not impaired loans and advances**

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Bank. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

| | 2014<br>RwF'000 | 2013<br>RwF'000 |
|---|---|---|
| Grade 1: Normal risk | 194,968,496 | 134,461,313 |
| Grade 2: Watch risk | 35,530,769 | 62,706,848 |
| Allowance for collective assessment | (1,688,172) | (2,867,728) |
| Net Carrying amount | 228,811,093 | 194,300,433 |

Loans and advances graded 2, 3, 4 and 5 in the Bank's internal credit risk grading system include items that are individually impaired. These are advances 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.

Loans and advances graded 1 are not individually impaired. Allowances for impairment losses for these loans and advances are assessed collectively using the Bank's historical credit loss ratio.

The Bank also complies with the Central Bank's prudential guidelines on collective and specific impairment losses. Additional provisions for loan losses required to comply with the requirements of Central Bank's prudential guidelines are transferred to regulatory reserve.

**4. FINANCIAL RISK MANAGEMENT (continued)**
*Credit risk (continued)*

The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bank bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Other exposures to credit risk are as summarized below:

| | 2014<br>RwF'000 | 2013<br>RwF'000 |
|---|---|---|
| Balances with the National Bank of Rwanda | 46,938,373 | 24,855,050 |
| Due from banks | 102,988,217 | 107,377,523 |
| Held to maturity investments | 58,596,907 | 50,820,690 |
| Equity investments | 221,425 | 218,455 |
| Other assets | 7,665,385 | 7,695,005 |
| Net Carrying amount | 216,410,307 | 190,966,723 |

*(iv) Credit –related commitment risk*

The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. The Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

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.

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. 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. Guarantees and standby letters of credits carry similar credit risk to loans.

## 4. FINANCIAL RISK MANAGEMENT (continued)

*Credit risk (continued)*

The table below shows the bank's maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| **Guarantees** | | |
| Acceptances and letter of credit issued | 13,563,264 | 49,594,239 |
| Guarantees commitments issued | 67,489,885 | 27,698,321 |
| | - | - |
| | 81,053,149 | 77,292,560 |

***(v) Concentration of credit risk***

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | RwF'000 | %age | RwF'000 | %age |
| Large Corporate Clients | 134,412,278 | 54% | 88,184,482 | 42% |
| Small and Medium Enterprises | 46,960,333 | 19% | 53,770,343 | 25% |
| Non-Profit Entities | 6,348,545 | 3% | 4,429,132 | 2% |
| Retail Banking | 59,715,792 | 24% | 65,476,760 | 31% |
| | 247,436,948 | 100% | 211,860,717 | 100% |

***(vi) Fair value of collateral held***

The Bank holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Bank also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral. Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2013 and 2014. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| Against Impaired loans | 9,323,504 | 6,129,065 |
| Against past due but not impaired loans | 211,078,087 | 202,648,186 |
| | 220,401,591 | 208,777,251 |

**4. FINANCIAL RISK MANAGEMENT (continued)**

**Collateral held other credit enhancements and their financial effect**

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 generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

The table below sets out the principal types of collateral held against different types of financial assets.

| Type of credit exposure | Percentage of exposure that is subject to collateral requirements | | |
|---|---|---|---|
| | 2014 | 2013 | Principal type of security held |
| Loans and advances to Customers | | | |
| **Retail Loans & Advances** | | | |
| Overdrafts | 0 | 0 | Un-secured |
| Personal Loans | 0 | 0 | Un-secured |
| Vehicles loans | 70 | 70 | Vehicle |
| Mortgage Loans | 70 | 70 | Property |
| Credit Cards | 0 | 0 | Un-secured |
| **Corporate Loans** | 100 | 100 | Property, Plant and Equipment, Insurance, guarantees |
| Loan and advances to Banks | | | |
| Repos | 100 | 100 | Marketable Securities |
| Other loans and advances to banks | 0 | 0 | Un- Secured |

***(b) Liquidity risk***

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. 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 Bank's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. 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.

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's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

| | 2014 | 2013 |
|---|---|---|
| At close of the year | 64.9% | 65.2% |
| Average for the year | 67.8% | 53.5% |
| Maximum for the year | 70.3% | 65.2% |
| Minimum for the year | 64.9% | 44.8% |

## 4. FINANCIAL RISK MANAGEMET (continued)

### b. Liquidity risk (continued)

The table below summarizes the Bank's liquidity risk as at 31 December 2014 and 31 December 2013, categorized into relevant maturity rankings based on the earlier of the remaining contractual maturities or re-pricing dates.

| | Up to 1 month | 1 - 3 months | 3 – 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash in hand | 12,020,669 | - | - | - | - | 12,020,669 |
| Balances with the National Bank of Rwanda | 46,938,373 | - | - | - | - | 46,938,373 |
| Due from banks | 102,988,217 | - | - | - | - | 102,988,217 |
| Held to maturity investments | 8,976,834 | 26,851,823 | 22,768,250 | - | - | 58,596,907 |
| Loans and advances to customers | 31,880,289 | 19,819,438 | 20,530,590 | 65,571,333 | 95,637,859 | 233,439,509 |
| Equity investments | - | - | - | - | 221,425 | 221,425 |
| Other assets | 5,746,766 | 1,037,987 | 868,100 | 12,532 | - | 7,665,385 |
| Property and equipment | - | - | - | - | 20,503,423 | 20,503,423 |
| Intangible assets | - | - | - | 234,056 | - | 234,056 |
| **TOTAL ASSETS** | **208,551,148** | **47,709,248** | **44,166,940** | **65,817,921** | **116,362,707** | **482,607,964** |
| **LIABILITIES AND EQUITY** | | | | | | |
| Due to banks | 10,472,516 | 1,742,099 | 2,835,500 | 164,346 | - | 15,214,461 |
| Other customer deposits | 240,190,387 | 8,762,179 | 75,633,022 | 15,572 | - | 324,601,160 |
| Deferred Tax | - | - | 102,151 | 510,754 | 818,486 | 1,431,391 |
| Dividends payable | - | - | 5,469 | - | - | 5,469 |
| Other liabilities | 6,882,271 | 4,051,994 | 250,999 | - | - | 11,185,264 |
| Long-term Finance | 514,547 | 381,146 | 6,006,297 | 29,671,168 | 3,356,809 | 39,929,967 |
| Tax payable | - | 692,518 | - | - | - | 692,518 |
| Shareholders' funds | - | - | - | - | 89,547,734 | 89,547,734 |
| **At 31 December 2014** | **258,059,721** | **15,629,936** | **84,833,438** | **30,361,840** | **93,723,029** | **482,607,964** |
| **Liquidity Gap 2014** | **(49,508,573)** | **32,079,312** | **(40,666,498)** | **35,456,081** | **22,639,678** | **-** |

**4. FINANCIAL RISK MANAGEMENT (continued)**

**b. Liquidity risk (continued)**

| | Up to 1 month | 1 - 3 months | 3 – 12 months | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash in hand | 11,110,210 | - | - | - | - | 11,110,210 |
| Balances with the National Bank of Rwanda | 24,855,050 | - | - | - | - | 24,855,050 |
| Due from banks | 90,195,479 | 17,182,044 | - | - | - | 107,377,523 |
| Held to maturity investments | 15,068,391 | 27,060,959 | 8,691,340 | - | - | 50,820,690 |
| Loans and advances to customers | 45,418,046 | 9,026,682 | 33,655,483 | 76,726,627 | 34,198,403 | 199,025,241 |
| Equity investments | - | - | - | - | 218,455 | 218,455 |
| Other assets | 7,695,005 | - | - | - | - | 7,695,005 |
| Property and equipment | - | - | - | - | 21,018,894 | 21,018,894 |
| Intangible assets | - | - | - | - | 239,005 | 239,005 |
| **TOTAL ASSETS** | **194,342,181** | **53,269,685** | **42,346,823** | **76,726,627** | **55,674,757** | **422,360,073** |
| | | | | | | |
| **LIABILITIES AND EQUITY** | | | | | | |
| Due to banks | 5,532,246 | 21,500 | 11,595,500 | 195,778 | - | 17,345,024 |
| Other customer deposits | 221,332,253 | 3,293,539 | 55,699,161 | 164,510 | - | 280,489,463 |
| Deferred Tax | - | - | 102,151 | 510,753 | 1,007,747 | 1,620,650 |
| Dividends payable | - | - | 7,416,579 | - | - | 7,416,579 |
| Other liabilities | 8,705,581 | - | - | - | - | 8,705,581 |
| Long-term Finance | - | 251,331 | 3,099,507 | 26,076,882 | 4,762,798 | 34,190,519 |
| Tax payable | - | 1,828,573 | - | - | - | 1,828,573 |
| Shareholders' funds | - | - | - | - | 70,763,684 | 70,763,684 |
| **At 31 December 2013** | **235,570,080** | **5,394,943** | **77,912,898** | **26,947,923** | **76,534,229** | **422,360,073** |
| **Liquidity Gap 2013** | **(41,227,899)** | **47,874,742** | **(35,566,075)** | **49,778,704** | **(20,859,472)** | **-** |

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**(c) Market Risk**

***(i) Currency risk***

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

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Bank translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Bank records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarises the foreign currency exposure as at 31 December 2014 and 31 December 2013:

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Assets in foreign currencies | 118,568,075 | 125,031,246 |
| Liabilities in foreign currencies | (135,467,989) | (130,836,020) |
| Net foreign currency exposure at the end of the year | (16,899,914) | (5,804,774) |

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates of major transaction currencies, with all other variables held constant, of the Bank's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| Currency | Increase/decrease in exchange rate | Effect on profit before tax 2014 | 2013 |
|---|---|---|---|
| | | RwF'000 | RwF'000 |
| USD | +/-1% | (375,858) | (48,031 |
| GBP | +/-1% | (95,392) | 29,623 |
| EUR | +/-1% | (30,048 | (42,640) |



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## 4. FINANCIAL RISK MANAGEMENT (continued)

### (c) Market Risk(continued)

### *(i) Currency risk(continued)*

The various foreign currencies to which the Bank is exposed to are summarised below. All figures are in thousands of Rwandan francs (RwF'000) as at 31 December 2014:

| | USD | Euro | GBP | Other Foreign currencies | Total |
|---|---|---|---|---|---|
| Cash, deposits and advances to banks | 80,289,710 | 9,982,369 | 11,169,877 | 8,297,155 | 109,739,111 |
| Loans and advances to customers | 8,064,455 | 30,775 | 2,450 | 484 | 8,098,164 |
| Other assets, property and investments | 671,442 | 53,410 | 5,874 | 74 | 730,800 |
| **At 31 December 2014** | **89,025,607** | **10,066,554** | **11,178,201** | **8,297,713** | **118,568,075** |
| **Liabilities and Equity** | | | | | |
| Deposits from banks | 331,510 | 15,262 | - | - | 346,772 |
| Deposits from customers | 87,731,503 | 7,043,485 | 1,639,011 | 155,834 | 96,569,833 |
| Other liabilities | 376,564 | 3,015 | 22 | - | 379,601 |
| Long-Term Finance | 38,171,783 | - | - | - | 38,171,783 |
| **At 31 December 2014** | **126,611,360** | **7,061,762** | **1,639,033** | **155,834** | **135,467,989** |
| **Net currency exposure** | **(37,585,753)** | **3,004,792** | **9,539,168** | **8,141,879** | **(16,899,914)** |

INITIALED FOR IDENTIFICATION PURPOSES ONLY
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**4. FINANCIAL RISK MANAGEMENT (continued)**

**(c) Market Risk(continued)**

***(i) Currency risk(continued)***

The various foreign currencies to which the Bank is exposed to are summarised below. All figures are in thousands of Rwandan francs (RwF'000) as at 31 December 2013:

| | USD | Euro | GBP | Other Foreign currencies | Total |
|---|---|---|---|---|---|
| Cash, deposits and advances to banks | 110,920,511 | 5,752,931 | 4,764,888 | 477,493 | 121,915,823 |
| Loans and advances to customers | 699,110 | 14,960 | 2,133 | 459 | 716,662 |
| Other assets, property and intangibles | 2,398,761 | - | - | - | 2,398,761 |
| **At 31 December 2013** | **114,018,382** | **5,767,891** | **4,767,021** | **477,952** | **125,031,246** |
| **Liabilities and Equity** | | | | | |
| Deposits from banks | 1,328,746 | 78,186 | 65,482 | - | 1,472,414 |
| Deposits from customers | 85,430,047 | 9,953,754 | 1,739,209 | 177,866 | 97,300,876 |
| Other liabilities | 395,024 | - | - | - | 395,024 |
| Long-term Finance | 31,667,706 | - | - | - | 31,667,706 |
| **At 31 December 2013** | **118,821,523** | **10,031,940** | **1,804,691** | **177,866** | **130,836,020** |
| **Net currency exposure** | **(4,803,141)** | **(4,264,049)** | **2,962,330** | **300,086** | **(5,804,774)** |

**4. FINANCIAL RISK MANAGEMENT (continued)**

**(c) Market Risk(continued)**

***(ii) Interest rate risk***

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The Bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position.

**Sensitivity analysis interest rate risk**

Except for some borrowings that are tagged to LIBOR, all financial instruments entered into by the bank are at fixed rates and therefore not prone to interest rate fluctuations. The impact of fluctuations in the LIBOR (London Interbank Rate) is not expected to have a significant effect on the results of the bank.

The following is an analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position:

| **Balance as at 31 December 2014** | **Weighted interest rate** | | **+/- 100bp** |
|---|---|---|---|
| Effect on Interest income | | **RwF'000** | **RwF'000** |
| Balances with the National Bank of Rwanda | 8.5% | 15,000,000 | 150,000 |
| Balances and placements with other Banks | 0.9% | 102,987,376 | 1,029,874 |
| Treasury bills and bonds | 5.9% | 58,596,907 | 585,969 |
| Loans and advances - Net | 20.1% | 233,219,355 | 2,332,193 |
| **TOTAL ASSETS/INCREASE** | | **409,803,638** | **4,098,036** |
| Effect on Interest expense | | | |
| Balances and placements due to Banks | 10.5% | 9,687,737 | 96,877 |
| Customer deposits | 12.9% | 88,433,788 | 884,338 |
| Long-Term Finance | 6.5% | 39,929,967 | 399,300 |
| **TOTAL LIABILITIES/INCREASE** | | **138,051,492** | **1,380,515** |
| **EFFECT ON PROFITS** | | **271,752,146** | **2,717,521** |

The table below summarizes the interest rate risk of the Bank as at 31 December 2014:

| | Weighted interest rate | On demand | Less than 3 months | 3-12 months | 1 to 5 year | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| | | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| **ASSETS** | | | | | | | |
| Balances with the National Bank of Rwanda | 8.5% | - | 15,000,000 | - | - | - | 15,000,000 |
| Balances and placements with other Banks | 0.9% | 63,221,501 | 39,765,875 | - | - | - | 102,987,376 |
| Treasury bills and bonds | 5.9% | - | 35,828,657 | 22,768,250 | - | - | 58,596,907 |
| Loans and advances - Net | 20.1% | - | 51,479,573 | 20,530,590 | 65,571,333 | 95,637,859 | 233,219,355 |
| **TOTAL ASSETS** | | 63,221,501 | 142,074,105 | 43,298,840 | 65,571,333 | 95,637,859 | 409,803,638 |
| **LIABILITIES** | | | | | | | |
| Balances and placements due to other Banks | 10.5% | - | 6,065,138 | 3,622,599 | - | - | 9,687,737 |
| Customer deposits | 12.9% | 4,086,890 | 17,316,577 | 67,014,750 | 15,572 | - | 88,433,788 |
| Long-Term Finance | 0.2% | - | 895,693 | 6,006,297 | 29,671,168 | 3,356,808 | 39,929,967 |
| **TOTAL LIABILITIES** | | 4,086,890 | 24,277,408 | 76,643,646 | 29,686,740 | 3,356,808 | 138,051,492 |
| **Total interest sensitivity gap** | | 59,134,611 | 117,796,697 | (33,344,806) | 35,884,593 | 92,281,051 | 271,752,146 |

The table below summarizes the interest rate risk of the Bank as at 31 December 2013:

| | Weighted interest rate | On demand | Less than 3 months | 3-12 months | 1 to 5 year | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | Rwf'000 | Rwf'000 | Rwf'000 | Rwf'000 | Rwf'000 | Rwf'000 |
| Assets | | | | | | | |
| Balances with the National Bank of Rwanda | 7.3% | - | 3,200,000 | - | - | - | 3,200,000 |
| Balances and placements with other Banks | 0.4% | 87,674,795 | 19,692,392 | - | - | - | 107,377,523 |
| Treasury bills and bonds | 6.1% | - | 42,129,350 | 8,691,340 | - | - | 50,820,690 |
| Loans and advances - Net | 21.8% | - | 54,425,130 | 33,655,483 | 74,946,976 | 34, 719,148 | 197,746,737 |
| **TOTAL ASSETS** | - | 87,674,795 | 119,446,872 | 42,346,823 | 74,946,976 | 34,719,148 | 359,134,614 |
| **LIABILITIES** | | | | | | | |
| Balances and placements due to other Banks | 13.6% | - | 21,500 | 11,595,500 | 20,000 | 175,778 | 11,812,778 |
| Customer deposits | 14.8% | 4,934,843 | 13,934,049 | 50,791,954 | 164,510 | - | 69,825,356 |
| Long-Term Finance | 1.6% | - | 251,331 | 3,099,507 | 26,076,882 | 4,762,799 | 34,190,519 |
| **TOTAL LIABILITIES** | | 4,934,843 | 14,206,880 | 65,486,961 | 26,261,392 | 4,938,577 | 115,828,653 |
| **Total interest sensitivity gap** | | 82,739,952 | 105,239,992 | (23,140,138) | 48,685,584 | 29,780,571 | 243,305,961 |

**4. FINANCIAL RISK MANAGEMET (continued)**

**(d) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Bank's standards is supported by a programme of regular reviews undertaken by both the Internal Audit and Risk and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

**(e) Capital management**

The primary objective of the Bank's capital management is to ensure that the Bank complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the National Bank of Rwanda. 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.

**4. FINANCIAL RISK MANAGEMET (continued)**

**(e) Capital management (continued)**

The Bank's regulatory capital is analysed into two tiers:

- Core Capital (Tier 1) capital, which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Supplementary Capital (Tier 2) includes the regulatory reserve.

Various limits are applied to elements of the capital base.

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

| | | 2014<br>RwF'000 | 2013<br>RwF'000 |
|---|---|---|---|
| **Core Capital (Tier 1):** | | | |
| Ordinary share capital | | 6,713,706 | 6,684,500 |
| Retained earnings and reserves | | 57,724,350 | 38,896,772 |
| Share premium | | 18,572,040 | 18,236,171 |
| Total | | **83,010,096** | **63,817,443** |
| Supplementary Capital (Tier 2): | | 1,634,410 | 1,736,560 |
| **Total qualifying capital** | | **84,644,506** | **65,554,003** |
| | Risk<br>% | | |
| BNR Repo | 20% | 3,000,000 | 640,000 |
| Due From Banks | 20% | 20,597,643 | 21,475,505 |
| Loans & Advances (Net excl. Residential mortgage) | 100% | 198,605,312 | 153,151,988 |
| Loans & Advances (Net Residential mortgage) | 50% | 17,417,099 | 22,936,626 |
| Equity Investments | 100% | 221,425 | 218,455 |
| Fixed Assets & other assets | 100% | 28,402,864 | 28,952,904 |
| Financing commitments given to customers | 100% | 53,598,425 | 49,501,869 |
| **Total Risk weighted assets** | | **321,842,768** | **276,877,347** |
| Regulatory reserve | | 15% | 15% |
| **Capital ratios:** | | | |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | | 26.3% | 23.7% |
| Total tier 1 capital expressed as a percentage of total risk-weighted assets | | 25.8% | 23.0% |

## 5. USE OF ESTIMATES AND JUDGMENTS

In determining the carrying amounts of certain assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes.

### (a) Impairment losses on loans and advances

The Bank's loan loss provisions are established to recognize incurred impairment losses either on loans or within a portfolio of loans and receivable.

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in profit or loss. In particular, judgment by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowances against individual significant loans and advances, the Bank makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and past loss experience and defaults based on portfolio trends.

### (b) Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

- **Valuation models**

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

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

**5. USE OF ESTIMATES AND JUDGMENTS (continued)**

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

- **Valuation framework**

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

✓ Verification of observable pricing;
✓ Re-performance of model valuations;
✓ Review and approval process for new models and changes to models involving both Product Control and the Bank's Market Risk;
✓ Quarterly calibration and back-testing of models against observed market transactions;
✓ Analysis and investigation of significant daily valuation movements; and
✓ Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and the Bank's Market Risk personnel.
✓ When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:
✓ Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
✓ Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
✓ When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
✓ If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank's management committee.

## 5. USE OF ESTIMATES AND JUDGMENTS (continued)

The following table sets out the fair values of financial instruments not measured at fair value as at 31st December 2014 and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

| | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying amount |
|---|---|---|---|---|---|
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| Cash on hand | - | 12,020,669 | - | 12,020,669 | 12,020,669 |
| Balances with the National Bank of Rwanda | - | 46,938,373 | - | 46,938,373 | 46,938,373 |
| Due from banks | - | 102,988,217 | - | 102,988,217 | 102,988,217 |
| Held to maturity investments | - | 58,596,907 | - | 58,596,907 | 58,596,907 |
| Loans and advances to customers | - | - | 233,439,509 | 233,439,509 | 233,439,509 |
| Equity Investments | - | - | 221,425 | 221,425 | 221,425 |
| Other assets | - | - | 7,665,385 | 7,665,385 | 7,665,385 |
| | - | 220,544,166 | 241,326,319 | 461,870,485 | 461,870,485 |

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on Over the Counter (OTC) trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date. Management estimates that the amortised cost equates to the fair value.

### (c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant directors' judgment is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### (d) Property and equipment

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

## 6. SEGMENT REPORTING

The Bank's main business comprises of the following reportable segments:

**Retail banking** – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending. Mortgages – incorporating the provision of mortgage finance.

**Corporate banking** – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.

**Central Treasury** - Funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities

The table below shows analysis of the breakdown for segmental assets, liabilities, income and expenses.

**Statement of Comprehensive Income**

| | Corporate Banking RwF'000 | Retail Banking RwF'000 | Central Treasury RwF'000 | Total RwF'000 |
|---|---|---|---|---|
| For the year ended 31 December 2014 | | | | |
| Interest income | 33,882,960 | 12,897,735 | 5,129,132 | 51,909,827 |
| Interest expense | (2,553,495) | (560,495) | (9,560,610) | (12,654,600) |
| **Net interest income** | **31,329,465** | **12,337,240** | **(4,411,478)** | **39,255,227** |
| Net Non-interest Income | 7,521,050 | 2,362,892 | 9,041,375 | 18,925,317 |
| Net Loan loss impairment | (4,659,674) | (2,883,284) | - | (7,542,957) |
| Total operating expenses | (18,197,307) | (6,926,904) | (2,754,670) | (27,878,882) |
| **Profit before taxation** | **15,993,534** | **4,889,943** | **1,875,227** | **22,758,705** |
| Taxation | (3,121,503) | (954,384) | (365,993) | **(4,441,880)** |
| **Profit after taxation** | **12,872,031** | **3,935,560** | **1,509,234** | **18,316,825** |
| For the year ended 31 December 2013 | | | | |
| Interest income | 28,849,909 | 12,734,910 | 3,625,933 | 45,210,752 |
| Interest expense | (2,101,608) | (226,775) | (7,687,525) | (10,015,908) |
| **Net interest income** | **26,748,301** | **12,508,135** | **(4,061,592)** | **35,194,844** |
| Net Non-interest Income | 6,513,988 | 2,875,401 | 9,169,008 | 18,558,396 |
| Net Loan loss impairment | (3,532,034) | (5,461,965) | - | (8,993,999) |
| Total operating expenses | (16,593,052) | (7,342,495) | (2,085,459) | (26,003,005) |
| **Profit/(Loss) before taxation** | **13,137,203** | **2,597,076** | **3,021,957** | **18,756,236** |
| Taxation | (2,749,841) | (543,613) | (632,547) | **(3,926,001)** |
| **Profit/(Loss) after taxation** | **10,387,362** | **2,053,463** | **2,389,410** | **14,830,235** |

**6. SEGMENT REPORTING (continued)**

**Statement of Financial Position**

| | Corporate Banking RwF'000 | Retail Banking RwF'000 | Central Treasury RwF'000 | Total RwF'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Gross Loans & advances to customers | 187,721,156 | 58,976,460 | - | **246,697,616** |
| Cash in hand | - | - | 12,020,669 | **12,020,669** |
| Balances with the Central Bank | - | - | 46,938,373 | **46,938,373** |
| Due from banks | - | - | 102,988,217 | **102,988,217** |
| Held to maturity investments | - | - | 58,596,907 | **58,596,907** |
| Total Deposits | 185,869,809 | 73,352,999 | 80,592,813 | **339,815,621** |
| Number of customers | 24,165 | 288,022 | 28 | **312,215** |
| Current Accounts | 32,551 | 266,239 | 177 | **298,967** |
| **As at 31 December 2013** | | | | |
| Gross Loans & advances to customers | 146,383,957 | 65,476,760 | - | **211,861,167** |
| Cash in hand | - | - | 11,110,210 | **11,110,210** |
| Balances with the Central Bank | - | - | 24,855,050 | **24,855,050** |
| Due from banks | - | - | 107,377,523 | **107,377,523** |
| Held to maturity investments | - | - | 50,820,690 | **50,820,690** |
| Total Deposits | 168,354,345 | 68,185,263 | 61,294,879 | 297,834,487 |
| Number of customers | 20,485 | 239,510 | 19 | 260,014 |
| Current Accounts | 27,712 | 231,409 | 142 | 259,263 |

The other assets and liabilities have not been allocated to the reportable segments as they are deemed to contribute to the overall performance of the Bank rather than a particular segment. The Bank's geographical coverage is within all provinces of Rwanda.

| | | 2014 | 2013 |
|---|---|---|---|
| 7 | **INTEREST INCOME** | RwF'000 | RwF'000 |
| | Interest on overdrawn accounts | 10,016,733 | 9,882,349 |
| | Interest on treasury loans | 4,765,373 | 4,235,125 |
| | Interest on equipment loans | 4,871,114 | 3,838,218 |
| | Interest on consumer loans | 7,049,062 | 6,465,347 |
| | Interest on mortgage loans | 15,545,839 | 12,259,456 |
| | Other interest on loans to clients | 4,687,629 | 4,904,323 |
| | Interest on deposits with banks | 980,580 | 262,585 |
| | Interest received from reverse purchase agreements | 771,890 | 1,423,824 |
| | Interest on assets held to maturity | 3,221,607 | 1,939,525 |
| | | 51,909,827 | 45,210,752 |

Included within various line items under interest income for the year ended 31 December 2014 is a total of RwF 3.4 billion (2013: RwF 3.6 billion) relating to impaired loans and advances.

| | | 2014 | 2013 |
|---|---|---|---|
| 8 | **INTEREST EXPENSE** | RwF'000 | RwF'000 |
| | Interest on borrowings and transactions with other banks | 2,475,389 | 1,621,764 |
| | Interest on current accounts and saving accounts | 981,936 | 1,089,855 |
| | Interest on fixed deposits | 9,197,275 | 7,304,289 |
| | | 12,654,600 | 10,015,908 |
| 9. | **NET FEES AND COMMISSION INCOME** | | |
| | **Fees and commission income** | | |
| | Commissions on operations of accounts | 2,358,216 | 2,639,702 |
| | Commissions on payment facilities | 2,718,969 | 3,198,971 |
| | Commissions on loan services | 2,812,701 | 2,168,032 |
| | Commissions received from financing commitments | 498,853 | 595,613 |
| | Commissions received from guarantees commitments | 989,272 | 1,078,380 |
| | Income from transactions with other banks | 321,348 | 309,383 |
| | Other fees from services | 1,387,494 | 1,206,525 |
| | | **11,086,853** | **11,196,606** |
| | **Fees and commission expense** | | |
| | Commissions on credit services | (86,304) | (320,524) |
| | Commissions on payment facilities | (101,395) | (74,829) |
| | | **(187,699)** | **(395,353)** |
| | **Net Fees and Commission** | 10,899,154 | 10,801,253 |
| 10 | **Foreign Exchange related income** | | |
| | Net gains on foreign currency transactions | 7,724,325 | 7,476,135 |
| 11. | **OTHER OPERATING INCOME** | | |
| | Rental income | 154,064 | 256,149 |
| | Dividend received from investment | 54,254 | - |
| | Gain on asset disposal | 84,496 | 24,753 |
| | Other income from banking activities | 9,024 | 106 |
| | | 301,838 | 281,008 |

| | | 2014 | 2013 |
|---|---|---|---|
| **12.** | **NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS** | **2014** | **2013** |
| | | **RwF'000** | **RwF'000** |
| | Additional specific provisions (Note 19(b)) | 10,499,492 | 9,097,104 |
| | Decrease of Collective provisions (Note 19(c)) | (1,179,556) | 1,491,909 |
| | Recoveries of previously written off loans | (1,776,979) | (1,595,014) |
| | | 7,542,957 | 8,993,999 |
| **13.** | **OTHER OPERATING EXPENSES** | | |
| | **(i) Personnel expenses** | | |
| | Salaries and wages | 13,139,596 | 10,768,740 |
| | Medical expenses | 401,361 | 267,395 |
| | Pension scheme contributions | 612,140 | 501,736 |
| | Other benefits | 274,640 | 169,367 |
| | | 14,427,737 | 11,707,238 |
| | **(ii) Depreciation and amortisation** | | |
| | Depreciation of property and equipment (Note 21) | 3,469,943 | 4,303,044 |
| | Amortisation of intangible assets (Note 22) | 193,591 | 336,593 |
| | | 3,663,534 | 4,639,637 |
| | **(iii) Administration and general expenses** | | |
| | Directors' Remuneration | 357,209 | 400,945 |
| | Audit Fees | 38,263 | 50,485 |
| | Rent, repairs and Maintenance | 1,126,239 | 989,909 |
| | Utilities | 424,148 | 413,575 |
| | Postage, Photocopying and printing | 1,019,184 | 976,003 |
| | Travel and Accommodation Expenses | 387,965 | 365,550 |
| | Security and cash in transit costs | 1,318,946 | 1,075,778 |
| | Insurance | 104,423 | 94,716 |
| | Marketing and Publicity | 583,618 | 468,987 |
| | Legal and Consultancy Fees | 405,289 | 362,978 |
| | Unclaimed VAT on expenditure | 727,212 | 721,802 |
| | Telephone and Internet costs | 774,395 | 737,361 |
| | Credit and Visa card Costs | 1,256,392 | 1,179,237 |
| | Other general expenses | 1,264,328 | 1,818,804 |
| | | 9,787,611 | 9,656,130 |

**14. INCOME TAX**

The components of income tax expense for the year ended 31 December 2014 and 2013 are:

| | | 2014 | 2013 |
|---|---|---|---|
| a) | **Income tax expense** | **2014** | **2013** |
| | | **RwF'000** | **RwF'000** |
| | Current tax | 4,528,989 | 4,370,349 |
| | Deferred tax credit | (87,109) | (444,348) |
| | **Net tax charge** | 4,441,880 | 3,926,001 |

The income tax charge on the Bank's profit differs from the theoretical amount that would arise using the basic tax rates as follows:

**14. INCOME TAX (continued)**

| | Effective rate | 2014 RwF'000 | Effective rate | 2013 RwF'000 |
|---|---|---|---|---|
| **Income Tax charge** | | | | |
| Current tax | | 4,528,989 | | 4,370,349 |
| Deferred tax charge/ (credit) | | (87,109) | | (444,348) |
| **Net tax charge** | 19.5% | 4,441,880 | 20.9% | 3,926,001 |
| **Accounting profit before tax** | | 22,758,705 | | 18,756,236 |
| Tax calculated at tax rate of 20% | 20.0% | 4,551,741 | 20.0% | 3,751,247 |
| Tax effects on non-taxable/non-deductible items | 1.4% | 317,546 | 5.1% | 948,053 |
| Tax discount - staff & other adj. | (1.5%) | (340,298) | (1.8%) | (328,951) |
| | 19.9% | 4,528,989 | 23.3% | 4,370,349 |

(b) **Tax Payable**

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| At 1 January | 1,828,573 | 320,745 |
| Tax paid during the year | (5,665,044) | (2,862,521) |
| Tax charge for the year | 4,528,989 | 4,370,349 |
| At 31 December | 692,518 | 1,828,573 |

**15. EARNINGS PER SHARE**

| | | |
|---|---|---|
| Profit for the year attributable to equity shareholders – RwF'000 | **18,316,825** | **14,830,235** |
| Weighted average number of shares | 669,910,300 | 667,893,500 |
| **Effect of dilution:** | | |
| Share option ( Employee share Ownership Plan) | 2,992,026 | 2,319,009 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 672,902,326 | 670,212,509 |
| **Earnings per share:** | | |
| Basic earnings per share - RwF | 27.34 | 22.20 |
| Diluted earnings per share - RwF | 27.22 | 22.13 |
| Dividend per share – proposed RwF | 16.33 | 11.06 |

Basic earnings per share is calculated on the profit attributable to ordinary shareholders of RwF 18,316 million (2013: RwF 14,830 million) and on the weighted average number of ordinary shares outstanding during the year of 671,370,600 (2013: 668,450,000 shares).

The Bank has potential dilutive shares equal to 7,200,000 offer shares under the Employee Share Ownership Plan ("ESOP") that may be subscribed for by the directors and eligible employees from 1st September 2012 and no later than 31st August 2017. The warrant entitle the holder one newly issued share of the bank for the cash consideration equal to offer price (RwF 125) and payable in full at the time of purchase.

At the period end date 4,033,600 shares had been exercised under this ESOP scheme.



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**16. ANALYSIS OF CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the statement of cash flow comprise the following statement of financial position accounts:

***(a)* Cash in hand**

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Cash in foreign currency | 5,191,160 | 5,088,980 |
| Cash in local currency | 6,829,509 | 6,021,230 |
| | 12,020,669 | 11,110,210 |

***(b)* Balances with National Bank of Rwanda**

| | | |
|---|---|---|
| Restricted balances (Cash Reserve Ratio) | 16,990,781 | 14,664,989 |
| Unrestricted balances | 29,947,592 | 10,190,061 |
| | 46,938,373 | 24,855,050 |

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted per the National Bank of Rwanda requirements. At 31 December 2014, the Cash Reserve Ratio requirement was 5% (2013 - 5%) of all deposits amounting to RwF 339.8 billion (2013: RwF 297.8 billion). Mandatory cash reserve ratio is not available for use in the Bank's day-to-day operations.

The unrestricted balances include BNR reverse purchase agreement (REPO) amounting to RwF 29.9bn (2013: 10.0bn).

***(c)* Analysis of Cash and Cash equivalent**

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position accounts:

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Cash in hand | 12,020,669 | 11,110,210 |
| Balances with the National Bank of Rwanda | 46,938,373 | 24,855,050 |
| Due from banks | 102,988,217 | 107,377,523 |
| Due to Banks | (15,214,461) | (17,345,024) |
| | 146,732,798 | 125,997,759 |

## 17. DUE FROM BANKS

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Placements with local banks | 3,527 | 2,520,684 |
| Placements with foreign banks | 63,221,501 | 17,182,044 |
| Current accounts with foreign banks | 39,763,189 | 87,674,795 |
| | 102,988,217 | 107,377,523 |

The credit ratings of the financial institutions where the bank's placements are held are shown below. Where individual bank ratings were not available, the parent bank's rating or country ratings have been adopted, in order of preference.

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| A | 195,333 | - |
| A+ | 77,698,783 | 80,111,147 |
| AA | - | 45,648 |
| B | 3,090,880 | 2,771,823 |
| B+ | 22,003,221 | 24,448,905 |
| | 102,988,217 | 107,377,523 |

The weighted average effective interest rate on placements and balances with other banks at 31 December 2014 was 0.4% (2013: 0.5%)

## 18. INVESTMENTS

| a) Held to Maturity Investments | 2014<br>RwF'000 | 2013<br>RwF'000 |
|---|---|---|
| Treasury bills | 58,596,907 | 50,820,690 |
| Maturing between 3-12 months | 58,596,907 | 42,129,350 |
| Maturing between 1-5 years | - | 8,691,340 |
| | 58,596,907 | 50,820,690 |

Treasury bills are debt securities issued by the Government of the Republic of Rwanda. The bills are categorised as amounts held to maturity and are carried at amortised cost.

The change in the carrying amount of government and other securities held for trading is as shown below:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Treasury Bills | Treasury Bonds | Total | Treasury Bills | Treasury Bonds | Total |
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| 1 January | 50,820,690 | - | 50,820,690 | 12,084,228 | 1,035,096 | 13,119,324 |
| Additions | 286,171,894 | 1,660,208 | 287,832,102 | 256,932,372 | - | 256,932,372 |
| Maturities | (280,054,658) | (1,227) | (280,055,885) | (218,195,910) | (1,035,096) | (219,231,006) |
| **31 December** | 56,937,926 | 1,658,981 | 58,596,907 | 50,820,690 | - | 50,820,690 |

The weighted average effective interest rate on government securities held to maturity at 31 December 2014 was 5.9% (2013: 6.1%).

**18. INVESTMENTS (continued)**

| b) Equity Investments | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Development Bank of Rwanda (BRD) | 96,975 | 96,975 |
| Magerwa | 5,000 | 5,000 |
| Investments in SWIFT | 2,970 | - |
| R-Switch (SIMTEL) | 116,480 | 116,480 |
| | 221,425 | 218,455 |

The equity investment in unquoted entities is recorded at costs less impairment since there is no active market for these investments. In the absence of the most reliable basis of determining fair value, cost less impairment is deemed the most reasonable basis of measurement.

**19. LOANS AND ADVANCES**

| | | 2014 | 2013 |
|---|---|---|---|
| (a) | **Net loans and advances** | RwF'000 | RwF'000 |
| | Corporate | 134,412,278 | 88,184,482 |
| | Small and Medium Enterprises | 46,960,333 | 53,770,343 |
| | Non-Profit Entities | 6,348,545 | 4,429,132 |
| | Retail Banking | 59,715,792 | 65,476,760 |
| | **Total Gross Loans** | **247,436,948** | **211,860,717** |
| | Allowance for Impairment - Specific assessment | (11,569,935) | (9,967,748) |
| | Allowance for Impairment - Collective assessment | (1,688,172) | (2,867,728) |
| | Discount on staff loans | (739,332) | - |
| | **Net Carrying Amount** | **233,439,509** | **199,025,241** |
| (b) | **Specific provisions for impairment** | | |
| | At 1 January | 9,967,748 | 5,479,956 |
| | Provisions made during the year | 10,499,493 | 11,152,467 |
| | Loans written off during the year | (8,897,306) | (6,664,675) |
| | **As at 31 December** | **11,569,935** | **9,967,748** |
| (c) | **Collective provisions for impairment** | | |
| | At 1 January | 2,867,728 | 1,375,819 |
| | Provisions/ (Reversals) made during the year | (1,179,556) | 1,491,909 |
| | As at 31 December | 1,688,172 | 2,867,728 |
| (d) | **Maturity analysis of gross loans and advances to customers** | | |
| | Maturing within 1 month | 31,880,289 | 45,418,047 |
| | Maturing after 1 month, but before 3 months | 19,819,438 | 9,026,682 |
| | Maturing after 3 months, but within 1 year | 20,530,590 | 33,655,483 |
| | Maturing after 1 year, but within 5 years | 78,829,439 | 89,562,102 |
| | Maturing after 5 years | 95,637,860 | 34,198,403 |
| | | 246,697,616 | 211,860,717 |

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**19. LOANS AND ADVANCES (continued)**

**(e) Sectoral analysis of Gross Loans and advances to customers**

| | 2014 | 2013 |
|---|---|---|
| | Rwf '000 | Rwf '000 |
| Private sector and individuals | 246,643,295 | 210,704,898 |
| Government and parastatals | 54,321 | 1,155,819 |
| | 246,697,616 | 211,860,717 |

The weighted average effective interest rate on gross loans and advances as at 31 December 2014 was 20.5% (31 December 2013–20.5%).As at 31 December, the ageing analysis of past due but not impaired loans and advances is as follows:

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Less than 60 days | 18,568,312 | 54,194,023 |
| Between 61 – 90 days | 16,962,457 | 8,512,825 |
| | 35,530,769 | 62,706,848 |

## 20. OTHER ASSETS

| | 2014 | 2013 |
|---|---|---|
| | Rwf '000 | Rwf '000 |
| Prepayments and other receivables | 2,311,757 | 1,208,932 |
| Clearing accounts | 5,353,628 | 6,486,073 |
| | 7,665,385 | 7,695,005 |

Clearing accounts are temporally and transitory accounts pending compensation house clearing including cheques in transit to other banks.

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

| 21. PROPERTY AND EQUIPMENT | Land and Buildings | Computer and IT Equipment | Motor vehicles | Furniture and Fittings | Work in Progress | Total |
|---|---|---|---|---|---|---|
| **2014** | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| COST | | | | | | |
| At 1 January 2014 | 21,744,982 | 4,603,143 | 707,517 | 9,204,953 | - | 36,260,595 |
| Additions | 1,062,918 | 440,267 | 102,889 | 1,443,295 | - | 3,049,369 |
| Disposal | (95,000) | - | - | - | - | (95,000) |
| **At 31 December 2014** | **22,712,900** | **5,043,410** | **810,406** | **10,648,248** | **-** | **39,214,964** |
| DEPRECIATION | | | | | | |
| At 1 January 2014 | 4,712,467 | 3,980,947 | 598,164 | 5,950,123 | - | 15,241,701 |
| Charge for the year | 1,092,548 | 509,029 | 87,422 | 1,780,944 | - | 3,469,943 |
| Disposal | (103) | - | - | - | | (103) |
| **At 31 December 2014** | **5,804,912** | **4,489,976** | **685,586** | **7,731,067** | **-** | **18,711,541** |
| **NET BOOK VALUE** | **16,907,988** | **553,454** | **124,820** | **2,917,181** | **-** | **20,503,423** |
| **2013** | | | | | | |
| COST | | | | | | |
| At 1 January 2013 | 20,409,607 | 3,742,859 | 615,712 | 7,604,759 | 218,437 | 32,591,374 |
| Additions | 1,540,375 | 860,284 | 91,805 | 1,381,757 | - | 3,874,221 |
| Reclassification | - | - | - | 218,437 | (218,437) | - |
| Disposal | (205,000) | - | - | - | - | (205,000) |
| **At 31 December 2013** | **21,744,982** | **4,603,143** | **707,517** | **9,204,953** | **-** | **36,260,595** |
| DEPRECIATION | | | | | | |
| At 1 January 2013 | 3,644,221 | 2,883,784 | 419,899 | 4,015,506 | - | 10,963,410 |
| Charge for the year | 1,073,944 | 1,097,163 | 178,265 | 1,953,672 | - | 4,303,044 |
| Reclassification | 19,055 | - | - | (19,055) | - | - |
| Disposal | (24,753) | - | - | - | | (24,753) |
| **At 31 December 2013** | **4,712,467** | **3,980,947** | **598,164** | **5,950,123** | **-** | **15,241,701** |
| **NET BOOK VALUE** | **17,032,515** | **622,196** | **109,353** | **3,254,830** | **-** | **21,018,894** |

## 22. INTANGIBLE ASSETS

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| COST | | |
| At 1 January | 1,232,318 | 994,840 |
| Additions | 188,642 | 237,478 |
| **At 31 December** | **1,420,960** | **1,232,318** |
| AMORTISATION | | |
| At 1 January | 993,313 | 656,720 |
| Amortisation | 193,591 | 336,593 |
| At 31 December | 1,186,904 | 993,313 |
| **Net book value** | 234,056 | 239,005 |

The intangible asset relates to the Bank's core Banking platform, Delta and computer software in use.

## 23 DUE TO BANKS

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| Current accounts | 6,313,823 | 5,708,024 |
| Term Treasury borrowings | 8,900,638 | 11,637,000 |
| | 15,214,461 | 17,345,024 |
| Maturing as follows: | | |
| Payable within 1 month | 10,472,516 | 5,532,246 |
| Payable after 1 month | 4,741,945 | 11,812,778 |
| | 15,214,461 | 17,345,024 |

The weighted average effective interest rate on deposits and balances from other banks as at 31 December 2014 was 9.1% (2013: 10.6%)

## 24. Deposits and balances from customers

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| Current accounts | 227,750,108 | 204,953,080 |
| Fixed deposit accounts | 84,246,898 | 64,779,760 |
| Savings accounts | 4,086,890 | 2,249,528 |
| Collateral and other deposits | 3,992,523 | 3,972,395 |
| Interest Payable | 4,524,741 | 4,534,700 |
| | 324,601,160 | 280,489,463 |

The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2014 was 1.6% (2013: 3.5%)

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## 25. DEFERRED TAX

The following table shows deferred tax recognized in the statement of financial position and changes recorded in the income tax expense:

| | Deferred tax liability 2014 | Income statement | Statement of financial position | Deferred tax liability 2013 |
|---|---|---|---|---|
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| Revaluation of assets- Property | 1,634,409 | - | (102,150) | 1,736,559 |
| Capital Allowance | 761,781 | (18,097) | - | 779,878 |
| Other temporally differences | (964,799) | (69,012) | - | (895,787) |
| | 1,431,391 | (87,109) | (102,150) | 1,620,650 |

## 26. DIVIDENDS PAYABLE

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| At 1 January | 7,416,579 | 5,894,345 |
| Dividends paid during the year | (7,411,110) | (5,892,885) |
| Dividends accrued | - | 7,415,119 |
| At 31 December | 5,469 | 7,416,579 |

During the Board of Directors Meeting held on 5th December 2014, the Directors proposed a dividend pay-out of 60% of the Bank's audited IFRS-based net income in respect of the year 2014.

## 27. OTHER LIABILITIES

| | | |
|---|---|---|
| Clearing accounts | 4,622,257 | 3,001,043 |
| Other payables | 315,219 | 157,483 |
| Accrued General expenses | 6,247,788 | 5,547,055 |
| | 11,185,264 | 8,705,581 |

## 28. LONG TERM FINANCE

| | 2014 | Repayment | Revaluation | Additional Drawdown | Interest | 2013 |
|---|---|---|---|---|---|---|
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| EIB Loan (9.5% - 11.4%) | 1,758,184 | 427,952 | (336,677) | - | 237,537 | 2,522,813 |
| AFD Loan (Libor +3.74% pa) | 11,148,524 | 1,708,093 | 290,067 | - | 688,644 | 12,566,550 |
| AFDB Loan (Libor +4.15% pa) | 7,203,662 | 1,025,006 | 90,994 | 4,116,378 | 490,259 | 4,021,296 |
| EADB – (Libor +6.65 pa) | 6,860,630 | - | 39,617 | 5,145,473 | 160,838 | 1,675,540 |
| PTA Loan (8% pa) | 6,098,338 | 762,289 | 158,467 | - | 562,424 | 6,702,160 |
| OFID Loan (Libor +4.0% pa) | 6,860,629 | - | 158,469 | - | 276,669 | 6,702,160 |
| **Total** | 39,929,967 | 3,923,340 | 400,937 | 9,261,851 | 2,416,371 | 34,190,519 |

The Bank has a 7 year arrangement with European Investment Bank (EIB) for a credit of EUR 5,000,000 to be on-lent to final beneficiaries for the financing up to 50% of the total cost of eligible projects in local currency. The drawdown as at 31 December 2014 was EUR 3.8 million (2013: EUR 3.8m), and no further drawdown is expected.

In 2011, the Bank signed a two ten year credit lines with Agence Francaise de Development (AFD) and the African Development Bank (AFDB) for USD 20 million and 12 million respectively. As 31 December 2014, both the AFD & AFDB credit lines were fully drawn down.

In 2013, the Bank signed three 5 year term credit lines of USD 10m each with the East African Development Bank (EADB), Eastern and Southern African Trade and Development bank (PTA) and OPEC Fund for International Development (OFID) respectively. As at year end 2014, the Bank had fully drawn down on the EADB, PTA and OFID credit lines.

**29. CAPITAL & RESERVES**

**(i). Share Capital**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Shares** | **RwF'000** | **Shares** | **RwF'000** |
| Authorised Share capital of RwF 10 each | 702,460,000 | 7,024,600 | 702,460,000 | 7,024,600 |
| **Issued and fully paid up** | | | | |
| At 1 January | 668,450,000 | 6,684,500 | 667,337,000 | 6,673,370 |
| New issued | 2,920,600 | 29,206 | 1,113,000 | 11,130 |
| **At 31 December** | 671,370,600 | 6,713,706 | 668,450,000 | 6,684,500 |

**(ii). Share Premium**

These reserves arose when the shares of the Bank were issued at a price higher than the nominal (par) value. These will be applied towards capital in future

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| At 1 January | 18,236,171 | 18,108,176 |
| New issued at premium @ RwF 115 each | 335,869 | 127,995 |
| **At 31 December** | 18,572,040 | 18,236,171 |

**(iii). Revaluation Reserve**

| | | |
|---|---|---|
| Buildings | 6,946,241 | 7,354,844 |
| Transfer of excess depreciation | (510,753) | (510,753) |
| Deferred tax on transfer | 102,150 | 102,150 |
| | 6,537,638 | 6,946,241 |

Revaluation reserves arose from the periodic revaluation of freehold land and buildings. The carrying amount of these assets is adjusted to the revaluations. Revaluation surpluses are not distributable.

**(iv). Other Reserves**

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Legal reserves | 5,183,765 | 4,442,253 |
| Special reserves | 5,268,999 | 4,527,487 |
| Other reserves | 26,911,750 | 20,979,655 |
| | 37,364,514 | 29,949,395 |

The Bank transfers 20% of its profit after tax to reserves (10% legal reserves and 10% special reserves). These reserves are not mandatory and neither are they distributable. Other reserves represent the amount transferred from retained earnings to reserves that may be decided by the General Assembly.

**(v). Retained Earnings**

| | 2014 | 2013 |
|---|---|---|
| | RwF'000 | RwF'000 |
| Opening balance | 8,947,377 | 6,893,076 |
| Appropriation of prior year profit | (7,415,118) | (5,890,668) |
| Profit for the current year | 18,316,825 | 14,830,235 |
| Dividends accrued | - | (7,415,118) |
| Excess loan loss provision | - | 19,100 |
| Deferred tax | 510,752 | 510,752 |
| | 20,359,836 | 8,947,377 |

## 30. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides a reconciliation of the line items in the statement of financial position and categories of financial instruments:

| 31 December 2014 | Loans and receivables | Other amortized cost | Held to Maturity | Available for Sale | Total carrying amount |
|---|---|---|---|---|---|
| | RwF'000 | RwF'000 | RwF'000 | RwF'000 | RwF'000 |
| **ASSETS** | | | | | |
| Cash and balances with central bank | - | 58,959,042 | - | - | 58,959,042 |
| Balances due from other Banks | - | 102,988,217 | - | - | 102,988,217 |
| Government securities | - | - | 58,596,907 | - | 58,596,907 |
| Loans and advances to customers | 233,439,509 | - | - | - | 233,439,509 |
| Equity Investments | - | - | - | 221,425 | 221,425 |
| Other assets (uncleared effects) | - | 7,665,385 | - | - | 7,665,385 |
| **TOTAL FINANCIAL ASSETS** | **233,439,509** | **169,612,644** | **58,596,907** | **221,425** | **461,870,485** |
| **LIABILITIES** | | | | | |
| Balances due to other Banks | - | 15,214,461 | - | - | 15,214,461 |
| Customer deposits | - | 324,601,160 | - | - | 324,601,160 |
| Other liabilities | - | 11,185,264 | - | - | 11,185,264 |
| Long Term Borrowing | - | 39,929,967 | - | - | 39,929,967 |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **390,930,852** | **-** | **-** | **390,930,852** |

| 31 December 2013 | | | | | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central bank | - | 35,965,260 | - | - | 35,965,260 |
| Balances due from other Banks | - | 107,377,523 | - | - | 107,377,523 |
| Government securities | - | - | 50,820,690 | - | 50,820,690 |
| Loans and advances to customers | 199,025,241 | - | - | - | 199,025,241 |
| Equity Investments | - | - | - | 218,455 | 218,455 |
| Other assets (uncleared effects) | - | 7,695,003 | - | - | 7,695,003 |
| **TOTAL FINANCIAL ASSETS** | **199,025,241** | **151,037,786** | **50,820,690** | **218,455** | **401,102,172** |
| **LIABILITIES** | | | | | - |
| Balances due to other Banks | - | 17,345,024 | - | - | 17,345,024 |
| Customer deposits | - | 280,489,463 | - | - | 280,489,463 |
| Other liabilities | - | 8,705,581 | - | - | 8,705,581 |
| Long Term Borrowing | - | 34,190,519 | - | - | 34,190,519 |
| **TOTAL FINANCIAL LIABILITIES** | **-** | **340,730,587** | **-** | **-** | **340,730,587** |

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## 31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets analysed according to when they are expected to be recovered or settled

| At 31 December 2014 | Less than 12 months | Over 12 months | Total |
|---|---|---|---|
| **ASSETS** | **RwF'000** | **RwF'000** | **RwF'000** |
| Cash in hand | 12,020,669 | - | 12,020,669 |
| Balances with the National Bank of Rwanda | 46,938,373 | - | 46,938,373 |
| Balances held with other Financial Institutions | 102,988,217 | - | 102,988,217 |
| Held to maturity investments | 58,596,907 | - | 58,596,907 |
| Loans and advances to customers | 72,230,317 | 161,209,192 | 233,439,509 |
| Other assets | 7,652,853 | 12,532 | 7,665,385 |
| Equity investments | - | 221,425 | 221,425 |
| Intangible assets | - | 234,056 | 234,056 |
| Property and equipment | - | 20,503,423 | 20,503,423 |
| **Total Assets** | **300,427,336** | **182,180,628** | **482,607,964** |

The table below shows an analysis of liabilities analysed according to when they are expected to be recovered or settled

| At 31 December 2014 | Less than 12 months RwF'000 | Over 12 months RwF'000 | Total RwF'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Balances from other Financial Institutions | 15,050,115 | 164,346 | 15,214,461 |
| Customer deposits | 324,585,588 | 15,572 | 324,601,160 |
| Tax Liability | 692,518 | - | 692,518 |
| Deferred tax liability | 102,150 | 1,329,241 | 1,413,391 |
| Dividends payables | 5,469 | - | 5,469 |
| Other liabilities | 11,185,264 | - | 11,185,264 |
| Long-term Finance | 3,350,838 | 36,579,129 | 39,929,967 |
| Shareholders' funds | 10,990,094 | 78,557,640 | 89,547,734 |
| Total Liabilities and Equity | 365,962,036 | 116,645,928 | 482,607,964 |

## 31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| At 31 December 2013 | Less than 12 months RwF'000 | Over 12 months RwF'000 | Total RwF'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand | 11,110,210 | - | 11,110,210 |
| Balances with the National Bank of Rwanda | 24,855,050 | - | 24,855,050 |
| Balances and placements with other Financial Institutions | 107,377,523 | - | 107,377,523 |
| Held to maturity investments | 50,820,690 | - | 50,820,690 |
| Loans and advances to customers | 88,100,212 | 110,925,029 | 199,025,241 |
| Other assets | 7,695,005 | - | 7,695,005 |
| Equity investments | - | 218,455 | 218,455 |
| Intangible assets | - | 239,005 | 239,005 |
| Property and equipment | - | 21,018,894 | 21,018,894 |
| **Total Assets** | 289,958,690 | 132,401,383 | 422,360,073 |
| **LIABILITIES** | | | |
| Balances from other Financial Institutions | 17,149,246 | 195,778 | 17,345,024 |
| Customer deposits | 280,324,953 | 164,510 | 280,489,463 |
| Tax Liability | 1,828,573 | - | 1,828,573 |
| Deferred tax liability | 102,150 | 1,518,500 | 1,620,650 |
| Dividends payables | 7,416,579 | - | 7,416,579 |
| Other liabilities | 8,705,580 | - | 8,705,580 |
| Long-term Finance | 3,350,839 | 30,839,680 | 34,190,519 |
| Shareholders' funds | - | 70,763,685 | 70,763,685 |
| **TOTAL LIABILITIES AND EQUITY** | 318,877,920 | 103,482,153 | 422,360,073 |

## 32. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

**Legal Claims**

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

At year end, the Bank is party to various legal proceedings from default customers for a total amount of RwF 31.0m (2013: RwF 142.8). Having regarded the legal advice received, the management is of the opinion that these legal proceedings will not give rise to liabilities, and accordingly no provision for any claims has been made in these financial statements.



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## 33. RELATED PARTIES DISCLOSURES

| | 2014 RwF'000 | 2013 RwF'000 |
|---|---|---|
| Compensation of key management personnel of the Bank | | |
| Short term employee benefits | 797,963 | 633,176 |
| Post-employment pension (defined contribution) | 56,661 | 34,067 |
| Terminal benefits | 18,730 | - |
| | 873,354 | 667,243 |
| **Directors emolument** | 357,209 | 400,945 |

The non-executive directors do not receive pension entitlements from the Bank

**Transaction with key management personnel of the Bank**

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related party concerns in the ordinary course of business at commercial interest and commission rates.
The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year

| | 2014 (RwF'000) | | | 2013 (RwF'000) | | |
|---|---|---|---|---|---|---|
| | Maximum balance during | Balance as at 31 December | Income/ Expense | Maximum balance during | Balance as at 31 December | Income/ Expense |
| Residential mortgages | 139,854 | 131,958 | 12,981 | 195,673 | 190,664 | 10,343 |
| Credit cards and other loans | 90,235 | 90,325 | 10,560 | 65,039 | 36,130 | 1,509 |
| Deposits | 138,895 | 104,561 | 16 | 191,566 | 56,257 | 23 |

**Transaction with other related parties**

In addition to transactions with key management, the Bank enters into transactions with entities with significant influence over the Bank. The following table shows the outstanding deposits balance and the corresponding interest during the year

**Entities with significant influence over the Bank:**

| | Interest Income | Interest Expense | Balance as at year end | Maximum balances during the year |
|---|---|---|---|---|
| | RwF '000 | RwF '000 | RwF '000 | RwF '000 |
| 2014 | 38 | 5,301,459 | 51,072,731 | 57,505,625 |
| 2013 | 600 | 3,896,937 | 40,002,126 | 42,581,037 |

The above mentioned outstanding balances arose from the ordinary course of business. The interests charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2013: Nil).

The Bank offers loans to its employees at 7.5% and 16.0% (2013: 7.5% and 16.0%). The Bank closely monitors the loans to ensure they are performing. As at the end of year there were no non performing staff loans.



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**34. SUBSIDIARIES**

**Representative Office - Nairobi**

The Bank opened a representative office in Nairobi, Kenya on 19th February 2013 that is wholly owned subsidiary of Bank of Kigali Limited. The representative office acts as a liaison between the bank and its clientele in Kenya seeking to strengthen the Bank's relationship with existing clients operating in Nairobi as well establish a relationship with prospective clients. The office however does not directly offer deposit taking or lending facilities.

**BK Securities Limited**

The Bank opened a wholly owned subsidiary, BK Securities Ltd on the 28th January 2013. Its principal place of office is in the Bank of Kigali office premises. BK Securities offers the Bank's customers seamless service consistent with the Bank's customer service. The investing public has an opportunity to buy and sell shares or bonds under the umbrella BK brands. The firm offers brokerage services for all equities listed on the Rwanda Stock Exchange including Bank of Kigali shares. The value of the investment at cost less impairment is RwF 100,000,000.

**35. COMPARATIVES**

Where necessary; comparative figures have been adjusted to conform to changes in presentation in the current year.

**36. Post period end events**

Except as disclosed in the notes to the financial statements, there are no events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report,



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