

**BANK OF KIGALI LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2015**

**BANK OF KIGALI LIMITED**  
**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**BANK OF KIGALI LIMITED**  
DIRECTORS AND STATUTORY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015

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

**DIRECTORS**

Mr. Marc Holtzman (Chairman)	- Appointed on 1 October 2015
Mr. Lado Gurgenidze	- Retired on 1 October 2015
Mr. Jonathan Gatera	- Appointed on 24 August 2015
Mr. Kenneth Ofori-Atta	- Appointed on 24 August 2015
Mrs. Alphonsine Niyigena	
Mr. Julien Kavaruganda	
Mrs. Liliane Igihozo	
Mr. Reuben Karemera	
Dr. Daniel Ufitikirezi	- Retired on 24 August 2015
Mr. Apollo Nkunda	- Retired on 24 August 2015

**SECRETARY**

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

**AUDITORS**

Ernst & Young Rwanda Limited  
Certified Public Accountants  
Bank of Kigali Building  
Avenue de la Paix  
P.O. Box 3638  
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

**BANK OF KIGALI LIMITED**  
REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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The directors have the pleasure of submitting their report together with the audited consolidated financial statements for the year ended 31 December 2015 which disclose the state of affairs of the Bank. The Bank was incorporated on 22<sup>nd</sup> December 1966 and issued with a Banking license to operate in Rwanda by the National Bank of Rwanda on 11<sup>th</sup> February 1967. Operations commenced on 27<sup>th</sup> 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 63.

**3 Dividends**

- (a) During the Board of Directors Meeting held on 22<sup>nd</sup> February 2016, the Directors proposed a dividend pay-out of 40% of the Bank's audited IFRS-based net income in respect of the year 2015-2017
- (b) The total proposed dividend for the year is therefore FRw 8,193,623,200(2014 – FRw 10,993,914,600) 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**

Ernst & Young Rwanda Limited was appointed as external auditors in 2015 in accordance with National Bank of Rwanda Regulation and have expressed their willingness to continue in office.

**7 Approval of the financial statements**

The consolidated financial statements were approved by the Directors on 22<sup>nd</sup> February 2016.

BY ORDER OF THE BOARD



Dr. Shivon Byamukama  
Company Secretary

Date: 22/2/2016

**BANK OF KIGALI LIMITED**  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 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 2015, the consolidated statement of profit or loss and other 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 63, 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 2015.

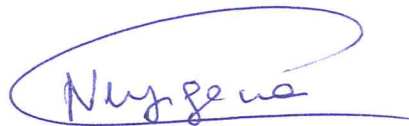
The Directors have made an assessment of the bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern for at least the next twelve months from the date of this statement.

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 63 were approved by the Board of Directors on 22 February 2016 and signed on its behalf by:



Director



Director



Dr. Shivon Byamukama  
Company Secretary

Date: 22/2/2016

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 7 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 under 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 monthly 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 2015.

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 Niyigena	Non-Executive	✓	✓		✓	✓	
Julien Kavaruganda	Non-Executive	✓		✓		✓	
Kenneth Ofori-Atta	Non-Executive	✓					✓
Jonathan Gatera	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 accompanying consolidated financial statements of Bank of Kigali Limited and its subsidiaries which comprise the consolidated statements of financial position as at 31 December 2015, the consolidated statements of profit or loss and other 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 63.

### **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 present fairly in all material respects, the consolidated financial position of Bank of Kigali and its subsidiaries as at 31 December 2015, 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 Laws and 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 profit or loss and other 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.

**ALLAN GICHUHI**

Ernst & Young Rwanda Limited  
Certified Public Accountants  
P. O. Box 3638  
Kigali  
Rwanda

Date: .....

07/03/2016

**BANK OF KIGALI LIMITED****CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**


		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>FRw'000</b>	<b>FRw'000</b>
Interest income	7	59,966,855	51,909,827
Interest expense	8	<u>(13,727,086)</u>	<u>(12,654,600)</u>
<b>Net interest income</b>		<b>46,239,769</b>	<b>39,255,227</b>
Net Fees and commission income	9	11,884,277	10,899,154
Foreign exchange related income	10	5,301,247	7,724,325
Other operating income	11	<u>292,651</u>	<u>301,838</u>
<b>Operating income before impairment losses</b>		<b><u>63,717,944</u></b>	<b><u>58,180,544</u></b>
Net impairment on loans and advances	12	<u>(7,547,662)</u>	<u>(7,542,957)</u>
<b>Net operating income</b>		<b>56,170,282</b>	<b>50,637,587</b>
Personnel costs	13(i)	(15,029,991)	(14,427,737)
Depreciation and amortisation	13(ii)	(3,807,120)	(3,663,534)
Administration and General expenses	13(iii)	<u>(11,595,939)</u>	<u>(9,787,611)</u>
<b>Total operating expenses</b>		<b><u>(30,433,050)</u></b>	<b><u>(27,878,882)</u></b>
<b>Profit before income tax</b>		<b>25,737,232</b>	<b>22,758,705</b>
Income tax expense	14(a)	<u>(5,253,174)</u>	<u>(4,441,880)</u>
<b>Net profit for the year</b>		<b><u>20,484,058</u></b>	<b><u>18,316,825</u></b>
Other comprehensive income net of taxes:		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>20,484,058</u></b>	<b><u>18,316,825</u></b>
Basic earnings per share in FRw	15	30.49	27.34
Diluted earnings per share in FRw	15	30.38	27.22
Dividend per share (FRw) – proposed	15	12.15	16.33


The notes set out on pages 12 to 63 form an integral part of these financial statements.

**BANK OF KIGALI LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

<b>ASSETS</b>	<b>Note</b>	<b>2015</b> <b>FRw'000</b>	<b>2014</b> <b>FRw'000</b>
Cash in hand	16 (a)	14,951,617	12,020,669
Balances with the National Bank of Rwanda	16 (b)	44,572,594	46,938,373
Due from banks	17	62,568,118	102,988,217
Held to maturity investments	18(a)	93,503,198	58,596,907
Loans and advances to customers	19(a)	313,925,535	233,439,509
Other assets	20	8,255,500	7,665,385
Equity Investments	18(b)	221,425	221,425
Property and equipment	21	22,846,884	20,503,423
Intangible assets	22	<u>381,529</u>	<u>234,056</u>
<b>TOTAL ASSETS</b>		<b><u>561,226,400</u></b>	<b><u>482,607,964</u></b>
<b>LIABILITIES</b>			
Due to banks	23	22,609,724	15,214,461
Deposits and balances from customers	24	384,713,700	324,601,160
Tax Payable	14(b)	808,141	692,518
Deferred tax liability	25	1,682,520	1,431,391
Dividends Payable	26	34,230	5,469
Other liabilities	27	9,656,897	10,860,278
Long-term finance	28	<u>42,475,643</u>	<u>40,254,954</u>
<b>TOTAL LIABILITIES</b>		<b><u>461,980,855</u></b>	<b><u>393,060,231</u></b>
<b>CAPITAL AND RESERVES</b>			
Share Capital	29(i)	6,721,842	6,713,706
Share Premium	29(ii)	18,665,604	18,572,040
Revaluation Reserves	29(iii)	6,129,035	6,537,638
Other Reserves	29(iv)	11,918,110	37,364,513
Retained earnings	29(v)	<u>55,810,954</u>	<u>20,359,836</u>
<b>TOTAL EQUITY</b>		<b><u>99,245,545</u></b>	<b><u>89,547,733</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>561,226,400</u></b>	<b><u>482,607,964</u></b>

The financial statements were approved by the Board of Directors on 22 February 2016 and were signed on its behalf by:

Director: 

Director: 

Date: 22/2/2016

Date: 22/2/2016

The notes set out on pages 12 to 63 form an integral part of these financial statements.

**BANK OF KIGALI LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued capital	Share Premium	Revaluation	Retained Earnings	Legal Reserves	Special Reserves	Other Reserves	Total
	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000
<b>2014</b>								
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	5,932,094	-
Increase in Share Capital	29,206	335,869	-	-	-	-	-	365,075
Profit for the period	-	-	-	18,316,825	-	-	-	18,316,825
Transfer of Excess depreciation	-	-	(408,603)	510,752	-	-	-	102,149
<b>As at 31 December 2014</b>	<b>6,713,706</b>	<b>18,572,040</b>	<b>6,537,638</b>	<b>20,359,836</b>	<b>5,183,765</b>	<b>5,268,999</b>	<b>26,911,749</b>	<b>89,547,733</b>
<b>2015</b>								
As at 1 January 2015	6,713,706	18,572,040	6,537,638	20,359,836	5,183,765	5,268,999	26,911,749	89,547,733
Appropriation of profit - 2014	-	-	-	(1,465,346)	732,673	732,673	-	-
Dividend paid 2014	-	-	-	(10,990,095)	-	-	-	(10,990,095)
Increase in Share Capital	8,136	93,564	-	-	-	-	-	101,700
Profit for the period	-	-	-	20,484,058	-	-	-	20,484,058
Transfer of Excess depreciation	-	-	(408,603)	510,752	-	-	-	102,149
Reclassification from other reserves	-	-	-	26,911,749	-	-	(26,911,749)	-
<b>As at 31 December 2015</b>	<b>6,721,842</b>	<b>18,665,604</b>	<b>6,129,035</b>	<b>55,810,954</b>	<b>5,916,438</b>	<b>6,001,672</b>	<b>-</b>	<b>99,245,545</b>

The notes set out on pages 12 to 63 form an integral part of these financial statements

**BANK OF KIGALI LIMITED**  
**CONSOLIDATED STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

		<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>	<b>Note</b>	<b>FRw'000</b>	<b>FRw'000</b>
Profit before tax		25,737,232	22,758,705
<b>Adjusted for:</b>			
Depreciation of property and equipment	13(ii)	3,503,134	3,469,943
Amortization of intangible assets	13(ii)	303,986	193,591
Gains on disposal of fixed Assets	11	(75,778)	(84,496)
Loss on revaluation of long-term finance/ accrued interest	28	2,354,123	725,925
Dividend income	11	<u>(67,614)</u>	<u>(54,254)</u>
<b>Cash flows before changes in working capital</b>		<b>31,755,083</b>	<b>27,009,414</b>
<b>Changes in Working capital</b>			
Increase in Loans and Advances	19(a)	(80,486,026)	(34,414,268)
(Decrease)/Increase in other assets	20	(590,118)	29,620
Increase in clients balances and deposits	24	60,112,540	44,111,697
Increase in Cash Reserve Requirement	16	(3,375,390)	(2,325,792)
(Decrease)/ Increase in other liabilities	27	<u>(1,347,174)</u>	<u>2,154,695</u>
		<b>6,068,915</b>	<b>36,565,366</b>
Income tax paid	14(b)	(4,640,477)	(5,665,044)
Dividends received	11	<u>67,614</u>	<u>54,254</u>
<b>Net cash generated from operating activities</b>		<b><u>1,496,052</u></b>	<b><u>30,954,576</u></b>
<b>INVESTING ACTIVITIES</b>			
Purchase of intangible assets	22	(451,459)	(188,642)
Purchase of property and equipment	21	(5,846,595)	(3,049,369)
Proceeds from sale of fixed assets		75,778	179,393
Purchase of Held To Maturity Investments	18(a)	(307,227,740)	(287,832,102)
Proceeds from Held To Maturity Investments	18(a)	272,321,449	280,055,885
Purchase of equity Investment shares	18(b)	-	<u>(2,970)</u>
<b>Net cash flows from investing activities</b>		<b><u>(41,128,567)</u></b>	<b><u>(10,837,805)</u></b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid	26	(10,961,334)	(7,411,110)
Drawdown of long term finance	28	7,250,000	9,261,851
Repayment of long-term finance	28	(7,383,434)	(3,923,340)
Increase in share capital	29(i)	8,136	29,206
Increase in share premium	29(ii)	<u>93,564</u>	<u>335,869</u>
<b>Net cash flows from financing activities</b>		<b><u>(10,993,068)</u></b>	<b><u>(1,707,524)</u></b>
Net (Decrease)/ increase in cash and cash equivalent		(50,625,583)	18,409,247
Net foreign exchange difference		502,736	2,832,074
Cash and cash equivalents at 1 January		<u>128,862,333</u>	<u>107,621,012</u>
<b>Cash and cash equivalent at 31 December</b>	<b>16(c)</b>	<b><u>78,739,486</u></b>	<b><u>128,862,333</u></b>

The notes set out on pages 12 to 63 form an integral part of these financial statements.

## **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

### **Representative Office - Nairobi**

The Bank opened a representative office in Nairobi, Kenya on 19th February 2013 that is wholly owned by 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 as establish a relationship with prospective clients. The office however does not directly offer deposit taking or lending facilities.

## **2. BASIS OF PREPARATION**

### **(a) Basis of accounting**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They were authorised for issue by the Bank's board of directors on 22<sup>nd</sup> February 2016. All values are rounded to the nearest thousand (FRw'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, BK Nominees, BK Registrars and BK Telecom 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.

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

### **(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.

### **(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 6.

## **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 Other Comprehensive Income 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 profit or loss and other comprehensive income for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

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

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

**(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.

**(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 fair value, 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.

Buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. Buildings were revalued based on the estimated market value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made from the difference depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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%



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

#### **b) Property and equipment (continued)**

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

Property and equipment are at each reporting date 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 profit or loss and other 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 prospectively, as appropriate, and treated as changes in accounting estimates.

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.

#### **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 profit or loss and other 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.

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

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

##### **(ii) De-recognition(continued)**

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.

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. Where there is no active market for these investments, cost less impairment is deemed the most reasonable basis of measurement. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

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

**d) Financial instruments (continued)**

**(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.

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.

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

**d) Financial instruments (continued)**

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

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.

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.

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.

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

**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.

**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.

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

**h) Leasing (continued)**

**(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.

**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 profit or loss and other comprehensive income in allowance for impairment losses. The premium received is recognised in the statement of profit or loss and other 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 and accounted for prospectively. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other 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
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There are no intangible assets with indefinite useful lives.

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

**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 reporting date.

**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 profit or loss and other 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.

***Employee Share Ownership Plan ("ESOP")***

The Bank has Employee Share Ownership Plan ("ESOP") that may be subscribed for by the directors and eligible employees from 1<sup>st</sup> September 2012 and no later than 31<sup>st</sup> August 2017. The warrant entitle the holder one newly issued share of the bank for the cash consideration equal to offer price and payable in full at the time of purchase. The Bank does not have a past practice of cash settlement for these awards.

**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.

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

**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.

**r) New and amended standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

***Annual Improvements 2010-2012 Cycle***

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

***IFRS 2 Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. These amendments did not impact the Group's financial statements or accounting policies.

***IFRS 3 Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not impact the Group's.

***IFRS 8 Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 7 in this period's financial statements as in this period's financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.



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

**r) New and amended standards and interpretations (continued)**

***Annual Improvements 2010-2012 Cycle (continued)***

***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the Group during the current period.

***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

***Annual Improvements 2011-2013 Cycle***

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

***IFRS 3 Business Combinations***

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

Bank of Kigali Limited is not a joint arrangement and has no such investments in joint arrangements, and thus this amendment is not relevant for the Group and its subsidiaries.

***IFRS 13 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

***IAS 40 Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The amendment does not impact the Group.

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

**r) New and amended standards and interpretations (continued)**

***Standards issued but not yet effective***

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

***IFRS 9 Financial Instruments***

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

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

***(a) Classification and measurement***

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

***(b) Impairment***

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

***(c) Hedge accounting***

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

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

#### **r) New and amended standards and interpretations (continued)**

##### ***Standards issued but not yet effective***

##### ***IFRS 14 Regulatory Deferral Accounts***

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

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

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date. The Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Group does not expect much impact on IFRS 15 as they deal mostly with financial instruments which are scoped out of IFRS 15.

##### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### ***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

##### ***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants***

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell.

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

**r) New and amended standards and interpretations (continued)**

***Standards issued but not yet effective***

For government grants related to bearer plants, IAS 20, Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

***Amendments to IAS 27: Equity Method in Separate Financial Statements***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

***Annual Improvements 2012-2014 Cycle***

These improvements are effective for annual periods beginning on or after 1 January 2016. These amendments are expected to have no major impact on the Group. They include:

***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

***IFRS 7 Financial Instruments: Disclosures***

***(i) Servicing contracts***

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

***(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements***

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

***IAS 19 Employee Benefits***

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

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

#### **r) New and amended standards and interpretations (continued)**

##### ***IAS 34 Interim Financial Reporting***

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

##### ***Standards issued but not yet effective***

##### ***Amendments to IAS 1 Disclosure Initiative***

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### ***IFRS 16 Leases***

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

##### ***Key features***

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.

Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.

The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).

Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.

Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. The standard is not expected to have a major impact on the Bank.

#### **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 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;

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

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

- 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)

**(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:

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
<b>Individually impaired</b>		
Grade 3: Substandard risk	5,815,268	5,888,942
Grade 4: Doubtful risk	5,255,344	6,220,378
Grade 5: Loss risk	<u>7,879,685</u>	<u>4,102,670</u>
<b>Gross amount</b>	<b><u>18,950,297</u></b>	<b><u>16,211,990</u></b>
<b>Allowance for impairment</b>		
Specific provision for impairment	<u>(8,145,955)</u>	<u>(11,569,935)</u>
<b>Net Carrying amount</b>	<b><u>10,804,342</u></b>	<b><u>4,642,055</u></b>

Non-performing Gross loans and advances on which interest income has been suspended amount to FRw 18,950 million (2014: FRw 16,212 million) for the Bank, with total impairment allowance of FRw 10,845 million (2014: FRw 13,258 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 FRw 27,559 million (2014: FRw 17,598million) and are considered adequate.

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

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

**Non-performing loans**

Non-performing Gross loans and advances on which interest income has been suspended amount to FRw 18,950 million (2014: FRw 16,212 million) for the Bank, with total impairment allowance of FRw 10,845 million (2014: FRw 13,258 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 FRw 27,559 million (2014: FRw 17,598million) 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:

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Grade 1: Normal risk	343,241,835	225,390,655
Grade 2: Watch risk	25,545,694	38,363,001
Allowance for collective assessment	<u>(2,699,044)</u>	<u>(1,688,172)</u>
Net Carrying amount	<b><u>366,088,485</u></b>	<b><u>262,065,484</u></b>

Loans and advances graded 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 and 2 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.

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.



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

**iv) Credit –related commitment risk ( continued)**

Other exposures to credit risk are as summarized below:

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Balances with the National Bank of Rwanda	44,572,594	46,938,373
Due from banks	62,568,118	102,988,217
Held to maturity investments	93,503,198	58,596,907
Equity investments	221,425	221,425
Other assets	<u>8,255,503</u>	<u>7,665,385</u>
Net Carrying amount	<b><u>209,120,838</u></b>	<b><u>216,410,307</u></b>

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.

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.

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
<b>Guarantees</b>		
Acceptances and letter of credit issued	7,016,181	5,310,899
Guarantees commitments issued	55,419,544	28,151,776
Loans/ lines approved but not yet disbursed	<u>42,307,138</u>	<u>47,590,474</u>
	<b><u>104,742,863</u></b>	<b><u>81,053,149</u></b>

**(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:

	<b>2015</b>		<b>2014</b>	
	<b>FRw'000</b>	<b>%age</b>	<b>FRw'000</b>	<b>%age</b>
Large Corporate Clients	184,329,796	57%	134,412,278	54%
Small and Medium Enterprises	69,667,433	21%	46,960,333	19%
Non-Profit Entities	9,114,479	3%	6,348,545	3%
Retail Banking	<u>61,658,825</u>	<u>19%</u>	<u>58,976,460</u>	<u>24%</u>
	<b><u>324,770,534</u></b>	<b><u>100%</u></b>	<b><u>246,697,616</u></b>	<b><u>100%</u></b>

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

**(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 2014 and 2015. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Against Impaired loans	27,558,879	17,598,444
Against past due but not impaired loans	<u>443,977,344</u>	<u>349,272,249</u>
	<b><u>471,536,223</u></b>	<b><u>366,870,693</u></b>

**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 2015 or 2014.

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		Principal type of security held
	2015	2014	
<b><u>Loans and advances to Customers</u></b>			
<b>Retail Loans &amp; Advances</b>			
Overdrafts	-	-	Un-secured
Personal Loans	-	-	Un-secured
Vehicles loans	70	70	Vehicle
Mortgage Loans	70	70	Property
Credit Cards	-	-	Un-secured
<b>Corporate Loans</b>	100	100	Property, Plant and Equipment, Insurance, guarantees
<b><u>Loan and advances to Banks</u></b>			
Repos	100	100	Marketable Securities
Other loans and advances to banks	-	-	Un- Secured

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

**(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.

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:

	<b>2015</b>	<b>2014</b>
At close of the year	53.0%	64.9%
Average for the year	56.7%	67.8%
Maximum for the year	63.6%	70.3%
Minimum for the year	50.5%	64.9%

**BANK OF KIGALI LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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

**b. Liquidity risk (continued)**

The table below summarizes the Bank's liquidity risk as at 31 December 2015 and 31 December 2014, 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
<b>ASSETS</b>						
Cash in hand	14,951,617	-	-	-	-	14,951,617
Balances with the National Bank of Rwanda	44,572,594	-	-	-	-	44,572,594
Due from banks	62,568,118	-	-	-	-	62,568,118
Held to maturity investments	65,581,843	17,653,117	10,268,238	-	-	93,503,198
Loans and advances to customers	46,651,405	12,511,596	22,112,391	68,761,871	163,888,272	313,925,535
Equity investments	-	-	-	-	221,425	221,425
Other assets	7,508,987	33,443	700,532	12,538	-	8,255,500
Property and equipment	-	-	-	-	22,846,884	22,846,884
Intangible assets	-	-	-	381,529	-	381,529
<b>TOTAL ASSETS</b>	<b>241,834,564</b>	<b>30,198,156</b>	<b>33,081,161</b>	<b>69,155,938</b>	<b>186,956,581</b>	<b>561,226,400</b>
<b>LIABILITIES AND EQUITY</b>						
Due to banks	16,792,425	2,036,512	3,780,787	-	-	22,609,724
Other customer deposits	285,457,701	12,373,651	86,707,081	175,267	-	384,713,700
Deferred Tax	-	-	102,151	510,754	1,069,615	1,682,520
Dividends payable	-	-	34,230	-	-	34,230
Other liabilities	6,517,050	3,009,308	130,539	-	-	9,656,897
Long-term Finance	543,750	1,968,119	6,903,350	33,060,424	-	42,475,643
Tax payable	808,141	-	-	-	-	808,141
Shareholders' funds	-	-	-	-	99,245,545	99,245,545
<b>At 31 December 2015</b>	<b>310,119,067</b>	<b>19,387,590</b>	<b>97,658,138</b>	<b>33,746,445</b>	<b>100,315,160</b>	<b>561,226,400</b>
<b>Liquidity Gap 2015</b>	<b>(68,284,503)</b>	<b>10,810,566</b>	<b>(64,576,977)</b>	<b>35,409,493</b>	<b>86,641,421</b>	<b>-</b>

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

**b. Liquidity risk (continued)**

	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 – 12 months</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
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
<b>TOTAL ASSETS</b>	<b>208,551,148</b>	<b>47,709,248</b>	<b>44,166,940</b>	<b>65,817,921</b>	<b>116,362,707</b>	<b>482,607,964</b>
<b>LIABILITIES AND EQUITY</b>						
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
Deterred Tax	-	-	102,151	510,754	818,486	1,431,391
Dividends payable	-	-	5,469	-	-	5,469
Other liabilities	6,882,271	3,727,008	250,999	-	-	10,860,278
Long-term Finance	514,547	706,132	6,006,297	29,671,168	3,356,810	40,254,954
Tax payable	-	692,518	-	-	-	692,518
Shareholders' funds	-	-	-	-	89,547,733	89,547,733
<b>At 31 December 2014</b>	<b>258,059,721</b>	<b>15,629,936</b>	<b>84,833,438</b>	<b>30,361,840</b>	<b>93,723,029</b>	<b>482,607,964</b>
<b>Liquidity Gap 2014</b>	<b>(49,508,573)</b>	<b>32,079,312</b>	<b>(40,666,498)</b>	<b>35,456,081</b>	<b>22,639,678</b>	<b>-</b>

**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 2015 and 31 December 2014:

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Assets in foreign currencies	121,246,553	118,568,075
Liabilities in foreign currencies	<u>(140,285,268)</u>	<u>(135,467,989)</u>
Net foreign currency exposure at the end of the year	<b><u>(19,038,715)</u></b>	<b><u>(16,899,914)</u></b>

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).

<b>Currency</b>	<b>Increase/decrease in exchange rate</b>	<b>Effect on profit before tax</b>	
		<b>2015</b>	<b>2014</b>
		<b>FRw'000</b>	<b>FRw'000</b>
USD	+/-5%	(1,128,323)	(1,879,288)
GBP	+/-1%	(866)	(95,392)
EUR	+/-5%	(50,781)	(150,240)

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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 are summarised below. All figures are in thousands of Rwandan francs (FRw'000) as at 31 December 2015:

<b>Assets</b>	<b>USD</b>	<b>Euro</b>	<b>GBP</b>	<b>Other Foreign currencies</b>	<b>Total</b>
Cash, deposits and advances to banks	47,968,973	10,499,102	1,489,977	2,734,268	62,692,320
Held to maturity investments	29,931,687	-	-	-	29,931,687
Loans and advances to customers	26,589,373	10,046	1,480	248	26,601,147
Other assets, property and investments	2,011,981	8,865	313	240	2,021,399
<b>At 31 December 2015</b>	<b>106,502,014</b>	<b>10,518,013</b>	<b>1,491,770</b>	<b>2,734,756</b>	<b>121,246,553</b>
<b>Liabilities and Equity</b>					
Deposits from banks	709,082	708,729	44,438	-	1,462,249
Deposits from customers	87,047,946	8,793,664	1,533,816	135,854	97,511,280
Other liabilities	187,365	-	95	196	187,656
Long-Term Finance	41,124,083	-	-	-	41,124,083
<b>At 31 December 2015</b>	<b>129,068,476</b>	<b>9,502,393</b>	<b>1,578,349</b>	<b>136,050</b>	<b>140,285,268</b>
<b>Net currency exposure</b>	<b>(22,566,462)</b>	<b>1,015,620</b>	<b>(86,579)</b>	<b>2,598,706</b>	<b>(19,038,715)</b>

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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 are summarised below. All figures are in thousands of Rwandan francs (FRw'000) as at 31 December 2014:

**Assets**

	<b>USD</b>	<b>Euro</b>	<b>GBP</b>	<b>Other Foreign currencies</b>	<b>Total</b>
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 intangibles	671,442	53,410	5,874	74	730,800
<b>At 31 December 2014</b>	<b>89,025,607</b>	<b>10,066,554</b>	<b>11,178,201</b>	<b>8,297,713</b>	<b>118,568,075</b>
<b>Liabilities and Equity</b>					
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
<b>At 31 December 2014</b>	<b>126,611,360</b>	<b>7,061,762</b>	<b>1,639,033</b>	<b>155,834</b>	<b>135,467,989</b>
<b>Net currency exposure</b>	<b>(37,585,753)</b>	<b>3,004,792</b>	<b>9,539,168</b>	<b>8,141,879</b>	<b>(16,899,914)</b>



**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.

Currency	Increase/decrease in LIBOR rate	Effect on profit before tax	
		2015	2014
		FRw'000	FRw'000
USD	+/-0.23%	95,819	46,937
EUR	+/-0.27%	3,703	374

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 2015	Weighted interest rate	+/- 100bp	
		FRw'000	FRw'000
<u>Effect on Interest income</u>			
Balances with the National Bank of Rwanda	1.8%	12,000,000	120,000
Balances and placements with other Banks	1.7%	62,568,118	625,681
Treasury bills and bonds	4.4%	93,503,198	935,032
Loans and advances - Net	19.2%	<u>313,925,535</u>	<u>3,139,255</u>
<b>TOTAL ASSETS/INCREASE</b>		<b><u>481,996,857</u></b>	<b><u>4,819,968</u></b>
<u>Effect on Interest expense</u>			
Balances and placements due to Banks	8.9%	12,242,046	122,420
Customer deposits	9.6%	121,173,955	1,211,740
Long-Term Finance	6.6%	<u>42,475,643</u>	<u>424,756</u>
<b>TOTAL LIABILITIES/INCREASE</b>		<b><u>175,891,644</u></b>	<b><u>1,758,916</u></b>
<b>EFFECT ON PROFITS</b>		<b><u>306,105,207</u></b>	<b><u>3,061,052</u></b>
Balance as at 31 December 2014	Weighted interest rate	+/- 100bp	
		FRw'000	FRw'000
<u>Effect on Interest income</u>			
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%	<u>233,219,355</u>	<u>2,332,193</u>
<b>TOTAL ASSETS/INCREASE</b>		<b><u>409,803,638</u></b>	<b><u>4,098,036</u></b>
<u>Effect on Interest expense</u>			
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%	<u>40,254,954</u>	<u>402,550</u>
<b>TOTAL LIABILITIES/INCREASE</b>		<b><u>138,376,479</u></b>	<b><u>1,383,765</u></b>
<b>EFFECT ON PROFITS</b>		<b><u>271,427,159</u></b>	<b><u>2,714,271</u></b>

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**4. FINANCIAL RISK MANAGEMENT (continued)**  
**(c) Market Risk(continued)**

The table below summarizes the interest rate risk of the Bank as at 31 December 2015:

	Weighted interest rate	On demand FRw'000	Less than 3 months FRw'000	3-12 months FRw'000	1 to 5 year FRw'000	Over 5 years FRw'000	Total FRw'000
<b>ASSETS</b>							
Balances with the National Bank of Rwanda	1.8%	-	12,000,000	-	-	-	12,000,000
Balances and placements with other Banks	1.7%	44,206,278	18,361,840	-	-	-	62,568,118
Treasury bills and bonds	4.4%	-	17,653,117	75,850,081	-	-	93,503,198
Loans and advances - Net	19.2%	-	59,163,001	22,112,391	68,761,871	163,888,272	313,925,535
<b>TOTAL ASSETS</b>		<b>44,206,278</b>	<b>107,177,958</b>	<b>97,962,472</b>	<b>68,761,871</b>	<b>163,888,272</b>	<b>481,996,851</b>
<b>LIABILITIES</b>							
Balances and placements due to other Banks	8.9%	-	8,461,260	3,780,786	-	-	12,242,046
Customer deposits	9.6%	6,946,571	27,345,036	86,707,081	175,267	-	121,173,955
Long-Term Finance	6.6%	-	2,511,869	6,903,350	33,060,424	-	42,475,643
<b>TOTAL LIABILITIES</b>		<b>6,946,571</b>	<b>38,318,165</b>	<b>97,391,217</b>	<b>33,235,691</b>	<b>-</b>	<b>175,891,644</b>
<b>Total interest sensitivity gap</b>		<b>37,259,707</b>	<b>68,859,793</b>	<b>571,255</b>	<b>35,526,180</b>	<b>163,888,272</b>	<b>306,105,207</b>

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

	Weighted interest rate	On demand FRw'000	Less than 3 months FRw'000	3-12 months FRw'000	1 to 5 year FRw'000	Over 5 years FRw'000	Total FRw'000
<b>ASSETS</b>							
<b>Assets</b>							
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
<b>TOTAL ASSETS</b>		<b>63,221,501</b>	<b>142,074,105</b>	<b>43,298,840</b>	<b>65,571,333</b>	<b>95,637,859</b>	<b>409,803,638</b>
<b>LIABILITIES</b>							
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	6.5%	-	1,220,680	6,006,297	29,671,168	3,356,808	40,254,954
<b>TOTAL LIABILITIES</b>		<b>4,086,890</b>	<b>24,602,395</b>	<b>76,643,646</b>	<b>29,686,740</b>	<b>3,356,808</b>	<b>138,376,479</b>
<b>Total interest sensitivity gap</b>		<b>59,134,611</b>	<b>117,471,710</b>	<b>(33,344,806)</b>	<b>35,884,593</b>	<b>92,281,051</b>	<b>271,427,159</b>

#### **4. FINANCIAL RISK MANAGEMENT (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 MANAGEMENT (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:

		<b>2015</b>	<b>2014</b>
		<b>FRw'000</b>	<b>FRw'000</b>
<b>Core Capital (Tier 1):</b>			
Ordinary share capital		6,721,842	6,713,706
Retained earnings and reserves		67,729,066	57,724,350
Share premium		<u>18,665,604</u>	<u>18,572,040</u>
Total		<b>93,116,512</b>	<b>83,010,096</b>
Supplementary Capital (Tier 2):		<u>1,532,259</u>	<u>1,634,410</u>
<b>Total qualifying capital</b>		<b><u>94,648,771</u></b>	<b><u>84,644,506</u></b>
	<b><u>Risk</u></b>		
	<b><u>%</u></b>		
BNR Repo	20%	2,400,000	3,000,000
Due From Banks	20%	11,513,624	20,597,643
Financial Instruments	100%	29,931,686	-
Loans & Advances (Net excl. Residential mortgage)	100%	278,867,168	198,605,312
Loans & Advances (Net Residential mortgage)	50%	17,529,184	17,417,099
Equity Investments	100%	221,425	221,425
Fixed Assets & other assets	100%	31,483,915	28,402,864
Financing commitments given to customers	100%	<u>49,323,319</u>	<u>53,598,869</u>
<b>Total Risk weighted assets</b>		<b><u>421,270,321</u></b>	<b><u>321,843,212</u></b>
Regulatory reserve		15%	15%
<b><u>Capital ratios:</u></b>			
Total qualifying capital expressed as a percentage of total risk-weighted assets		<u>22.5%</u>	<u>26.43%</u>
Total tier 1 capital expressed as a percentage of total risk-weighted assets		<u>22.1%</u>	<u>25.8%</u>

## **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 premise 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 2015 and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Total carrying amount</b>
	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>
Cash on hand	-	14,951,617	-	14,951,617	14,951,617
Balances with the National Bank of Rwanda	-	44,572,594	-	44,572,594	44,572,594
Due from banks	-	62,568,118	-	62,568,118	62,568,118
Held to maturity investments	-	93,503,198	-	93,503,198	93,503,198
Loans and advances to customers	-	-	313,925,535	313,925,535	313,925,535
Equity Investments	-	-	221,425	221,425	221,425
Other assets	-	-	<u>8,255,503</u>	<u>8,255,500</u>	<u>8,255,500</u>
	<u>-</u>	<u>215,595,527</u>	<u>322,402,463</u>	<u>537,997,987</u>	<u>537,997,987</u>

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 Profit or Loss and Other Comprehensive Income

	<b>Corporate Banking FRw'000</b>	<b>Retail Banking FRw'000</b>	<b>Central Treasury FRw'000</b>	<b>Total FRw'000</b>
<b><u>For the year ended 31 December 2015</u></b>				
Interest income	42,350,376	12,573,252	5,043,228	59,966,855
Interest expense	<u>(2,817,436)</u>	<u>(886,267)</u>	<u>(10,023,383)</u>	<u>(13,727,086)</u>
<b>Net interest income</b>	<b>39,532,940</b>	<b>11,686,985</b>	<b>(4,980,155)</b>	<b>46,239,769</b>
Net Non-interest Income	3,893,572	4,297,207	9,287,397	17,478,175
Net Loan loss impairment	(4,677,520)	(2,870,142)	-	(7,547,662)
Total operating expenses	<u>(17,839,911)</u>	<u>(5,797,971)</u>	<u>(6,795,168)</u>	<u>(30,433,050)</u>
<b>Profit before taxation</b>	<b>20,909,081</b>	<b>7,316,079</b>	<b>(2,487,927)</b>	<b>25,737,232</b>
Taxation	<u>(4,181,816)</u>	<u>(1,463,216)</u>	<u>391,858</u>	<u>(5,253,174)</u>
<b>Profit after taxation</b>	<b><u>16,727,265</u></b>	<b><u>5,852,863</u></b>	<b><u>(2,096,069)</u></b>	<b><u>20,484,058</u></b>
<b><u>For the year ended 31 December 2014</u></b>				
Interest income	33,882,960	12,897,735	5,129,132	51,909,827
Interest expense	<u>(2,553,495)</u>	<u>(560,495)</u>	<u>(9,540,610)</u>	<u>(12,654,600)</u>
<b>Net interest income</b>	<b>31,329,465</b>	<b>12,337,240</b>	<b>(4,411,478)</b>	<b>39,255,227</b>
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	<u>(18,197,307)</u>	<u>(6,926,904)</u>	<u>(2,754,670)</u>	<u>(27,878,882)</u>
<b>Profit/(Loss) before taxation</b>	<b>15,993,534</b>	<b>4,889,944</b>	<b>1,875,227</b>	<b>22,758,705</b>
Taxation	<u>(3,121,503)</u>	<u>(954,384)</u>	<u>(365,993)</u>	<u>(4,441,880)</u>
<b>Profit/(Loss) after taxation</b>	<b><u>12,872,031</u></b>	<b><u>3,935,560</u></b>	<b><u>1,509,234</u></b>	<b><u>18,316,825</u></b>



**6. SEGMENT REPORTING (continued)**

**Statement of Financial Position**

	<b>Corporate Banking FRw'000</b>	<b>Retail Banking FRw'000</b>	<b>Central Treasury FRw'000</b>	<b>Total FRw'000</b>
<b>As at 31 December 2015</b>				
Gross Loans& advances to customers	263,111,708	61,658,826	-	<b>324,770,534</b>
Cash in hand	-	-	14,951,617	<b>14,951,617</b>
Balances with the Central Bank	-	-	44,572,594	<b>44,572,594</b>
Due from banks	-	-	62,568,118	<b>62,568,118</b>
Held to maturity investments	-	-	93,503,198	<b>93,503,198</b>
<b>Total Deposits</b>	<b>218,053,941</b>	<b>84,336,910</b>	<b>104,932,573</b>	<b>407,323,424</b>

Number of customers	29,818	327,441	267	<b>357,232</b>
Current Accounts	38,711	312,863	662	<b>351,752</b>

**As at 31 December 2014**

Gross Loans & advances to customers	187,721,156	58,976,460	-	<b>246,697,616</b>
Cash in hand	-	-	12,020,669	<b>12,020,669</b>
Balances with the Central Bank	-	-	46,938,373	<b>46,938,373</b>
Due from banks	-	-	102,988,217	<b>102,988,217</b>
Held to maturity investments	-	-	58,596,907	<b>58,596,907</b>
<b>Total Deposits</b>	<b>185,869,809</b>	<b>73,352,999</b>	<b>80,592,813</b>	<b>339,815,621</b>

Number of customers	24,165	288,022	28	<b>312,215</b>
Current Accounts	32,551	266,239	177	<b>298,967</b>

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.

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<b>7</b>	<b>INTEREST INCOME</b>	<b>2015</b>	<b>2014</b>
		<b>FRw'000</b>	<b>FRw'000</b>
	Interest on overdrawn accounts	9,333,946	10,016,733
	Interest on treasury loans	6,692,148	5,333,693
	Interest on equipment loans	22,572,947	12,325,148
	Interest on consumer loans	5,819,126	7,680,079
	Interest on mortgage loans	8,998,060	9,131,831
	Other interest on loans to clients	1,557,059	2,448,266
	Interest on deposits with banks	1,407,046	980,580
	Interest received from reverse purchase agreements	238,092	771,890
	Interest on assets held to maturity	<u>3,348,431</u>	<u>3,221,607</u>
		<b><u>59,966,855</u></b>	<b><u>51,909,827</u></b>
	Included within various line items under interest income for the year ended 31 December 2015 is a total of FRw 4.4 billion (2014: FRw 3.4 billion) relating to impaired loans and advances.		
<b>8</b>	<b>INTEREST EXPENSE</b>	<b>2015</b>	<b>2014</b>
		<b>FRw'000</b>	<b>FRw'000</b>
	Interest on Customer Term deposit	8,932,051	8,376,498
	Interest on Current Accounts and Saving Accounts	1,117,966	981,936
	Interest on Long term Credit Lines	2,701,527	2,416,371
	Interest on Transactions with other banks	<u>975,542</u>	<u>879,795</u>
		<b><u>13,727,086</u></b>	<b><u>12,654,600</u></b>
<b>9.</b>	<b>NET FEES AND COMMISSION INCOME</b>		
	<b>Fees and commission income</b>		
	Commissions on operations of accounts	2,262,179	2,358,216
	Commissions on payment facilities	3,270,229	2,718,969
	Commissions on loan services	2,723,304	2,812,701
	Commissions received from financing commitments	495,065	498,853
	Commissions received from guarantees commitments	1,386,676	989,272
	Income from transactions with other banks	328,913	321,348
	Other fees from services	<u>1,649,971</u>	<u>1,387,494</u>
		<b><u>12,116,337</u></b>	<b><u>11,086,853</u></b>
	<b>Fees and commission expense</b>		
	Commissions on credit services	(147,968)	(86,304)
	Commissions on payment facilities	<u>(84,092)</u>	<u>(101,395)</u>
		<b><u>(232,060)</u></b>	<b><u>(187,699)</u></b>
	<b>Net Fees and Commission</b>	<b><u>11,884,277</u></b>	<b><u>10,899,154</u></b>
<b>10</b>	<b>Foreign Exchange related income</b>		
	Net Forex trading	2,901,235	5,809,699
	Forex commissions	2,275,145	1,835,862
	Other Forex revenues	<u>124,867</u>	<u>78,764</u>
		<b><u>5,301,247</u></b>	<b><u>7,724,325</u></b>
<b>11.</b>	<b>OTHER OPERATING INCOME</b>		
	Rental income	137,979	154,064
	Dividend received from investment	67,614	54,254
	Gain on asset disposal	75,778	84,496
	Other income from banking activities	<u>11,280</u>	<u>9,024</u>
		<b><u>292,651</u></b>	<b><u>301,838</u></b>

<b>12. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS</b>	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Additional specific provisions (Note 19(c))	8,737,347	10,499,492
Increase/(decrease) of Collective provisions (Note 19(d))	1,010,872	(1,179,556)
Recoveries of previously written off loans	<u>(2,200,557)</u>	<u>(1,776,979)</u>
	<b><u>7,547,662</u></b>	<b><u>7,542,957</u></b>
<b>13. OTHER OPERATING EXPENSES</b>		
<b>(i) Personnel expenses</b>		
Salaries and wages	13,625,611	13,139,596
Medical expenses	459,638	401,361
Pension scheme contributions	747,129	612,140
Other benefits	<u>197,613</u>	<u>274,640</u>
	<b><u>15,029,991</u></b>	<b><u>14,427,737</u></b>
<b>(ii) Depreciation and amortisation</b>		
Depreciation of property and equipment (Note 21)	3,503,134	3,469,943
Amortisation of intangible assets (Note 22)	<u>303,986</u>	<u>193,591</u>
	<b><u>3,807,120</u></b>	<b><u>3,663,534</u></b>
<b>(iii) Administration and general expenses</b>		
Directors' Remuneration	334,521	357,209
Audit Fees	43,252	38,263
Rent, repairs and Maintenance	1,262,234	1,126,239
Utilities	486,903	424,148
Postage, Photocopying and printing	950,497	1,019,184
Travel and Accommodation Expenses	457,668	387,965
Security and cash in transit costs	1,338,576	1,318,946
Insurance	138,064	104,423
Marketing and Publicity	825,982	583,618
Legal and Consultancy Fees	433,516	405,289
Unclaimed VAT on expenditure	827,200	727,212
Telephone and Internet costs	608,603	774,395
Credit and Visa card Costs	1,743,850	1,256,392
Other general expenses	<u>2,145,073</u>	<u>1,264,328</u>
	<b><u>11,595,939</u></b>	<b><u>9,787,611</u></b>

**14. INCOME TAX**

The components of income tax expense for the year ended 31 December 2015 and 2014 are:

<b>a) Income tax expense</b>	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Current tax	4,756,100	4,528,989
Deferred tax debit/(credit)	353,280	(87,109)
Under provision in the prior year	<u>143,794</u>	<u>-</u>
<b>Net tax charge</b>	<b><u>5,253,174</u></b>	<b><u>4,441,880</u></b>

**14. INCOME TAX (continued)**

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

	Effective rate	2015 FRw'000	Effective rate	2014 FRw'000
<b>Income Tax charge</b>				
Current tax		4,756,100		4,528,989
Deferred tax charge/ (credit)		353,280		(87,109)
Under provision in the prior year		143,794		-
<b>Net tax charge</b>	<b>20.4%</b>	<b>5,253,174</b>	<b>19.5%</b>	<b>4,441,880</b>
<b>Accounting profit before tax</b>		<b>25,737,232</b>		<b>22,758,705</b>
Tax calculated at tax rate of 20%	20.1%	5,165,706	20.0%	4,551,741
Items of income not subject to tax	(3.3%)	(855,597)	(3.2%)	(730,798)
Tax effects on non-taxable items	3.1%	806,891	4.6%	1,048,344
Tax discount - staff & other adj.	(1.4%)	(360,900)	(1.5%)	(340,298)
	<b>18.5%</b>	<b>4,756,100</b>	<b>19.9%</b>	<b>4,528,989</b>

(b) Tax Payable	2015 FRw'000	2014 FRw'000
At 1 January	692,518	1,828,573
Tax paid during the year	(4,640,477)	(5,665,044)
Tax charge for the year	4,756,100	4,528,989
At 31 December	<b>808,141</b>	<b>692,518</b>

**15. EARNINGS PER SHARE**

Profit for the year attributable to equity shareholders – FRw'000	<b>20,484,058</b>	<b>18,316,825</b>
Weighted average number of shares	671,777,400	669,910,300

**Effect of dilution:**

Share option ( Employee share Ownership Plan)	<u>2,577,827</u>	<u>2,992,026</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>674,355,227</b>	<b>672,902,326</b>

**Earnings per share:**

Basic earnings per share - FRw	30.49	27.34
Diluted earnings per share - FRw	30.38	27.22
Dividend per share – proposed FRw	12.15	16.33

Basic earnings per share is calculated on the profit attributable to ordinary shareholders of FRw 20,484 million (2014: FRw 18,316 million) and on the weighted average number of ordinary shares outstanding during the year of 671,777,400 (2014: 669,910,300 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 1<sup>st</sup> September 2012 and no later than 31<sup>st</sup> August 2017. The warrant entitle the holder one newly issued share of the bank for the cash consideration equal to offer price (FRw 125) and payable in full at the time of purchase.

At the period end date 4,847,200 shares had been exercised under this ESOP scheme.

**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**

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Cash in foreign currency	5,954,591	5,191,160
Cash in local currency	<u>8,997,026</u>	<u>6,829,509</u>
	<b><u>14,951,617</u></b>	<b><u>12,020,669</u></b>

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

Restricted balances (Cash Reserve Ratio)	20,366,171	16,990,781
Unrestricted balances	<u>24,206,423</u>	<u>29,947,592</u>
	<b><u>44,572,594</u></b>	<b><u>46,938,373</u></b>

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 2015, the Cash Reserve Ratio requirement was 5% (2014 - 5%) of all deposits amounting to FRw 407.3 billion (2014: FRw 339.8 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 FRw 24.2bn (2014:FRw 29.9bn).

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

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

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
Cash in hand	14,951,617	12,020,669
Balances with the National Bank of Rwanda	24,206,423	29,947,592
Due from banks	62,568,118	102,988,217
Due to Banks	(22,609,724)	(15,214,461)
Unrealised exchange gains	<u>(376,948)</u>	<u>(879,684)</u>
	<b><u>78,739,486</u></b>	<b><u>128,862,333</u></b>

**17. DUE FROM BANKS**

Placements with local banks	5,005,157	3,527
Placements with foreign banks	39,201,121	63,221,501
Current accounts with foreign banks	<u>18,361,840</u>	<u>39,763,189</u>
	<b><u>62,568,118</u></b>	<b><u>102,988,217</u></b>

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.

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**17. DUE FROM BANKS (continued)**

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
A	206,140	195,333
A+	18,906,134	77,698,783
AAA	2	-
B	6,370,539	3,090,880
B+	<u>37,085,303</u>	<u>22,003,221</u>
	<b><u>62,568,118</u></b>	<b><u>102,988,217</u></b>

The weighted average effective interest rate on placements and balances with other banks at 31 December 2015 was 1.7% (2014: 0.9%)

**18. INVESTMENTS**

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
<b>a) Held to Maturity Investments</b>		
Treasury bills	60,935,402	56,937,926
T-Bonds	2,636,110	1,658,981
Other Financial Instruments	<u>29,931,686</u>	-
<b>Total</b>	<b><u>93,503,198</u></b>	<b><u>58,596,907</u></b>
Maturing between 3-12 months	93,503,198	49,905,567
Maturing between 1-5 years	-	<u>8,691,340</u>
	<b><u>93,503,198</u></b>	<b><u>58,596,907</u></b>

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. Other Financial Instruments include short-term securities to clients renewable monthly.

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

	<b>2015</b>				<b>2014</b>		
	<b>Treasury Bills</b>	<b>Treasury Bonds</b>	<b>Other securities</b>	<b>Total</b>	<b>Treasury Bills</b>	<b>Treasury Bonds</b>	<b>Total</b>
	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>
1 January	56,937,926	1,658,981	-	58,596,907	50,820,690	-	50,820,690
Additions	275,682,690	1,613,364	29,931,686	307,227,740	286,171,894	1,660,208	287,832,102
Maturities	<u>(271,685,214)</u>	<u>(636,235)</u>	-	<u>(272,321,449)</u>	<u>(280,054,658)</u>	<u>(1,227)</u>	<u>(280,055,885)</u>
<b>31 December</b>	<b><u>60,935,402</u></b>	<b><u>2,636,110</u></b>	<b><u>29,931,686</u></b>	<b><u>93,503,198</u></b>	<b><u>56,937,926</u></b>	<b><u>1,658,981</u></b>	<b><u>58,596,907</u></b>

The weighted average effective interest rate on government securities held to maturity at 31 December 2015 was 4.4% (2014: 5.9%).

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
<b>b) Equity Investments</b>		
Development Bank of Rwanda (BRD)	96,975	96,975
Magerwa	5,000	5,000
Investments in SWIFT	2,970	2,970
R-Switch (SIMTEL)	<u>116,480</u>	<u>116,480</u>
	<b><u>221,425</u></b>	<b><u>221,425</u></b>

The equity investment in unquoted entities is recorded at cost 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. The entity will continue to hold onto the equity investment and will dispose when appropriate opportunity arises to dispose at a gain.

**19. LOANS AND ADVANCES**

	<b>2015</b>	<b>2014</b>
	<b>FRw'000</b>	<b>FRw'000</b>
<b>(a) Net loans and advances</b>		
Corporate	184,329,796	134,412,278
Small and Medium Enterprises	69,667,433	46,960,333
Non-Profit Entities	<u>9,114,479</u>	<u>6,348,545</u>
<b>Total Corporate Loans</b>	<b>263,111,708</b>	<b>187,721,156</b>
Gross Retail Banking	62,194,521	59,715,792
Discount on Staff Loans	<u>(535,695)</u>	<u>(739,332)</u>
<b>Total Retail Loan Book</b>	<b>61,658,826</b>	<b>58,976,460</b>
<b>Total Gross loans</b>	<b>324,770,534</b>	<b>246,697,616</b>
Allowance for Impairment - Specific assessment	(8,145,955)	(11,569,935)
Allowance for Impairment - Collective assessment	<u>(2,699,044)</u>	<u>(1,688,172)</u>
<b>Net Carrying Amount</b>	<b><u>313,925,535</u></b>	<b><u>233,439,509</u></b>
<b>(b) LCs and Bank Guarantees</b>		
Corporate	57,869,054	31,170,306
Small and Medium Enterprises	4,438,330	2,025,314
Non-Profit Entities	89,388	100,337
Retail Banking	<u>38,953</u>	<u>166,717</u>
<b>Total Gross loans</b>	<b>62,435,725</b>	<b>33,462,674</b>
<b>(c) Specific provisions for impairment</b>		
At 1 January	11,569,935	9,967,748
Provisions made during the year	8,737,347	10,499,493
Loans written off during the year	<u>(12,161,327)</u>	<u>(8,897,306)</u>
<b>As at 31 December</b>	<b><u>8,145,955</u></b>	<b><u>11,569,935</u></b>
<b>(d) Collective provisions for impairment</b>		
At 1 January	1,688,172	2,867,728
Provisions/ (Reversals) made during the year	<u>1,010,872</u>	<u>(1,179,556)</u>
<b>As at 31 December</b>	<b><u>2,699,044</u></b>	<b><u>1,688,172</u></b>
<b>(e) Maturity analysis of gross loans and advances to customers</b>		
Maturing within 1 month	46,651,405	31,880,289
Maturing after 1 month, but before 3 months	12,511,596	19,819,438
Maturing after 3 months, but within 1 year	22,112,391	20,530,590
Maturing after 1 year, but within 5 years	79,699,318	78,829,439
Maturing after 5 years	<u>163,795,824</u>	<u>95,637,860</u>
	<b><u>324,770,534</u></b>	<b><u>246,697,616</u></b>
<b>(f) Sectoral analysis of Gross Loans and advances to customers</b>		
Private sector and individuals	324,631,642	246,643,295
Government and parastatals	<u>138,892</u>	<u>54,321</u>
	<b><u>324,770,534</u></b>	<b><u>246,697,616</u></b>

The weighted average effective interest rate on gross loans and advances as at 31 December 2015 was 19.2% (31 December 2014 –20.5%). As at 31 December, the ageing analysis of past due but not impaired loans and advances is as follows:

Less than 60 days	2,867,510	21,400,544
Between 61 – 90 days	<u>22,678,184</u>	<u>16,962,457</u>
	<b><u>25,545,694</u></b>	<b><u>38,363,001</u></b>

**BANK OF KIGALI LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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<b>20. OTHER ASSETS</b>	<b>2015</b>	<b>2014</b>
	<b>FRw '000</b>	<b>FRw '000</b>
Prepayments and other receivables	2,040,993	2,311,757
Clearing accounts	<u>6,214,507</u>	<u>5,353,628</u>
	<b><u>8,255,500</u></b>	<b><u>7,665,385</u></b>

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.



**BANK OF KIGALI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**21. PROPERTY AND EQUIPMENT**

	Land and Buildings	Computer and IT Equipment	Motor vehicles	Furniture and Fittings	Work in Progress	Total
2015	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000	FRw'000
<u>COST/VALUATION</u>						
At 1 January 2015	22,712,900	5,043,410	810,406	10,648,248	-	<b>39,214,964</b>
Additions	1,917,386	1,201,280	323,683	864,946	1,539,300	<b>5,846,595</b>
Disposal	-	(139,501)	(196,214)	(14,360)	-	<b>(350,075)</b>
<b>At 31 December 2015</b>	<b>24,630,286</b>	<b>6,105,189</b>	<b>937,875</b>	<b>11,498,834</b>	<b>1,539,300</b>	<b>44,711,484</b>
<u>DEPRECIATION</u>						
At 1 January 2015	5,804,912	4,489,976	685,586	7,731,067	-	<b>18,711,541</b>
Charge for the year	1,106,770	715,385	110,466	1,570,513	-	<b>3,503,134</b>
Disposal	-	(139,501)	(196,214)	(14,360)	-	<b>(350,075)</b>
<b>At 31 December 2015</b>	<b>6,911,682</b>	<b>5,065,860</b>	<b>599,838</b>	<b>9,287,220</b>	<b>-</b>	<b>21,864,600</b>
<b>CARRYING AMOUNT</b>	<b>17,718,604</b>	<b>1,039,329</b>	<b>338,037</b>	<b>2,211,614</b>	<b>1,539,297</b>	<b>22,846,884</b>
<b>2014</b>						
<u>COST/VALUATION</u>						
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)
<b>At 31 December 2014</b>	<b>22,712,900</b>	<b>5,043,410</b>	<b>810,406</b>	<b>10,648,248</b>	<b>-</b>	<b>39,214,964</b>
<u>DEPRECIATION</u>						
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)
<b>At 31 December 2014</b>	<b>5,804,912</b>	<b>4,489,976</b>	<b>685,586</b>	<b>7,731,067</b>	<b>-</b>	<b>18,711,541</b>
<b>CARRYING AMOUNT</b>	<b>16,907,988</b>	<b>553,434</b>	<b>124,820</b>	<b>2,917,181</b>	<b>-</b>	<b>20,503,423</b>

**BANK OF KIGALI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**21. PROPERTY AND EQUIPMENT**

Buildings were revalued by management in 2010 based on the estimated market value. The revaluation was carried out by an independent valuer.

**Fair Value measurement**

	Date of valuation	Total FRw'000	Significant unobservable inputs (Level 3) FRw'000
Buildings	2010	<u>10,215,060</u>	<u>10,215,060</u>

**22. INTANGIBLE ASSETS**

	2015 FRw'000	2014 FRw'000
<u>COST</u>		
At 1 January	1,420,960	1,232,318
Additions	390,321	188,642
Work in progress	<u>61,138</u>	-
<b>At 31 December</b>	<b><u>1,872,419</u></b>	<b><u>1,420,960</u></b>
<u>AMORTISATION</u>		
At 1 January	1,186,904	993,313
Amortisation	<u>303,986</u>	<u>193,591</u>
At 31 December	<b><u>1,490,890</u></b>	<b><u>1,186,904</u></b>
<b>Net book value</b>	<b><u>381,529</u></b>	<b><u>234,056</u></b>

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

**23 DUE TO BANKS**

	2015 FRw'000	2014 FRw'000
Current accounts	11,916,823	6,313,823
Term Treasury borrowings	<u>10,692,901</u>	<u>8,900,638</u>
	<b><u>22,609,724</u></b>	<b><u>15,214,461</u></b>
Maturing as follows:		
Payable within 1 month	16,792,426	10,472,516
Payable after 1 month	<u>5,817,298</u>	<u>4,741,945</u>
<b>Total</b>	<b><u>22,609,724</u></b>	<b><u>15,214,461</u></b>

The weighted average effective interest rate on deposits and balances from other banks as at 31 December 2015 was 8.9% (2014: 9.1%)

**24. Deposits and balances from customers**

	2015 FRw'000	2014 FRw'000
Current accounts	256,728,781	227,750,108
Fixed deposit accounts	114,227,384	84,246,898
Savings accounts	6,946,571	4,086,890
Collateral and other deposits	2,183,646	3,992,523
Interest Payable	<u>4,627,318</u>	<u>4,524,741</u>
	<b><u>384,713,700</u></b>	<b><u>324,601,160</u></b>

The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2015 was 8.6% (2014: 10.6%)

**BANK OF KIGALI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**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 2015	Income statement	Statement of financial position	Deferred tax liability 2014
	FRw'000	FRw'000	FRw'000	FRw'000
Revaluation of assets-Property	1,532,258	-	(102,151)	1,634,409
Capital Allowance	854,939	93,158	-	761,781
Other temporary differences	<u>(704,677)</u>	<u>260,122</u>	<u>-</u>	<u>(964,799)</u>
	<b><u>1,682,520</u></b>	<b><u>353,280</u></b>	<b><u>(102,151)</u></b>	<b><u>1,431,391</u></b>

**26. DIVIDENDS PAYABLE**

	2015	2014
	FRw'000	FRw'000
At 1 January	5,469	7,416,579
Approved dividend - 2014	10,990,095	-
Dividends paid during the year	<u>(10,961,334)</u>	<u>(7,411,110)</u>
At 31 December	<b><u>34,230</u></b>	<b><u>5,469</u></b>

During the Board of Directors Meeting held on 22<sup>nd</sup> February 2016, the Directors proposed a dividend pay-out of 40% of the Bank's audited IFRS-based net income in respect of the year 2015-2017.

**27. OTHER LIABILITIES**

Clearing accounts	3,483,396	4,622,257
Other payables	1,475,826	315,219
Accrued General expenses	<u>4,697,675</u>	<u>5,922,802</u>
	<b><u>9,656,897</u></b>	<b><u>10,860,278</u></b>

**28. LONG TERM FINANCE**

	2015	Repayment	Revaluation	Additional	Accrued	Interest	Interest	2014
	FRw'000	FRw'000	FRw'000	Drawdown	Interest	FRw'000	FRw'000	FRw'000
EIB Loan (9.5% - 11.4%)	1,351,559	427,952	(23,583)	-	21,328	206,397	1,781,766	
AFD Loan (Libor +3.74% pa)	10,016,316	1,785,079	561,305	-	47,567	747,282	11,192,523	
AFDB Loan(Libor +4.15%)	6,650,125	1,087,701	266,790	-	125,126	306,503	7,345,910	
EADB (Libor +6.65 pa)	5,466,615	1,812,500	352,632	-	29,115	428,379	6,897,368	
PTA Loan (8% pa)	4,833,334	1,611,111	346,107	-	-	496,624	6,098,338	
OFID Loan (Libor +4.0% pa)	6,679,006	659,091	310,953	-	88,095	287,654	6,939,049	
Shelter Afrique (6.44% pa)	<u>7,478,688</u>	<u>-</u>	<u>-</u>	<u>7,250,000</u>	<u>228,688</u>	<u>228,688</u>	<u>-</u>	
<b>Total</b>	<b><u>42,475,643</u></b>	<b><u>7,383,434</u></b>	<b><u>1,814,204</u></b>	<b><u>7,250,000</u></b>	<b><u>539,919</u></b>	<b><u>2,701,527</u></b>	<b><u>40,254,954</u></b>	

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 31December 2015 was EUR 3.8 million (2014: EUR 3.8m), and no further drawdown is expected.

In 2011, the Bank signed 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 2015, 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 2015, the Bank had fully drawn down on the EADB, PTA and OFID credit lines.

**28. LONG TERM FINANCE (continued)**

In 2015, the Bank signed a five year credit line with Shelter Afrique for USD 10 million. As 31 December 2015, the credit line was fully drawn down.

**29. CAPITAL & RESERVES**

**(i). Share Capital**

	2015		2014	
	Shares	FRw'000	Shares	FRw'000
Authorised Share capital of FRw 10 each	702,460,000	7,024,600	702,460,000	7,024,600
<b>Issued and fully paid up</b>				
At 1 January	671,370,600	6,713,706	668,450,000	6,684,500
New issued	<u>813,600</u>	<u>8,136</u>	<u>2,920,600</u>	<u>29,206</u>
<b>At 31 December</b>	<b><u>672,184,200</u></b>	<b><u>6,721,842</u></b>	<b><u>671,370,600</u></b>	<b><u>6,713,706</u></b>

**(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

	2015	2014
	FRw'000	FRw'000
At 1 January	18,572,040	18,236,171
New issued at premium @ FRw 115 each	<u>93,564</u>	<u>335,869</u>
<b>At 31 December</b>	<b><u>18,665,604</u></b>	<b><u>18,572,040</u></b>

**(iii). Revaluation Reserve**

Buildings	6,537,638	6,946,241
Transfer of excess depreciation	(510,752)	(510,752)
Deferred tax on transfer	<u>102,149</u>	<u>102,149</u>
	<b><u>6,129,035</u></b>	<b><u>6,537,638</u></b>

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**

Legal reserves	5,916,438	5,183,765
Special reserves	6,001,672	5,268,999
Other reserves	<u>-</u>	<u>26,911,749</u>
	<b><u>11,918,110</u></b>	<b><u>37,364,513</u></b>

The Bank transfers 20% of its Retained earnings to reserves (10% legal reserves and 10% special reserves). These reserves are not mandatory and neither are they distributable. Other reserves amount has been transferred to retained earnings and may be decided by the General Assembly.

**(v). Retained Earnings**

Opening balance	20,359,836	8,947,377
Appropriation of prior year profit	(1,465,346)	(7,415,118)
Profit for the current year	20,484,058	18,316,825
Reclassification from other reserves	26,911,749	-
2014 approved dividend	(10,990,095)	-
Transfer of excess depreciation	<u>510,752</u>	<u>510,752</u>
	<b><u>55,810,954</u></b>	<b><u>20,359,836</u></b>

**BANK OF KIGALI LIMITED**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

**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:

	<b>Loans and receivables</b>	<b>Other amortized cost</b>	<b>Held to Maturity</b>	<b>Available for Sale</b>	<b>Total carrying amount</b>
<b><u>31 December 2015</u></b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>
<b>ASSETS</b>					
Cash and balances with central bank		59,524,211			59,524,211
Balances due from other Banks		62,568,118			62,568,118
Government securities			93,503,198		93,503,198
Loans and advances to customers	313,925,535				313,925,535
Equity Investments				221,425	221,425
Other assets (un-cleared effects)		8,255,500			8,255,500
<b>TOTAL FINANCIAL ASSETS</b>	<b>313,925,535</b>	<b>130,347,829</b>	<b>93,503,198</b>	<b>221,425</b>	<b>537,997,987</b>
<b>LIABILITIES</b>					
Balances due to other Banks	-	22,609,724	-	-	22,609,724
Customer deposits	-	384,713,700	-	-	384,713,700
Other liabilities	-	9,656,897	-	-	9,656,897
Long Term Borrowing	-	42,475,643	-	-	42,475,643
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>459,455,964</b>	<b>-</b>	<b>-</b>	<b>459,455,964</b>
<b>31 December 2014</b>					
	<b>Loans and receivables</b>	<b>Other amortized cost</b>	<b>Held to Maturity</b>	<b>Available for Sale</b>	<b>Total carrying amount</b>
<b><u>31 December 2014</u></b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>	<b>FRw'000</b>
<b>ASSETS</b>					
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 (un-cleared effects)	-	7,665,385	-	-	7,665,385
<b>TOTAL FINANCIAL ASSETS</b>	<b>233,439,509</b>	<b>169,612,644</b>	<b>58,596,907</b>	<b>221,425</b>	<b>461,870,485</b>
<b>LIABILITIES</b>					
Balances due to other Banks	-	15,214,461	-	-	15,214,461
Customer deposits	-	324,601,160	-	-	324,601,160
Other liabilities	-	10,860,278	-	-	10,860,278
Long Term Borrowing	-	40,254,953	-	-	40,254,953
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>390,930,852</b>	<b>-</b>	<b>-</b>	<b>390,930,852</b>

**BANK OF KIGALI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**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:

<b>At 31 December 2015</b>	<b>Less than 12 months FRw'000</b>	<b>Over 12 months FRw'000</b>	<b>Total FRw'000</b>
<b>ASSETS</b>			
Cash in hand	14,951,617	-	14,951,617
Balances with the National Bank of Rwanda	44,572,594	-	44,572,594
Balances held with other Financial Institutions	62,568,118	-	62,568,118
Held to maturity investments	93,503,198	-	93,503,198
Loans and advances to customers	81,275,392	232,650,143	313,925,535
Other assets	8,242,962	12,538	8,255,500
Equity investments	-	221,425	221,425
Intangible assets	-	381,529	381,529
Property and equipment	-	22,846,884	22,846,884
<b>Total Assets</b>	<b>305,113,881</b>	<b>256,112,519</b>	<b>561,226,400</b>

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

<b>At 31 December 2015</b>	<b>Less than 12 months FRw'000</b>	<b>Over 12 months FRw'000</b>	<b>Total FRw'000</b>
<b>LIABILITIES</b>			
Balances from other Financial Institutions	22,609,724	-	22,609,724
Customer deposits	384,538,433	175,267	384,713,700
Tax Liability	808,141	-	808,141
Deferred tax liability	102,151	1,580,369	1,682,520
Dividends payables	34,230	-	34,230
Other liabilities	9,656,897	-	9,656,897
Long-term Finance	3,350,838	39,124,805	42,475,643
Shareholders' funds	-	99,245,545	99,245,558
<b>Total Liabilities and Equity</b>	<b>421,100,414</b>	<b>140,125,986</b>	<b>561,226,400</b>

<b>At 31 December 2014</b>	<b>Less than 12 months FRw'000</b>	<b>Over 12 months FRw'000</b>	<b>Total FRw'000</b>
<b>ASSETS</b>			
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
<b>Total Assets</b>	<b>300,427,336</b>	<b>182,180,628</b>	<b>482,607,964</b>

**BANK OF KIGALI LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

<b>At 31 December 2014</b>	<b>Less than 12 months FRw'000</b>	<b>Over 12 months FRw'000</b>	<b>Total FRw'000</b>
<b>LIABILITIES</b>			
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	1,431,391
Dividends payables	5,469	-	5,469
Other liabilities	10,860,278	-	10,860,278
Long-term Finance	7,226,977	33,027,977	40,254,954
Shareholders' funds	-	89,547,733	89,547,733
<b>Total Liabilities and Equity</b>	<b><u>358,523,095</u></b>	<b><u>124,084,869</u></b>	<b><u>482,607,964</u></b>

**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 for a total amount of FRw 25.7m (2014: FRw 31.0m). Having regarded the legal advice received, the management is of the opinion that these legal proceedings will not give rise to significant liabilities; however the amount has been fully provided for in these financial statements.

**33. RELATED PARTIES DISCLOSURES**

	<b>2015 FRw'000</b>	<b>2014 FRw'000</b>
Compensation of key management personnel of the Bank		
Short term employee benefits	785,363	658,078
Post-employment pension (defined contribution)	48,395	65,343
Terminal benefits	<u>-</u>	<u>7,823</u>
	<b>833,758</b>	<b>731,244</b>
<b>Directors emolument</b>	<u>334,521</u>	<u>357,209</u>
	<b><u>1,168,279</u></b>	<b><u>1,088,453</u></b>

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

**BANK OF KIGALI LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

**33. RELATED PARTIES DISCLOSURES (continued)**

	2015 (FRw'000)			2014 (FRw'000)		
	Maximum balance during	Balance as at 31 December	Income/Expense	Maximum balance during	Balance as at 31 December	Income/Expense
Residential mortgages	190,594	170,957	18,628	139,854	131,958	12,981
Credit cards and other loans	181,095	161,251	33,056	90,235	90,325	10,560
Deposits	187,586	88,723	988	138,895	104,561	16

The amounts above relate to key management personnel.

**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

**Subsidiaries to the Bank:**

	Income	Expense	Balance as at year end	Maximum balances during the year
	FRw '000	FRw '000	FRw '000	FRw '000
2015	5,751	5,381,536	62,128,569	67,902,871
2014	38	5,301,459	51,072,731	57,505,625

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 2015, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2014: Nil).

The Bank offers loans to its employees at 7.5% and 16.0% (2014: 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.



**BANK OF KIGALI LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**34. SUBSIDIARIES****BK Securities Limited**

The Bank opened a wholly owned subsidiary, BK Securities Ltd on the 28<sup>th</sup> 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 stocks listed on the Rwanda Stock Exchange including Bank of Kigali shares. The value of the investment at cost less impairment is FRw 100,000,000.

**BK Nominees Limited**

The Bank opened a wholly owned subsidiary, BK Nominees Ltd on the 10<sup>th</sup> December 2013. Its principal place of office is in the Bank of Kigali office premises. The main activity of the Company is to hold assets for Custody clients. The value of the investment at cost less impairment is FRw 100,000,000.

**BK Registrars Limited**

The Bank opened a wholly owned subsidiary, BK Registrars Ltd on the 10<sup>th</sup> April 2015. Its principal place of office is in the Bank of Kigali office premises. The company offers Registrar, Administration and Fund Management Services. The value of the investment at cost less impairment is FRw 10,000,000.

**BK Telecom Limited**

The Bank opened a wholly owned subsidiary, BK Telecom Ltd on the 10<sup>th</sup> August 2015. Its principal place of office is in the Bank of Kigali office premises. The company offers Internet Services to customers. The value of the investment at cost less impairment is FRw 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,