2012

Annual Report

BANK OF KIGALI

Financially transforming lives

AFRICAN BANKER AWARDS 2012

Company of the year

Bank of the Year

Fire Awards 2012

Best Bank in Rwanda

BK *Awards*

In pursuit of excellent service

In Rwanda we transform Lives,
to the world we make Rwanda proud

Bank of Kigali Limited is the largest bank in Rwanda by market share of total assets, loans, deposits and shareholders' funds.

Since 2009, the Bank has been recognized for four years running as the Best Bank in Rwanda by Emeafinance and Bank of the Year by The Banker magazine. In 2012, it was further bestowed the Best East African Bank Award by the African Banker magazine as well as the Best Financial Reporting Company in Rwanda Award at the annual Financial Reporting Awards (FiRe). Bank of Kigali is the second domestic company to be listed on the Rwanda Stock Exchange in an IPO which was recognized as the Best African Listing by Africa Investor (AI).

Bank of Kigali continues to transform lives across Rwanda and each year our commitment to this course has been recognised both at home and around the world. We are proud to be the Bank that is making Rwanda proud while transforming lives.

For further information,

Please call 4455 or contact your nearest Branch Manager

www.bk.rw | www.facebook.com/Bankofkigali | www.twitter.com/BankofKigali

BANK OF KIGALI
Financially transforming lives

AFRICAN BANKER AWARDS 2012

OUR VISION

Bank of Kigali aspires to be the leading provider of the most innovative financial solutions in the region.

OUR MISSION

Our mission is to be the leader in creating value for our stakeholders by providing the best financial services to businesses and individual customers, through motivated and professional staff.

OUR VALUES

- *Customer focus*
- *Integrity*
- *Quality*
- *Excellence*

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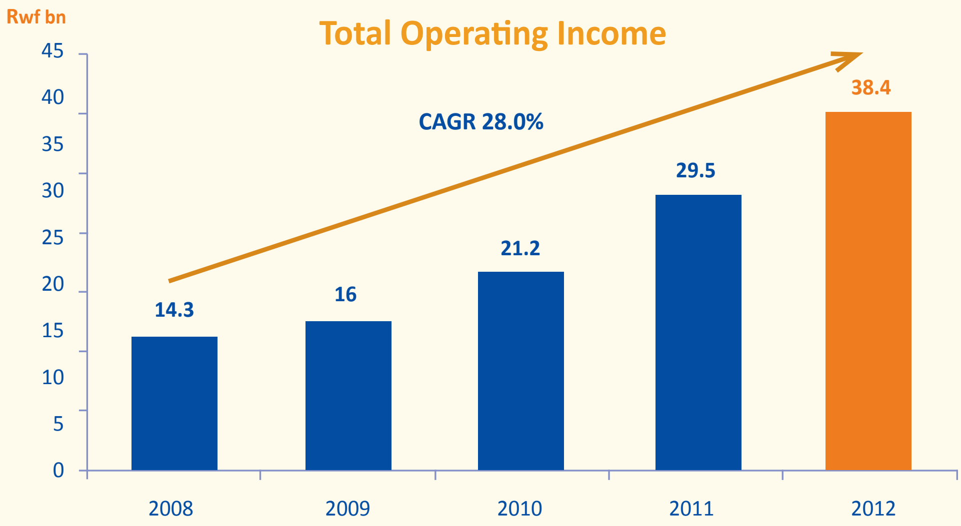
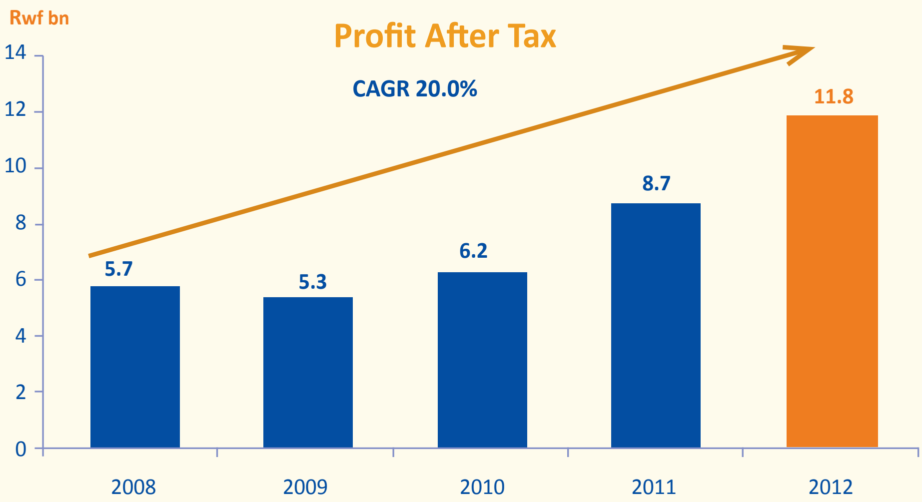
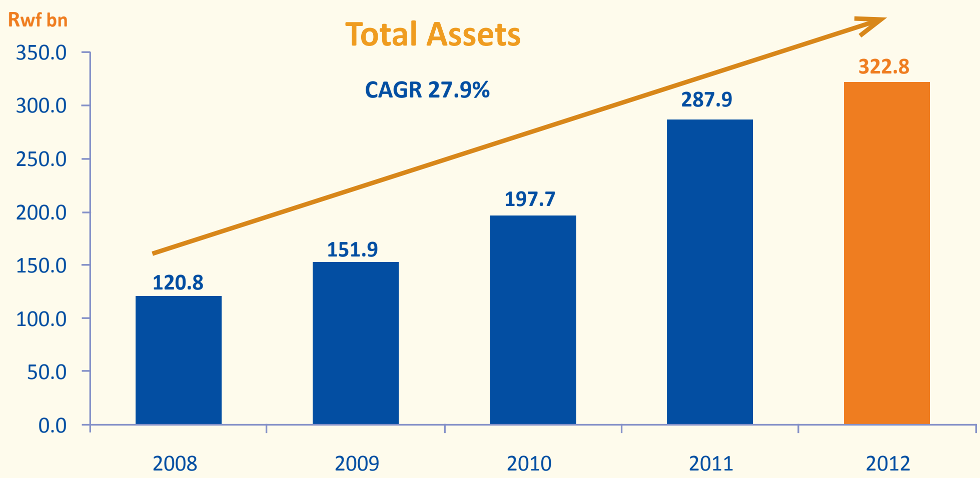


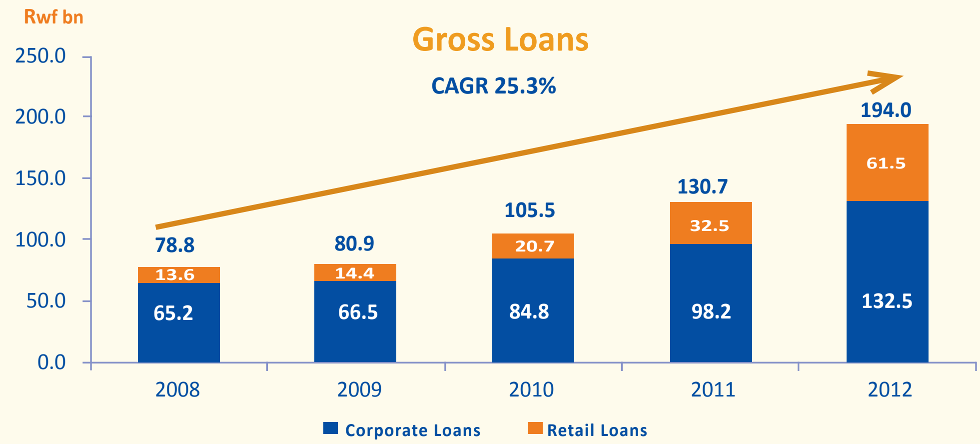
Rwf bn
Total Operating Income
CAGR 28.0%
45
40
35
30
25
20
15
10
5
0
14.3
16
21.2
29.5
38.4
2008
2009
2010
2011
2012

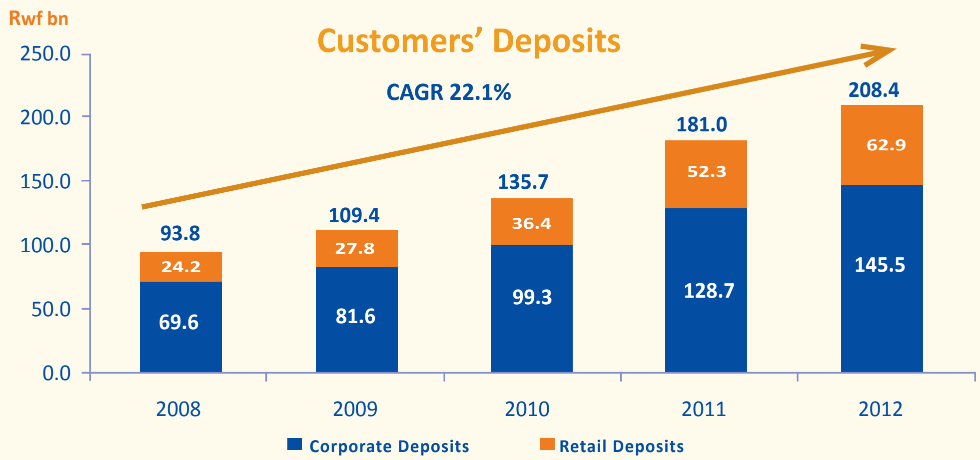


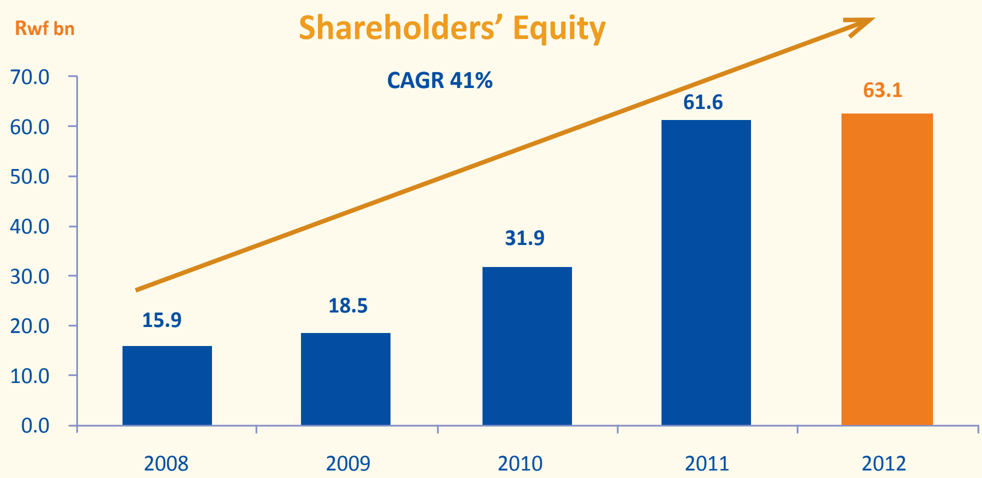
Rwf bn
Profit After Tax
CAGR 20.0%
14
12
10
8
6
4
2
0
5.7
5.3
6.2
8.7
11.8
2008
2009
2010
2011
2012



Rwf bn
Total Assets
CAGR 27.9%
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
120.8
151.9
197.7
287.9
322.8
2008
2009
2010
2011
2012


Rwf bn
Gross Loans
CAGR 25.3%
250.0
200.0
150.0
100.0
50.0
0.0
78.8
13.6
65.2
80.9
14.4
66.5
105.5
20.7
84.8
130.7
32.5
98.2
194.0
61.5
132.5
2008
2009
2010
2011
2012
Corporate Loans
Retail Loans

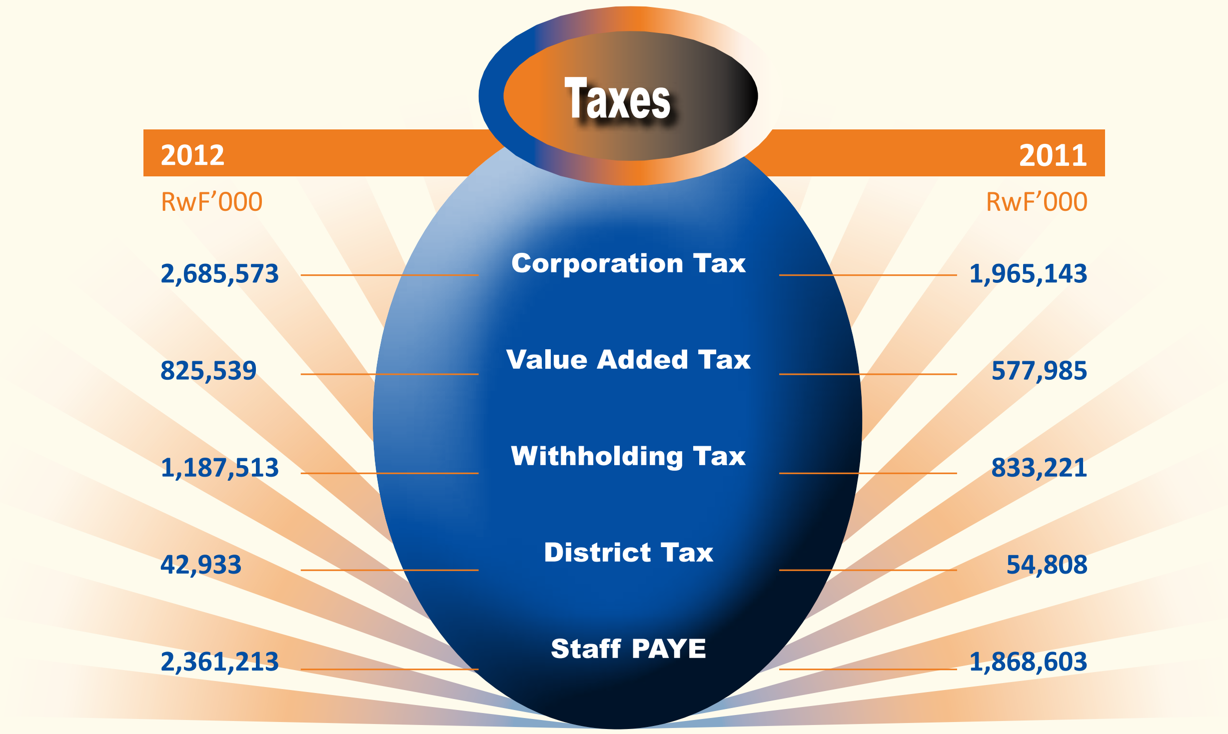

Rwf bn
Customers' Deposits
CAGR 22.1%
250.0
200.0
150.0
100.0
50.0
0.0
93.8
24.2
69.6
109.4
27.8
81.6
135.7
36.4
99.3
181.0
52.3
128.7
208.4
62.9
145.5
2008
2009
2010
2011
2012
Corporate Deposits
Retail Deposits


Rwf bn
Shareholders' Equity
CAGR 41%
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
15.9
18.5
31.9
61.6
63.1
2008
2009
2010
2011
2012

	2012	2011
Profitability		
Return on Average Assets, %	3.9%	3.6%
Return on Average Equity, %	18.9%	18.6%
Net Interest Margin , %	9.6%	8.4%
Loan Yield, %	17.0%	16.9%
Interest Expense/Interest Income,%	26.0%	26.8%
Cost of Funds, %	3.4%	3.1%
Efficiency		
Cost/Income Ratio	52.8%	48.4%
Costs/Average Assets, %	6.6%	5.9%
Personnel Costs/Total Recurring Operating Costs	49.0%	51.8%
Personnel Costs/Average Total Assets, Annualised	3.3%	2.9%
Personnel Costs/Total Operating Income	25.9%	25.1%
Net Income/Total Operating Income	30.7%	29.5%
Total Operating Income/Average Assets %	12.6%	12.1%
Liquidity		
Net Loans/Total Assets,%	57.3%	42.8%
Liquid Assets / Total Deposits	45.4%	64.9%
Interbank Borrowings / Total Deposits	8.1%	9.5%
Short-term Liquidity Gap	46.4%	43.0%
Gross Loans / Total Deposits	85.5%	65.3%
Asset Quality		
NPLs / Gross Loans, %	6.5%	8.3%
NPL Coverage Ratio	70.3%	69.1%
Loan Loss reserve / Gross Loans ,%	4.6%	5.8%
Average Loan Loss reserve / Average Gross Loans ,%	5.1%	4.9%
Large Exposures / Gross Loans	6.5%	8.8%
Cost of Risk, Annualised	2.2%	3.8%
Leverage (Total Liabilities/Equity), Times	4.1	3.7
Capital Adequacy		
Core Capital / Risk Weighted Assets	22.4%	28.1%
Total Qualifying Capital / Risk Weighted Assets	23.2%	29.1%
Off Balance Sheet Items / Total Qualifying Capital	524.3%	363.1%
Large Exposures / Core Capital	22.6%	21.3%
NPLs less Provisions / Core Capital	6.8%	6.2%
Market Sensitivity		
Forex Exposure / Core Capital	-50.2%	11.7%
Forex Loans / Forex Deposits	1.0%	0.8%
Forex Assets / Forex Liabilities	61.0%	105.3%
Forex Loans / Gross Loans	0.3%	0.3%
Forex Deposits/Total Deposits	25.7%	23.8%
Selected Operating Data		
Full Time Employees	877	602
Assets per FTE (RwF in billion)	0.4	0.5
Number of Branches	59	44
Number of ATMS	55	26
Number of MobiBank vans	5	-
Number of POS Terminals	405	202
Number of Retail current accounts	191,632	124,248

Value added statement

Value Added	2012 RwF'000	%	2011 RwF'000	%
Wealth created				
Interest, commissions and other revenues	46,744,328		35,530,550	
Interest paid to depositors and costs of other services	(16,928,180)		(13,907,872)	
Wealth created	**29,816,148**		**21,622,678**	
Distribution of wealth				
Employees				
Salaries, wages and other benefits	7,253,943	24%	5,201,832	24%
Government	7,102,771	24%	5,299,760	25%
Shareholders				
Dividends appropriated to shareholders	5,890,668	20%	-	-
Retentions to support future business growth	**9,568,765**	**32%**	**11,121,086**	**51%**
Retained surplus	5,890,669		8,688,765	
Depreciation and amortisation	3,678,096		2,432,321	
Wealth distributed	**29,816,148**		**21,622,678**	



BK Regional Awards

In pursuit of excellent service

As Bank of Kigali moves to the region, we have started playing the East African field.

Best Bank in East Africa 2012

Best African Listing

"A success story of strength, stability and sustainable profitable growth"

Lado Gurgenidze, *Chairman of the Board*

Dear fellow Shareholders,

I am pleased to report that your Bank earned RwF 11.8 billion of net income in 2012, up 35.6% year-on-year, while its balance sheet grew by 12.1% in 2012. With the dividend pay-out policy of 50% in effect through 2013, RwF 5.9 billion will be distributed as 2012 dividend. This translates to RwF 8.83 per ordinary share, a dividend yield of 4.4% (based on the share price of RwF 200 at the time of writing). Never oblivious to our responsibility to give back and share our success, we have set aside 1% of our operating profit for corporate social responsibility activities.

It is impressive that your Bank managed to achieve this solid performance despite the difficult operating environment in the second half of 2012. I wish to congratulate the management and staff who continue to execute our strategy of building a universal Bank with ubiquitous reach and prudent capital, liquidity and risk management. Focusing on profitable growth, our team delivered in 2012 the further expansion of our distribution channels, including the potentially game-changing progress in the development of mobile banking, ATM network (55 ATMs at YE 2012, vs 26 ATMs at YE 2011) and serving the previously unbanked rural customers through mobile branches – without sacrificing profitability, as your Bank's Return On Average Assets and Return On Average Equity remain strong at 3.9% and 18.9%, respectively.

2013 is not without its challenges, but I believe that the access to long-term funding facilities and robust capital base, unmatched by our competitors in Rwanda, will serve your Bank well. As we continue to build out our distribution network, I believe that by YE 2013 your Bank will have built sufficient network capacity and reach to serve up to 500,000 individuals in the coming years. Looking back, we have come a long way from serving just 30,885 individuals with current accounts back in 2009, to operating more than 190,000 individual current accounts at YE 2012.

The opening of our representative office in Nairobi will enable your Bank to play a more active role in the East African Community economic integration, capturing a greater share of cross-border trade and investment flows. I expect we will continue the prudent and measured expansion of our presence in this region through representative offices in 2013 and beyond.

I trust you will join me in expressing our gratitude to our customers, management and staff for their loyalty and dedication.

Lado Gurgenidze

Chairman

Our theme in 2012

"Bring financial services closer to the people"

Dr. James Gatera, *Chief Executive Officer*

Introduction

Within the context of realizing our theme, the Bank has taken great strides in expanding our service delivery channels. We have also developed an array of products that ensure that customers have access to our services 24 hours a day, seven days a week.

The Bank's profits after tax increased by 35.6 % to RwF 11.8 billion translating to a Return on Average Equity of 18.9%. The balance sheet recorded total assets of RwF 322.8 billion, representing a growth of 12.1% year on year. The growth was mainly a result of our continued investment in branch expansion and alternative delivery channels, strong liquidity position, diversified funding sources as well as a sustained focus on retail banking.

Sustained strong market positioning

Bank of Kigali continues to dominate the Rwandan banking sector despite the entry of Pan African and regional Banks in the market. The Bank also takes leadership position in all other major metrics with net loans at 32% and customers deposits at 28.1% of total loans and deposits in the sector. The sustained strong market positioning has been driven by our customer centered approach to service delivery.

Review of financial performance

Our profits in 2012 grew to RwF 11.8 billion accounting for over 50% of the total banking sector profits. The increase in profitability was mainly driven by a 43% growth in net interest income to RwF 23.7 billion. Non-Interest income grew by 14.1% to reach RwF 14.7 billion driven by an increase in fees and commissions income which grew by an impressive 54.4% to reach RwF 6.7 billion.

Net Provisions for non-performing loans decreased by 19.7% to RwF 3.6 billion driven by high recoveries during the year.

Review of financial position

Our balance sheet rose by 12.1% in an environment of global economic challenges clearly demonstrating the resilience of the Bank. Total assets were RwF 322.8 billion with growth mainly supported by higher loans and advances

The loan book grew by 50.3% to RwF 185.1 billion, mainly driven by consumer lending which now accounts for 32% of total loans. The increase in the ratio of retail loans emphasizes our continued focus on growing our retail book as competition for Corporate, SMEs and Non Business activities increases.

On the liability side, the growth in customer deposits was 15.1% reaching RwF 208.4 billion driven by gains from our branch and alternative channels expansion strategy.

The Bank is the best capitalized in the market. The Bank's core capital to total risk weighted assets ratio stands at 22.4% well above the regulatory minimum of 15%.

Staying focused on customers

To succeed under any circumstances, and particularly in challenging times, we stay focused on what is most important – our customers.

This focus is reflected in the Bank's tagline of 'financially transforming lives' through helping customers become financially better off by providing them with practical and relevant solutions that serve customers' needs.

Serving customers is at the heart of our business and our team is committed to building stronger and deeper relationships with customers to meet their unique needs. We continue to see great opportunities to do better in the way we serve especially the retail customers taking advantage of the growing middle class.

Our strong balance sheet and capital base have laid the foundation for us to take advantage of market opportunities and derive good value for our existing and potential customers.

Diverse customer segment and business lines

We serve customers in broadly three main segments which include business, retail and micro enterprises.

Within the business or corporate banking segment, we served 13,090 corporate customers at 31 December 2012 with deposits held growing to RwF 145.5 billion (2011–RwF 128.7 billion) and loans disbursed increasing to RwF 132.5 billion.

The Retail banking segment which includes micro lending, served 181,602 customers with deposits of RwF 62.9 billion and loans of RwF 61.5 billion.

Diverse Investment in technology driven alternative delivery channels

As an initiative towards extending our financial services to the unbanked, we have introduced mobile vans dubbed MobiBank to serve each of the five provinces of Rwanda. This service will enable customers to withdraw and deposit funds as well as access other services such as account opening. It also supports our Agent Banking through liquidity management.

We also launched Agency Banking in the fourth quarter of 2012. The roll out, so far in 385 agent locations, enables customers to carryout transactions in the same way as in our branch locations. The Bank's agents perform cash in and cash out transactions, open accounts for new customers and accept micro loan applications.

To support and enhance international tourism in the country all our ATMs and Points of Sales (POSs) accept major international cards including American Express, Diners Club and Union Pay (CUP).

Our product and service innovations and diversity

In 2012, we continued to focus and drive the retail banking agenda. We launched Gold and Classic credit cards for the high net worth and mass market respectively.

Our branch less banking strategy saw the launch of 'BK Yacu' brand which enables customers to access their bank accounts 24/7 through Mobiserve, mPay and Agency Banking platforms. Mobiserve is a self-service offering that allows customers to purchase their pay TV subscriptions, airtime top up and buy cash power through their mobile phones. Our merchant platform, mPay, which was also launched in 2012, enables customers to use their mobile phones for bill payments such as utilities, traffic fines as well as for shopping items at selected supermarket, pharmacies and other merchant locations.

As part of our vision to be the leading provider of most innovative financial solutions in the region, we rolled deposit taking ATMs, a service that is yet to be available elsewhere in Africa, outside of South Africa. The ATMs accept both Rwandan Francs and foreign currency deposits, with customers' accounts being credited on real time basis once funds are deposited at any of the Bank's 55 deposit taking ATM locations.

Diverse Risk Management and Compliance

The Bank's performance demonstrates disciplined risk management that supports long-term, sustainable success. We have a hands-on approach to the development and implementation of risk management principles; we take the time to ensure that risk is properly understood and embedded throughout our organization and we use independent Board risk oversight.

Human capital development initiatives

The best strategy can only be good if we have the right people to implement and drive it. Our employees are our greatest asset and the biggest drivers of the Bank's sustained performance. We currently boast a staff compliment of 877 staff. The Bank is committed to creating a working environment that develops and equips all staff with the skills and capabilities to effectively serve our customers.

Future aspirations for 2013

Our theme for 2013 will be to ***"Consolidate our transformation through a sustained focus on Retail business"***

The Bank has already taken great strides in channel expansion and roll out of self-service products such as mobile banking based products, card based products and Agency Banking. 2013 is a year for consolidating the competitive advantage that the Bank has achieved in the banking arena.

We will continue to grow our branch network with more branches expected to be opened in 2013. We will continue to deploy our top of the range deposit taking ATMs both in branches and in high footfall locations. These deployments aim at bringing convenience and flexible service to our customers.

Towards ubiquity that includes the low earners in the economy, the Bank will roll out mVisa wallet in collaboration with VISA International. mVisa is an interoperable mobile banking platform that is expected to provide solutions towards the payment and financial inclusion challenges in the country.

Entry into the capital markets financial services

We have incorporated BK Brokerage Services Limited, a wholly owned subsidiary, to offer financial services in capital markets. Initially, the company will offer brokerage services to retail and international institutional investors with plans to expand in to asset management and advisory services.

Funding our growth strategies

The Bank has signed long term credit lines with International Development Institutions in order to deal with any potential maturity mismatch risk.

Harnessing sustainable future growth

Our main focus in 2013 will be on continuous improvement in customer service and cost management. This focus will deliver value to our customers and ultimately to our shareholders and other stakeholders.

For 2013, our shareholders have given assurance of their support of the Bank's growth strategies by resolving to plough back 50% of the profits. The plough back will spur the Bank towards a more robust transformational path that will enable the Bank to grow the Return on Equity to above 20%.

Acknowledgement

On Behalf of management and staff and myself, we wish to appreciate the confidence our customers have had in the Bank. This has enabled us to sustain our number one market positioning in total assets, loans and deposits as well as equity.

Special thanks to the Board of Directors for their focused and consistent leadership in directing and guiding the Bank.

I thank the staff for their commitment and dedication that is shaping the Bank into a formidable player in financial services sector. With the same loyalty and commitment, the Bank will be able to scale even greater heights.

Dr. James Gatera

Chief Executive Officer

BK MobiBank
Bringing banking closer to you

Convenience and endless possibilities
Banking has never been easier. The BK MobiBank vans have introduced the possibility of banking services away from the branches.

As the leading Bank in Rwanda, Bank of Kigali (BK) is committed to transforming the lives of Rwandans not only through providing the most innovative financial solutions on the market but also by giving back to the community. The Bank has developed socially responsible policies and environment friendly, budgeting, lending and investment practices and has also developed a strong CSR Strategy which has enabled it play a pivotal role in transforming the lives of Rwandans. This policy is based on four strong pillars: improving access to education, promoting community health, environmental sustainability and poverty eradication. The pillars are designed to recognize that the small steps we take today contribute to a bigger change for a brighter tomorrow of our community. To support the strategy, the Bank devotes 1% of our annual operating profit to Corporate Social Responsibility (CSR) activities.

CSR Committee

The Bank set up a Social Corporate Responsibility (CSR) Committee whose primary role is to implement the Banks CSR strategy. The Committee, which is composed of six members of the management team, sit at least once a month to evaluate project proposals brought to the Bank and how these projects enhance the Banks CSR Strategy. Given the fact that the Bank has expanded to all parts of the country, the Committee through its branch network extends its CSR activities to all parts of the country.

Pillar 1 – Improving access to education

Bank of Kigali acknowledges its role in nurturing human capital, particularly in improving education which is a critical success factor for Rwanda's long term skill and capacity development.

The Bank, through its partnership with the Imbuto Foundation has for the past three years provided scholarships to 200 students from needy backgrounds. The Bank intends to continue supporting this project in 2013.

The Bank also supports the School of Finance and Banking (SFB) and other institutions of higher learning in various initiatives including sponsoring prizes awarded to their best students in order to encourage academic excellence within the student community. In addition, the Bank offers internship opportunities to the best performing students who, depending on their performance, have an opportunity to join the Bank as staff employees.

Former Head of Corporate Banking, Patrick Masumbuko handing over a cheque of RwF 2 million to the Rector of SFB Prof. Reid E. Whitlock as sponsorship of the 7th Annual Graduation Ceremony held at the School's Mburabuturo campus.

To promote self-employment and boost confidence in the youth, the Bank was the main sponsor of Rwanda Inspiration BackUp Ltd, whose aim is to bring schools and universities from all over the country to debate and share ideas on self employment.

High School and University students at a debate competition on the importance of entrepreneurship.

In 2012, Bank of Kigali opened its doors to Lycée de Rulindo- Kirezi Secondary School students of Accounting and Finance to allow them get practical knowledge of how to analyse a financial report and a feel of the working environment.

Students in an accounting class learning how to interpret financial statements

Bank of Kigali believes in an all round approach to education by encouraging talent development. In this spirit, the Bank was the main sponsor of an under 17 FERWAFA football tournament of children who would otherwise not have had an opportunity to participate in a national championship. 12 boys and 9 girls were subsequently selected to join the under 17 national team. Of these, 2 boys have since had an opportunity to undergo professional testing in Belgium and France.

6th and 7th from the right standing, joined the National Team

Pillar 2: Promoting Community Health

The Bank acknowledges the need for a healthy society in order for Rwanda to achieve its Vision 2020 goals. In 2012, the Bank maintained its three year RwF 100 million commitment to Friends of Africa, a campaign focusing on increasing returns on investment in the fight against HIV/AIDS, tuberculosis and malaria.

In recognition of the increasing incidence of breast cancer in Rwanda and the urgent need to develop awareness of the disease, the Bank was one of the main sponsors of the Ulinzi Walk which aimed to create public awareness about breast cancer emphasizing early detection as the best protection. The initiative also encourages solidarity in facing cancer further demonstrating public ownership of the cancer burden in order to stimulate intervention of the needed changes.

Ulinzi walk to promote breast cancer awareness

The Bank further supported the RDF Army in the military week. Using their medical expertise, the Army provided consultation, treatment and operations to Rwandans in Nyamasheke and Rusizi and in cases of serious cases, transferred the patients to the Rwanda Military Hospital to operate on them.

A young girl is given an opportunity to receive specialised medical treatment from the RPF military

Pillar 3: Environmental sustainability

The Bank has taken steps to ensure that projects financed have minimal adverse impacts on the environment and those with a potentially adverse environmental and social impact have adequate mitigation measures.

To achieve the environmental sustainability objectives, the Bank has developed Social and Environmental Management Systems (SEMS) policies and procedures. The policies and procedures were developed through a consultancy funded by a grant from the African Development Bank(AfDB).

In addition, the Bank in its ordinary course of business is consciously mindful of environmental obligations both internally and externally. In respect of protecting our environment, the Bank invested in the following initiatives in 2012:

Saving Trees by introducing paperless means of communication in business

In 2010, the Bank introduced electronic Bank statements and use of electronic channels such as mobile and internet banking for customers to access their accounts without printing statements. These initiatives are designed to save paper which contributes towards the conservation intiative in the country. The Bank will continuously invest in promoting paperless business operations and communication.

Promoting a paperless environment in the workplace

Mountain Gorilla conservation

The Bank has for the eighth year running in partnership with the Rwanda Development Board, supported the annual gorilla naming ceremony *kwita Izina* in an effort to participate in mountain gorilla conservation. Rwanda's mountain gorillas contribute almost 90 percent of revenues accrued from national parks in tourism receipts, and are a key driver of rural economic and social empowerment especially in the communities surrounding the national park.

In the spirit of the national practice of *Umuganda*, our staff participate in community work on a monthly basis. Given our extensive branch network, our community participation is spread nationwide. Moreover on a quarterly basis, our employees engage in a specialized *Umuganda* in different communities.

Employee-led Participation in community work, Umuganda

Pillar 4 - Poverty Eradication

The Bank's commitment to poverty eradication is three fold: through the Bank's products and distribution channels geared towards poverty reduction; through the Bank's CSR activities and staff involvement.

BK Products

In September 2011, the Bank launched a micro lending business line targeting the Youth, Women and Senior Citizens. Bank of Kigali recognizes that access to finance still remains one of the biggest challenges for most Rwandans since collateral is required to access loans. In 2012, the Bank gave out over Rwf 2.9 billion worth of loans to over 4,000 clients to enable them to start or expand a business with no collateral.

Micro lending manager, Aline Rwigimba visits one of the Bank's micro lending clients

To ensure Rwandans have access to financial services, the Bank opened 15 branches in 2012 countrywide increasing the overall number to 59. In addition to the new branches, the Bank has introduced Agency Banking to compliment the existing branch network. This means that even where Bank of Kigali does not have a branch, customers can still access banking services from their neighbourhood shops that act as agents of the Bank. Bank of Kigali went a step further to introduce mobile vans dubbed BK MobiBank. Through MobiBank vans, the Bank intends to provide further access to the Bank's financial services and products even where there is no branch or BK agent.

Taking banking services closer to the community

Poverty Eradication through the BK CSR Strategy

The staff and Bank of Kigali were the first to support the Agaciro development fund, a solidarity fund that was initiated by Rwandans to improve the level of financial self- sufficiency of Rwanda as a nation. This fund was initially suggested at the 2011 Umushyikirano (National Dialogue Meeting) and spearheaded by the Rwandans living abroad. It is now embraced by all Rwandans. The uniqueness of the fund is that it is Rwandans themselves that will finance it. The fund sets the tone of Rwandans working together to drive their own development; giving the entire Rwandan population a higher level of direct ownership in national projects.

Staff Contribution to Poverty Eradication

In addition to the significant financial contribution of the Bank through CSR activities, the Bank staff also participate in CSR activities from their own resource mobilization. In December 2012, the staff of Bank of Kigali visited disabled demobilized soldiers in one of the Rwandan villages and donated to them a grinding mill ensuring economic sustainability of these soldiers.

Bank of Kigali staff donate a grinding mill to demobilized disabled soldiers

Similar activities have included visiting genocide survivors providing them with a cow each for nutrition and economic empowerment. Following the Bank's 2011 investment in the *One cow per poor family* "girinka" project, the staff of the Bank visited the project and replaced all the cattle that had died. This ensured the sustainable economic empowerment of the community.

Conclusion

In 2013, the Bank will continue to implement a robust CSR strategy. The Bank will concentrate on ensuring that communities in Rwanda benefit from the Bank's CSR activities. The Bank will continue to support the already existing CSR partnerships and looks forward to increasing employee-led CSR initiatives throughout our branch network.

We will implement the Social Environmental Management System policies and procedures in full during the year after training all our relationship and credit analysis teams. This will ensure that our lending practices are environmentally compliant.

The Board of Bank of Kigali is committed to achieving sustainable long term value creation for shareholders by upholding the highest standards of Corporate Governance. The Board believes that good corporate governance is the cornerstone of the Bank's success and ensures compliance with the National Bank of Rwanda's regulations on Corporate Governance, Rwanda's Law Relating to Companies, the Law Relating to Banking and the BNR Guidelines as well as the Capital Markets Authority laws and regulations.

Board's Responsibilities

The Board of Directors is responsible for the overall leadership of the Bank through oversight and guidance on key strategic and risk issues. It plays a pivotal role in setting up the system of corporate governance within the Bank to ensure safeguard of policies and procedures and aligning the incentives of the managers with those of the shareholders. The Board also ensures that management conducts the Bank's business and operations with integrity and in accordance with best corporate governance practices. It ensures that in carrying out its duties, the Bank complies with relevant laws and regulations and risk management procedures while balancing the interests of the various stakeholders.

The Chairman, who has overall responsibility for the Board, ensures overall leadership and long term success of the Bank. His role is distinct from the Chief Executive Officer. A cordial relationship exists between the Chairman and the Chief Executive Officer based on mutual understanding of their respective roles. The Board Chairman ensures that the Board focuses on the right matters reserved for the Board by approving all Board Agendas in collaboration with the Chief Executive Officer and the Company Secretary. The Chairman with the support of the Company Secretary also ensures that Board members receive timely and relevant information for the board meetings and that the members are kept informed of key developments in the Bank. Information dissemination was enhanced by the introduction of Board-Books, an IT based board portal software that ensures Board access to secure information with ease. It was the first Board in Rwanda to use the Board Books software.

For the successful management of the Board and their functions, the Board has developed a Board Charter, which sets out their powers, roles and responsibilities. The Board meets on a quarterly basis or more frequently as the business demands. The Board has also appointed five subcommittees to assist in achieving its mandate as per the BNR requirements.

The Board conducts a self-evaluation exercise in compliance with the National Bank Regulations which is submitted to the Central Bank.

In 2012, the Board held four meetings. The table below indicates the Directors attendance of Board and Board Committee meetings.

Directors' attendance in Board and Board Committee meetings in 2012

Structure	No. Of Board Meetings	Audit Committee	Risk committee	Credit Committee	ALCO Committee	Nominations & Remuneration Committee
No. of Meetings held						
Lado Gurgenidze	4/4					
Angelique Kantengwa	3/3**		2/2**	6/6**	2/2**	
Sudadi S. Kayitana	4/4	5/5	1/1*	12/13		
Caleb Rwamuganza	4/4		2/2	11/13	1/1*	3/3
Apollo M. Nkunda	3/4	5/5	1/1*			3/3
Marc Holtzman	3/4					3/3
Lillian Igihozo	3/3**		2/2**			3/3**
Alphonsine Niyigena	4/4	4/5	1/1*	12/13	2/2	
Julien Kavaruganda	3/3**		2/2**		2/2**	
Dativa Mukeshimana	1/1***	2/2***	1/1***		1/1***	

In 2012, a total of 10 Board members attended the Board meeting.

***Ms Dativa Mukeshimana resigned from the Board on the 27 April 2012. As such, she attended one Board meeting and four Committee meetings that took place before the date of her resignation.

** On the 27 April, three non executive members joined the Board. They include: Angelique Kantengwa (nominated vice Chair in the Board meeting of the 28 May 2012), Julien Kavaruganda and Lillian Uwera Igihozo. The new Board members attended Board and Committee meetings from their date of appointments.

*Following the 27 April AGM nomination of three additional members to the Board, and following the separation of the Risk and Audit Committees of the Board, the Board meeting of the 28 May 2012 nominated new Board Committee members. As such, the Board Committees were reconstituted.

Composition of the Board of Directors and its Committees

Directors are appointed by the Shareholders at the Annual General Meeting (AGM). The Directors are also approved by the National Bank of Rwanda as a regulatory requirement.

The Board comprises of two non resident independent non executive directors with extensive expertise in international banking practices as well as seven resident non executive independent directors who include a professional accountant, a financial consultant, two practicing lawyers, and other private sector and government representatives with extensive business acumen. The wide array of skills, knowledge and experiences is a major contribution to the proper functioning of the Board and its Committees and enriches the decision-making processes.

To assist the Board in carrying out its functions and to provide independent oversight, certain responsibilities are delegated to the Board's Committees. In line with the BNR guidelines 06/2008 on Corporate Governance, the Board has five Board Committees, each with terms of reference to support the Board in performing its functions. These guidelines have been adopted and form part of the Board Charter of the Bank. The Board is kept up to date on the deliberations and recommendations of the Committees through reports from each of the Committee Chair at Board meetings. All Directors have access to the services of the Company Secretary in relation to discharging their duties as a director, or as a member of any Board Committee.

Audit Committee

This is the principal Board Committee comprising of three independent non executive board members who meet on a quarterly basis or more frequently as its business demands. The Committee is chaired by Sudadi S. Kayitana, a professional accountant. Other members Include: Alphonsine Niyigena and Apollo M. Nkunda. The Audit Committee is responsible for ensuring that the Bank's internal controls and procedures are adequate and adhered to, making recommendations where necessary. It is also charged with the appointment and review of the work of the external auditors. This also extends to overseeing the Bank's financial reporting policies and disclosures to ensure that they are produced in accordance with International Financial Reporting Standards and meet the all the necessary regulatory requirements.

Credit Committee

The Committee comprises of three independent non-executive directors who meet monthly or more frequently as its business demands. The Committee is chaired by Caleb Rwamuganza. Other Committee members include: Sudadi S. Kayitana, Alphonsine Niyigena and Angelique Kantengwa.

It oversees the Bank's loan portfolio credit risk management. The Committee is charged with reviewing credit facility applications that are beyond the discretionary limits of the management credit committee. The Committee also oversees the Bank's lending policies and procedures to ensure that there is adequate risk management in addition to monitoring the loan portfolio to maintain high asset quality.

Risk Management Committee

This Committee comprises of four independent non executive board members and meets on quarterly basis or more frequently as its business demands. The Committee is chaired by Angelique Kantengwa. Other members include: Caleb Rwamuganza, Julien

Kavaruganda and Lillian Igihozo. The mandate of the Risk Management Committee is to ensure that the Bank's enterprise risk management policies and procedures are updated to ensure that the risks are properly identified, effectively controlled and managed.

Assets-Liability Management Committee

The Board Asset-Liability Management Committee, chaired by Alphonsine Niyigena comprises of three independent non-executive directors including Angelique Kantengwa and Julien Kavaruganda who meet on quarterly basis or more frequently as its business demands.

The Committee is responsible for monitoring and managing the Bank's balance sheet to ensure that various business risks such as liquidity, capital, market and currency risks are monitored and mitigated in compliance with the Bank's policies and Central Bank guidelines.

Nominations and Remuneration Committee

The Nominations and Remunerations Committee, chaired by Apollo M. Nkunda is composed of four independent non-executive directors including Lillian Igihozo, Marc Holtzman and Caleb Rwamuganza who meet once a year or more frequently as its business demands.

The Committee is responsible for the appointment of and remuneration of the Management and also ensuring that the Bank's human resources are able to support the development and implementation of the Bank's strategy. This entails reviewing the Human Resources policies and procedures, organizational structure, senior management composition as well as remuneration.

Management Committees

The Bank also has various Management Committees in place to assist in the day to day implementation of the Bank's strategy. These include:

- Executive Management Committee
- Credit Committee
- Treasury /Assets-Liability Committee
- Human Resources Committee
- Recovery Committee
- Corporate Social Responsibility
- Product Development Committee
- Branch and Agency /Expansion Committee
- Marketing and Communication Committee
- Procurement Committee

Disclosures

Related Party Transactions

During the financial year 2012 there were no materially significant transactions entered into between the Bank and its promoters, directors or the management or other related parties that may have potential conflict with the interests of the Bank at large.

Statutory Compliance, Penalties and Strictures

The Bank has complied with the requirements of the National Bank of Rwanda and the Law Relating to Companies on all matters related to the banking and company business. In 2011, the Bank began to comply with the requirements of the Capital Markets Authority and the Rwanda Stock Exchange. No penalties or strictures have been imposed on the Bank by these authorities.

Shareholders' Responsibilities

In accordance with the Law relating to companies, shareholders have the primary role to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance. The responsibility of the shareholders is exercised through the Annual and Extraordinary General Meetings.

Shareholding Structure

In 2011, the Bank's shareholding structure changed significantly. In an Extraordinary General Meeting held on 4th May 2011 the shareholders resolved to split the shares 1:11000. It was further resolved to issue an additional 25% new shares. This brought the total number of issued shares to 667,337,000 shares.

Following the change in shareholding structure, the shareholders resolved to sell 45% of the Bank's shares to the public through an Initial Public Offer. The shares sold comprised of 25% new shares issued as well as 20% divestiture by the Government of Rwanda. On 1 September 2011, the Bank became the second domestic company to be listed on the Rwanda Stock Exchange.

The table below shows the Banks' shareholding as at 31 December 2012.

	Issued shares	
Shareholder	**Number of Shares**	**% of Issued Shares**
Government of Rwanda	198,534,600	29.75%
Rwanda Social Security Board	184,934,300	27.72%
Other State Owned Entities	698,900	0.10%
Local Institutional Investors	12,544,000	1.88%
Regional Institutional Investors	23,310,400	3.49%
International Institutional Investors	155,603,400	23.32%
Employees and Directors	6,284,800	0.94%
Retail Investors	85,426,600	12.80%
Total	**667,337,000**	**100.00%**

The Board Team

Lado Gurgenidze, *(Chairman)*

Lado Gurgenidze (42), who has served as Chairman of Bank of Kigali since October 2009, is a career banker who, after a decade spent at several investment banks in Warsaw, Moscow and London, returned to his native Georgia in 2004 and spearheaded, as Executive Chairman and Chief Executive Officer, a turnaround of Bank of Georgia (LSE: BGEO). During Lado's three-year tenure, the bank's total assets and net income grew **854%** and **1,775%**, respectively, achieving ROAA of 3.6% in 2007. As its market share grew from **18%** to **34%**, Bank of Georgia became the leading universal bank in Georgia and the region, with market capitalisation exceeding US$ 900 million at the time of Lado's departure (up from less than US$ 30 million at the time of his arrival; share price grew by **1,468%**). Bank of Georgia was the first ever issuer from the Caucasus and second FSU bank to list its GDRs on the London Stock Exchange (November 2006, US$ 130 mln). In February 2007, Bank of Georgia became the first-ever Georgian entity to issue Eurobonds.

In 2007-2008, Lado served as Prime Minister of Georgia, leading the Georgian economy through the final stage of free-market reforms, including tax cuts, financial services sector reform as well as privatisation and liberalisation policies. In April 2008, Lado led the effort to issue Georgia's debut sovereign US$500 mln 5yr Eurobond. In the aftermath of the August 2008 conflict with Russia, Lado was instrumental in stabilising the Georgian economy and its financial sector, as well as securing a US$ 750 million IMF stand-by arrangement and a US$ 4.5 billion multi-donor aid package. Some of the largest-ever Georgian privatisation transactions, including the sale of Poti Port and Tbilisi Water Company were concluded under Lado's leadership. Lado is responsible for bringing in approximately US$ 1 billion of portfolio investments and close to US$ 500 million of FDI. Lado is the only person to have been awarded both St George's Victory Order (in 2008) and the Presidential Order of Excellence (in 2010) – the two highest civilian honours in Georgia. Since he stepped down as Prime Minister, Lado has been a frequent public speaker on issues of economic liberty and free-market reforms in developing countries.

Since September 2009, Lado has been spearheading the turnaround of Liberty Bank as its Executive Chairman and Chief Executive Officer. In the past three years, Liberty Bank's total assets grew **202%** to US$ 506.4 million, and its market share by total assets grew from 3.5% to 6.3%. Net Loans grew **345%** (vs. 80% for the sector), and the bank's revenue doubled. Liberty Bank, currently the fourth largest bank in Georgia has been profitable since 2010 and serves 1.4 million clients through 434 branches and distribution outlets.

Liberty Capital, the investment company 91% of which is owned by Lado, owns 80% of Liberty Securities, and, in addition, is the controlling shareholder of Georgia's first startup incubator, Smartex, which owns controlling stakes in the country's largest digital wallet and other electronic payments businesses, leading ecommerce players and VoIP provider.

Prior to taking the helm at Bank of Georgia, Lado served as Head of Europe at Putnam Lovell (now part of Jefferies & Company, Inc.) and as Head of Technology Corporate Finance and Head of M&A, Emerging Europe at ABN Amro, advising clients such as SWIFT, Reuters (now Thomson Reuters), Wirtualna Polska (now part of Orange Polska), Marconi, Andrew Corporation, Merloni (renamed Indesit Company), News Corp, Global One (now part of France Telecom), Golden Telecom (now part of Vimpelcom), UPC (now part of Liberty Global) and Philips.

Lado is married with four sons and is a Georgian and British citizen. Lado received his MBA from Goizueta Business School of Emory University in 1993 (and is the recipient of the 2010 Sheth Distinguished International Alumni Award and was named in 2011 as one of 175 Emory History Makers), following undergraduate studies at Middlebury College and Tbilisi State University. In 2006, Lado hosted the licensed Georgian version of *The Apprentice* TV show, and in 2011 he co-hosted a business reality TV show together with the mayor of Tbilisi and heads of two other large banks. In 2010, Lado served as a judge on the Investment Banking Awards panel of *The Banker* magazine. Lado currently serves as Co-Chairman of the International School of Economics at Tbilisi State University. In 2011-2012 Lado served as the Non-Executive Director at JSC Partnership Fund, the sovereign wealth fund of Georgia and GeoProMining, a gold, copper and antimony producer with principal assets in Armenia and Russia, and in 2009-2010 he co-chaired the Emory Centrefor Alternative Investments.

Angelique Kantengwa, *(Vice Chair)*

Angelique is the Director General of the Rwanda Social Security Board, a position she has held since June 2011. Prior to that, she worked for the National Bank of Rwanda for 15 years, during which she served as the Senior Director in charge of Financial Stability and worked on financial sector policy development, regulatory reforms, restructuring, privatization and supervision of financial institutions. She is an economist specializing in financial system reform and development. Angelique holds a Master's degree in Economics and Social Sciences from Université Catholique Notre Dame de la Paix in Namur and a Master's degree in Public Administration from Harvard Kennedy School of Government.

Apollo M. Nkunda, *(Director)*

Apollo is a practicing Lawyer and a Partner with Trust Law Chambers. He has over fourteen years experience in legal practice from both the Public and Private sector. Apollo specialises in Banking and Finance Law, Labour Law and Government procurement. Prior to joining the Private sector, he was Head of Legal Services at the National Tender Board, now the Rwanda Procurement Authority.

Apollo holds a Master's degree in Business and Trade Law from Erasmus University Rotterdam, the Netherlands, and a Bachelors of Law from the National University of Rwanda.

He is a member of the Rwanda Bar Association, the East African Law Society, an Associate Member of the Chartered Institute of Purchasing and Supply, a director of Hashi Energy Ltd and honorary counsel to the Kigali Golf Club.

Marc Holtzman, *(Director)*

Marc is Chairman of Meridian Capital HK, a private equity firm. He previously served as Vice Chairman of Barclays Capital and as Vice Chairman of the investment banking division of ABN Amro Bank.

Marc also serves as Chairman of the Board of Indus Gas Limited, an Indian oil and gas company listed on the London AIM and on the Board of Directors of FTI Consulting, Inc. (NYSE); Prospect Global Resources, Inc. and Sistema JSFC, Russia's largest publicly listed investment company (London Stock Exchange). Marc also served in the Cabinet of Governor Bill Owens as Colorado's first Secretary of Technology and was President of the University of Denver. In 1999, in recognition of his pioneering work contributing to Eastern Europe's economic resurgence following the fall of the Berlin Wall, then Polish President Aleksander Kwasniewski presented Marc with the Commander's Cross of the Order of Merit -Poland's highest civilian honor- for his service to the country. Marc holds a B. A. in Economics from Lehigh University.

Marc is passionate about his work with the Point Foundation, a UK based charity which supports Rwandan orphans. Marc is a longtime supporter of the Colorado Animal Rescue Shelter.

Alphonsine Niyigena, *(Director)*

Alphonsine is a business woman with good experience in trade, investment and entrepreneurship in Rwanda and in East African Community. She is Vice Chairperson of the Rwanda Private Sector Federation and Vice Chairperson of East African Business Council which are the umbrella organizations representing the business community in Rwanda and in the East African Countries respectively.

She has acquired strong experience in leadership and corporate governance for having served on a number of boards. She is the Chairperson of Medical Military Insurance Company (MMI); Board member of Special

Guarantee Fund (SGF), Rwanda Institute of Administration and Management (RIAM) and Impact Policy Analysis and Research Institute (IPAR).

Alphonsine is the Managing Director of Worldwide Initiatives SARL; a regional consulting firm registered in Rwanda and has conducted national and international consultancies as an independent consultant in the areas of Finance, Economic Planning, and Audit. Prior to joining the private sector, Alphonsine served in the Office of Auditor General for 5 years as Senior Auditor and team leader.

Alphonsine holds a Master's Degree in Business Administration majored in Finance from Maastricht University, Netherlands and a Bachelor Degree in economic studies.

Sudadi S. Kayitana, *(Director)*

Sudadi is a practicing Accountant with wide experience in Finance and Audit. He is currently General Manager of Inyange, a leading beverage company in Rwanda. He has served in the Public and Private sector, and the international community organisations including UNDP.

Sudadi also serves as a director on the Regulatory Board of Rwanda Utility Regulatory Agency (RURA) and RwandaAir. He is a member of the Governing Council of the Institute of Certified Public Accountants of Rwanda (ICPAR).

Caleb Rwamuganza, *(Director)*

Caleb is the Deputy Accountant General, Treasury management at MINECOFIN. He has extensive experience in the area of Accounting and Finance and has served in the Ministry of Finance and Economic Planning since 2005 in various capacities including Technical Assistant to the Secretary to the Treasury. Prior to that, Caleb was Chief Accountant in the Office of the President.

Caleb acts as lead Negotiator on Government loans and manages the execution of public debt obligations and implementation of debt related policy matters. Caleb also serves as a Director on the Boards of RwandaAir and the National Post Office of Rwanda.

He holds a Master of Arts degree in Management and Finance from Southampton Solent Southampton University (UK) and Bachelor of Business Administration in Accounting from Nkumba University, Uganda.

Julien Kavaruganda, *(Director)*

Julien is a practicing lawyer and Managing Partner of K-Solutions & Partners - one of the leading law firms in Rwanda. He has vast experience in Banking and Finance law, Commercial and corporate law issues, drafting and negotiating contracts to mention but a few.

He is a Board Member of the Kigali Bar Association, Kigali International Arbitration Center and New Bugarama Mining Company Ltd. He is also a member of the East African Law Society. Prior to that he was a corporate lawyer at the Brussels Bar Association.

Julien holds a Master's degree in Law from the Université Catholique de Louvain in Belgium.

Liliane Igihozo Uwera, *(Director)*

Lilliane is the Vice Rector, in charge of Administration and Finance, at the School of Finance and Banking (SFB). Prior to joining SFB, she was the Chief Executive Officer of the Rwanda Investment Group (RIG), the largest private capitalization in Rwanda.

Liliane has project management experience in private and public sectors and in various industries such as railways/high speed train engineering, construction projects, energy, cement manufacturing, education and retail.

She holds a Master's degree in Financial Risk Management and a Bachelor in Business Administration from the Catholic University of Louvain, Belgium and is a Certified International Professional Associate in Project Management from the International Project Management Institute (PMI).

Management Team

Dr. James Gatera, *Chief Executive Officer*

Dr. James Gatera was appointed as the Chief Executive Officer of Bank of Kigali in 2007. During his tenure, the Bank has witnessed tremendous growth in size, profitability and all key balance sheet metrics. Profitability has grown by 176% (recording an increase of 35.6% in December 2012 compared to the same period in 2011) while total assets and net loans have grown by 166% and 280% respectively. This has enabled the Bank to maintain a firm grip on its leading position in the Rwandan banking sector with a 32% market share as of 31 December 2012. In 2012 alone, the Bank's total assets grew by 12.1%, customer deposits by 15.1% and net loans by 50.3%.

Under his stewardship, and in line with his vision of ensuring financial inclusion of all Rwandans, the Bank has opened 49 branches in Rwanda (15 branches in 2012 alone) increasing the total number of its branch network to 59 at the end of the year. In addition, James has spearheaded an aggressive strategy to ensure that all Rwandans have access to financial services through innovative products such as mobile banking vans, agency banking and micro lending products

Under his leadership, the Bank became the second domestic company to be listed on the Rwanda Stock Exchange in 2011 and received the Best African Listing by Africa Investor. (AI)

During his tenure, the Bank has been internationally recognized for four years running as the Best Bank in Rwanda by Emeafinance and Bank of the Year by The Banker. It has been awarded the Company of the Year by the Kenya Institute of Management and the Best East African Bank Award by the African Banker magazine in 2012. The Bank became the first Company and Bank to be rated by a credit rating agency in Rwanda and received a rating of A+/A1/ by Global Credit Rating Company (South Africa).

James is a regular key speaker in many international and African business forums including the CBC and the East African Community.

He serves on numerous Boards including the Commonwealth Business Council (CBC), East African Business Council (EABC), Magasins Generaux du Rwanda S.A. (MAGERWA), Rwanda National Resources Authority and National Land Commission. As a Board member of the East African Business Council, James is at the helm of ensuring East African integration and the elimination of non tariff barriers in the East African Community.

Prior to being the Chief Executive Officer, James was the Deputy Managing Director in Bank of Kigali from 2005-2007. He played a key role in leading the Bank when Belgolaise SA sold its 50% stake to the Government of Rwanda.

In December 2012, James received an Honorary Doctorate Degree by the Commonwealth University of Belize in recognition of his exemplary leadership of the Bank and his tremendous achievements in the Banking Sector in Rwanda.

James holds a Bachelor of Arts degree majoring in Psychology from Simon Fraser University, Canada and Bachelor of Commerce from National University of Lesotho.

Lawson Naibo, *Chief Operating Officer*

Lawson Naibo is the Chief Operating Officer. He has been with the Bank since 2009. He has wide experience in Strategic Management processes, Financial Accounting Advisory, Corporate Governance, Risk Management and Compliance Advisory gained from over 15 years post qualification experience previously in CFC Bank Group and KPMG East Africa. Immediately prior to joining the Bank, Lawson was an Associate Director specialising in Transaction Services at KPMG East Africa.

Lawson is a qualified Business Strategy and Financial Services Advisor and holds MBA in Strategic Management from the University of Nairobi (UoN) and BSc in Financial Services from the Manchester Institute of Science and Technology (UMIST) London. He is also a qualified Accountant and Chartered Banker and Certified Trainer in Corporate Governance.

Flora Nsinga, *Chief Shared Services Officer*

Flora is the Chief Shared Services Officer (CSSO). Prior to this, she was Head of Human Resources and Administration Department and has been with the Bank since 2008. Flora joined with about ten years experience from the telecommunication industry.

Flora has been responsible for the growth in branch network and staff since 2008. She was instrumental in leading the Bank through various organisational reforms in 2009. She has overseen the Bank's strategic human resources restructuring from a product driven structure to a customer focused structure. As the CSSO, she has speaheaded the branch expansion and staff establishment growth and skills development.

Flora holds a Bachelor's degree in Business Administration with specialisation in Human Resources from Kigali Institute of Science, Technology and Management (KIST).

John K Bugunya, *FCCA Chief Finance Officer*

John is the Chief Finance Officer. He has been with the Bank since 2009 and brings in a wealth of experience from financial advisory and assurance services gained from over 8 years post qualification experience with Ernst & Young and Deloitte. Prior to joining the Bank, John was an Audit Manager with Deloitte in the United Kingdom specialising in financial services. He also serves as a director on the board of Akagera Aviation.

John is responsible for overseeing the development and on-going implementation of the financial strategy, development and monitoring of control systems designed to preserve company assets and accurate reporting of financial results.

John is a Qualified Accountant and a Fellow of the Association of Certified Chartered Accountants –UK (FCCA) and is also a member of the Institute of Certified Public Accountants of Rwanda (ICPAR). He holds a Bachelor's degree in Business Administration and an MBA in Accounting & Finance.

Dr. Shivon Byamukama, *Company Secretary*

Dr. Shivon Byamukama is the Company Secretary and Head of Corporate Affairs at the Bank. She is in charge of Legal Affairs of the Bank including recoveries, and implementing good Corporate Governance practices for the Bank. Shivon also oversees the Bank's, Investor Relations & Shareholder matters, Public Communications and is at the helm of implementing the Bank's Corporate Social Responsibility strategy.

Prior to joining Bank of Kigali, she was the Company Secretary and Chief Legal Officer for RwandAir, Rwanda's national carrier. Shivon was an instrumental member of the team that transformed the airline which began operating its own aircrafts in 2009, growing its fleet to 7 aircrafts and its destinations to 14. She played a central role in the negotiations of all major aircraft transactions for the company including; the acquisition contracts of the aircrafts, aircraft financing and insurance arrangements, aircraft maintenance and technical support contracts, corporation agreements with other airlines, and Bi-lateral agreements.

Shivon has previously worked with the International Criminal Court at the Hague, Glasgow Caledonian University, UK, Rwanda National Bureau of Standards, Rwanda Ministry of Commerce, Industry, Investment Promotion in different capacities.

She is also one of the co-founders and shareholder of Falcon Capital Investments (FCI).

Shivon has a Bachelor of Laws Degree from Makerere University - Uganda (2002), a Diploma in Legal Practice at the Law Development Centre, Kampala, Uganda (2003), and a PhD from Glasgow Caledonian University, Glasgow, Scotland, United Kingdom (2009).

Patrick Masumbuko, *Chief Representative Officer - Nairobi*

Patrick is currently the Chief Representative Officer at our Nairobi Office. He was previously Head of Corporate Banking Department. Prior to holding this position, he was the Corporate Banking Manager. Patrick joined the Bank with over ten years experience from the banking and private sector. He also held various positions in Non Governmental Organizations.

Patrick is responsible for managing the Bank's representative office in Nairobi creating the contact centre for our existing and potential clients in Kenya.

Patrick holds a Bachelor of Commerce degree from Kigali Institute of Science Technology and Management and Diploma in Business Studies from National College of Business Studies Nakawa.

Enock K. Luyenzi, *Head of Human Resources & Administration*

Enock is the Head of Human Resources and Administration. Prior to that, he served as the General Services Manager at the Bank since 2009. He joined the Bank with over seven years experience in supply chain management, logistics and administration from the public sector.

Enock has been responsible for efficient management and overseeing the procurement process of the Bank as well as executing the Bank's expansion strategy since 2009.

Enock holdsa Bachelors' Degree in Management from the National University of Rwanda.

Innocent Musominari, *Head of Corporate Credit Department*

Innocent is the Head of Credit, and has worked with the Bank since 2004. He has wide experience in credit analysis and management gained from having worked with the Rwandan Banking sector for 14 years. He has been pivotal in managing the Bank's credit risk and this has led to improvements in asset quality.

Innocent is a holder of a Bachelor's degree in Economics from the National University of Rwanda.

Adolphe Ngunga, *Head of Retail Banking*

Adolphe is the Head of Retail Banking, and has been in the Bank for over 10 years. Adolphe held various responsibilities in the Bank including Branch Management, Commercial and heading Corporate Banking Departments. Prior to joining the Bank, he served in the banking industry in Burundi.

Adolphe is a holder of a Bachelor's degree in Economics from the University of Bujumbura in Burundi.

Allan Mwangi, *Head of Retail Credit Department*

Allan is the Head of Retail Credit Risk, having joined the Bank in February 2012.

He brings to the Bank vast experience in business planning, financial management, accounting, risk management and audit with over 17 years in the financial services industry gained from working in Equity Bank, ABN Amro Bank, Deloitte and Touche, and Lonrho Africa Plc.

He holds an MBA (Finance) from University of Nairobi and a Bachelor of Commerce (Accounting) degree from Kenyatta University. He is Certified Public Accountant and alumni of the Advanced Management Programme (AMP) of the IEESE Business School, Spain and Strathmore Business School, Kenya. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Moffat Mwangi, *Head of Consumer Banking and Product Development*

Moffat is the Head of Consumer Banking and Product Development and has been with the Bank since early 2012. He has an extensive exposure in the financial services sector with a broad range of skills and knowledge gained from his experience in Operations, Retail Banking, Credit Card Business, Business Banking and Corporate Banking in Barclays Bank in Kenya.

He holds a BSc in financial services from the University of Manchester Institute Of Science and Technology (UMIST), MBA degree from Middlesex University Business School; London and is an Associate of the Chartered Institute of Bankers (ACIB). He is a member of the Chartered Institute of Marketing (MCIM) and a Chartered Marketer.

Alex Ngabonziza, *Head of Information and Communications Technology*

Alex is the Head of Information and Communication Technology and has been with the Bank since 2009. He has been instrumental in developing the Bank's IT capabilities through the computerization and networking of the branches and other technology driven channels to support the growth of the Bank's distribution network.

He has worked in the industry for over 14 years. Prior to joining the Bank, Alex was Head of Applications Division in Rwanda Revenue Authority. He has also worked as an IT consultant for the Department for International Development and Head Developer and Database Administrator at Alpha-Soft, a software development firm.

Alex holds a Bachelor's degree in Technical Electromechanical Engineering and Bachelor's degree in Information Technology, from the National University of Rwanda.

Gerard Nyangezi, *Head of Internal Audit & Control*

Gerard is the Head of the Internal Audit and Control Department. He joined the Bank in 2009 and has over 10 years experience in Audit and Finance especially from the financial sector and telecommunication industry.

Gerard holds a Bachelor of Commerce, Finance from Makerere University, Uganda; a Bachelor's of Accounting degree from Walter Sisulu University, Republic of South Africa and is also a Certified Chartered Accountant. Gerard is a member of the Institute of Certified Chartered Accountants of United Kingdom, (ACCA) and also a member of Institute of Certified Public Accountants, Rwanda (ICPAR).

Yves Gatsimbanyi, *Head of Risk & Compliance*

Yves is the Head of Risk and Compliance since early 2010 with vast experience form the Banking sector. Yves served as Bank examiner at the National Bank of Rwanda for ten years. Prior to joining the Bank, he held the position of Internal Control and Compliance within the Banking sector in Rwanda.

He holds a Bachelor's degree in Economics from the National University of Rwanda and a Diploma in Risk Management.

FiRe

FINANCIAL REPORTING AWARD

Financial Report

The Directors who served during the period to the date of this report are shown below:

Directors

Mr. Lado Gurgenidze	- Chairman
Mrs. Angelique Kantengwa	- Vice Chairperson - Appointed on 27 April 2012
Mr. Marc Holtzman	
Mr. Apollo Nkunda	
Mrs. Alphonsine Niyigena	
Mr. Sudadi Kayitana	
Mr. Caleb Rwamuganza	
Mr. Julien Kavaruganda	- Appointed on 27 April 2012
Mrs. Liliane Igihozo	- Appointed on 27 April 2012
Mrs. Dative Mukeshimana	- Resigned on 27 April 2012

Secretary

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

Auditors

KPMG Rwanda Limited
Certified Public Accountants
Grand Pension Plaza
Boulevard de la Révolution
P.O. Box 6755
Kigali - Rwanda

Registered office & principal place of business

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

Advocates

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

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

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2012 which disclose the state of affairs of the Bank. The Bank was incorporated on 22 December 1966 and issued with a Banking license to operate in Rwanda by the National Bank of Rwanda on 11 February 1967. Operations commenced on 27 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 attached financial statements on pages 37 to 88

3. Dividends

(a) During the Annual General Meeting held on 27 April 2012, the Shareholders approved a dividend policy of 50% of the Bank's audited IFRS-based net income in respect of the years 2011, 2012 and 2013.

(b) The total dividend for the year is therefore RwF 5,890,668,170 (2011 – RwF 4,344,382,984) for ordinary shareholders.

4. Reserves

The reserves of the Bank are set out on page 82 and 83 note 28 (ii-vi) to the financial statements.

5. Directors

The Directors who served during the period and up to the date of this report are set out on page 32.

6. Auditors

The auditors, KPMG Rwanda Limited, were appointed during the year in place of Ernst & Young Rwanda and have indicated their willingness to continue in office in accordance with regulation n°04/2009 on accreditation and other requirements for external auditors of banks, insurers and insurance brokers.

7. Approval of financial statements

The financial statements were approved by the Directors on...27........ March 2013.

By Order of the Board

Dr. Shivon Byamukama
Company Secretary

Date: 27/03/2013

The Directors are responsible for the preparation and presentation of the financial statements of Bank of Kigali Limited as set out on pages 37 to 88 which comprise the statement of financial position of the Bank as at 31 December 2012, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by Law No. 07/2009 of 27/04/2009 Relating to Companies and Laws and Regulations Governing banks in Rwanda and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Law No: 07/2009 of 27/04/2009 Relating to Companies, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the Directors to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Law No. 07/2009 of 27/04/2009 relating to Companies. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on ...27...March 2013 and were signed on its behalf by:

Director

Director

Secretary

Date: 27/03/2013

Report on the Financial Statements

We have audited the financial statements of Bank of Kigali Limited as set out on pages 37 to 88. These financial statements comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Financial Statements

As stated on page 34, the Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Law No: 07/2009 of 27/04/2009 and the Laws and Regulations Governing banks in Rwanda, and for such internal control as the Directors determine is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and the Bank's financial performance, cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law No. 07/2009 Relating to Companies, the Law No. 007/2008 Concerning Organisation of Banking and the relevant Central Bank guidelines governing banks in Rwanda.

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, 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 statement of comprehensive income and 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.

As described under the heading "Auditor's Responsibility" in our report on the Financial Statements, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 Bank's internal controls. In the course of our audit while performing such procedures, we became aware of certain internal control weaknesses. We have reported these weaknesses, together with our recommendations, to management in the separate management letter. These weaknesses do not affect our audit opinion on the financial statements.

John Ndunyu
KPMG Rwanda Limited
Certified Public Accountants
PO Box 6755
Kigali
Rwanda

Date: 27 MARCH 2013

Financial Report

	Note	2012 RwF '000	2011 RwF '000
Interest income	7	32,069,789	22,671,124
Interest expense	8	(8,338,615)	(6,075,680)
Net interest income		**23,731,174**	**16,595,444**
Fees and commission income	9	6,678,935	4,326,856
Foreign exchange income	10	7,031,504	7,643,851
Other operating income	11	964,100	888,719
Operating income before impairment losses		**38,405,713**	**29,454,870**
Net impairment on loans and advances	12	(3,647,289)	(4,544,321)
Impairment loss on equity investments		-	(49,920)
Net operating income		**34,758,424**	**24,860,629**
Personnel costs	13(i)	(9,615,156)	(7,070,435)
Depreciation and amortisation	13(ii)	(3,678,098)	(2,432,320)
Other operating expenses	13(iii)	(6,998,261)	(4,703,966)
Total operating expenses		**(20,291,515)**	**(14,206,721)**
Profit before income tax		**14,466,909**	**10,653,908**
Income tax expense	14(a)	(2,685,573)	(1,965,143)
Net profit for the year		**11,781,336**	**8,688,765**
Comprehensive income			
Other comprehensive income net of taxes:			
Effect of change in tax rate on revaluation		-	1,021,506
Total comprehensive income for the year		**11,781,336**	**9,710,271**
Basic earnings per share in RwF	15	**17.65**	**15.62**
Diluted earnings per share in RwF		**17.65**	**15.62**
Dividend per share (RwF)		**8.83**	**6.51**

The notes set out on pages 41 to 88 form an integral part of these financial statements.

	Note	2012 RwF'000	2011 RwF'000
Assets			
Cash in hand	29 (a)	9,595,769	8,123,088
Balances with the National Bank of Rwanda	29 (b)	54,304,202	61,621,376
Due from banks	16	25,898,920	51,994,652
Held to maturity investments	17(a)	13,119,325	8,190,524
Loans and advances to customers	18(a)	185,066,752	123,130,687
Equity Investments	17(b)	218,455	218,455
Other assets	19	12,624,707	14,920,439
Property and equipment	21	21,627,964	19,554,303
Intangible assets	22	338,120	146,350
Total Assets		**322,794,214**	**287,899,874**
Liabilities			
Due to banks	23	18,418,926	19,090,060
Deposits and balances from customers	24	208,424,579	181,019,654
Tax Payable	14(b)	320,745	137,024
Deferred tax liability	25	2,454,218	2,345,641
Dividends Payable	20	5, 894,345	-
Other liabilities	26	18, 229,130	18, 725,051
Long-term finance	27	5,944,978	4,998,112
Total Liabilities		**259,686,921**	**226, 315,542**
Capital and Reserves			
Share Capital (page 39)	28(i)	6,673,370	6,673,370
Share Premium (page 39)	28(ii)	18,108,176	18,233,653
Revaluation Reserves (page 39)	28(iii)	7,354,844	7,763,446
Statutory Risk Reserves (page 39)	28(iv)	19,100	-
Other Reserves (page 39)	28(v)	24,058,727	19,714,345
Retained earnings (page 39)	28(vi)	6,893,076	9,199,518
Total Equity		**63, 107,293**	**61,584,332**
Total Liabilities And Equity		**322,794,214**	**287,899,874**

The financial statements were approved by the Board of Directors on ....27......March 2013 and were signed on its behalf by:

Director: ______________________ Director: ______________________

The notes set out on pages 41 to 88 form an integral part of these financial statements.

	Issued capital	Share Premium	Revaluation	Retained earnings	Statutory credit risk reserve	Legal reserves	Special reserves	Other reserves	Total
	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000
2011									
As at 1 January 2011	5,005,000	-	7,150,542	6,178,582	-	2,800,890	2,886,124	7,848,749	31,869,887
Appropriation of profit	-	-	-	(6,178,582)		617,858	617,858	4,942,866	-
Increase in share capital	1,668,370	18,233,653	-	-	-	-	-	-	19,902,023
Deferred tax	-	-	102,151	-	-	-	-	-	102,151
Profit for the year	-	-		8,688,765	-	-	-	-	8,688,765
Effect of deferred tax	-	-	1,021,506		-	-	-	-	1,021,506
Transfer of excess contribution	-	-	(510,753)	510,753	-	-	-	-	-
31 December 2011	**6,673,370**	**18,233,653**	**7,763,446**	**9,199,518**	**-**	**3,418,748**	**3,503,982**	**12,791,615**	**61,584,332**
2012									
1 January 2012	6,673,370	18,233,653	7,763,446	9,199,518	-	3,418,748	3,503,982	12,791,615	61,584,332
Decrease in share premium	-	(125,477)		-	-	-	-	-	(125,477)
Appropriation of profit– 2011	-	-		(4,344,382)	-	434,438	434,438	3,475,506	-
Transfer to statutory credit risk reserve	-	-		(19,100)	19,100	-	-	-	-
Dividend paid -2011	-	-		(4,344,383)	-	-	-	-	(4,344,383)
Dividend accrued – 2012	-	-	-	(5,890,668)	-	-	-	-	(5,890,668)
Deferred tax utilized	-	-	(408,602)	510,755	-	-	-	-	102,153
Total comprehensive income	-	-	-	11,781,336	-	-	-	-	11,781,336
As at 31 December 2012	**6,673,370**	**18,108,176**	**7,354,844**	**6,893,076**	**19,100**	**3,853,186**	**3,938,420**	**16,267,121**	**63,107,293**

The notes set out on pages 41 to 88 form an integral part of these financial statements

	Note	2012 RwF '000	2011 RwF '000
Cash flows from operating activities			
Profit before tax		14,466,909	10,653,908
Adjusted for:			
Depreciation of property and equipment		3,466,258	2,285,972
Amortization of intangible assets		211,840	146,348
Write off of Property and Equipment		54,818	-
Impairment of Equity investments		-	49,920
Dividend received		(96)	(33,180)
Operating profit before movements in operating assets and liabilities		**18,199,729**	**13,102,968**
Changes in Working capital			
(Increase)/ Decrease in other assets		2,295,732	(10,529,769)
Increase in Customer deposits		27,404,925	45,341,908
Increase/ (Decrease) in other liabilities		(208,848)	11,822,067
(Increase) in loans and advances		(61,936,066)	(21,728,030)
Income tax paid	14(b)	(2,578,194)	(2,714,134)
Net cash generated from operating activities		**(16,822,722)**	**35,295,010**
Investing Activities			
Purchase of intangible assets		(403,610)	(112,094)
Purchase of property and equipment		(5,594,737)	(3,526,858)
Increase inheld to maturity investments		(4,928,801)	(2,916,209)
Dividends received		96	33,180
Net cash flows from investing activities		**(10,927,052)**	**(6,521,981)**
Financing Activities			
Increase/ (Decrease) in share premium		(125,477)	19,902,023
Receipts from long term finance		946,866	4,998,112
Dividends paid		(4,340,706)	-
Net cash flows from financing activities		**(3,519,317)**	**24,900,135**
Net increase in cash and cash equivalent		(31,269,091)	53,673,164
Cash and cash equivalents at 1 January		102,649,056	48,975,892
Cash and cash equivalent at 31 December	29(c)	**71,379,965**	**102,649,056**

The notes set out on pages 41 to 88 form an integral part of these financial statements.

1. Corporate Information

BANK OF KIGALI Limited, a financial institution licensed under Law No. 007/2008 Concerning Organisation of Banking relating to regulations governing banks and other financial institutions, provides corporate and retail banking services.

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

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

2. Basis of Preparation

a) *Statement of compliance*

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Rwandan Companies Act.

The financial statements for the year ended 31 December 2012 were authorised for issue by the Directors on ......27.......March 2013.

b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis, are presented in Rwandan Francs (RwF) and all values are rounded to the nearest thousand (RwF '000) except when otherwise indicated.

The Bank presents its 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.

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 financial statements have been prepared on the going concern basis.

d) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS 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 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,

2. Basis of Preparation (Continued)

d) Use of estimates and judgments (Continued)

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

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

3. Significant Accounting Policies

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

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognised at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognised as interest income or expense.

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

(ii) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

3. Significant Accounting Policies (Continued)

(ii) Fees and commission income (Continued)

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

(iii) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for 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.

b) Property and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Property and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

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

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

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

Property and equipment are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the statement of comprehensive income.

3. Significant Accounting Policies (Continued)

b) Property and equipment (Continued)

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

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

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

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

c) Provisions

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

d) Financial instruments

(i) Recognition

The Bank's financial position, initially recognises cash, amounts due from/ due to Banks, 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.

3. Significant Accounting Policies (Continued)

d) Financial instruments (Continued)

(ii) Derecognition

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Bank obtaining a new financial asset or assuming a new financial liability, the Bank recognises the new financial asset or financial liability at fair value.

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

e) 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.

(i) Financial assets at fair value through profit or loss

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

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

3. Significant Accounting Policies (Continued)

e) Classification (continued)

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

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

(ii) 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 rate method.

(iii) 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 include treasury bills and bonds. They are subsequently measured at amortized cost.

f) Financial instruments

(i) Available for sale

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

(ii) 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.

3. Significant Accounting Policies (Continued)

f) Financial instruments (Continued)

(ii) Offsetting of financial assets and liabilities (Continued)

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.

(iii) 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.

3. Significant Accounting Policies (Continued)

f) Financial instruments (Continued)

(iii) Fair value of financial instruments (Continued)

market participants take into account 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.

(iv) Identification and measurement of impairment of financial assets

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

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

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

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. Significant Accounting Policies (Continued)

f) Financial instruments (Continued)

(iv) Identification and measurement of impairment of financial assets (Continued)

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

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

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

g) 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)

g) Cash and cash equivalents (Continued)

(i) 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.

h) 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.

3. Significant Accounting Policies (Continued)

i) 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 an amount equal to or lower than 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:

(i) 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.

(ii) 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.

j) Financial guarantees

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

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

3. Significant Accounting Policies (Continued)

j) *Financial guarantees (Continued)*

(i) 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.

(ii) Intangible assets

The Bank's intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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

Computer software	2 years

There are no intangible assets with indefinite useful lives.

k) *Dividends on ordinary shares*

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

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3. Significant Accounting Policies (Continued)

l) *Employee benefits*

Retirement benefit costs

The company contributes to a statutory defined contribution pension scheme, the Rwanda Social Security Board (RSSB). Contributions are determined by local statute and are currently limited to 5% of the employees' gross salary. The company's CSR contributions are charged to the statement of comprehensive income in the period to which they relate.

Short-term benefits

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

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

m) *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, treasury and other operational segments

n) *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.

o) *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)

p) 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.

q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements. Except IFRS 9 and IAS 19, adoption of these standards is not expected to have a significant impact on the financial statements of the Bank:

- IAS 19 *'Employee Benefits' (*effective 1 January 2013). The amended IAS 19 requires that actuarial gains and losses are recognized immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. It also requires that expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- IFRS 10 *'Consolidated Financial Statements'* (effective 1 January 2013). This standard replaces the requirements and guidance in IAS 27 relating to consolidated financial statements. The objective of this standard is to improve the usefulness of consolidated financial statements by developing a single basis for consolidation and robust guidance for applying that basis to situations where it has proven difficult to assess control in practice and divergence has evolved. The basis for consolidation is control and it is applied irrespective of the nature of the investee.

- IFRS 11 – *'Joint arrangements'* (effective 1 January 2013). IFRS 11 supersedes IAS 31 and SIC-13 relating to Jointly Controlled Entities. The objective of this IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. It focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It further distinguishes joint arrangements between joint operations and joint ventures; and requires the equity method for jointly controlled entities that are now called joint ventures.

- IFRS 12 – *'Disclosure of interests in other entities'* (effective 1 January 2013). The objective of this IFRS is to require an entity to disclose information that enables users of its financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

- IFRS 13 – '*Fair value measurement' (*effective 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for

3. Significant Accounting Policies (Continued)

q) New standards and interpretations not yet adopted (Continued)

measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- IFRS 9 *'Financial Instruments'* (effective 1 January 2015)is a new standard on financial instruments that will eventually replace IAS 39. The published standard introduces changes to the current IAS 39 rules for classification and measurement of financial assets. Under IFRS 9 there will be two measurement bases for financial assets: amortized cost and fair value. Financial assets at fair value will be recorded at fair value through profit or loss with a limited opportunity to record changes in fair value of certain equity instruments through other comprehensive income. Financial liabilities are excluded from the scope of the standard. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. The standard will be applied retrospectively (subject to the standard's transitional provisions).

4. Financial Risk Management

The Bank's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risk, operational risk and interest rates risk. 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 independent 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 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.

4. Financial Risk Management (Continued)

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;
- 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;

4. Financial Risk Management (Continued)

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

- Each business unit is required to implement the Bank's credit policies and procedures and 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 the Internal Audit Department.

(ii) *Credit risk measurement*

The Bank assesses the probability of default of customer or counterparty using an 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 scale and its 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 component of this allowance is 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 and so are 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.

4. Financial Risk Management (Continued)

a) *Credit risk (Continued)*

(iii) Impairment and provisioning policies (Continued)

The Bank exposure to credit risk is analysed as follows:

	2012 RwF '000	2011 RwF '000
Individually impaired		
Grade 3	2,766,663	4,350,674
Grade 4	5,395,495	2,950,903
Grade 5	4,514,161	3,591,670
Gross amount	**12,676,319**	**10,893,247**
Allowance for impairment		
Specific provisions for impairment	(7,535,319)	(6,538,000)
Collective provisions for impairment	(1,375,819)	(994,111)
	(8,911,318)	**(7,532,111)**
Carrying amount	**3,765,001**	**3,361,136**

Non–performing loans

Non-performing loans and advances on which interest income has been suspended amounts to Rwf 12,676 million (2011: 10,893 million) for the Bank, with impairment allowance of Rwf 8,911 million (2011: Rwf7,532 million). Interest on these accounts is fully provided for in loans loss provision as these advances are classified as impaired at the balance sheet date. Discounted value of securities held in respect to those loans and advances are valued at Rwf 11,245 million (2011: Rwf 5,867 million) and are considered adequate.

(iv) 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 31st December, the ageing analysis of past due but not impaired loans and advances was as follows:

	2012 RwF '000	2011 RwF '000
Grade 1	166,488,415	111,872,388
Grade 2	14,813,156	7,897,164
Allowance for collective assessment	(1,375,819)	(994,111)
Net Carrying amount	**179,925,752**	**118,775,441**

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.

4. Financial Risk Management (Continued)

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

(v) Credit –related commitment risk

The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs.

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.

(vi) 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:

	2012	2011
	RwF'000	RwF'000
Corporate	78,960,972	66,761,400
Small and Medium Enterprises	49,864,739	27,682,711
Non-Profit Entities	3,652,116	3,713,909
Retail Banking	61,500,063	32,504,778
	193,977,890	**130,662,798**

4. Financial Risk Management (Continued)

(vii) 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 2012 and 2011. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	2012	2011
	RwF'000	RwF'000
Impaired loans	11,245,216	5,867,061
Performing loans	108,905,154	100,662,878
	120,150,370	**106,529,939**

b) *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

4. Financial Risk Management (Continued)

b) Liquidity risk (Continued)

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:

	2012	2011
At close of the year	45.4%	64.9%
Average for the year	55.8%	73.1%
Maximum for the year	65.5%	80.4%
Minimum for the year	45.4%	62.8%

The table below summarizes the Bank's liquidity risk as at 31 December 2012 and 31 December 2011, categorized into relevant maturity rankings based on the earlier of the remaining contractual maturities or re-pricing dates.

As at 31 December 2012:	Up to 1 month	1 - 3 months	3 – 12 months	1 - 5 years	Over 5 years	Total
	RwF'000	RwF'000	RwF'000	RwF'000	RwF'000	RwF'000
Liabilities						
Due to banks	6,364,278	58,808	11,965,840	30,000	-	18,418,926
Customer deposits	166,692,519	2,486,184	38,195,651	1,050,225	-	208,424,579
Deferred Tax	-	-	102,150	408,602	1,943,466	2,454,218
Dividend payable	-	-	5,894,345	-	-	5,894,345
Other liabilities	18,229,130	-	-	-	-	18,229,130
Long-Term Finance	-	-	457,838	4,076,603	1,410,537	5,944,978
Tax payable	-	320,745	-	-	-	320,745
Total liabilities	**191,285,927**	**2,865,737**	**56,615,824**	**5,565,430**	**3,354,003**	**259,686,921**
31 December 2011:						
Liabilities						
Due to banks	6,176,773	1,133,337	11,779,950	-	-	19,090,060
Customer deposits	141,108,823	8,756,499	31,154,332	-	-	181,019,654
Deferred Tax	-	-	-	-	2,345,641	2,345,641
Dividend payable	-	-	-	-	-	-
Other liabilities	18,725,051	-	-	-	-	18,725,051
Long-term Finance	-	-	-	-	4,998,112	4,998,112
Tax payable	-	137,024	-	-	-	137,024
Total liabilities	**166,010,647**	**10,026,860**	**42,934,282**	**-**	**7,343,753**	**226,315,542**

4. Financial Risk Management (Continued)

b) *Liquidity risk (Continued)*

As at 31 December 2012	Up to 1 month	1-3 months	3– 12 months	1-5 years	Over 5 years	Total
	RwF'000	RwF'000	RwF'000	RwF'000	RwF'000	RwF'000
Assets						
Cash in hand	9,595,769	-	-	-	-	9,595,769
Balances with Central Banks	54,304,202		-	-	-	54,304,202
Due from banks	25,835,864	-		63,056	-	25,898,920
Held to maturity investments	9,614,621	-	2,469,608	1,035,096	-	13,119,325
Loans and advances to customers	34,483,441	12,187,942	31,188,108	74,667,638	32,539,623	185,066,752
Property and equipment	-	-	-	-	21,627,964	21,627,964
Intangible assets	-	-	-	-	338,120	338,120
Equity Investments	-	-	-	-	218,455	218,455
Other assets	12,624,707	-	-	-	-	12,624,707
Total assets	**146,458,604**	**12,187,942**	**33,657,716**	**75,765,790**	**54,724,162**	**322,794,214**
As at 31 December 2011						
Cash in hand	8,123,088	-	-	-	-	8,123,088
Balances with Central Banks	61,621,376	-	-	-	-	61,621,376
Due from banks	51,716,974	-	-	277,678	-	51,994,652
Held to maturity investments	2,929,893	1,928,652	1,038,257	2,293,722	-	8,190,524
Loans and advances to customers	25,784,956	6,217,086	17,694,772	51,132,754	22,301,119	123,130,687
Property and equipment	-	-	-	-	19,554,303	19,554,303
Intangible assets	-	-	-	-	146,350	146,350
Equity Investments	-	-	-	-	218,455	218,455
Other assets	14,920,439	-	-	-	-	14,920,439
Total Assets	**165,096,726**	**8,145,738**	**18,733,029**	**53,704,154**	**42,220,227**	**287,899,874**
Liquidity Gap 2012	**(44,827,323)**	**9,322,205**	**(22,958,108)**	**70,200,360**	**51,370,159**	**-**
Liquidity Gap 2011	**(913,921)**	**(1,881,122)**	**(24,201,253)**	**53,704,154**	**34,876,474**	**-**

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 2012 and 31 December 2011:

	2012	2011
	RwF'000	RwF'000
Assets in foreign currencies	31,726,176	56,356,245
Liabilities in foreign currencies	(57,723,133)	(53,535,996)
Net foreign currency exposure at the end of the year	**(25,996,957)**	**2,820,249**

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

Currency	Increase/decrease in exchange rate	Effect on profit before tax 2012	2011
		RwF' 000	RwF' 000
USD	+/-1%	(317,735)	(8,871)
GBP	+/-1%	32,816	19,025
EUR	+/-1%	21,754	17,343

4. Financial Risk Management (Continued)

c) *Market Risk (Continued)*

(i) *Currency risk (Continued)*

The various foreign currencies to which the Bank is exposed to are summarised below. Except as othewise noted at the header, all figures are in thousands of Rwandan francs (Rwf '000) as at 31 December 2012:

	USD	Euro	GBP	Other Foreign currencies	RwF	Total
Cash, deposits and advances to banks	13,033,361	13,722,237	4,015,742	413,222	58,614,329	89,798,891
Loans and advances to customers	527,894	12,557	907	256	184,525,138	185,066,752
Other assets, property and investments	-	-	-	-	47,928,571	47,928,571
At 31 December 2012	**13,561,255**	**13,734,794**	**4,016,649**	**413,478**	**291,068,038**	**322,794,214**
Liabilities and Equity						
Deposits from banks	2,223,411	218,376	72,151	36,184	15,868,804	18,418,926
Deposits from customers	39,958,576	8,548,827	662,886	57,744	159,196,546	208,424,579
Dividends Payable	-	-	-	-	5,894,345	5,894,345
Tax payable	-	-	-	-	320,745	320,745
Deferred tax liability	-	-	-	-	2,454,218	2,454,218
Other liabilities	-	-	-	-	18,229,130	18,229,130
Long-Term Finance	3,152,783	2,792,195	-	-	-	5,944,978
Shareholders'Fund					63,107,293	63,107,293
At 31 December 2012	**45,334,770**	**11,559,398**	**735,037**	**93,928**	**265,071,081**	**322,794,214**
Net currency exposure	**(31,773,515)**	**2,175,396**	**3,281,612**	**319,550**	**-**	**-**

4. Financial Risk Management (Continued)

c) *Market Risk (Continued)*

(i) Currency risk (Continued)

The various foreign currencies to which the Bank is exposed to are summarised below. Except as othewise noted at the header, all figures are in thousands of Rwandan francs (Rwf '000) as at 31 December 2011:

	USD	Euro	GBP	Other Foreign currencies	RwF	Total
Cash, deposits and advances to banks	41,312,884	11,942,317	2,497,004	224,699	73,952,736	129,929,640
Loans and advances to customers	364,291	14,564	401	85	122,751,346	123,130,687
Other assets, property and intangibles	-	-	-	-	34,839,547	34,839,547
At 31 December 2011	**41,677,175**	**11,956,881**	**2,497,405**	**224,784**	**231,543,629**	**287,899,874**
Liabilities and Equity						
Deposits from banks	252,687	207,583	57,996	809	18,570,985	19,090,060
Deposits from customers	38,463,801	8,021,756	527,742	150,384	133,855,971	181,019,654
Deferred tax	-	-	-	-	2,345,641	2,345,641
Other liabilities	825,853	17,071	9,202	3,000	17,869,925	18,725,051
Long-Term Finance	3,021,955	1,976,157	-	-	-	4,998,112
Tax Payable	-	-	-	-	137,024	137,024
Shareholders 'Fund	-	-	-	-	61,584,332	61,584,332
At 31 December 2011	**42,564,296**	**10,222,567**	**594,940**	**154,193**	**234,363,878**	**287,899,874**
Net currency exposure	**(887,121)**	**1,734,314**	**1,902,465**	**70,591**	**-**	**-**

(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 margins 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

All financial instruments entered into by the Bank are at fixed rates and therefore not prone to interest rate fluctuations.

4. Financial Risk Management (Continued)

c) *Market Risk (Continued)*

(iii) Interest rate risk (Continued)

The table below summarizes the interest rate risk of the Bank as at 31 December 2012:

	Weighted interest rate	On demand	Less than 3 months	3-12 months	1 to 5 year	Over 5 years	Non-interest bearing	Total
As at 31 December 2012	%	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000
Assets								
Cash in hand	-	-	-	-	-	-	9,595,769	9,595,769
Balances with the National Bank of Rwanda	4.9%	-	35,900,000	-	-	-	18,404,202	54,304,202
Balances and placements with other Banks	0.5%	14,424,920	11,410,944	-	63,056	-	-	25,898,920
Equity Investments	-	-	-	-	-	-	218,455	218,455
Other assets	-	-	-	-	-	-	12,624,707	12,624,707
Treasury bills and bonds	12.1%	-	9,614,621	2,469,608	1,035,096	-	-	13,119,325
Loans and advances	17.0%	-	46,671,383	31,188,108	70,902,458	32, 687,410	3,617,393	185,066,752
Intangible assets	-	-	-	-	-	-	338,120	338,120
Property and equipment	-	-	-	-	-	-	21,627,964	21,627,964
TOTAL ASSETS	**-**	**14,424,920**	**103,596,948**	**33,657,716**	**72,000,610**	**32,687,410**	**66,426,610**	**322,794,214**
Liabilities and Equity								
Balances and placements due to other Banks	10.4%	-	115,016	11,965,840	30,000	-	6,308,070	18,418,926
Customer deposits	3.3%	-	17,789,669	26,017,659	128,785	-	164,488,466	208,424,579
Tax liability	-	-	-	-	-	-	320,745	320,745
Deferred Tax	-	-	-	-	-	-	2,454,218	2,454,218
Dividend Payables	-	-	-	-	-	-	5,894,345	5,894,345
Other liabilities	-	-	-	-	-	-	18,229,130	18,229,130
Long-Term Finance	2.4%	-	-	-	-	5,944,978	-	5,944,978
Shareholders' funds	-	-	-	-	-	-	63,107,293	63,107,293
Total		**-**	**17,904,685**	**37,983,499**	**158,785**	**5,944,978**	**260,802,267**	**322,794,214**
Total interest rate gap		**14,424,920**	**85,692,263**	**(4,325,783)**	**71,841,825**	**26,742,432**	**-**	**-**

4. Financial Risk Management (Continued)

c) *Market Risk (continued)*

(iii) Interest rate risk (Continued)

The table below summarizes the interest rate risk of the Bank as 31 December 2011:

As at 31 December 2011	Weighted interest rate %	On demand RwF '000	Less than 3 months RwF '000	3-12 months RwF '000	1 to 5 year RwF '000	Over 5 years RwF '000	Non-interest bearing RwF '000	Total RwF '000
Cash in hand	-	-	-	-	-	-	8,123,088	8,123,088
Balances with the National Bank of Rwanda	5.5%	-	52,793,342	-	-	-	8,828,034	61,621,376
Balances and placements with other Banks	0.3%	15,132,147	-	-	277,678	-	36,584,827	51,994,652
Equity Investments	-	-	-	-	-	-	218,455	218,455
Other assets	-	-	-	-	-	-	14,920,439	14,920,439
Treasury bills and bonds	11.5%	-	4,858,545	1,038,257	2,293,722	-	-	8,190,524
Loans and advances	16.9%	-	36,726,374	17,820,486	52,117,664	11,196,375	5,269,788	123,130,687
Intangible assets	-	-	-	-	-	-	146,350	146,350
Property and equipment	-	-	-	-	-	-	19,554,303	19,554,303
Total Assets	**-**	**15,132,147**	**94,378,261**	**18,858,743**	**54,689,064**	**11,196,375**	**93,645,284**	**287,899,874**
Liabilities								
Balances and placements due to other Banks	6.1%	-	144,092	13,214,146	-	-	5,731,822	19,090,060
Customer deposits	3.1%	-	9,812,568	32,860,595	111,153	-	138,235,338	181,019,654
Tax liability	-	-	-	-	-	-	137,024	137,024
Deferred Tax	-	-	-	-	-	-	2,345,641	2,345,641
Dividend Payables	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	18,725,051	18,725,051
Long-Term Finance	2.8%	-	-	-	-	4,998,112	-	4,998,112
Shareholders' funds	-	-	-	-	-	-	61,584,332	61,584,332
Total		**-**	**9,956,660**	**46,074,741**	**111,153**	**4,998,112**	**226,759,208**	**287,899,874**
Total interest rate gap		**15,132,147**	**84,421,601**	**(27,215,998)**	**54,577,911**	**6,198,263**	**-**	**-**

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 departments. 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), 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 revaluation 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:

	2012	2011
	RwF' 000	RwF' 000
Core Capital (Tier 1):		
Ordinary share capital	6,673,370	6,673,370
Retained earnings & reserves	30,970,903	28,913,863
Share premium	18,108,176	18,233,653
Total	**55,752,449**	**53,820,886**
Supplementary Capital (Tier 2):	1,838,711	1,940,861
Total qualifying capital	**57,591,160**	**55,761,747**
Risk weighted assets	248,517,643	191,574,170
Regulatory reserve	15%	15%
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk-weighted assets	23.2%	29.1%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	22.4%	28.1%

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 recognise 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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Bank's financial instruments are carried at fair value, with changes in fair value either reported within profit or loss or within other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Bank's financial instruments are set out in Note 17 and the accounting policy set out in Note 3 (f) of the financial statements.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active including for unlisted securities, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

5. Use of Estimates and Judgments (Continued)

b) Fair value of financial instruments (continued)

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Bank's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is possible 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 Note 3(b).

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 mortgage based lending.

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

Other banking operations comprise of trade finance and forex business. The Bank also invests in Treasury Bills and Bonds issued by the Central Bank.

The table below analysises the breakdown of segmental assets, liabilities, income and expenses.

Statement of comprehensive income

	Corporate banking RwF'000	Retail banking RwF'000	Other RwF'000	Total RwF'000
2012				
Interest income	18,939,394	7,567,868	5,562,527	32,069,789
Interest expense	(3,356,176)	(449,071)	(4,533,368)	(8,338,615)
Net interest income	**15,583,218**	**7,118,797**	**1,029,159**	**23,731,174**
2011				
Interest income	16,209,739	4,005,709	2,455,676	22,671,124
Interest expense	(2,974,596)	(376,816)	(2,724,268)	(6,075,680)
Net Interest Income	**13,235,143**	**3,628,893**	**(268,592)**	**16,595,444**

Statement of financial position

	Corporate banking RwF'000	Retail banking RwF'000	Other RwF'000	Total RwF'000
2012				
Gross Loans	132,477,828	61,500,062	-	193,977,890
Customer deposits	(145,494,627)	(62,929,952)	-	(208,424,579)
Deposits from other banks	-	-	(18,418,926)	(18,418,926)
	(13,016,799)	**(1,429,890)**	**(18,418,926)**	**(32,865,615)**
Number of customers	13,090	181,602	-	194,692
Current Accounts	19,808	191,632	-	211,440
2011				
Gross loans	98,158,020	32,504,778	-	130,662,798
Customer deposits	(128,680,183)	(52,339,471)	-	(181,019,654)
Deposits from other banks	-	-	(19,090,060)	(19,090,060)
	(30,522,163)	**(19,834,693)**	**(19,090,060)**	**(69,446,916)**
Number of customers	7,887	125,245	-	133,132
Current accounts	13,038	124,248	-	138,333

7. Interest Income

	2012 RwF'000	2011 RwF'000
Interest on overdrawn accounts	6,003,375	3,455,488
Interest on treasury loans	3,582,970	2,929,129
Interest on equipment loans	1,781,409	1,410,599
Interest on consumer loans	4,186,255	2,153,692
Interest on mortgage loans	7,725,070	4,859,681
Other interest on loans to clients	4,261,144	5,167,783
Interest on deposits with banks	101,422	30,081
Interest received from reverse repos	2,168,962	1,890,855
Interest on assets held to maturity	2,259,182	773,816
	32,069,789	**22,671,124**

8. Interest Expense

Interest on transactions with other banks	1,949,157	1,163,140
Interest on current accounts and other accounts	403,871	226,625
Interest on fixed deposits	5,985,587	4,685,915
	8,338,615	**6,075,680**

9. Net Fees and Commission Income

Commissions on operations of accounts	1,066,160	537,011
Commissions on payment facilities	1,704,343	1,267,196
Commissions on loan services	2,375,556	1,124,093
Commissions received from financing commitments	190,678	298,853
Commissions received from guarantees commitments	833,542	652,438
Income from transactions with other banks	33,734	30,574
Other fees from services	474,922	416,691
	6,678,935	**4,326,856**

10. Foreign Exchange Income

Gains less losses on foreign currency transactions	**7,031,504**	**7,643,851**

11. Other Operating Income

Other income from banking activities	263,908	268,667
Dividends received	96	33,180
Rental income	137,454	187,744
Other non-banking activity	562,642	399,128
	964,100	**888,719**

12. Net Impairment on Loans and Advances

Additional specific provisions (Note 18(d))	8,660,595	7,325,312
Additional collective provisions (Note 18(c))	381,708	994,111
Bad debts recovered during the year (Note 18(b))	(5,395,014)	(3,775,102)
	3,647,289	**4,544,321**

13. Other Operating Expenses

(i) Personnel costs

	2012	2011
	RwF '000	RwF '000
Salaries and wages	8,843,566	6,362,872
Medical expenses	187,459	135,411
Pension scheme contributions	440,982	419,747
Other benefits	143,149	152,405
	9,615,156	**7,070,435**

(ii) Depreciation and amortisation

Depreciation of property and equipment	3,466,258	2,285,972
Amortisation of intangible assets	211,840	146,348
	3,678,098	**2,432,320**

(iii) Other operating expenses

Rent, repairs and maintenance	751,770	501,095
Legal & Consultancy fees	209,473	220,520
Postage, photocopying & Printing	1,860,544	1,240,214
Auditors' remuneration	50,699	41,388
Insurance	135,469	199,030
Travel and accommodation	477,203	278,047
Utilities	294,877	180,186
Accounts Maintenance	337,187	56,378
Newspapers and advertising	622,548	271,489
Telephone and postage	594,982	503,508
Directors' emoluments	320,263	320,875
Security & cash in transit services	398,581	329,815
Charitable donation	141,279	88,067
Un-claimable VAT	308,427	-
General operating expenses	494,959	473,354
	6,998,261	**4,703,966**

14. Income Tax Expense

The components of income tax expense for the year ended 31 December 2012 and 2011 are:

a) Income tax expense

	2012	2011
	RwF '000	RwF '000
Current tax	2,761,915	2,366,282
Deferred tax charge/ (credit)	(76,342)	(401,139)
	2,685,573	**1,965,143**

14. Income Tax Expense (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:

	2012 RwF'000	2011 RwF'000
Accounting profit before tax	14,466,909	10,653,908
Tax calculated at tax rate of 20%	2,893,382	2,130,782
Tax effects on non-taxable/non-deductible items:	115,784	101,532
Overprovision in prior years	(323,592)	(267,171)
	2,685,573	**1,965,143**

b) *Tax Payable*

	2012 RwF'000	2011 RwF'000
At 1 January	137,024	496,816
Tax paid during the year	(2,578,194)	(2,714,134)
Tax charge for the year	2,761,915	2,366,283
(Under)/ overprovision in the previous years	-	(11,941)
At 31 December	**320,745**	**137,024**

15. Earnings Per Share

	2012 RwF'000	2011 RwF'000
Profit for the year attributable to equity shareholders	**11,781,336**	**8,688,765**
Weighted average number of shares	667,337,000	556,112,333
Effect of dilution:		
Share option (Employee share Ownership Plan)	101,027	172,439
Weighted average number of ordinary shares adjusted for the effect of dilution	**667,438,027**	**556,284,772**
Earnings per share:		
Basic earnings per share	17.65	15.62
Diluted earnings per share	17.65	15.62

Basic earnings per share is calculated on the profit attributable to ordinary shareholders of RwF 11,718,336 (2011: RwF 8,688,765) and on the weighted average number of ordinary shares outstanding during the year of 667,337,000 (2011: 556,112,333 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 September 2012 and no later than 31 August 2016. The warrant entitles the holder one newly issued share of the Bank for the cash consideration equal to offer price (RwF 125) and payable in full at the time of purchase.

No warrants had been exercised by any director, management or staff under the ESOP.

16. Due from Banks

	2012 RwF '000	2011 RwF '000
Placements with local financial institutions	187,011	1,770,093
Placements with foreign financial institutions	25,711,909	50,224,559
	25,898,920	**51,994,652**

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

	2012 RwF '000	2011 RwF '000
A	572,042	932,894
A+	24,216,796	48,859,645
A-	18,369	285,174
B	401,875	1,852,415
B+	689,838	64,524
	25,898,920	**51,994,652**

The weighted average effective interest rate on placements and balances with other banks at 31 December 2012 was 0.5% (2011: 0.3%)

17. Investments

a) Held to Maturity Investments

	2012 RwF'000	2011 RwF'000
Treasury bills	12,084,228	6,023,682
Treasury bonds	1,035,097	2,166,842
	13,119,325	**8,190,524**
Maturing between 3-12 months	12,084,228	6,023,682
Maturing between 1-5 years	1,035,097	2,166,842
	13,119,325	**8,190,524**

Treasury bills and bonds are debt securities issued by the Government of the Republic of Rwanda. The bills and bonds are categorised as amounts held to maturity and carried at amortised cost.
The average effective interest rates on treasury bonds and bills as at 31 December 2012 was 12.1% (2011:11.5%)

b) Equity Investments

	2012 Rwf'000	2011 Rwf'000
Banque Rwandaise de Development S.A	96,975	96,975
Magasins Generaux du Rwanda S.A	5,000	5,000
Societe Interbancaire de Monetique & de Telecomunication	116,480	116,480
	218,455	**218,455**

The equity investment in unquoted entities is recorded at costs less impairment since there is no active market for these investments.

18. Loans and Advances

a) *Loans and advances to customers*

	2012	2011
	Rwf'000	Rwf'000
Gross loans and advances to customers	193,977,890	130,662,798
Specific provisions for impairment	(7,535,319)	(6,538,000)
Collective provisions for impairment	(1,375,819)	(994,111)
Loans and advances to customers (net)	**185,066,752**	**123,130,687**

b) *Specific provisions for impairment*

At 1 January	5,773,324	3,198,058
Provisions made during the year	6,605,357	7,325,312
Bad debts recovered during the year	(5,395,014)	(3,775,102)
Write downs/write offs during the year	(1,503,711)	(974,944)
	5,479,956	**5,773,324**
Interest suspended during the year	2,055,363	764,676
At 31 December	**7,535,319**	**6,538,000**

c) *Collective provisions for impairment*

At 1 January	994,111	-
Provisions made during the year	381,708	994,111
At 31 December	**1,375,819**	**994,111**

d) *Additional specific provision*

Provisions made during the year	6,605,357	7,325,312
Interest suspended during the year	2,055,363	764,676
	8,660,720	**8,089,988**

e) *Maturity analysis of gross loans and advances to customers*

Maturing within 1 month	34,483,440	25,784,956
Maturing after 1 month, but before 3 months	12,187,942	6,217,086
Maturing after 3 months, but within 1 year	31,188,108	25,226,884
Maturing after 1 year, but within 5 years	83,578,777	51,132,754
Maturing after 5 years	32,539,623	22,301,118
	193,977,890	**130,662,798**

f) *Sectoral analysis of Gross Loans and advances to customers*

Private sector and individuals	193,446,998	130,318,860
Government and parastatals	530,892	343,938
	193,977,890	**130,662,798**

18. Loans and Advances (Continued)

The weighted average effective interest rate on loans and advances as at 31 December 2012 was 17.0% (31 December 2011–16.9%). As at 31 December, the ageing analysis of past due but not impaired loans and advances is as follows:

	2012	2011
	Rwf'000	Rwf'000
Less than 60 days	12,187,942	6,345,297
Between 61 – 90 days	2,625,214	1,551,867
	14,813,156	**7,897,164**

19. Other Assets

	2012	2011
	RwF '000	RwF '000
Prepayments & other receivables	386,256	721,337
Clearing accounts	12,238,451	14,195,082
Staff salary advances	-	4,020
	12,624,707	**14,920,439**

Clearing accounts are temporary & 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.

20. Dividends Payable

	2012	2011
	RwF'000	RwF'000
At 1 January	-	-
Dividends declared - 2011	4,344,383	
Dividends paid during the year	(4,340,706)	-
Dividends accrued - 2012	5,890,668	-
At 31 December	**5,894,345**	**-**

21. Property and Equipment

	Land & Buildings	Computer and IT equipment	Motor vehicles	Furniture & Fittings	Work in Progress	Total
	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000
2012						
COST						
At 1 January 2012	17,958,623	1,542,197	484,281	6,189,677	927,859	27,102,637
Additions	1,523,125	1,053,121	237,431	2,562,623	218,437	5,594,737
Write-off	-	-	(54,818)	-	-	(54,818)
Reclassification	927,859	1,147,541	-	(1,147,541)	(927,859)	-
At 31 December 2012	**20,409,607**	**3,742,859**	**666,894**	**7,604,759**	**218,437**	**32,642,556**
DEPRECIATION						
At 1 January 2012	2,749,762	1,266,891	306,543	3,225,138	-	7,548,334
Charge for the year	894,459	834,910	164,538	1,572,351	-	3,466,258
Reclassification	-	781,983	-	(781,983)	-	-
At 31 December 2012	**3,644,221**	**2,883,784**	**471,081**	**4,015,506**	**-**	**11,014,592**
Net Book value	16,765,386	859,075	195,813	3,589,253	218,437	21,627,964
2011						
COST						
At 1 January 2011	17,095,463	1,280,583	392,286	4,418,564	388,883	23,575,779
Additions	863,160	261,614	91,995	1,771,113	538,976	3,526,858
At 31 December 2011	**17,958,623**	**1,542,197**	**484,281**	**6,189,677**	**927,859**	**27,102,637**
DEPRECIATION						
At 1 January 2011	1,888,634	991,585	247,297	2,134,846	-	5,262,362
Charge for the year	861,128	275,306	59,246	1,090,292	-	2,285,972
At 31 December 2011	**2,749,762**	**1,266,891**	**306,543**	**3,225,138**	**-**	**7,548,334**
Net book value	**15,208,861**	**275,306**	**177,738**	**2,964,539**	**927,859**	**19,554,303**

22. Intangible Assets

	2012 RwF '000	2011 RwF' 000
COST		
At 1 January	591,230	479,136
Additions	403,610	112,094
At 31 December	**994,840**	**591,230**
AMORTISATION		
At 1 January	444,880	298,532
Amortisation	211,840	146,348
At 31 December	656,720	444,880
Net book value	**338,120**	**146,350**

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

23. Due to Banks

	2012 RwF '000	2011 RwF' 000
Deposits and balances from other banks	18,418,926	19,090,060
Maturing as follows:		
Payable within 1 month	6,364,278	6,176,773
Payable after 1 month	12,054,648	12,913,287

The weighted average effective interest rate on deposits and balances from other banks as at 31 December 2012 was 10.4% (2011: 6.1%)

24. Deposits and balances from customers

	2012 RwF '000	2011 RwF' 000
Current accounts	160,396,748	130,998,510
Fixed deposit accounts	42,671,802	42,784,316
Savings accounts	1,264,311	837,558
Collateral and other deposits	4,091,718	6,399,270
	208,424,579	**181,019,654**

The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2012 was 3.3% (2011: 3.1%)

25. Deferred Tax

The following table shows deferred tax recorded on the statement of financial position in other assets and liabilities and changes recorded in the income tax expense:

	Deferred tax liability 2011	Statement of Comprehensive Income 2012	Statement of finacial position 2012	Deferred tax liability 2012
	RwF'000	RwF'000	RwF'000	RwF'000
Revaluation of assets-Property	1,940,861		(102,151)	1,838,710
Capital Allowance	613,586		287,070	900,656
Other temporally differences	(208,806)	(76,342)	-	(285,148)
	2,345,641	**(76,342)**	**184,919**	**2,454,218**

26. Other Liabilities

	2012	2011
	RwF'000	RwF'000
Interest payable	3,440,489	1,308,720
Clearing accounts	10,722,163	13,248,846
Other payables	396,333	348,194
Accruals	3,670,145	3,819,291
	18,229,130	**18,725,051**

27. Long-term Finance

	2012	2011
	RwF'000	RwF'000
EIB Loan – Eur 5m 7 year (Rwf denominated 11%)	2,792,195	1,976,157
AFD Loan – USD 20m 10 year (Libor +3.74%)	3,152,783	3,021,955
	5,944,978	**4,998,112**

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. The drawdown as at 31 December 2012 was EUR 3.8 million (2011: EUR 2.6 million), and no further drawdown is expected.

During the year ended 31 December 2011, the Bank signed two ten year credit lines with Agence Francaise De Developpment (AFD) and the African Development Bank (AfDB) for USD 20 million and 12 million respectively. As at year end, AFD credit line drawdown was USD 5 million. There was no drawdown in the year ended 31 December 2012 on the AfDB credit line.

28. Capital and Reserves

i) Share capital

	2012	2011
	RwF'000	RwF'000
Authorised: Share capital of 702,460,000 shares of Rwf 10 each	**7,024,600**	**7,024,600**
Issued and fully paid: 667,337,000 ordinary shares of Rwf 10 each	**6,673,370**	**6,673,370**

28. Capital and Reserves (Continued)

(ii) Share Premium

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

	2012	2011
	RwF'000	RwF'000
Share premium	**18,108,176**	**18,233,653**

(iii) Revaluation reserve

Buildings	7,763,446	7,150,542
Effect of change in tax rate	-	1,021,506
Transfer of excess depreciation	-	(510,753)
Deferred tax utilized	(408,602)	-
Deffered tax on excess depreciation	-	102,151
	7,354,844	**7,763,446**

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) Statutory risk reserve

	2012	2011
	RwF'000	RwF'000
At 1 January	-	-
Provisions made during the year	19,100	-
At 31 December	**19,100**	**-**

Where impairment losses required by legislation or regulations exceed those calculated under International Financial Reporting Standards (IFRS), the excess is recognised as a statutory credit risk reserve and accounted for as an appropriation from retained earnings. These reserves are not distributable.

(v) Other Reserves

	2012	2011
	RwF'000	RwF'000
Legal reserves	3,853,186	3,418,748
Special reserves	3,938,420	3,503,982
Other reserves	16,267,121	12,791,615
	24,058,727	**19,714,345**

The Bank transfers 20% of its profit after tax to reserves (10% legal reserves and 10% special reserves). These reserves are not mandatory.

28. Capital and Reserves (Continued)

(vi) Retained Earnings

	2012 RwF'000	2011 RwF'000
Opening balance	9,199,518	-
Appropriation of Profit – year 2011	(4,344,382)	-
Dividend for year 2011	(4,344,383)	-
Profit for the year	11,781,336	8,688,765
Dividends accrued	(5,890,668)	-
Excess loan loss provision	(19,100)	-
Deferred Tax	510,755	510,753
	6,893,076	**9,199,518**

29. 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

	2012 RwF'000	2011 RwF'000
Cash in foreign currency	4,794701	5,303,811
Cash in local currency	4,801,068	2,819,277
	9,595,769	**8,123,088**

b) Balances with National Bank of Rwanda

Restricted balances (Cash Reserve Ratio)	11,342,175	10,005,486
Unrestricted balances	42,962,027	51,615,890
	54,304,202	**61,621,376**

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 2012, the Cash Reserve Ratio requirement was 5% (2011 - 5%) of all deposits. Mandatory cash reserve ratio is not available for use in the Bank's day-to-day operations.

The unrestricted balances include BNR reverse purchase agreement (REPO) amounting to RwF 35.9 billion (2011: RwF 52.8 billion).

c) 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:

	2012 RwF'000	2011 RwF'000
Cash in hand	9,595,769	8,123,088
Balances with the National Bank of Rwanda	54,304,202	61,621,376
Due from banks	25,898,920	51,994,652
Due to Banks	(18,418,926)	(19,090,060)
	71,379,965	**102,649,056**

30. Held to Maturity Security Investment

	2012	2011
	RwF'000	RwF'000
Treasury Bills	12,084,228	6,023,682
Treasury Bonds	1,035,097	2,166,842
	13,119,325	**8,190,524**

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

	2012			2011		
	Treasury Bills	Treasury Bonds	Total	Treasury Bills	Treasury Bonds	Total
	RwF'000	RwF '000	RwF '000	RwF '000	RwF'000	RwF'000
1 January	5,517,221	2,673,303	8,190,524	1,443,672	3,780,723	5,224,395
Additions	156,248,742	599	156,249,340	33,757,794	1,655,391	35,413,185
Maturities	(149,681,735)	(1,638,805)	(151,320,540)	(29,177,784)	(3,269,272)	(32,447,056)
31 December	**12,084,228**	**1,035,097**	**13,119,325**	**6,023,682**	**2,166,842**	**8,190,524**

The average effective interest rate on government and other securities held to maturity at 31 December 2012 was 12.1% (2011: 11.5%)

31. Maturity Analysis of Assets and Liabilities

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

At 31 December 2012	Less than 12 months	Over 12 months	Total
ASSETS	RwF '000	RwF '000	RwF '000
Cash in hand	9,595,769	-	9,595,769
Balances with the National Bank of Rwanda	54,304,202	-	54,304,202
Balances and placements with other Banking in institutions	25,835,864	63,056	25,898,920
Held to maturity investments	12,084,230	1,035,095	13,119,325
Loans and advances to customers	77,859,490	107,207,262	185,066,752
Other assets	12,624,707	-	12,624,707
Equity investments	-	218,455	218,455
Intangible assets	-	338,120	338,120
Property and equipment	-	21,627,964	21,627,964
Total Assets	**192,304,262**	**130,489,952**	**322,794,214**

31. Maturity Analysis of Assets and Liabilities (Continued)

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

At 31 December 2012	Less than 12 months	Over 12 months	Total
	RwF '000	RwF '000	RwF '000
Liabilities			
Balances and placements due to other Banking institutions	18,388,926	30,000	18,418,926
Customer deposits	208,295,794	128,785	208,424,579
Tax Liability	320,745	-	320,745
Deferred tax liability	102,150	2,352,068	2,454,218
Dividends payables	5,894,345	-	5,894,345
Other liabilities	18,229,130	-	18,229,130
Long-term Finance	457,838	5,487,140	5,944,978
Shareholders' funds	-	63,107,293	63,107,293
Total Liabilities and Equity	**251,688,928**	**71,105,286**	**322,794,214**

At 31 December 2011	Less than 12 months	Over 12 months	Total
	RwF '000	RwF '000	RwF '000
Assets			
Cash in hand	8,123,088	-	8,123,088
Balances with the National Bank of Rwanda	61,621,376	-	61,621,376
Balances and placements with other Banks	51,716,974	277,678	51,994,652
Held to maturity investments	5,896,802	2,293,722	8,190,524
Loans and advances to customers	49,696,814	73,433,873	123,130,687
Other assets	14,920,438	-	14,920,438
Equity investments	-	218,456	218,456
Intangible assets	-	146,350	146,350
Property and equipment	-	19,554,303	19,554,303
Total Assets	**191,975,492**	**95,924,382**	**287,899,874**
Liabilities			
Balances and placements due to other Banks	19,090,060	-	19,090,060
Customer deposits	181,019,654	-	181,019,654
Tax Liability	137,024	-	137,024
Deferred tax	102,151	2,243,490	2,345,641
Other liabilities	18,725,051	-	18,725,051
Long-term Finance	615,818	4,382,294	4,998,112
Shareholders' funds	-	61,584,332	61,584,332
Total Liabilities and Equity	**219,689,758**	**68,210,116**	**287,899,874**

32. Contingent Liabilities, Commitments and Leasing Arrangements

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

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.

	2012	2011
	RwF '000	RwF '000
Guarantees		
Acceptances and letters of credit issued	41,209,649	28,267,296
Guarantees commitments issued	27,395,456	20,773,242
Other commitments	-	455,256
	68,605,105	**49,495,794**

Legal Claims

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

At year end, the Bank is party to various legal proceedings from default customers for a total amount RwF 928.0 million (2011: RwF 5.83 billion). Having regarded the legal advice received, and in all circumstances, the management is of the opinion that these legal proceedings will not give rise to liabilities, and accordingly no provision for any claims has been made in these financial statements.

33. Related Parties Disclosures

	2012	2011
	RwF '000	RwF' 000
Compensation of key management personnel of the Bank		
Short term employee benefits	1,144,933	1,071,699
Post-employment pension (defined contribution)	94,394	61,153
Terminal benefits	8,456	21,724
	1,247,783	**1,154,576**
Directors emolument	**320,263**	**320,875**

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 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

Key management personnel of the Bank	Maximum balance during	Balance as at 31 December	Income	Maximum balance during	Balance as at 31 December	Income
	2012	2012	2012	2011	2011	2011
	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000
Residential mortgages	531,428	529,089	42,387	563,775	536,929	15,629
Credit cards and other loans	242,146	172,046	15,490	167,214	167,214	3,837

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 balance and the corresponding interest during the year

Entities with significant influence over the Bank	Interest from related parties	Interest to related parties	Balance as at 31 December	Maximum balances during the year	Balance as at 31 December	Maximum balance during the year
	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000	RwF '000
2012	42,387	-	-	21,722,273	21,722,273	-
2011	476	-	131,620	17,541,164	17,386,404	798,592

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 2012, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2011: Nil).

33. Related Parties Disclosures (Continued)

The Bank offers loans to its employee at 7.5% (2011: 7.0%). The Bank closely monitors the loans to ensure they are performing. As at the end of year there were no non performing staff loans.

34. Events after the Statement of Financial Position Date

Representative Office - Nairobi

The Bank opened a representative office in Nairobi, Kenya on 19 February 2013 that is liaison branch office of Bank of Kigali Limited. The representative office will act as a liaison between the Bank and its clientele in Kenya and will strengthen the Bank's relationship with existing clients operating in Nairobi as well establish a relationship with prospective diaspora clients. The office will however not directly offer deposit taking or lending facilities.

BK Securities Limited

The Bank opened a wholly owned subsidiary, BK Securities Ltd on the 28 January 2013. BK Securities will offer the Bank's customers seamless service consistent with the Bank's customer service. The investing public has an opportunity to buy and sell shares or bonds under the umbrella BK brands. The firm offers brokerage services for all equities listed on the Rwanda Stock Exchange.

35. Incorporation

The Bank is incorporated in Rwanda under Law No. 007/2008 Concerning Organisation of Banking

36. Comparatives

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Bank of Kigali Limited will be held on Wednesday 8 May 2013, at The Serena Hotel, Kigali Rwanda at 2.30 p.m. to transact the following business:

1. To determine whether quorum is present.
2. The Company Secretary to read the notice convening the meeting.
3. Review and approval of the minutes of the last Annual General Meeting.
4. To receive, consider and if thought fit, adopt the Annual Report and Audited Financial Statements for the year ended 31 December 2012 together with the Chairman's, Directors' and Auditors' reports thereon.
5. Approve a dividend of RwF 5,890,668,170, (2011- RwF 4,344,382,984) which represents 50% pay-out on the Bank's audited IFRS-based net income in respect of the year 2012.
6. Election of Directors.
7. Appointment of Auditors and fixing of the Auditors remuneration.
8. Any other business of which notice will have been duly received.

By order of the Board

Dr. Shivon Byamukama
Company Secretary
Plot 6112, Avenue de la Paix
Kigali,

10 April 2013

Proxy

A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

To be valid, a form of proxy must be duly completed by the member and lodged with the Company Secretary at the Bank of Kigali Head Office, Plot 6112, Avenue de la Paix, Kigali, Rwanda not later than 10.00 a.m. on 30 April 2013, failing which it will be invalid. In the case of a corporate body the proxy must be under its common seal.

Closure of Register

Dividend for the year ended 31 December 2012 of Rwf 5,890,668,170 will be paid to shareholders on the register of members of the Company at the close of business on Friday 14 June 2013. The dividend will be paid on or about Friday 28 June 2013.

Bank of Kigali Proxy Form

I/We ____CDS A/C No ______

______________________________of (address) ____being a member(s) of Bank of Kigali Limited, hereby appoint:

____

of (address) ____________________________________or, failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday 8 May 2013 at 2.30 p.m. or at any adjournment thereof.

As witness to my/our hands this __________ day of ________________________ 2013

Signature(s) ____

Notes:

1. *In case of corporate shareholders and individual shareholders who would like to be represented at the AGM, please tear this page carefully and complete as appropriate.*
2. *This proxy form is to be delivered to the Company Secretary at Bank of Kigali Head Office Plot 6112, Avenue de la Paix, Kigali, Rwanda not later than 10.00 a.m.on 30 April 2013, failing which it will be invalid.*
3. *A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney, and in the case of a corporation the proxy must be either under its company seal or signed by its attorney or by an officer of the corporation.*

<table>
<tr>
<td rowspan="4">Please admit ______________________________________

_________________________to the Annual General Meeting of Bank of Kigali Limited which will be held at the Serena Hotel, Kigali, Rwanda on 8 May 2013 at 2.30 p.m.

This admission card must be produced by the shareholder or his proxy in order to obtain entrance to the Annual General Meeting.

Dr. Shivon Byamukama
Company Secretary</td>
<td>Number of ordinary shares held:</td>
</tr>
<tr><td>Name of Shareholder:</td></tr>
<tr><td>Address of Shareholder:</td></tr>
<tr><td>CDS Account Number:</td></tr>
</table>


BK Yacu
Bank wherever you are
Agent
Agent
BK Yacu
Bank wherever you are
Agent
ARIEL
OMO
MALTINA
GOLDEN PENNY

Save and Invest

Through

BK Securities

BK Securities Ltd

Save . Invest . Create wealth

BANK OF KIGALI

Bringing banking closer to you

HEAD OFFICE BRANCHES AND AGENCIES

Mille Collines, Nyamirambo, Town, Nyabugogo, Kobil Gatsata Depot, Kacyiru, RDB, Grand Pension Plaza, Remera 1, Remera 2, Kimironko, SFB, Kicukiro, Airport 1, Airport 2, Kabuga, KCT, Kigali City Market, Magerwa, Premier Banking - KCT, KIST, MTN Center, Gisozi, Giporoso

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